S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

FQ4 2019 Earnings Call Transcripts

Friday, January 31, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.10	1.37	▲24.55	0.98	4.11	4.40
Revenue (mm)	722.70	728.90	▲0.86	736.70	2840.30	2846.50

Currency: USD
Consensus as of Jan-31-2020 12:57 PM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.94	0.90	▼(4.26 %)
FQ2 2019	1.06	1.16	▲9.43 %
FQ3 2019	1.07	0.97	▼(9.35 %)
FQ4 2019	1.10	1.37	▲24.55 %

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Call Participants

EXECUTIVES

Gregory Edward Murphy
Executive Chairman

John Joseph Marchioni
CEO, President & Director

Mark Alexander Wilcox
Executive VP & CFO

Rohan Pai
Senior VP of Investor Relations & Treasurer

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Presentation

Operator

Good day, everyone. Welcome to Selective Insurance Group's Fourth Quarter 2019 Earnings Call. [Operator Instructions] At this time, for opening remarks and introduction, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Rohan Pai.

Rohan Pai
Senior VP of Investor Relations & Treasurer

Good morning, everyone, and welcome. We're simulcasting this call on our website, selective.com, and the replay will be available until March 2, 2020. Our supplemental investor package, which includes GAAP reconciliations of any non-GAAP financial measures referenced today also is available on the Investors page of our website.

Today, we will discuss our results and business operations using GAAP financial measures that are also included in our filings with our annual, quarterly and current reports filed with the U.S. Securities and Exchange Commission. Non-GAAP operating income, which we use to analyze trends in operations and believe makes it easier for investors to evaluate our insurance business. Non-GAAP operating income is net income excluding the after-tax impact of net realized gains and losses on investments, unrealized gains and losses on equity securities and debt retirement costs related to our early redemption of debt securities in the first quarter and statements and projections about our future performance. These forward-looking statements under the Private Securities Litigation Reform Act of 1995, are not guarantees of future performance and are subject to risks and uncertainties. For a detailed discussion of these risks and uncertainties, please refer to our annual and quarterly reports filed with the U.S. Securities and Exchange Commission. You should be aware that Selective undertakes no obligation to update or revise any forward-looking statements.

On today's call are the following members of Selective's executive management team: Greg Murphy, Chief Executive Officer; John Marchioni, President and Chief Operating Officer; and Mark Wilcox, Chief Financial Officer. And now I'll turn the call over to Greg.

Gregory Edward Murphy
Executive Chairman

Thank you, Rohan, and good morning. I'll make some introductory remarks and focus on some high-level themes and initiatives that enhance our strategy, positioning us well to continue to generate superior performance. Mark will then discuss our financial results, and John will review our insurance operations in more detail, providing additional color on key underwriting and strategic initiatives.

We're extremely proud of our standout 2019 fourth quarter and full year results, reflecting continued strong execution across our underwriting and investment functions. For the quarter, we generated record non-GAAP fully diluted operating earnings per share of $1.37, which translated to an annualized operating ROE of 15.2%. Our combined ratio was an exceptional $91.8 million and after-tax net investment income was up 6% to $47 million.

The fourth quarter capped off an overall stellar year for the company, in which we generated strong premium growth of 7% and a solid combined ratio of 93.7, with underwriting operations contributing 6.5 points of ROE.

Our investment results were excellent with after-tax net investment income increasing 13% and contributing 9.1 points of ROE. For 2019, our overall non-GAAP operating ROE was 13.3, which exceeded our 12% financial target. In addition, the change in unrealized after-tax gains on our available-for-sale securities of $169 million or $2.83 per share, reduced our operating ROE by 60 basis points. For 2020, these unrealized gains will reduce operating ROE by about 100 basis points, and that will reverse as these securities age.

2019 was a standout year for us in many respects with some of the operational highlights, including net premium written growth of 7% versus 6% expected for the industry average, delivering our 6th consecutive year of double-digit ROEs, which places us among an elite group of peers that have generated similar results, issuing $300 million of 30-year senior notes in our first-ever institutional debt offering, which significantly increases our flexibility and provides access to attractive long-term capital markets.

Being recognized for our superior operating and financial performance by rating agency, AM Best, who put our A financial strength ratings on positive outlook in October, continuing to make progress on strategic initiatives, such as geo expansion and delivering a superior omnichannel customer experience; making our communities safer through the dissemination of recall notification and alerts, coupled with our efforts to reduce distracted driving with our selected drive product offered free of charge to our commercial lines customers; receiving recognition as one of America's best midsize employers by Forbes and building a solar energy farm at our corporate office, which will annually generate approximately 4 million kilowatts of energy, highlighting our commitment to our communities and society as a whole.

Starting off 2020, there are a few specific topics I'd like to comment on. First, we're pleased with the direction of industry-wide Standard Commercial Lines pricing, which continues its upward trajectory and should only increase further in 2020. For Selective, fourth quarter overall Renewal pure pricing reached 3.8%, which we expect will clearly establish the pricing floor for 2020.

Our sophisticated modeling and underwriting tools allow us to administer price increases at an extremely granular level while balancing retention and growth rates. We've been steadfast in our commitment to maintaining underwriting discipline, having consistently implemented Commercial Lines, Renewal pure price increases that have matched or exceeded loss trend. Renewal pure price versus expected loss trend is the primary indicator of future underwriting performance.

For the past 5-year period, our compounded commercialized Renewal pure price was about 16.5%, more than twice the Towers Watson's CLIPS pricing of 8%.

As we look forward to the coming year, we are well positioned with expected Renewal pure price in line with loss trend and excellent book of business and the sophisticated tools, technology and best-in-class people to execute on our strategic plans. Second, there's been considerable industry focus on the potential for rising loss trend. We are certainly are keeping a close eye on overall loss trends, especially with respect to litigation rates and settlements. Estimated pure premium or loss costs are broken down into 2 principal measurements. One, estimated ultimate claim counts; and two, expected average severity. Over the past 2 years, our expectation for overall loss trend, which is embedded in our loss picks has increased from approximately 3% to 4%. In addition, we maintain a very disciplined reserve methodology and position with a process that includes quarterly detailed ground up internal actuarial reviews as well as semiannual reviews conducted by an independent Big 4 accounting firm.

We are less susceptible to headline type injury awards as our book of business is focused on smaller account business in lower hazard classes. Our average Commercial Lines account size is $12,000 and 87% of our casualty policies, excluding workers compensation at limits of $1 million or less. We also purchased reinsurance protection that limits per event exposure on casualty policies to $2 million that reduces our exposure to long-term medical inflation.

Inflation, even social inflation is not a new concept. The best way to protect your books performance is by achieving consistent Renewal pure price over time. Selective has consistently done this over many years. Third, while catastrophe losses were relatively moderate in the fourth quarter of the year, the risk of large, unexpected losses remains pronounced. Climate-related risks are leading to generally unpredictable of -- unpredictability of catastrophe events such as hurricanes, convective storms, floods and wildfires. For the year, our total catastrophe loss ratio was 3.1 points, which was below our expectation of 3.5 points. In an effort to limit our exposure, our catastrophe reinsurance program protects us on a 0.04% event probability to only a 5% impact on stockholders' equity.

