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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and thank you for standing by. Welcome to Selective Insurance Group, Inc. Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Brad Wilson, Senior Vice President, Investor Relations and Treasurer. Please go ahead.

Brad Bryant Wilson

Senior VP of Investor Relations & Treasurer

Good morning. Thank you for joining Selective's Fourth Quarter and Full Year 2024 Earnings Conference Call. Yesterday, we posted our earnings press release, financial supplement and investor presentation on the Investors section of selective.com. A replay of the webcast will be available there shortly after this call. John Marchioni, our Chairman of the Board, President and Chief Executive Officer; and Patrick Brennan, Executive Vice President and Chief Financial Officer, will speak about results and take your questions.

Our commentary today references non-GAAP measures we and the investment community use to make it easier to evaluate our insurance business. These non-GAAP measures include operating income, operating return on common equity and adjusted book value per common share. We include GAAP reconciliations to any referenced non-GAAP financial measures in the financial supplement posted on our website. We will also make statements and projections about our future performance. These are forward-looking statements under the Private Securities Litigation Reform Act of 1995, not guarantees of future performance. These statements are subject to risks and uncertainties that we disclose in our annual, quarterly and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements. Now I'll turn the call to John.

John Joseph Marchioni

CEO, President & Chairman

Thanks, Brad, and good morning. 2024 was a challenging year. Our operating ROE of 7.1% was below our 12% target, but we ended the year with a strong capital position and the financial flexibility to execute our strategy of disciplined profitable growth. Our actions to strengthen our casualty reserves, coupled with our solid underlying profitability have positioned us well to meet and exceed our return targets in the years ahead. For the year, we grew net premiums written by 12%, delivered an underlying combined ratio of 89.4% and increased book value per share by 6%. Investment performance was strong with after-tax net investment income of \$363 million that contributed 12.8 points of return on equity.

We advanced important strategic initiatives in 2024, including adding 5 states to our Standard Commercial Lines operating footprint, achieving significant repositioning in Personal Lines and enhancing our technology foundation to support Excess and Surplus Lines. Our combined ratio for the year was 103%, up 6.5 points from 96.5% in 2023. The underperformance relates to our reserving actions addressing elevated severities in recent accident years, particularly in general liability. Social inflation remains a headwind for us and the industry. We've extensively discussed this in previous quarters and continue to operate in an environment where loss trends are elevated.

In the quarter, we strengthened prior year casualty reserves by \$100 million and added \$47 million to the current accident year above our original guidance. In 2024, we took casualty reserving actions totaling \$411 million with \$311 million or 7.1 points on our combined ratio related to prior accident years. Our 2024 actions were predominantly in general liability for accident years 2020 and subsequent, primarily impacting 2022 and 2023. Recognizing these trends over the course of the year, we increased our 2024 accident year losses by \$100 million relative to our original guidance, adding 2.3 points to the combined ratio. Patrick will go through these actions in more detail.

Our growth strategies, underwriting targets, performance measurements and employee profit-based compensation are focused on creating long-term shareholder value. Combined ratio is the primary

success measure for our insurance operations. Our 2024 underlying combined ratio, which excludes catastrophe losses and prior year casualty development, was 89.4%, a 90 basis point improvement from 2023. Standard Commercial Lines and Excess and Surplus Lines reported underlying combined ratios in line with 2023 despite actions to increase current year loss cost expectations. The Personal Lines underlying combined ratio improved 9.6 points in 2024 as we implemented significant price increases, took meaningful underwriting actions to address underperforming business and continued transitioning to the mass affluent market.

We remain comfortable with the overall composition and quality of our underwriting portfolio despite the adverse emergence in general liability. While rate increases will continue to be our primary focus for profitability improvement, we also have been making underwriting refinements, including managing limits and coverage grants in challenging jurisdictions, driving improved terms and conditions and focusing production on better performing classes of business. Consequently, new business growth in Commercial Lines moderated in the past few quarters. This quarter's Commercial Lines renewal pure pricing of 8.8% and retention of 85% were both in line with last quarter's results. Exposure growth added 3.8 points, contributing to our total renewal premium change of 12.9%. Commercial Lines pricing, excluding workers' compensation, increased 10.1%, the same as in the third quarter.

