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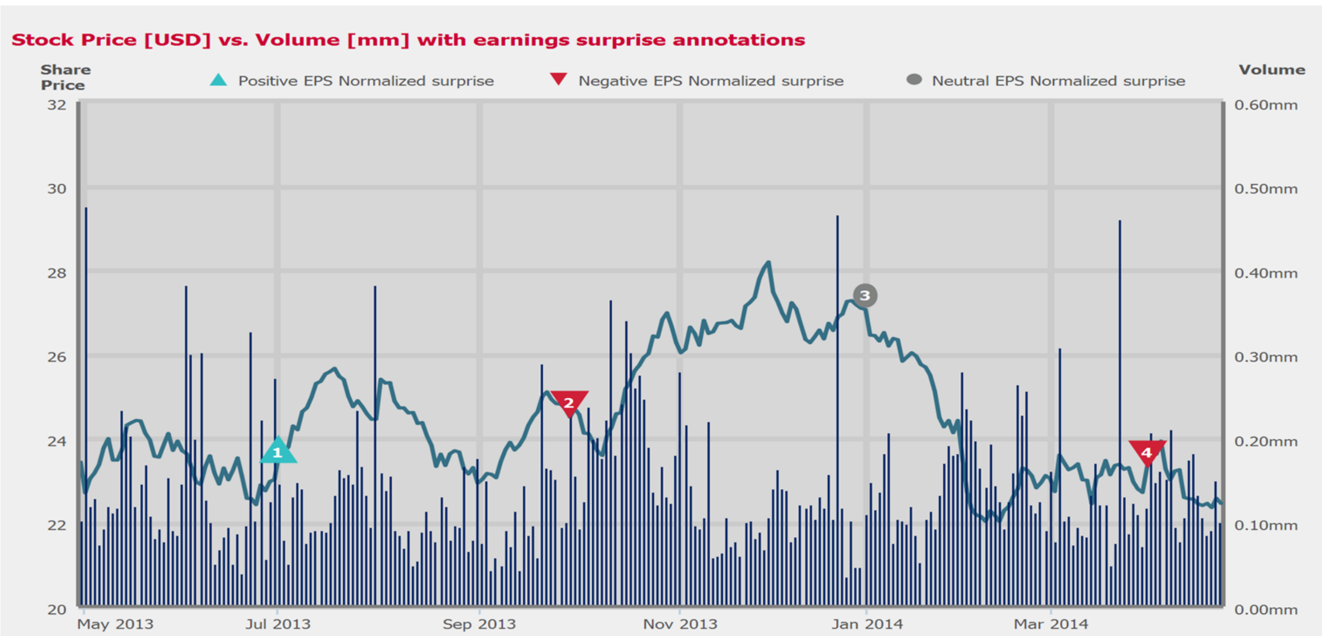
Selective Insurance Group, Inc.
NasdaqGS:SIGI
FQ2 2014 Earnings Call Transcripts

Thursday, July 31, 2014 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.49	0.46	▲(6.12 %)	0.51	1.71	2.28
Revenue (mm)	501.36	506.85	▲1.10	507.85	2030.92	2118.46

Currency: USD
Consensus as of Jul-31-2014 1:51 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.35	0.42	▲1 20.00 %
FQ3 2013	0.44	0.42	▼2 (4.55 %)
FQ4 2013	0.45	0.45	●3 0.00 %
FQ1 2014	0.33	0.23	▼4 (30.30 %)

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Call Participants

EXECUTIVES

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Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

John Joseph Marchioni
President & COO

ANALYSTS

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Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

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Presentation

Operator

Good day everyone. Welcome to the Selective Insurance Group’s second quarter 2014 earnings release conference call. At this time for the opening remarks and introductions I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino.

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

Thank you. Good morning, and welcome to Selective Insurance Group's Second Quarter 2014 Conference Call. This call is being simulcast on our website and the replay will be available through September 2nd, 2014. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website, www.selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax results of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward looking statements, as defined by the Private Securities Litigation Reform Act of 1995. Forward looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's Annual Report on Form 10-K and any subsequent Form 10-Qs filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties.

Please note that Selective undertakes no obligation to update or revise any forward looking statements.

Joining me today on the call are the following members of Selective's executive management team; Greg Murphy, CEO; John Marchioni, President and Chief Operating Officer; Dale Thatcher, CFO; and Ron Zaleski, Chief Actuary.