Non-catastrophe property losses have also been consistently elevated for the past few years. As an industry, we need to do more to manage property risk appropriately, including through mitigation initiatives, risk sharing, more diligent underwriting and consistent risk-based pricing.

Finally, the prolonged low interest rate environment will continue to put downward pressure on industry-wide investment portfolio returns and consequently, ROEs in the coming year. This should result in a greater impetus for the industry to improve underwriting results in order to generate adequate returns. With our pricing sophistication and agile execution capabilities, we are well positioned to benefit from commercial lines pricing tailwinds and feel very confident in our ability to maintain attractive ROEs.

Turning to 2020 expectations, our guidance for the year is based on our current view of the marketplace and incorporates the following: one, a GAAP combined ratio, excluding catastrophe losses of 30 -- 91.5. This assumes no prior year development; two, catastrophe losses of 3.5 points; three, after-tax investment income of $185 million, which includes $14 million of after-tax investment income from our alternative investments or an overall effective tax rate of approximately 19.5%, which includes an effective tax rate of 18.5% for investment income, reflecting a tax rate of 5.25% on tax advantage municipal products and a tax rate of 21% for all other items; five, weighted average shares of 60.5 million on a diluted basis.

Now I'll turn the call to Mark to review the results for the quarter.

Mark Alexander Wilcox
Executive VP & CFO

Thank you, Greg, and good morning. For the quarter, we reported $1.36 of fully diluted earnings per share and $1.37 of non-GAAP operating earnings per share, both of which are company records. We generated a very strong annualized ROE of 15.1% and a non-GAAP operating ROE of 15.2%.

For 2019, our annualized non-GAAP operating ROE of 13.3% was above our 12% target. The full year operating ROE was reduced by about 60 basis points due to the significant after-tax net unrealized gains on our fixed income portfolio that increased GAAP equity by $169 million or $2.83 per share.

These gains reflect the low interest rate environment. Each year, we establish an operating ROE target that is based on at least a 300 basis point spread over our weighted average cost of capital, our outlook for interest rates and overall P&C insurance conditions. For 2020, we've established a non-GAAP operating ROE target of 11%. The lower target is principally a function of our lower estimated weighted average cost of capital and the lower interest rate environment, which has put pressure on investment yields and it's also increased GAAP equity. Consolidated net premiums written increased 8% in the quarter, with excellent 11% growth in our Standard Commercial Lines segment driven by strong new business growth and retention and accelerating Renewal pure price increases. This was partially offset by premium declines in Personal Lines and E&S.

Underwriting profitability remains strong, with a fourth quarter combined ratio of 91.8%, driven by low level of catastrophe losses in our footprint and favorable casualty reserve development.

On an underlying basis or excluding catastrophe losses and prior year casualty reserve development, our combined ratio increased to 93.8%, driven by an elevated fourth quarter expense ratio and some modest increases to the 2019 accident year loss specs, which I'll touch on more in just a minute.

For 2019 consolidated net premiums written increased 7%, with strong contributions from outstanding Commercial Lines and E&S segments. Our reported combined ratio was highly profitable at 93.7% and our underlying combined ratio was an excellent 92.9%, which reflects 20 basis points of underlying margin improvement in 2019.

Despite delivering a very profitable combined ratio in 2019 of 93.7, which was almost 2 full points ahead of our 95.5% combined ratio forecast going into the year, the underlying combined ratio ended the year 90 basis points above expectations. This was in part driven by the excellent calendar year loss ratio that drove the expense ratio up by 30 basis points above expectations due to profit-based compensation, with the remainder largely driven by some modest fourth quarter adjustments to our 2019 casualty loss ratio picks.

For the year, the impact of these additions to our 2019 loss ratio picks was $14.5 million or 60 basis points and for the quarter, the impact was $11.9 million or 1.8%.

Catastrophe losses, which as a reminder, relate only to claims specifically related to catastrophes designated by PCS were modest in the fourth quarter and impacted the combined ratio by 1 point, which is better than expected. While non-GAAP property losses resulted in a 15.1 point impact and were also slightly lower than expected. For the year, catastrophe losses accounted for 3.1 points on the combined ratio, which was better than our annual expectations of 3.5 points, while non-GAAP property losses of 15.8 points, came in about 10 basis points higher than expected for the year. Our expectations for catastrophe losses would remain unchanged for 2020 at 3.5 points.

In the fourth quarter, we experienced $20 million of net favorable prior year casualty reserve development, driven by $35 million of favorable development in Workers Compensation line and partially offset by $5 million of development in general liability, $4 million in commercial loan, $4 million in Personal liability and $2 million in the E&S segment. The impact of net favorable prior year casualty reserve development was 3 points on the combined ratio for the quarter and 2.3 points for the year.

Moving to expenses. Our expense ratio came in at 34.1% for the quarter and 33.8% for the year. The increase of 60 basis points for the year was principally driven by higher profit-based compensation for our distribution partners and employees, driven by our excellent underwriting results, we expect to pay out a record level of agency supplemental commissions for the 2019 year. We expect some modest expense ratio improvement in 2020, which is reflected in our underlying 91.5% combined ratio forecast.

Over the next few years, we believe we can continue to improve our operational efficiency and drive down our expense ratio, while also still making significant investments in developing our people, improving our underwriting capabilities, enhancing the customer experience, continued product development and geographic expansion and other investments we feel important to manage the company for the long term.

Corporate expenses, which are principally comprised of only company costs and long-term stock compensation totaled $2.6 million in the quarter compared to $3.4 million in the comparative quarter, with the decrease principally driven by a decline in our stock price.

For the year, our corporate expenses totaled $31 million compared to $25 million in 2018 and included $3 million of onetime items, principally related to severance.

Turning to investments. For the quarter, after-tax net investment income of $47 million was up 6% from the comparative quarter. For the year, after-tax investment income was up -- of a $181 million was up 13%. The improvements in both periods were driven by active portfolio management and excellent cash flows, which when combined with the net proceeds from our senior debt offering in March, helped drive our invested asset base higher. This was all partially offset by the lower interest rate environment and a contraction of credit spreads that put pressure on new money purchase yields. The overall after-tax yield on the fixed income portfolio including high-yield bonds averaged 2.9% for the year. The average new money yield on the fixed income portfolio during the year was 2.7% after-tax, although, we have now seen 5 sequential quarterly declines with the fourth quarter coming in at 2.4% after-tax.

In addition, we've been managing down our floating rate securities, which now represent approximately 12% of our fixed income portfolio, which is down from our peak allocation of 18%.

Despite the decline in LIBOR over the last year, we still find the OLED yield of these securities very attractive on a comparative basis to similar fixed rate securities. All in all, the pretax book yield on our core fixed income portfolio decreased 5 basis points in the quarter and was down 14 basis points for the year.

On a go-forward basis, we expect continued pressure on our book yield, given the lower interest rate environment. However, given our strong expected cash flow, our 2020 after-tax net investment income guidance of $185 million, reflects a modest growth in 2019, although a lower ROE contribution, given the growth in stockholders' equity.

Our average fixed income credit rating remains strong at AA minus and the effective duration of our fixed income and short-term investment portfolio is at the low end of the range at 3.6 years.