Renewal pure pricing in commercial property was 11.3% and commercial auto was 10.7%. General liability renewal pure pricing was 10.6%, up from 10.2% in the third quarter, 7.6% in the second quarter and 6.5% in the first quarter. Excess and Surplus Lines delivered a strong year with 29% growth, exceeding \$500 million of net premiums written for the first time. The 2024 combined ratio was 89.7%, including 4 points of prior year reserve strengthening. The underlying combined ratio was 81.1%, in line with last year despite actions to increase current year loss expectations. We continue to pursue technology and automation investments to increase E&S scalability. While growth has been robust and we continue -- see continued market opportunity, we remain mindful of social inflation's broad-based impacts.

As a result, we continue to build higher severity increases into our E&S loss picks. We also achieved strong price changes in recent years. While these higher severity assumptions held up relatively well, \$20 million of our prior accident year booking actions were from this segment. Growth in brokerage, our middle market E&S business, along with rate and exposure increases drove the average E&S account size from \$4,600 at the end of 2023 to approximately \$5,300 at the end of 2024. While the average premium size increased, our appetite is generally unchanged, and we are comfortable with the pricing, terms and conditions and mix of business. Our 2025 guidance incorporates strong overall profitability assumptions for the E&S segment.

In Personal Lines, net premiums written increased 4% for the year. However, we saw a 3% decrease in the fourth quarter. Our strategic repositioning and significant actions to improve Personal Lines profitability contributed to a combined ratio of 91.7% for the quarter and 109.3% for the year. Both are meaningfully better than the prior year. 2024's underlying combined ratio was 89.3% with the quarter at 86%. Renewal pure price increased 27.3% for the quarter and 20.6% for the year. In states where we have filed and received approval for adequate rates, we are focusing on growth in the mass affluent segment. With the actions we have taken, we expect Personal Lines will produce an underwriting profit in 2025.

In summary, our team responded well to 2024's challenges, improving our position for 2025. In this uncertain environment, we are focused on rate and non-rate actions to drive underwriting profitability while prudently growing the business. I'll now turn the call over to Patrick, who just completed his first full quarter at Selective. His significant insurance experience and deep background in corporate finance has added a new perspective to our executive leadership team, significantly enhancing our ability to manage the challenging environment and restore our profile of strong and consistent underwriting results. Patrick?

Patrick Sean Brennan

Executive VP & CFO

Thanks, John, and good morning. We reported \$1.52 of fully diluted EPS in the fourth quarter and \$1.62 of non-GAAP operating EPS. This produced a return on equity of 12.7% and an operating return on equity of 13.5%. For the full year, fully diluted EPS was \$3.23 and non-GAAP operating EPS was \$3.27, down 44% from a year ago. Return on equity was 7.0% and operating return on equity was 7.1%. This was

disappointing after 10 consecutive years of double-digit operating ROEs. However, we think the actions we've taken in 2024 position us to quickly return to meeting or exceeding our ROE target.

Our GAAP combined ratio for the quarter was 98.5%, including 8.8 points of prior year reserve strengthening. Catastrophe losses reduced the combined ratio by 90 basis points due to very low event frequency and reduced loss estimates for prior period catastrophes. The third quarter \$85 million Helene estimate has held up well. For the full year, our combined ratio was 103%, 7.5 points higher than our original guidance. Catastrophe losses of 6.5 points exceeded our original guidance by 1.5 points and prior year reserve strengthening added another 7.1 points to the full year combined ratio.

The 2024 underlying combined ratio of 89.4% was 110 basis points better than our original guidance. The expense ratio and non-cat property losses were favorable by almost 3 points, but the current accident year casualty loss ratio was unfavorable by 1.9 points. Reserving actions accounted for 2.3 points that were partially offset by business mix changes. The expense ratio for the year was 30.6%. Our 2025 guidance assumes that the expense ratio will increase to approximately 31.5%, partially due to greater profit-based compensation from expected underwriting improvement. We remain focused on expense discipline while investing to support our strategic objectives.