Now, I'll turn the call over to Dale to review second quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks Jen. Good morning. In the second quarter we delivered a 91.6% statutory combined ratio excluding catastrophes which is on track to achieve our 2014 goal for a 92% ex-cat statutory combined ratio. On the year-to-date basis this metric stands at 92.5% as the benefits of earn rate in excess of loss trend and our underwriting and claims initiatives work their way through the book. Operating income per diluted share for the quarter was $0.46 compared to $0.42 a year ago as investment income and underwriting results showed year-over-year improvement. The second quarter statutory combined ratio was 97.5% compared to 97.7% a year ago with improvement partially masked by elevated levels of catastrophe and non-catastrophe property losses. Included in our quarterly results were $27 million or 5.9 points of catastrophes losses that were primarily attributable to storm activity in the MidWest.

Last year catastrophe losses were $20 million or 4.6 points for the quarter. Non-catastrophe property losses this quarter were unusually high at approximately $73 million or 15.7 points on the combined ratio which was 4 points higher than the year ago quarter. The losses were primarily the result of weather related damage throughout our footprint states. Favorable prior year casualty development in the quarter was $17.5 million or 3.8 points mainly due to ongoing favorable claim trends in our general liability line.

There was also modest favorable development in commercial and personal automobile liability. Workers comp reverses were stable again this quarter with no development either favorable or unfavorable for the line. Our growth rate in the quarter slowed with total statutory net premiums written up 4%. This reflects an increased level of competition on new business and our targeted exposure reductions in personal lines.

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Standard commercial lines were up 4% while personal lines declined 1%. Conversely we saw strong 16% net premium written growth in our Excess and Surplus lines. In standard commercial lines for the quarter, we successfully achieved renewal peer price increases of 5.9% while retention declined slightly to 82% from 83% a year ago. The standard commercial line statutory combined ratio for the quarter was 95.5% or 91.9% when excluding the 3.6 points of catastrophe losses.

Looking at results by line of business, general liability and commercial auto posted strong quarters with statutory combined ratios of 80.7% and 93.5% respectively. Workers compensation improved by over 6 points on calendar year basis to 112.1% as we continue to focus on profitability improvement for this line.

Personal lines net premiums written declined 1% reflecting our strategic non-renewal of dwelling fire business and a reduction in monoline homeowners that we discussed on our first quarter call.

As expected, retention declined to 82% compared to 87% in the prior year. Renewal peer price achieved in the quarter was 6.5%. The statutory combined ratio of 106.1% in the quarter was driven by catastrophe losses of 17.1 points. The combined ratio on an ex-cat basis was a strong 89% which is a 3.2 point improvement over a year ago.

Net premiums written for our E&S operation grew 16% in the second quarter to $38 million. The statutory combined ratio was 95% excluding 4.9 points of catastrophe losses demonstrating the progress we continue to make in improving the profitability of this book in line with our overall goals for 2014.

We successfully completed placement of our July 1st, 2014 excess of loss reinsurance treaties. We renewed both the casualty excess of loss and the property excess of loss treaties with some enhancements in terms and conditions. The casualty excess of loss treaty provides $88 million for coverage in excess of $2 million retention while our property treaty provides $38 million of coverage in excess of $2 million retention.

Rates of the program were reflective of the soft conditions in the reinsurance market. For investment second quarter after tax investment income increased 7% from last year to $27 million and remains on track with our 2014 guidance.

The after tax yield on the portfolio of 2.3% remained flat from a year ago while invested assets increased 3% to $4.7 billion compared to December 31, 2013. At 2.25% after-tax new money rates on fixed income securities in the quarter were in-line with our 2014 estimate. The overall portfolio unrealized gain position increased from $79 million pretax at year-end 2013 to $145 million pretax at the end of the second quarter.

Also the unrecognized gain position in the fixed income held a maturity portfolio was $21 million pretax or $0.24 per share after tax. Our fixed income portfolio maintains a high credit quality of AA minus and duration of 3.6 years including short term investments.

Surplus and stockholders' equity ended the quarter at $1.3 billion and $1.2 billion respectively. And book value per share was $21.96, up 6% from year-end 2013. Our premium to surplus ratio was in line with year-end at 1.4 to 1. Annualized operating ROE for the quarter was 8.7% and total ROE was 9.7%. This compares to our weighted average cost of capital of 8.9%.