Overall, we continue to have a portfolio conservatively positioned. Risk assets, which principally include high-yield fixed income securities and our alternative investment portfolio accounted for 8% of total invested assets as of the end of the year and remain underway a longer-term target.

Our alternative investments portfolio, which includes limited partnerships and private equity, private credit and real asset investments and reports on a 1-quarter lag generated a pretax gain of $18 million for the year, which was in line with 2018.

Turning to capital. Our balance sheet remains very strong with $2.2 billion of GAAP equity, an increase of 22% for the year. Our debt-to-capital ratio was 20.1% at year-end, which is well below our target and provides us with financial flexibility. We continue to operate at the low end of our premiums to surplus target range of 1.4x to 1.6x. This flexibility at the operating level, when combined, about $278 million of holding company liquidity provides us with meaningful capacity to grow if market opportunities present themselves.

At our 1.4x operating leverage each -- excuse me, each combined ratio point equates to just under 1 point of ROE. In addition, our 3.05x investment leverage means that each point of pretax book yield on our investment portfolio results in approximately 2.5 points of ROE.

With regard to our reinsurance program, we enjoyed a successful Renewal of our catastrophe program on January 1. We maintained our existing structure that keeps 1 in a 100 or 1% net probable maximum loss or PML from a major catastrophe risk U.S. hurricane at a very manageable 2% of GAAP equity and a 1 in 250 net PML or 0.4% probability at 5% of GAAP equity.

We also renewed our nonfootprint catastrophe program that drops our retention from $40 million to $5 million from our 5 new expansion states as well as our E&S states outside of our original 22 state footprint, which includes states such as Florida, Texas and California.

Pricing on the CAT program reflected the loss-free status of our accounts and our continued efforts to generate strong Renewal pricing in our property portfolio and continued efforts to diversify our exposure. As a reminder, our reinsurance program also includes access and loss agreements, which limits the impact to us of individualized lawsuits to $2 million for both property and casualty losses. Individual occurrence is above $2 million as seeded under this excess of loss agreements.

With that, I'll turn the call over to John to discuss our insurance operations.

John Joseph Marchioni
CEO, President & Director

Thanks, Mark, and good morning. Let me begin with a discussion of full year results of our operations by segment and then provide you with an overview of some of our strategic initiatives. Our Standard Commercial Lines segment, which represents approximately 80% of premiums, generated 8% net premiums written growth for the year, continuing a consistent track record of strong and profitable growth. The segment generated new business growth of 8%, stable retention of 83%, Renewal pure price increases of 3.4%, and an excellent combined ratio of 92.9 or 93.7 on an underlying base.

Commercial Lines Renewal pure price increases increased 3.8% in the fourth quarter, up sequentially from 3.5% in the third quarter. We are happy with the overall direction of market pricing. Although, it is worth noting that the increases so far have been greater for larger accounts and specialty risks than for the small and mid-market Standard Lines accounts that make up the majority of our book.

We pride ourselves on managing our Renewal pricing strategy in a highly granular fashion, closely monitoring rate and retention by cohort of expected profitability. Our analysis uses a point of Renewal retention measure that removes policies that cancel prior to expiration as we think that's the best indicator of the effectiveness of our pricing strategy.

On our highest quality Standard Commercial Lines accounts, which represented 49% of our Commercial Lines premiums, we achieved renewal pure rate of 2.1% and point of Renewal retention of 91%.

On the lower quality accounts, which represented 11% of premium, we achieved Renewal pure rate of 7.8%, while retaining 80% at point of Renewal. Our ability to analyze the risk and return characteristics of each Renewal policy at an extremely granular level, allows us to achieve additional loss ratio improvement for mix of business changes while maximizing overall retention.

Drilling down to the results for the year by Commercial Line of business, our largest line, general liability, achieved an 89.6% combined ratio, which included favorable prior year reserve development totaling $5 million or 0.7 points.

We will continue to closely monitor this line for frequency and severity trends, including litigation rates, which have been relatively stable in recent quarters.

For the year, we achieved Renewal pure price increases of 2.2% for this line, excluding umbrella and expect a firming pricing environment heading into 2020.

Our Workers Comp line generated a 74.1 combined ratio, aided by favorable reserve development totaling $68 million, which accounted for 21.8 points on the combined ratio.

This favorable development related primarily to lower-than-expected severities for accident years 2017 and prior. Renewal pure pricing was down 2.8% and we continue to take a cautious approach to underwriting this line as market pricing remains aggressive.

Commercial Auto continues to produce disappointing results for us and the overall industry as elevated loss trend consumes earn rate increases. Our combined ratio for this line was 107.9. While we added $4 million of reserves in both the current and prior accident years, loss trends have remained generally in line with expectations. Price increases averaged 7.5% in 2019 on top of similar price increases in each of the prior 2 years.

We've been actively managing new and Renewal portfolios and target business segments, and improving rating and classification at an individual account level.

Our commercial property book generated a 93.9% combined ratio or a 7.1 point improvement from 2018. Lower levels of both catastrophe and noncatastrophe losses drove the improvement. While market pricing has improved, loss trends remain elevated and indicate the need for additional rate levels. Our Renewal pure price increases averaged 4%, excluding in the marine, and we are taking steps to address the drivers of a higher loss experience through business mix shifts and safety management efforts.

Our Personal Lines segment, which represented 11% of 2019 premiums reported a 2% decline in net premiums written, mostly reflecting the more competitive market conditions of Personal Auto. Renewal pure price increases averaged 5% and retention remained solid at 83%. New business, however, was down 21% for the year.

Market competition in Personal Lines particularly for Personal Auto has become far more pronounced this year. The segment produced a combined ratio of 97.3 or 88.6 on an underlying basis while maintaining adequate profitability remains a core focus, we will be doing more in the areas of product customization, modeling enhancements and distribution to ensure we are optimizing our position in this segment.

In Personal Auto, net premiums written declined 1% for the year, and the combined ratio was 106.4. Results included $6 million of strengthening for prior accident year casualty reserves, which added 3.5 points to the combined ratio.

Renewal pure price increases averaged 8.9% for Personal Auto liability and 3.8% for physical damage. While a benefit to improve profitability, these price increases are clearly putting pressure on new business. With market pricing under pressure and the favorable impact of loss trends diminishing, we would expect deteriorating results for the industry in this line unless pricing picks up again.

The Homeowners Line reported 2% premium decline relative to a year ago and a combined ratio of 96.5 that included 15.5 points of catastrophe losses. As the majority of our premium is written on an account basis, our competitive positioning in the Auto Line has hurt our homeowners' growth. Renewal pure price increases averaged 3% for the year.

Our E&S segment, which represented 9% of total premiums generated 4% net premiums rating growth in 2019. The premium decline in the fourth quarter related primarily to our decision to exit the Snow Removal business, which we discussed on last quarter's call. This segment generated a 95.9 combined ratio for the year compared to 100.3 in 2018. Overall Renewal pure price increases averaged 4%.

Over the past few years, targeted price increases, business mix changes and exiting specific underperforming classes of business have contributed to the improved combined ratio performance in this segment. Our E&S book consists primarily of small account business with a similar risk profile to our Standard Lines. While market pricing is increasing, it is more muted for the lower hazard business we write than for riskier classes that we don't, such as large account casualty or coastal property.