Turning to reserves. In the quarter, net prior year casualty reserve strengthening was \$100 million. At the line level, \$25 million of favorable prior year workers' compensation development was more than offset by strengthening of \$100 million of general liability, \$20 million in E&S and \$5 million in personal auto. There was no commercial auto development in the quarter. We booked \$47 million of increased current accident year loss costs in the fourth quarter compared to our original guidance. This included \$41 million or 14.4 combined ratio points in general liability and \$6 million or 4.2 combined ratio points in E&S. The quarter's \$47 million increase builds on the third quarter's \$21 million increase, the second quarter's \$28 million increase and the first quarter's \$4 million increase.

Our 2024 accident year actions are predominantly in general liability and driven by movement in recent prior accident year severity as 2024 frequency emergence has met our expectations. We believe these actions are prudent considering the elevated uncertainty in the external environment and its impact on our reserving diagnostics. We will continue to respond to emerging information, incorporate our view of risk factors and book our best estimate. The favorable prior year workers' compensation development was primarily driven by results of our annual tail development study, which showed better-than-expected severity in older accident years.

These relatively small factor changes are applied to all accident years. Run rate profitability in this line for us and the industry continue to be impacted by significant negative bureau filed rate changes even as favorable prior year development benefits results. After-tax net investment income for the fourth quarter was \$97 million, up 24% from a year ago. For the year, after-tax net investment income was \$363 million, slightly above our 2024 guidance of \$360 million and up 17% from 2023. We invested \$683 million of new money during the quarter at an average pretax yield of 6.1%. As a result, the average pretax book yield increased by 3 basis points to 4.9% at year-end. We expect this embedded book yield will provide durable elevated investment income.

In 2024, investments generated 12.8 points of return on equity, up 40 basis points from 12.4% in 2023. The portfolio remains conservatively positioned. Total fixed income and short-term investments represented 92% of the portfolio at year-end with an average credit quality of A+ and a duration of 4.0 years. Alternative investments, which report on a 1-quarter lag, generated \$8.4 million of after-tax income in the quarter and \$29.3 million for the year, up 38% from full year 2023. We successfully renewed our property catastrophe reinsurance program effective January 1, maintaining our \$100 million retention while increasing our coverage exhaustion point to \$1.4 billion from \$1.2 billion. The increased limit reflects the growth in our book's total insured value.

The top layer of our program is 75% collateralized and provides \$600 million of coverage in excess of an \$800 million retention. With attractive market conditions, we completed the renewal with risk-adjusted price decreases and improved terms and conditions. We also supplemented our main tower with a new Personal Lines-only buy-down layer. This coverage attaches at a slightly lower return period than our broader catastrophe program, providing additional protection as we transition to the mass affluent market.

Our peak peril U.S. hurricane is well within our risk tolerance at 4% of GAAP equity for a 1 in 250-year net probable maximum loss. Our reinsurance program includes casualty excess and property per risk treaties that renew on July 1. The treaty retentions are currently \$2 million per occurrence for casualty and \$5 million per risk for property.

Turning to capital. Our capital remains strong with \$3.1 billion of GAAP equity and \$2.9 billion of statutory surplus at year-end. Book value per share decreased 2% in the fourth quarter with increased after-tax unrealized losses for fixed income securities offsetting profitable results. For the year, book value per share increased 6% and adjusted book value per share was up 4%. Our debt-to-capital ratio of 14% and strong operating cash flow provide ample financial flexibility to support organic growth plans and execute our strategic initiatives. We did not repurchase any shares during the quarter, so our authorization had \$75.5 million in remaining capacity at year-end. We currently view our organic growth within our insurance operations as the most attractive opportunity to deploy capital.

Turning to 2025 guidance. We expect our GAAP combined ratio to be 96% to 97%, including 6 points of catastrophe losses. With no Personal Lines or Standard Commercial exposure in California, we expect the devastating Los Angeles and Southern California wildfires will not significantly impact our first quarter results. As always, we assume no prior accident year reserve development. After-tax net investment income is expected to be \$405 million. This is a 12% increase over 2024, reflecting growth in our invested asset base and slightly higher book yields as we prudently manage the portfolio. Our guidance includes an overall effective tax rate of approximately 21%. Weighted average shares are estimated to be 61.5 million on a fully diluted basis without any share repurchase assumptions under our existing authorization. Now I'll turn the call back to John.