Now I will turn the call over to John Marchioni to review insurance operations.

John Joseph Marchioni
President & COO

Thanks Dale. Weather once again played a significant role in the quarter for overall profitability. However underlying results continued to improve. This demonstrates the progress we have made with our underwriting and claims initiatives and successfully achieving overall renewal pure pricing of 5.8%.

Top line growth for standard commercial lines has become more challenging due to an increasingly competitive marketplace as carriers hang on tightly to their renewal books while aggressively pursuing new business with lower pricing. Additionally given the still recovering economy there are less new

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business opportunities. This is evident in our submission and quote activity which was lower in the quarter from last year.

Despite current market conditions we're maintaining our new business pricing and underwriting discipline. As rate changes for Selective and the industry have declined in recent quarters, our underwriters use sophisticated underwriting tools that help them balance the rate retention and profitability of their books of standard commercial lines business. As a result we achieved pure rate of 5% and point of renewal retention of 89% on our highest quality accounts through the first 6 months of the year. These accounts comprise 55% of our standard commercial lines renewal book.

On our lowest quality accounts we achieved pure rate of 12% and point of renewal retention of 75%. These accounts represent 8% of our standard commercial lines renewal book.

For Excess and Surplus lines, underlying results demonstrate the progress we've made in refining the book. Following our conversion to a single underwriting guide for all of wholesale agency partners, growth in this line accelerated to $38 million up 16% from a year ago including 2.7% increase in renewal pure price.

While we're very satisfied with our progress in this segment there remains significant untapped potential both in our standard operating footprint and outside of it.

We expect to roll out a significant upgrade to our technology platform in the third quarter which we fully expect will make us one of the easiest companies to do business with. On an ex-catastrophe basis, the personal line statutory combined ratio improved by 3.2 points in the quarter. Net premiums written declined 1% as new business declined 11% to $10 billion largely due to a reduction in monoline homeowners business. Also retention declined from 87% to 82% in the second quarter of 2014 partly due to our strategic non-renewal of dwelling fire policies as well as targeted non-renewal actions on underperforming auto and home business. Personalized renewal pure price increased 6.5% in the quarter.

For homeowners in the quarter our statutory combined ratio was 90.5% excluding 34 points of catastrophe losses while we achieved renewal pure price increases of 9.4%. Non-cat property losses in the quarter were 45.7 points, an increase of 7 points from a year ago and were primarily the result of higher weather frequency. We continue to target a homeowners combined ratio of approximately 90% in the year with a more normal level of catastrophe losses. We will drive the rate necessary to achieve this goal.

Personal auto generated a statutory combined ratio of 100.2% in the quarter which included the benefit of $2 million in favorable prior year casualty reserve development. This reflects a continuation of recent favorable reserving trends that we have experienced within personal auto liability. Renewal pure price increases in the quarter were 3.8%, and we expect improvement in this line as a result of continued rate increases and aging of the book.

In conclusion we're unwilling to sacrifice long term profitability for short term production and are carefully monitoring the price and quality of new business to best position us in the market. Regardless of market dynamics we believe that our strong relationship with agents, our technology and our employees position us well to grow in a thoughtful and disciplined manner.

Now I will turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thank you John. For the first half of the year we have experienced an ongoing higher level of catastrophic events, a persistently low interest rate environment and a counterintuitively to us, a weakening of industry wide commercial lines pricing. Our commercial lines renewal pure price increases continued to significantly outpace the industry. For the first 6 months of 2014 we expect our 6.1% renewal pure price to be about 200 basis points above the CLIPS pricing survey.

As you know the key measurements in assessing underwriting results are: one, rate versus loss trend, two, the mix of existing business and three, new business and retention ratio. We're very comfortable with

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our successful execution on these strategies to help us accomplish our 2014 ex-cat statutory combined ratio target of 92. Year-to-date 2014 our estimated overall earned renewal pure price increase of 7% is about 400 basis points above expected loss inflation. This increase will have the impact of reducing the combined ratio by approximately 2.5 points. Pricing in combination with underwriting and claims improvements will help us achieve our 2014 profitability goals.