Let me now switch to some of our strategic initiatives, which continue to drive our strong operating and financial performance. We are very proud of our accomplishments in 2019 and focus on the following 4 objectives as we move through 2020. One, using our sophisticated pricing tools to achieve standard Commercial Lines Renewal pure price increases that are in line with expected loss trend; two, expanding share of wallet with our existing distribution partners and strategically appointing new partners; three, capitalizing on the investments we have been making to deliver a superior omnichannel customer experience; and four, identifying and addressing opportunities to enhance operational efficiencies and reduce our expense ratio over time through process redesign and technology enhancements.

We remain confident in the overall price adequacy and embedded profitability in our book of business. We've continued to achieve price increases where appropriate, targeting accounts on a granular basis that are not meeting our profitability expectations.

The level of Commercial Lines Renewal pure price increases we obtained increased during the course of 2019 and a 3.8% achieved in the fourth quarter are tracking in line with our expectation for loss trend. If industry pricing continues to move higher, as we expect, we are well positioned to further improve underwriting margins.

Second, our superior distribution relationships and sophisticated underwriting tools are clear competitive advantages. We will seek to capitalize on them as we execute on our strategy to generate profitable growth in the coming years. Our stated long-term objective is to obtain a 3% Commercial Lines market share. That objective is built around appointing partner relationships that control approximately 25% of their markets and achieving an average share of wallet of 12% across those relationships. We have an additional Commercial Lines premium opportunity over time in excess of $2.7 billion if we hit our long-term plans and can do so without having to stretch our underwriting appetite or shift our risk profile.

During 2019, we appointed 98 new distribution partners, bringing the total to approximately 1,350 or 2,300 storefronts. Third, we have made major strides in recent years to enhance the customer experience.

During 2019, we made a number of enhancements to our self-service and digital offerings, including a streamlined activation process and live chat options. We now have a 360-degree view of our customer that allows us to continue to enhance our proactive communication program as we seek to create more customer value. In 2019, we rolled out our new marketing tagline, be uniquely insured, which speaks to our differentiated value proposition for distribution partners and customers. Investing in and building out technologies that improve our customers' experience remains a core focus for us.

Finally, while we recognize it is essential to continue investing in the initiatives related to our technology platforms, sophisticated underwriting tools and customer experience, we're also committed to balancing these goals with an efficient operating structure.

We'll look at a number of areas to improve efficiencies, including workflow and process improvements by better leveraging automation and robotics. We expect our 2020 expense ratio to be slightly lower than 2019 as we balance our investment and expense management initiatives. We are targeting an expense ratio of closer to 32% by the end of next year, and we'll seek further improvements in subsequent years.

Looking to 2020 and beyond, we are in an extremely strong financial and strategic position and are well positioned to continue generating superior results like we have in recent years. We have an attractive book of in-force business and have created a differentiated franchise with our distribution partners and customers.

I'd like to close by sincerely thanking Greg for his 40 years of service and 20 years of outstanding stewardship as CEO of Selective.

You transformed the company into a truly unique franchise in the industry. Greg and I have worked in close partnership for much of the past decade. We've put in place a strategy that we believe keeps Selective on a path to being a consistent industry leader and generate sustained outperformance. In Greg's new role as Executive Chairman, I will continue to benefit from his guidance and wisdom as I transition into my new responsibilities.

Now I'll turn the call back over to Greg.

Gregory Edward Murphy
Executive Chairman

Thanks, John. We wrapped up another excellent year by delivering our 6th consecutive year of double-digit ROEs, which places us among a very elite group of peers that have generated similar results. We have the best teams of employees and distribution partners in the industry. At Selective, we're very proud about what we do as a company by one, helping our customers put their lives back together by responding properly and with empathy after experiencing a loss; two, making our communities safer by providing tools and technologies to our insurers such as weather preparation guides as well as vehicle, food and product recall notifications. We are seeking to mitigate the risk of distracted and reckless through the offering of Selective drive, free of charge to our Commercial Lines customers; and three, providing financial stability to our customers.

We are the best positioned in this marketplace with an excellent book of business and the tools, technology and best-in-class people in the industry to execute our plans. I could not be happier to pass on the reins of the company to John, who will assume the role of Chief Executive Officer, effective tomorrow. I have full and complete confidence that he will continue to transform Selective into a truly unique company in the marketplace and an industry leader.
As we mentioned on our last conference call, I will stay in the role of Executive Chairman for a 1-year period. With that, operator, we'll open up to questions.

Question and Answer

Operator

[Operator Instructions] The first question is coming from Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question, maybe just a clarification on the combined ratio guidance. I've gotten a couple of questions. So the 91.5% is excluding any reserve changes and catastrophes. And if that's correct, that compares to that -- for that 2019 number being 92.9%, so which would it imply a good deal of improvement. Or am I incorrect and there's -- you are baking in some potential for reserve releases in '20?

Gregory Edward Murphy
Executive Chairman

Yes, Mike, let me start with that. So no, there's no reserve release in there. That number has the 2021 the 91.5% is a number with no development in it. And one of the things you have to remember, there's a certain amount of expense ratio improvement in '20 over '19. The favorable development in '19 generated a lot of profit-based compensation to employees and to agents. So you get a little bit of a mismatch. You see some of the favorable developments rolling through in the line item that you exclude, but the incremental expenses incurred in '19 is -- were in the underwriting expense ratio. So I just want to make sure you've got that point.

And that's about 40 basis points approximately between employee and agents overall. And so you have some of that element, then when you look at the improvement rolling to '20. The rest of it comes from, as I mentioned, and John mentioned, the Renewal price in line with trend, and then there's underwriting and claim improvements outside of that that also adds to some of the improvement.

John Joseph Marchioni
CEO, President & Director

And Mike, this is John. Let me just add 1 additional point to the final point that Greg made relative to that underwriting mix improvement, in particular. We cite routinely every quarter, the difference in -- by cohort between our best business based on future profitability and what we believe to be the 10% or 11% of our portfolio that we think has a higher expected combined ratio going forward. By having a lower retention on that business and a higher retention on that business, we expect to produce higher combined -- lower combined ratios, excuse me. That is where we generate mix improvement that will give you loss ratio benefit in addition to the difference between rate and trend. So I just wanted to tie that together with the point Greg was making.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Yes, that's helpful. And next, and I'll -- you might have said this in the prepared remarks, Mark, but the general liability reserve deficiency sounded kind of minimal. Do you have the kind of the full year 2019 GL reserve development kind of versus '18? And if you don't have it, I can take it offline. And also just remind me, Mark, was there a -- was GL part of the true-up in the current accident year as well in terms of the basis points you mentioned?