John Joseph Marchioni
CEO, President & Chairman

Thanks, Patrick. We entered 2024 with an expected loss trend of 7%, including 4% for property and 8% for casualty. Our renewal pure price last year, excluding exposure change, was 9.5%. Nonetheless, we increased our loss picks because of the unfavorable emergence in recent accident years. These actions reflected further elevated severities, primarily attributable to general liability and Excess and Surplus Lines. Our 2025 guidance implies an underlying combined ratio in the 90% to 91% range, up from the 89.4% we reported in 2024.

We expect our expense ratio to increase about 1 point to approximately 31.5%. The guidance reflects elevated uncertainty in the external environment and embeds an overall expected loss trend of approximately 7%, in line with last year. It assumes an expected loss trend of approximately 3.5% for property and 8.5% for casualty. Our reserving actions, pricing response and progress on our strategic priorities in 2024 have us well positioned to quickly return to delivering operating ROEs at or better than our 12% target. Our 2025 guidance implies an operating ROE of approximately 15%. I'll now ask the operator to begin our question-and-answer session.

Question and Answer

Operator

[Operator Instructions] And our first question is going to come from the line of Michael Phillips with Oppenheimer & Co.

Michael Wayne Phillips

Oppenheimer & Co. Inc., Research Division

John, first question is kind of a basic one on reserving methods. It's been a couple of decades since I sat in the seat of a reserve and actuary role, but I think the mechanics haven't changed that much. Look at a bunch of reserving methods, get a range, do some weighted averages, come up with a best estimate or a point estimate and then book something. I guess sometimes when we hear a company take a fairly significant reserve charge, we sometimes hear comments about how the booked amount is different than what that embedded point estimate is and therefore, some margin may be built in. Maybe can you speak to that? And on your GL book for the current year, calendar year, you have \$300-plus million. What kind of embedded extra margin might there be in that relative to either your own best estimate or maybe the external actuaries if that's happened already?

John Joseph Marchioni

CEO, President & Chairman

Yes. Thanks, Mike. So just a comment relative to the reserving process. And while the fundamentals haven't changed, I think the level of detail and insight and the expansion of methods has continued to evolve and be refined. So yes, the underlying approach is very similar, but I think the depth of analysis and the insights we have are much better than they were a couple of decades ago. So that's the -- just with regard to your first question. On the second point, we have consistently had a process whereby we carry a position or a risk margin above the actuarial best estimate. And that position and the magnitude of that position is always determined by our view of the risk factors that we observe. And what I can tell you is that, that risk margin has been very consistent over time and would be consistent with what we've seen in more recent years if you were to look at the position at year-end 2024.

Michael Wayne Phillips

Oppenheimer & Co. Inc., Research Division

Okay, John. Second question, if I heard you right on -- at the end of your comments about the casualty loss trends embedded into your guidance for 2025, I think you said 8.5%. I feel like that's a little bit lower than what you said last quarter at 9%. I want to make sure that's right and kind of what's behind that?

John Joseph Marchioni

CEO, President & Chairman

Yes. So the 9% we've been talking about is for GL and that continues to be where we have GL on a forward trend basis. So we've given you a casualty trend number, which is all-in, including workers' comp and commercial auto. But yes, the GL trend that we were citing more specifically at around 9%, actually a little bit north of 9% from a severity perspective is what we continue to embed in our '25 loss -- expected loss ratios.

Michael Wayne Phillips

Oppenheimer & Co. Inc., Research Division

Okay. Perfect. And then last one, kind of a numbers question. Your primary casualty versus your kind of excess and commercial umbrella, I think that's about a 2/3, 1/3 split on a premium basis. Can you say how much of your GL calendar year 2024 charge was -- how much of that was primary versus Excess and umbrella on Commercial Lines?

John Joseph Marchioni

CEO, President & Chairman

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Yes. It was predominantly GL. There was some umbrella movement, but it was predominantly GL and predominantly in the '22 and '23 accident years. And remember, I think it's important -- the difference with us, not for -- against all competitors, but against many is our umbrella book is entirely written on a supported basis. So that gives us an earlier indication of frequency because we have the underlying auto and/or GL that's triggering those umbrella losses.

Michael Wayne Phillips

Oppenheimer & Co. Inc., Research Division

Okay. So again, to confirm, your GL -- your excess commercial didn't see much reserve charge. It was more the primary, yes?