I'm pleased with the underlying results and believe they demonstrate the significant organizational investments we have made to provide our underwriters and the claims professionals with the best tools possible to achieve consistent profitability. I would like to highlight a few of the initiatives. One, we have been achieving rate above trend in both commercial lines and personal lines for significantly longer than our industry peers and we expect to obtain overall 2014 renewal peer price increases of 6%. Driving rate in personal lines is important particularly in homeowners where industry wide pricing is deficient.

For the first 6 months our homeowners renewal pure price increases were 9.2%. Higher expectations of what a new normal might be for catastrophe losses should lead to greater industry pricing discipline. Two, we're encouraged by the stability in our workers compensation book over the past couple of quarters while still a work in progress, we have successfully increased rate over loss trend and implemented a number of underwriting improvements designed on writing lower hazard risk business. Additionally, a number of claims initiatives we have implemented to achieve better outcomes.

The new strategic case unit is demonstrating the benefits expected from implementing a specialized approach to more complex cases. Now fully staffed, this unit handles a 100% of the expected higher risk dollar claims. Supported by escalation risk modeling and a new medical directed resource, unique strategies are implied in the management of these complex claims.

The company is consolidating all workers compensation claim handling in our Charlotte office to best apply focused expertise and segmentation strategies. We're very pleased with the progress in our excess and surplus lines operations as growth accelerated in the second quarter and we're on target to achieve our 2014 profit goal.

Considering a high level of catastrophe losses, our catastrophe loss assumption has been increased for 2014 from 4 to 5 points. As part of our overall planning process we will be evaluating the 2015 catastrophe assumption.

Based on the year-to-date results and our current view of the marketplace our 2014 guide is as follows. An ex-cat statutory combined ratio of 92 which includes no additional prior year casualty development, 5 points of catastrophe losses for the year, after-tax investment income of approximately $100 million and weighted average shares of 57.4 million.
Now I will turn the call over to the operator for your questions.

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Question and Answer

Operator

[Operator Instructions]. The first question comes from Bijan Moazami. Your line is open.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

When I look at your sets of results that you have provided in your supplement there are 2 lines of business that are working somewhat different than the industry. So for instance auto, commercial auto, you’re running 93.5 combined ratio, you’re growing it, you’re doing pretty well when the industry and travelers in particular, is having significant problems. Vice versa in the workers compensation you’ve had a significant underwriting loss. You’re shrinking it when in fact everyone else is having significant underwriting profit. So the question is why those 2 lines of business where you guys are so different than the industry average?

Gregory Edward Murphy
Chairman & CEO

Yes let me start with that and I will let others weigh in on it. I think when you look at our commercial auto book, it's really the segmentation of the type of business that we write in that. We don’t write a lot of the large over the road haulers and so you look at the kind of gross weight vehicles that we write in our commercial automobile book it's a very different makeup of the industry. I don’t think our overall book is similar to what you see in the industry and our trends in terms of loss performance have been very consistent. We see a very mild uptick in the ‘13 year and maybe something very mild in the ‘14 as well but nothing really unusual in that. That’s also a line that we have got a significant rate above the trend in the marketplace for the past several years. And John?

John Joseph Marchioni
President & COO

And Bijan I will add on the comp side. I agree with what Greg is saying in relative to commercial auto. Our performance I think has generally been better than the industry’s over a long period of time. But on the worker’s comp side I guess a couple of things, number one, we have recognized the need to improve our performance over the last couple of years. We talk about those plans, you’re starting to see the benefits of those plans and we expect to see those continue to going forward especially on the claim side. On the underwriting side for us it's about really started to change the mix of business to become more of a competitive market for lower hazard, smaller work comp which is not necessarily been a big part of our mix of business. What I will say though is, I guess I will challenge to notion that industry performance is all that good on the workers comp side. There are a couple of companies I think, who are putting up some good results but generally speaking the industry is still above where you would expect them to be. And I would add to that that when you look at what’s happening with the base rates there are a still lot of states whether either NCCI or the Individual State Rating Bureau it's filing very high indications and not getting significant rate increases approved.

So I would argue also that base pricing in workers comp for the most part is below where it should be and I think that and at some point I will start to reflect itself in industry performance as well. So as a result of that we’re maintaining our stance relative to underwriting and pricing discipline in that line.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

And I guess Greg mentioned that you guys are concentrating your claims operation in Charlotte for the workers compensation. Could you elaborate on that?