Mark Alexander Wilcox
Executive VP & CFO

Yes. Mike, let me walk you through that. We did make some modest adjustments in the fourth quarter related to general liability on the prior accident year. It was an increase in the prior year results of $5 million, but we had reflected some favorable development earlier in the year. So for the full year 2019, there's actually $5 million of favorable reserve development on the GL liability line in 2019. And that compares to just under $10 million, $9.5 million for the full year 2018. So relatively consistent when you're thinking about trends on the prior year reserves. In the current accident year, specifically related to the -- to 2019, we did increase the loss pick, the general liability by 2.9 points in the quarter, which was a $5 million impact. We had a very modest benefit earlier in the year. So net-net, when you put it all together for 2019, there's a -- was a $3 million increase, relatively stable lawsuit was flat. So I'd just consider that a little bit of fine-tuning going into a new accident year.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's perfect. And I -- lastly, John, in your prepared remarks, I believe you said litigation rates is relatively stable the past few quarters. Is there -- are you referring to the -- what some other firms have called the attorney representation rates? And along those lines, when we think about increasing loss costs that -- for the industry. And I mean when you guys think about it especially in the GL or Commercial Auto Line, is the attorney rep rate? Is that 1 of the kind of biggest unknowns or risk factors? Or is it predominantly the severity of the lawsuits or both?

John Joseph Marchioni
CEO, President & Director

So Mike, this is John. I'll start, and I'll try to hit both parts of that question. So there is a difference between litigation rates and attorney rep rates. And what we referred to in our prepared comments was the relative stability over the last several quarters in our litigation rates. And that's for all of our liability lines. So litigated file is 1 that is, as the name indicates in litigation. Those are easy to track and measure and see a change over time. Our attorney rep rates are going to also include files that are not yet in litigation but the adjuster believes that there's an attorney representing a client. Those, I will tell you, are not as easy for us or anybody else to measure because it's a little bit more of knowledge on the part of the claims adjuster to understand whether or not there is -- been any attorney communication.

Those numbers will bounce around a little bit more. They're going to be higher than litigation rates obviously because many of those will not ultimately result in litigation. And I think that leads to an important point that we have stressed on this topic in the past. I would say really 2 fronts on this. Number one, we do some modeling work and provide our adjusters very early in the claim life cycle on files that have attributes that are more likely to result in litigation down the road. What that does is make sure that A, we have the right adjuster on that file, but B, make sure that their early communication with that claimant is going to put them more at ease about how that claim is ultimately going to be resolved and that will, in many cases, help us avoid a litigated file.

Now that sort of ties into your second point, which is litigated files, generally speaking, and part of it is going to be because of the severity of the injuries claimed by the claimant. But litigated files are generally going to carry a higher severity than unlitigated files. Some of that is because of the cost of attorney involved in, including your own attorney involvement as the company. But part of it is also going to be because you're generally going to have higher damage levels on both the property side and the bodily injury side when there's lawyers involved.

Gregory Edward Murphy
Executive Chairman

Yes. So Mike. So let me just add -- this is Greg. So obviously too when you think about loss costs, it's frequency times severity. We closely monitor frequency activity and generally find that that is the leading indicator in terms of the composite of your -- or breakout, your pure premium how claims are coming in. So we closely monitor that. And between that and the severity that John went over is really what drives the overall loss ratio and the amount of loss dollars as you need.

Michael David Zaremski
Crédit Suisse AG, Research Division

And just lastly, to be clear. And by the way, your color is always extremely helpful. Are you seeing a little bit clearly, given the -- I guess the tax were changed a little bit. Are you seeing a little bit of a uplift in loss trend?

John Joseph Marchioni
CEO, President & Director

Or -- so Mike, this is John. As Greg commented during his prepared comments, we have adjusted our view over the last couple of years of future trend expectations, which had been running around 3% are now pushing up closer to 4%, just under 4%. So that is reflective of what we've seen in our own experience. And again, I think this is probably an important point to just stress what we think is also a critical consideration when you think about changing loss trends in the industry, which is you really want to start by understanding how you feel about the initial loss picks that companies establish for their casualty lines.

And we've been very transparent about this and very consistent about this. In all of our prior accident years in recent memory, you will note that we talk about having an embedded assumption for future claims trends, and that has always been embedded in our loss pick. We've also stressed the importance of achieving pure rate increases or pure price increases that meet or exceed that expected loss trend, which is a great way to think about the strength of the loss picks that sit on every one of those older accident years. And I just think that's an important consideration. When you think about that changing environment, to the extent, it does happen, and it happens industry-wide, it will hit the current and also hit the prior accident years, but we have had that embedded assumption for claims inflation in our loss picks very consistently.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Understood. And Greg, all the best in your new role as Executive Chairman of the Board.

Operator

Next question -- the next question is coming from Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And again, congratulations to John and Greg. So a little bit of a follow-up. Could we talk about rate versus the claims inflation? I think if I read it right, your true rate increase levels are a little bit below 4%. And does that mean that you'll be essentially pushing for more rate, all things being equal next year to keep this up to the next year, your at rate inflation?

Gregory Edward Murphy
Executive Chairman

So Paul, this is Greg. Yes. So that's why when we said that the 3.8% will establish the floor, that's what the fourth quarter, we got 3.8% in rate and we view that as the floor going into 2020. So yes.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Okay. And then I'd love to hear your thoughts, generally speaking, on the Commercial Auto business, which obviously has struggled for you and everybody else pretty much. It doesn't seem like re-underwriting in -- or at least pure rate -- pure rate is helping that much. What are we missing there that you think could be the reason why we -- the industry keeps falling behind?

Gregory Edward Murphy
Executive Chairman

Yes, I think that's a great question. And I'll tell you what I think also in the industry, principally was led by way higher frequency counts over expected. That's what started it. And then I think it also. So I think we

-- that got missed starting in '16 and rolled through various accident years was just an underestimation. And I think that, in part, reflected some of the societal issues with regards to distracted driving, regarding poor driving habits, regarding a lot of issues with a lot of congestion on the roads, unemployment dropping, people hire driving, less experienced people on the road. All of that added -- and just the general road deterioration. I mean I'm avoiding potholes all over the place now, it seems like. But it's just a general deterioration of the infrastructure I think that's added to that.

And I will tell you that 1 of the products that we offer to Selective drive products, specifically earmark that that we're offering that to our customers free of charge. It allows them to manage their fleet, their maintenance records, but not only that, it's most important that it gives the driver a score at the end of the week in terms of how well they're driving, which includes when they're on the phone, with hard braking, hard turning, anything. So that's a big -- when you look at the horizon effect, that's a big additive factor that we can offer to our commercial fleet. And then I would say the other part then is this whole issue around severity that worked its way in.

And so -- it were -- it was 2 areas that probably took a line that normally ran at about maybe 3.5% to 4% in that neck of the woods from a trend standpoint and pushed it to like 7 and then -- so everybody was getting rate in the 6, 7 rate, and that's where everybody was getting more of their commercial lines, but that only started recently. So all of this buildup kind of caught everybody by, I think, a little bit behind the 8-ball. But I would tell you that there is a big improvement. Combined ratios in Commercial Auto dropped from like 115 -- in the 115 area. We're looking at 106 pretty much on an accident year basis on a current year basis.

So we actually feel pretty good about our improvement and when you look at where we're getting rate, that's obviously our lead line from our rate, and it's just under 8% in terms of Renewal, and that's pure rate. So we feel that we can get ahead of it. And we also feel maybe that the frequency counts relative to vehicles as kind of Apex right now.