John Joseph Marchioni

CEO, President & Chairman

We did see some, but it was predominantly GL.

Operator

And our next question is going to come from the line of Jon Newsome with Piper Sandler.

Jon Paul Newsome

Piper Sandler & Co., Research Division

It's Paul. So my actual first name. I wanted to see if you could give us just a few more comments to make us comfortable about the potential for just higher accident year loss ratio picks as we go forward. Remarkably, in general, the underlying combined ratio was pretty good, very good. But with all of these casualty charges and workers' comp deteriorating a little bit, things of that nature, you would think you have pretty substantial higher loss picks. I realize there's some conservativeness in your guidance. But if you could just give us a little bit more sort of why those loss picks in your view are the right loss picks as you look forward into next year?

John Joseph Marchioni

CEO, President & Chairman

Yes, Paul, thank you for the question. So I guess the most important piece is to unpack this between property and casualty. And the current year movements in 2024 impacted the total combined ratio, the '24 underlying by a total of 2.3 points and 2.6 points in Commercial Lines. So that sort of increases the starting point. And as you look forward to 2025, on an overall basis, you have casualty expected loss ratios moving a little bit higher despite strong rate, but we have that higher trend assumption, and you've got property continuing to improve because as we've cited, the property trend has been running in the 3% to 4% range, whereby -- whereas rate on the property lines have been running in the 10% to 12% range. So that's giving some positive influence on a go-forward basis.

But from a casualty perspective, year-over-year, we have been increasing our severity trend assumption, and that is all baked into the 2025 guidance of a 90% to 91% underlying. And then you also had the expense ratio change year-over-year, which also needs to be incorporated in there. But we -- I guess the key point from my perspective to highlight is we've reacted quickly to an increase in severity trends in relatively immature accident years. And our '25 casualty loss ratios assume that severity increase continues at a similar pace in 2025. And you could describe that however you'd like, you could call it conservative. I will call it prudent. But I think that's an important fact that underlies our guidance, and I hope would give most of you comfort that we have an appropriate level of severity increase baked into our 2025 expected loss ratios for the casualty lines of business and GL in particular.

Jon Paul Newsome

Piper Sandler & Co., Research Division

That makes a lot of sense. Just a little bit more to beat the dead horse, on casualty. Sequentially, we've seen additions to reserves. And I guess the -- just to make sure I get this correct, essentially, are we seeing sequentially elevated levels of casualty losses coming through each quarter, and that's triggering it?

Because I think you are -- Selective is a little bit different than others in that there's no sort of year-end true-up thing. It's a full -- if I recall, a full analysis every quarter. So what we saw in the quarter would potentially be just a reaction to -- what we saw from casualty reserve charge would be just a reaction to what you saw in the quarter, if I got that right? Is that what you're saying?

John Joseph Marchioni
CEO, President & Chairman

Yes, so you are right, we do a full reserve review for each major line of business each quarter. There's no big year-end process that differs from what we see in the quarters for GL. Patrick mentioned the workers' comp tail study that is one of the areas we do an annual review on. But there's no question, we're reacting to the data that comes through the reserve analysis in the quarter, but we're also using that data to project ultimate loss ratios for those lines of business, and we're reacting to what we're seeing. So you've got case and incurred activity that happens over the course of the quarter. And then obviously, on immature accident years, you're projecting those changes that happened in the quarter to ultimate.

And we think it's appropriate to be reacting more quickly based on what we've seen historically. And if you look -- and I know there's been a lot of focus on the 2016 to 2019 accident years for the industry, most of that emergence that was social inflation and severity driven by all accounts, wasn't recognized until 2022 and 2023. And we're sitting here now saying, based on the elevated trends we're seeing early, we're reacting very quickly to the '22 and '23 accident years. And more importantly, despite frequencies behaving well in 2024, we thought it was prudent to boost the '24 year with very little reported claim activity, which then incorporates into our 2025 expected loss ratios.

Operator

Our next question is going to come from the line of Jing Li with KBW.

Jing Li
Keefe, Bruyette, & Woods, Inc., Research Division

I want to go back to the GL commercial reserve charge. I'm just wondering, can you add more colors on what you see behind the data that comes in? Because some of the peers are saying that some states that used to be more court friendly have changed. Are you seeing the same trend? Or anything you can add to the drivers behind the data that you saw this quarter that made you decide to be more prudent?