Gregory Edward Murphy
Chairman & CEO

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So there are really 2 pieces to that. The first thing that we did starting last year was to create a strategic case management unit. That was built out in our Charlotte operation and again we had a significant regional operation in Charlotte for quite a while now. We're just building out around that, so we started by building out a strategic case management unit that handles the high dollar or claims that have the potential to become high dollar claims. We have stacked that operation up, we have brought in some folks from the external market and combined it with some of the talent we have inside and have that operation fully running. The second step was to take the workers comp teams that are handling either the med only or the more routine loss time claims and move those from our 5 regional offices into Charlotte. And we have felt couple of things, number one, it's a great market in terms of talent. Number two, is it gives us the opportunity to build scale in that operation and build a little bit more specialization in the claims handling model than we have as well as having some that we think is we very talented onsite supervision for those entire teams.

That's in process. I would say we're about 2/3rds through the staffing up of that operation and we're getting close to the point where all new claims will be going into that unit. We think that's a big part of our claims improvement going forward and I think we have got the talent and the structure now to really start to see benefits come through that.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

And one last slide in for Dale, silly question. What's a non-cat weather for the second quarter? So what is it tornado, hail or is it something else?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Yes basically it's storm losses that they don't accumulate to the point where PCS assigns a storm number. So it can be any kind of a weather related property loss but that does not rise to the level of that PCS indication. I know that some companies define cat losses themselves. We have never gotten into that habit because we didn't want to get into a debate as to whether or not it was a cat or not a cat. So that's why we adhere to the PCS standard.

Operator

The next question comes from Vincent DeAugustino with KBW. Your line is now open.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to start with John, to your comment on ease of use technology. I mean one of the arguments that we have heard out there, with some of these technology deployments and then second in some cases with policy administration actually being extracted out of the agent's office. That's making agencies more efficient as the carriers bear more of that workload and then consequently the second argument there is that the commission structure should reflect that as far as that lower workload and so as we think about you guys deploying ease of use technology. I'm curious if you buy into that thought process on the commission side or should we always think about you guys being sort of the gold standard on the agent comp side?

John Joseph Marchioni
President & COO

On the agency technology, what was in the prepared comments was focused more in the E&S but the same concept applies for our standard insurance operations. We have always focused on being an easy company to do business with and that continues to be our focus. The technology itself is not necessarily where you're seeing work migrate from the agency to the company. I think actually as more and more company roll our proprietary systems that actually becomes a little harder on the agency because their processors or CRS or the producers need to understand several different technologies in terms of entering business into those systems.

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Now that said we have been very vocal and had a lot of conversations with our agents about the servicing model of our common customers needing to change over time because we do think, much like other service industries, our customers are demanding more and more of an omni-channel type servicing environment where they could choose the manner in which they engage us and they engage our agents relative to post acquisition servicing. That I think is where as we start to move down that path and we're having a lot of internal discussions as well as discussions with our agents on what that should look like, to the extent that work starts to move because, we're still in an environment as most companies are where post-acquisition servicing work is still done by the agent. That's what I think will start to migrate over time and as that work starts to migrate I think it does force a discussion relative to compensation.

Now that doesn't necessarily mean overall compensation levels dropped in May but I think what you may also think about is the compensation structure that the relative compensation structure between new and renewal business may start to shift because we would expect it as we start to take over more servicing, agents are able to rededicate more of their resources towards acquisition and it may change your compensation philosophy accordingly to drive some of that behavior. That's a longer term discussion that we're going to continue to have with our agents but I think you will definitely see more of that going forward.

Gregory Edward Murphy
Chairman & CEO

I would say also that conversation is directed around best in class, how do you provide a service model that meets the changing customer needs. How do you also focused on that you get the agent directed to them? It's not just about the comp line commission revenues, it's about your profit and your profit margins can actually improve what you do, you do well which is selling and some of the value added services that make a difference into that customer base that wants to be handled in different ways. And obviously the agency is kind of stuck in the middle on this one as they have a number of companies in their portfolio that may be at different levels. I think this is one of things that's going to continue to separate Selected as one of the top carriers pushing their agents because you know we only have the Ivy League of independent agents, pushing our agents to think about the market differently and why our agents are going to be really successful long term.