Operator

And the next question is coming from Amit Kumar from Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

I had a few follow-ups on the same discussion as well. Just going back to, I guess, Paul's question on pricing versus loss cost and the margin. I think I'm oversimplifying this a bit, but I would have thought that now would be the time to press on pricing. And maybe you could just help me understand is that a bit better? Is it a function of the loss trends in your book? Or launching of for accounts? But I would have thought that maybe the trajectory of pricing over 2020 over the line would have been a tad different?

John Joseph Marchioni
CEO, President & Director

Yes. So Amit, this is John. I'll start. So I guess, first, for us based on the fact that we are achieving our target margins and our focus on Commercial Lines here. For us, the conversation is more about price adequacy than it is about price maximization. I mean that's what we believe in, and that price adequacy is in terms of the overall portfolio, and it's also on an account-by-account basis. You have seen, with that in mind, though, some sequential improvement, and it might appear slight. But when you look at where our margins are, that slight sequential improvement is a positive indication. We don't include in our numbers any exposure -- any exposure change.

And I think when you look at what's happening in the industry, you are seeing a lot more exposure included in the pricing numbers that are being put out there and while there might be some portion of that price number or exposure change that does act like rate, much of it does not. So we give you what's probably the most conservative view and insight into pricing. Let's also remember, we don't exclude Workers Comp from our number. And in our view, if we were to exclude Workers Comp, we probably should exclude it from our combined ratios as well to make the analysis complete. So that's -- it's still a bit of a drag.

Now that said, we do think that -- and we've reacted to it by raising our loss -- our future loss trend expectations up closer to 4 and that has caused us to view the rate need in our portfolio as a little bit higher. And therefore, we expect to push that as the year goes on. Now -- we're going to still do it on a very targeted basis, though. This is in our portfolio that doesn't justify a meaningful rate increase won't get one. Because our view is we're going to do what we can to protect that portfolio. The flip side to that is the 10% to 15% of the portfolio that we view as having worse-than-desired combined ratio -- future combined ratios is going to be the focus of our effort, and we're going to achieve higher rate levels there.

So I guess that's how I would respond overall in terms of how we think about the pricing environment. And the other point I would also reinforce is if you look at the Willis Towers Watson CLIPS survey, which we do cite frequently, and Greg cited earlier, and look at it for the small account subsegment, you're going to see a much smaller number in there. And a lot of the price headline is coming out of the specialty and E&S areas, it's coming out of the coastal property and very large property accounts. We haven't seen it as much in our core small and middle market, lower medium hazard risk space that we're predominantly focused on.

Amit Kumar
The Buckingham Research Group Incorporated

That's a fair comment. So is it possible -- and I completely agree and appreciate your comment on exposures. It's simply not apples-to-apples, looking at your numbers versus others. But do you have the number, excluding Workers Comp for the quarter? Or maybe you could even like talk about it sort of in generalities, how much the delta would be, if we exclude Workers Comp from the pricing?

John Joseph Marchioni
CEO, President & Director

Yes. So -- and we gave you some of the pieces, and I can't calculate on the sly for you what it would be x comp, we'd have been weight it out. But -- so GL, excluding umbrella, was 3.3% for the quarter. Commercial Auto is 7.8%, Commercial Property was 4.1%, and BOP for us, which is a smaller line was 5.3%. And then you've got Workers Comp at a minus 2.7%. So you're probably looking at something -- probably closer to 5% roughly, if you were to look at an ex comp number, maybe a little bit above 5% on an ex comp basis.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. And that's what I thought. Okay, then that's good. The other question is also a follow-up on the litigation trends, and we've talked about this on several conference calls and we expect to talk about this. I know in the past, you've talked about Reviver. Discussion is not about Reviver. Can you -- when you sort of look at your trend line on the litigation trends and then you look at all the reports out there, we should look at litigation trends, et cetera. When you look at your own book, do you think the reason why we haven't seen that level of increased activity versus some of the larger companies, is it more because of the account size?

Is it the geographical mix or maybe it's a combination of all of it? But maybe just talk about that a little more, so that we can get some confidence that these trends will remain stable versus some of the other larger companies.

John Joseph Marchioni
CEO, President & Director

Yes. So I think there clearly are differences, and you would expect differences in terms of where the plan of SPAR is going to target in terms of individual companies and the type of company we do write is going to be less of a target. But I think we do look at inflationary trends or claims inflation as not just entirely focused on the headline litigation or headline settlement's amount that you see. To the extent it's happening, it will ultimately start to make its way up and down the marketplace. I don't think there's a geographic difference. When you look at our footprint, our footprint is concentrated in the eastern half of the U.S. with some of the southwest expansion.

But for us, you also want to look at the hazard levels. And we do still write a predominantly low and medium hazard class of business with a low limits profile. And I know a lot of companies cite their limits profile and ours is certainly on the lower end for most, and that will provide some protection if, in fact, you do see an acceleration of claims.

I'll also say that while our own litigation rates haven't really moved, as we've mentioned, and we focus in terms of our view of our reserves on our own experience, we certainly pay attention to what's being stated and what others are saying in the broader industry and have a keen eye on that relative to what might potentially emerge. But to sit here and say with clarity that frequency or severity trends are going to be X or Y in future years is just tough to get comfortable with.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. The last question I have is on the GL development, I think you were responding to Mike. And I'll go back and look at the transcript. But my understanding was there was adverse of $5 million. And did you -- was that from AY 2018, '17? I didn't get the details in terms of the moving parts of that $5 million?

Mark Alexander Wilcox
Executive VP & CFO

Yes. Amit, it's Mark here. It was $5 million of adverse development in the quarter. But I think it's best to look at the full year, which was $5 million of payable development in the general liability line. So there's obviously at least some quarterly volatility. It's a relatively small number on a big book of business. And this reflected a little bit of fine-tuning and some risk factors going into the new year. And then as it related to the current accident year, and I mentioned this earlier, but just for the sake of clarification, it was also $5 million on the 2019 accident year that we had a modest benefit earlier in the year. So for the full year, it was $3 million. So if you net the $3 million and the $5 million, it's a bit of a wash against the current and the prior related GL line and reflects a line of business that we've had reasonably stable trends.

Amit Kumar
The Buckingham Research Group Incorporated

Yes. And then was that related to like an account? Or is that just more fine-tuning across the book?

Gregory Edward Murphy
Executive Chairman

Yes. It's more across the book. And when you think about that small dollar number across multiple or prior accident years, there's not even going to be an individual year you would look at. But I would say, it definitely have been more -- in the more recent accident year '17, '18.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's all I have. And good luck in your new roles, Greg and John.

Gregory Edward Murphy
Executive Chairman

Thank you.

John Joseph Marchioni
CEO, President & Director

Thank you.

Operator

The next question is coming from Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle

RBC Capital Markets, Research Division

Let me just start by giving my well wishes to Greg. I've very much appreciated your valuable insights, and you'll always be among the Ivy League of CEOs in my book. So good luck to you going forward.

Gregory Edward Murphy
Executive Chairman

Thank you, Mark.

Mark Alan Dwelle
RBC Capital Markets, Research Division

First question, just something fairly simple. The corporate expense line item is much lower than the other quarters. I think this was the same as a year ago. Just -- is there something -- is there a credit or some seasonality or something? Would've thought the comp expense alone would have been more than $2.6 million in a quarter?