John Joseph Marchioni
CEO, President & Chairman

Sure. So just a couple of comments. Number one is, I think our commentary on this question in the past is consistent to how I view the question currently, which is social inflation is broad-based in nature. It impacts all jurisdictions. And from a -- where on the GL front, it impacts more significantly is with regard to bodily injury accidents, not property damage liability. So that's the first thing. And we do view this and see this as broad-based. Now that said, and I pointed this out a few quarters back, there are certain jurisdictions that either because of statute or because of case law are -- see a higher or a more exacerbated impact of social inflation. And I cited some of those states and some of them are in our footprint.

A state like Georgia is a state that we have taken significant action to curtail growth because there's been some recent challenging case law and some challenging statutes there that exacerbate the impact of social inflation. But those are widespread. And I did see one of my peers who I think is very accurate in his commentary point to other states like Texas that have been less of a hotspot that have more recently become a hotspot. Now a state like Texas and Texas and Florida, California, Louisiana are the states that are driving more of the nuclear verdicts, those states are not in our Standard Commercial Lines footprint. So yes, it's widespread. Yes, it is exacerbated based on individual state statute and/or case law, but those states that are hotspots are fairly widespread. Some are in our footprint, some are not in our footprint.

Jing Li
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Makes sense. I also have a follow-up on the E&S casualty reserve charge of \$20 million. It seem to indicate some emerging loss trend. Are you addressing the underwriting appetite and pricing in this segment going forward?

John Joseph Marchioni
CEO, President & Chairman

Yes. Thank you. A couple of additional comments on E&S because we've made these points in the past, and I think they continue to hold. First of all, what we've said to this point on E&S is the same social inflationary trends have been evident in E&S casualty like they've been in standard insurance ops or admitted casualty. The difference has been on a couple of fronts. Number one, for us in our book, there's been a much more pronounced decline in frequency over the last several years, in part because of underwriting mix changes that we've proactively implemented to improve profitability. Second thing is we've been embedding much higher assumed severities in our expected loss ratios for E&S for the more recent accident years.

And then the third piece would be that pricing has been a lot stronger in E&S casualty than it's been in admitted casualty for us and the market broadly. And I would say our updated view of that at year-end would be the frequency trends continue to remain favorable. The casualty pricing environment continues to remain favorable, but we thought it made sense for us to top up some of our severity assumptions across a number of more recent accident years and the impact in any given accident year is not all that significant. And let's also remember that we're talking about a segment that's generating a slightly under 90% all-in combined ratio. So we're reacting quickly. It's not a substantial move, but we think it's an appropriate one based on what we've been seeing in other segments of our business.

Operator

[Operator Instructions] Our next question is going to come from the line of Michael Zaremski with BMO.

Unknown Analyst

This is Dan on for Mike. I guess just first on your reserve review process. Would you say there's something structural in the way you're reviewing your reserves every quarter that would lead it to where these small bites of the apple occur versus maybe just like a onetime ground up? We're just looking at the cadence of the additions where last quarter took a pause relative to what we thought maybe would have been closer to a kitchen sink type charge in 2Q.

John Joseph Marchioni
CEO, President & Chairman

Yes. So again, I think there's always recency bias. And obviously, in 2024, we've acted and we've acted in a way that we think is timely and prudent. But I think it's important to look back over time, especially to more mature accident years to see how our reserving process and equally important, our planning process has held up over time. And I know many of you subscribe to the Dowling publications. I think there's a really interesting analysis by Dowling that's been published that shows the 2016 to 2019 accident years by major writer of general liability and for the overall industry. And it shows for that group of challenged accident years 2016 to 2019 when we first started to see social inflation spike. And then you look at the initial loss ratios to where they are currently viewed.

And again, I'll say these are largely mature accident years at this point. Our average increase in loss ratio from initial to current over those 4 years is 2.5 points, up 2.5 points. That same 4-year period across the entire industry, those accident years are up on average about 8 points. And if you look at a number of individual peers, you'll see very similar movements. And I point to those because they're more mature accident years. And I think they speak to how well our process in terms of both setting expected loss ratios and our reserve review process to update those views of expected loss ratios has held up well against the test of time. And I think it's a relevant period to compare to because it's the same driver.

It's social inflation that started to manifest itself in those accident years that we think we're still reacting to. Now we think our process of reviewing reserves from a ground-up basis on a quarterly basis is

appropriate and it's prudent. You could do a more high-level review and just look at actual versus expected claim emergence. I think the concern that you would have by just reacting to actual versus expected claim emergence is you ultimately need to project those -- that activity to what you think it does to your ultimate loss ratios. And we think doing that on a quarterly basis gives us more insight and allows us to more quickly respond with regard to pricing and underwriting actions when we see something change in the underlying data.

Unknown Analyst

Great. And then maybe just switching gears to auto a little bit and maybe for Patrick, given you've been in the seat for 3 months now, you're coming from a major commercial auto writer. What are your view of the commercial auto reserves today? And just given that it's the epicenter of social inflation, what gives you confidence that the issues in GL necessarily don't bleed into the commercial auto reserves?

Patrick Sean Brennan
Executive VP & CFO

Yes, I'll hit on a few things there. Thanks for the question. In terms of confidence in that we may not have this bleed over into commercial auto, I think we've said in previous conference calls that we think commercial auto was actually the first shoe to drop as it relates to social inflation. And what gives me confidence is what John just outlined is our process. We have a very strong reserving process. I had the opportunity to see it on my very first day on October 1. I was sort of right in the middle of it just to kind of see what that looked like and how that operated. And then obviously, more recently, being in it with a lot more context and background. So I have a lot of confidence in our process and our ability to react to new information as we get it and incorporate that into how we view our underlying profitability and our go-forward pricing and actions that we need to take. In terms of coming from Progressive and then being a big commercial auto writer, they absolutely are.

They're the #1 in the industry. I just want to sort of help people understand contextually, the type of business that we write here is not -- is least similar to the type of business and the P&L that I ran when I was a product manager there. We -- just about every policy that we write here has an additional line of coverage attached to it. And as you know, Progressive has historically been much more focused on monoline business. And so that factors into how we price the business and how we operate with agents and other third parties. So I think contextually, I understand the commercial auto business pretty well from my experience. I feel good about our process. And more specifically, the behaviors we have around seeing new information and reacting to it in a way that we think is prudent and helps us continue to achieve our long-term goals of profitable growth and mid-teens -- excuse me, 12% ROE.

John Joseph Marchioni
CEO, President & Chairman

And if I can just add a couple of additional points, this is John, and I appreciate Patrick's comments, and I think they're spot on, but I want to come back to the point he started with because I know there's this concern out there that commercial auto is the next shoe to drop. And as Patrick said, we believe it was the first shoe to drop. And I think this is an important distinction for everybody to understand. First thing is the commercial auto BI, bodily injury, has a shorter tail, has a shorter reporting tail than GL and has a shorter disposal tail than GL, which means that the ultimate severities are known sooner than the ultimate severities are known in general liability.

So that's point number one. As a result of that, if you look back, our reaction was more quick to increase expected loss trends for the commercial auto bodily injury line dating back to 2021. So if you look at the '21 through '24 accident years, our assumed loss ratio trend across all of those years on average was 8%, whereas in general liability, as I mentioned, it takes longer to recognize a change in severity patterns. We and others in the industry that disclose their forward loss trend assumptions were sitting on loss trend assumptions in the 5% range. So you've got a big difference in the assumed loss ratio trends in the more recent accident years.

And then equally important, our average commercial auto BI price over the last 4 years, '21 through '24 is 10.3%. So you've got earned rate per year of a little over 10% on loss trends that we assumed to be around 8%, and those have held up. And we've now seen GL historical trends kind of settle into that level. So I think this was recognized more quickly. We assumed the elevated loss trends in our expected loss ratios more quickly and our pricing adjusted accordingly and has been running above that historical trend level on a consistent basis. And that I think all supports the idea that we view it was the first shoe to drop, not the second shoe to drop.

Operator

And I would now like to hand the conference back over to John Marchioni for closing remarks.

John Joseph Marchioni

CEO, President & Chairman

Well, thank you all for participating. We appreciate your engagement this morning. And as always, please feel free to follow up with Brad with any additional questions. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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