Mark Alexander Wilcox
Executive VP & CFO

Yes. Mark, it's Mark Wilcox. So let me jump in, and Greg and John can follow on as well. The Corporate Expense Line item does have an element of volatility and a little bit of seasonality to it. So it was running in the $35 million range, a few years back, it was $25 million last year and $31 million this year. It mainly includes, it's not all, but mainly includes stock-based compensation and a portion of that, call it, 25% is what we call liability based. And so there is some volatility. It is driven really by a couple of factors: one, the peer group factor; and two, there's also a total shareholder return factor. And the reason it was down in the quarter was some kind of 3 day sell-off as you're well aware, in Q4, and that drove a benefit or credit in that line item in the quarter.

Just as a reminder, as you look ahead to 2020, there is some seasonality. You typically see a heavier upfront and low in Q1 of the new year related to the Corporate Expense Line item, given the retirement eligibility and the full expensing of stock-based compensation for those individuals that are retirement-eligible and receive an award.

Gregory Edward Murphy
Executive Chairman

And I'll say just the changes that we made to the plan overall, now that you have all the years that are now eligible to be expensed in theory, that 3-year period under the new plan, it will reduce the overall amount of volatility in the line.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. Second question, John, you had provided some pretty good pricing segmentation information with respect to the Commercial Lines book. Do you have similar information you can share related to the E&S book?

John Joseph Marchioni
CEO, President & Director

Well, we haven't traditionally. I can tell you that we do a similar segmentation, but it's more based on industry classification and our targets -- our target pricing levels to achieve our target ROE. We do certainly manage it that way internally. It's just not something we've reported about externally, but it's the same very granular approach that we take in managing both new and renewal business in the E&S segment.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. Staying on the E&S book. Any additional insight you can share related to the reserve addition in that business? I know it's kind of gone back and forth over the years. But is there anything different about loss trend or litigation or anything there?

Gregory Edward Murphy
Executive Chairman

Mark, it's so small. It's not even that large. So I would say, it's just minor year-end adjustments that come through based on slight modifications. It's not material, really it's not significant at all.

Mark Alexander Wilcox
Executive VP & CFO

Yes, it was $2 million in the current quarter or the prior accident year and $2 million in the current quarter on the current accident. It's relatively modest, again, a little bit of fine-tuning going as we roll over into a new accident year, making sure we feel confident in our reserve inventory. But nothing, I think we'd point to in terms of trends. I think the good news obviously with the E&S segment, as John highlighted, is a strong level of profitability. It's our best year yet from a profitability perspective and E&S has still some work to be done to drive towards the targeted level of risk-adjusted debt profitability in E&S. But the reserve -- last year, we had a $12 million addition. So trending in the right direction and just some fourth quarter minor adjustments.

Gregory Edward Murphy
Executive Chairman

And I would just add to that, Mark. I mean we've come a long way. You asked about target surcharges to John. We are in place. We track that. We can to tell you exactly where the new Renewal is and we are been -- and in this market, we -- for the past several years, have never been totally satisfied with what we've been getting are the amount of increases that we were getting on the Renewal side. We have seen change in that. We have done a lot of work on our renewal inventory to get them closer and closer to where our target surcharges need to be and we have been very happy relative to the new business that we put on the books and where that is relative to target surcharge. So that's come a long way.

And again, you know us, we put in a lot of discipline in it, and we want to make sure that that business is profitable. We've always told you that it will -- the top line will go up or down more based on market conditions. And that I think will happen over time.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. And then 1 last question, and this is, I suppose it's more a -- almost a thought question as anything else. But I -- as -- I'm trying to gauge kind of the sense of where the market tone is or the -- from the customers' perspective. As you go to customers with Renewal rate increase requests at whatever level they happen to be 5%, 2%, 8%, whatever. I mean what kind of pushback are you getting? I mean are people understanding of the need for rate? Is it more than unusually adversarial? How does that conversation go at this stage?

John Joseph Marchioni
CEO, President & Director

Yes. Mark, it's John. So obviously, the answer is going to be, it depends. It depends on the size of the rate increase, and it depends on the individual producer who owns that relationship at our independent agency and their approach to managing that process. I will say, for us, we have really prided ourselves on maintaining that routine balance between price and trend over a long period of time. So we're not in a situation where you've got a 10% or a 15% rebate on your overall portfolio. So that minimizes the impact overall when you think about what we're asking of our agents in terms of selling increases.

Now that said, we do have very specific discussions and expect our agency partners to be able to have that specific discussion with that smaller percentage of the inventory that is going to get a higher-than-average increase based on risk characteristics or experience in that account. And I will say that based on our overall retention and our retention by cohorts, the customers understand that, and our distribution partners do a good job of explaining that. So I don't necessarily feel like that's a huge impediment at this point of executing on our pricing strategy.

But I will say if we just took an across the board approach, and we're trying to fix a loss ratio problem, which we're not, it would be a lot harder to execute in this kind of an environment because there are enough companies like we are that are well positioned with their pricing sophistication to go out and take those opportunities that are -- that look attractive when a company is taking an across the board rate increase.

Gregory Edward Murphy
Executive Chairman

And Mark, this is Greg. So the other side of that too it really comes down to more of the general economic conditions. So with GDP growing, businesses rowing, top line revenue growing, price increases are a little bit easier to take in as a customer versus years ago when GDP was not growing, and you're trying to raise rate, and everybody is looking through their balance -- looking through their P&L to figure out what expense lines they can cut, does make it a little bit easier relative to that.

And the other point that John made earlier, relative to what we're doing in customer experience, relative to everything that we're doing to build more customer connectivity, whether it's our security mentor product that we've recently rolled out, our drive product, the product recalls that we're offering, all of the additional work that we do to build more and more contactability to the end customer, we want to make sure that when we do need to sell a larger price increase, someone would sit there and say, okay, this is all the value that I'm getting from Selective, and it's not just the insurance policy, it's way more than that. And we believe that over time, that should help our retention, help our net promotor scores, help all of our OSAT scores and everything else that we track internally, that will make a difference long term.

Operator

And the next question is coming from Matt Carletti from JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

All right. Just have a quick one. I wanted to ask a question on Workers Comp. Growth was up 5% in the quarter, the strongest number we've seen in a while, actually, first positive we've seen in a while. Just wanted to ask what's going on there? I mean I think you gave us the rates so we know it's not that? Is it good new business production? Underlying kind of economic work activity? Was there some audit premium to catch up? Just what kind of gave us that growth in the quarter?

John Joseph Marchioni
CEO, President & Director

Yes, Matt. This is John. I would say -- and again, remember, we write predominantly account business and very little monoline Workers Comp. So you want to think about Workers Comp growth in the overall context of the very strong quarter we had in Commercial Lines. Commercial Lines' growth was at 11%, and that was driven by both strong retention and a solid new business quarter. And I would say when you look at the growth in comp relative to the other lines, it's still the lowest growth line at that percent, but stronger in the quarter certainly. I don't -- I wouldn't necessarily -- as you said, pricing wasn't that materially different than we saw in the first 3 quarters.

I just think we had a stronger growth quarter overall, and that helped a little bit the growth in the Workers Comp segment. We have not seen a meaningful change in the competitive landscape in comp. I will tell you, that continues to be, especially for small, lower hazard Workers Comp, probably the most aggressive market in any segment that we play in. You've seen a lot of companies continue to be very aggressive, and we love our results. We love our book of business. We feel good about the book of business we have, but we also recognize that loss trends in that line can continue the downward trajectory they've been on for both frequency and severity. And we're just being cautious about growing that relative to the overall growth of the Commercial Lines operation.

Matthew John Carletti
JMP Securities LLC, Research Division

Got you. Just to kind of tie-in that last comment there together, am I right to infer that as you go through the component pieces of, obviously, gave us guidance that implies kind of accident year margin improvement '20 versus '19 for the overall book, that this might be a component where it might tweak the other way a little bit, that rates down a few percent. And I mean unless trend continues in that direction, which it sounds like it's not an assumption that you'd make off the bat that that might be a component that goes a little bit the other way as we go forward?

John Joseph Marchioni
CEO, President & Director

I -- we give you overall combined ratio guidance. We don't give it by line, but based on how we talk about rate and trends, I think the way you've described our view of comp would be a fairly accurate description.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. Well, Greg and John, congrats and best of luck and -- going forward.

John Joseph Marchioni
CEO, President & Director

Thanks, Matt.

Operator

And the next question is coming from Ron Bobman from Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

Greg, you've been awesome. I sure have learned a lot, and you've always pointed us in the smart direction. So thanks a ton.

Gregory Edward Murphy
Executive Chairman

Thank you.

Ronald David Bobman
Capital Returns Management, LLC

Greg, a little while ago in the call, you mentioned the Commercial Auto combined was at [115] and now it's at [106], but I'm wondering what sort of date or what window, what quarter or what year you were sort of referencing if I had those numbers right, the movement occurred over?

Gregory Edward Murphy
Executive Chairman

Yes. So let me just pull that out in a second. Hold on a second. Let me just grab the lines here so. All right so for 2,000 -- so year-to-date, Commercial Auto in '18, the combined ratio, call it $1.16, was the calendar year trend and the accident year was $1.8, pretty close to that in the underlying combined ratio for that year. And now we're running, call it, the cap for this 2019 year, Commercial Auto, the combined ratio was $1.8 and the underlying combined ratio was[100]-- call it, 107 in that neck of the wood. So that gives you a little bit of ideas for the movement and what was happening, and that's what I was referring to earlier.

Ronald David Bobman
Capital Returns Management, LLC

Got you. And would it be -- given how rates have been, should I think that Q4 '19 numbers are marginally better than the [108] and [107] that was booked for the whole year? Or the rate increase has been pretty consistent?

Gregory Edward Murphy
Executive Chairman

Yes. No, I think our -- the way we build our plan is -- let's put it this way. The way our planning process works the base year is a 4-year average, and then we're projecting that forward. So when we look at any liability line, we're estimating -- break it down ultimately into a frequency/severity number amount and then that ratio is pretty consistent in liability throughout the year. We're not market weighting or price adjusting quarter-to-quarter. So generally speaking, on any liability line, you'll see, unless we're making modifications to it, it would be the same ratio every quarter.

What you do see is the volatility in Commercial Auto, though, could be the property side, and that could be weather specific. So that could come from -- whether you come through property damage, particularly on the liability side, but it also could come through physical damage on that side, and that's what could create a little bit more up and down on that number versus a straight liability line like GL or Workers Compensation, where you see virtually the same kind of ratio throughout the quarters.

Ronald David Bobman
Capital Returns Management, LLC

Okay. You've mentioned, I think, just qualitatively, but I could've missed it, retention. I'm curious to know how Commercial Lines retention was in Q4 as compared to Q3 sequentially, please?

John Joseph Marchioni
CEO, President & Director

Yes. So retention for Commercial Lines was 84% in the quarter, and I give it a full year number, which was 83%. I don't have the individual first 3 quarters, but that would suggest that it was a relatively...

Gregory Edward Murphy
Executive Chairman

Relatively stable. A year ago, Q4 '18, it was a little bit lower at 83% and throughout the year, it was 84%, 83%, 84%, 84%. So in the full year at 83%. So relatively stable retention throughout the year.

Ronald David Bobman
Capital Returns Management, LLC

Got you. That's great elasticity as far as that supporting you to push more rate, I guess? Or like you said, the baseline, I think, as Greg said, going into 2020.

Gregory Edward Murphy
Executive Chairman

Thank you for picking up on that.

Ronald David Bobman
Capital Returns Management, LLC

Last question, the -- putting aside Selective's -- and you highlighted really small E&S book as compared to your admitted book. From a more general perspective, this challenge of increased loss cost, a portion of which is driven by attorney representation and the distinction between that and litigated claims. Do you think that an E&S book would be more resilient to that challenge than an admitted book? Or it's -- both are going to sort of face the same delta from loss cost inflation being driven by litigation or attorney representation in 1 form or another?

John Joseph Marchioni
CEO, President & Director

Yes. Ron, this is John. I would say, generally speaking, I don't think it's going to be that different. But it also depends on the segment of the E&S market we're talking about. I do think if you're writing in the space of the E&S market that is really high exposure products, higher hazard classes of business, you might see a little bit more of an acceleration in terms of claims trends. But I would say, for us, our book is predominantly small contractors, small habitational, small restaurants and mercantile and service businesses, small limits profile and not high-profile exposures, it would be more akin to what we would expect to see in our Standard Lines book.

Mark Alexander Wilcox
Executive VP & CFO

Yes. And I think Greg quoted a number earlier on that limits profile for casualty with extended Commercial Lines, $1 million or less than 87% of the book. And in E&S for casualty, for the $1 million and below is 98%. So a very similar limits profile, even perhaps a little bit more conservative.

Gregory Edward Murphy
Executive Chairman

And again, and I don't -- everybody focuses on the issues that could raise loss costs, we do as well. And I just want to make sure we get out there's a tremendous amount of effort internally in the organization. John touched on the litigation propensity model, the escalation models that we have, what we're doing in the area of complex claims, some of the other work that I know we're starting on relative to robotics in certain areas. What we're also doing to find out when we look at losses and sit there and say, what is it that we can do to help mitigate some of the losses, whether it's notification, whether it's education, and we've got a lot of efforts on that.

And those are things that will pay off on the longer term, and normally would not -- you're not going to see any credit come through in the near-term relative to loss ratios. But they are a part of analyzing the loss costs, analyzing how you get back strains, analyzing how and some of the things you could do in tech -- to help me mitigate that are all things that we need to be focused on to reduce loss costs. So those efforts are underway, but -- will pay off over time.

Ronald David Bobman
Capital Returns Management, LLC

And Greg, you're leaving us, I think, whilst -- well protected and well lead with, John. Take care.

Operator

And we show no further questions. Thank you at this time.

Gregory Edward Murphy
Executive Chairman

Everybody -- and I appreciate the comments from everyone. Thank you. If you have any follow-ups, Rohan and Mark, are available. Thank you very much for all your questions today, very interactive call. So thank you.

Mark Alexander Wilcox
Executive VP & CFO

Thank you.

Operator
And that concludes today's conference. Thank you all for your participation. You may now disconnect.