So it's like John said, it's nothing that changes overnight but you got to figure out how you push people into a better service model and get them thinking about who is most efficient to handle those more transaction plus value added kind of services and where can you provide a 24 hour day environment for anybody that wants that and then ultimately how can we make this model more profitable in its entirety and how do you make it more successful as a 100% of the time service model.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

And just sticking with John, when you think about quote submission activity being down, I'm curious if we should also think about your underwriters having more time to parse through some of the new business opportunities that are out in the market and if that should also imply some increase in the pricing accuracy and therefore margins and then secondly if we should also think about perhaps there being a less of a new business penalty being folded in as well.

John Joseph Marchioni
President & COO

So let me take your second question first, we certainly think as our underwriters continue to better utilize the tools that we have available to them and maintain the kind of discipline with those tools, we do expect our new business penalty over time to come down and when we expect to start to see that in our results as we go forward. On your first question, that's a little bit more difficult to answer because we're in an environment now where you're seeing less business pushed out into the market by renewal actions of other carriers either price actions or renewal actions.

So while submission counts are down, hit ratios are under a little bit of pressure as well which would indicate that our new business underwriters are spending a lot of time working through accounts that they

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are not ultimately acquiring. So I don't know that I would characterize it as less submissions means more time on higher quality accounts. But the other part of it is, we have to look at quote activity. So for us we think about submissions and then quotes to submissions, how many of those submissions are you actually working up a quote on and then policies acquired relative to submissions and relative to quotes.

Our quote activity is actually slightly up especially on a middle market side which is where our AMSs, our field underwriters are spending the bulk of their time. So they are working through those accounts diligently. I think that's always been the case but I would also say we always look for ways to make sure that they are spending their time where they are adding the most value, which is exactly what you're talking about. The underwriting and the pricing, granular pricing account by account and moving less value added transactions where AMS assistance to our small business teams in particular.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

And you guys have done a particularly good job at calling out the non-cat weather impact and we certainly appreciate that and so on the line level, when we look at the personal auto I guess they would have expected with some of this higher frequency on hail damage that we had seen just reported broadly in the quarter that the combined ratio there would have been higher and certainly not complaining by any means but the result here I guess might suggest that if we look past the comprehensive line that there might actually be some stronger underlying margin improvement and so I just wanted to check in on that.

Gregory Edward Murphy
Chairman & CEO

Yes relative to that hail damage, I mean -- we don't write a tremendous amount of auto and hail has a tendency to be more focused. So we did see some catastrophic losses in auto but overall not that much. I think we still continue -- it's like the story we told you before, Vince, auto as a line that we continue to lay it down, continue to give rates, slightly higher than trend, continue to change our mix of business relative to how we analyze it. But also we had a small amount of favorable development in that line as well. So it was aggregation of all those, I don't think I won't sit there and expect auto to continue to run at this low level but we're seeing some core fundamental improvement in that line. And the line that I would say that we continue to hit hard is the home line and that's where we do see pronounced weather changes, and where we need to see a change in pricing and longer term probably another more meaningful deductibles on policies.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay and then just one last one from me and again it's kind of almost a similar question but we have heard from a number of your peers that there was some elevated fire severity with a mix between both commercial and personal. I'm just curious if you guys happen to experience any of that?

John Joseph Marchioni
President & COO

We definitely did see that the non-cat property losses include some weather as well as some higher than normal fire losses and I would -- some of the fire actually was weather related also in terms of lightning strikes. So we definitely saw that, it's kind of unusual and we're hoping obviously, it's an aberration.

Gregory Edward Murphy
Chairman & CEO

But it's interesting, Vince, it is a fairly common theme through the calls that we have listened to, which is an interesting situation because we -- you actually saw the first quarter and much of that was attributed to the delayed ice damage claims reporting. I mean there were so many things that had happened that we are outside of PCS days, had created a lot of elevated activity and then we saw some of that continue into the second quarter but yet it seems like a fairly common semantics throughout the industry relative to

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large fires in both personal lines and commercial lines and other events that affected both the commercial property and the home line.

Operator

The next question comes from Alison Jacobowitz with Bank of America. And your line is now open.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Actually I just have a couple of questions, I'm curious you talked about the weighted average cost of capital I think you said it was 8.9%. Can you breakout what the equity cost of capital is and then my other question is for the non-cat weather you gave the comparison points year-over-year. Could you compare this quarter's non-cat weather to a normalized quarter?

John Joseph Marchioni
President & COO

The cost of equity capital which we just pulled right off of Bloomberg is 10.37%. Again one of the reasons we used Bloomberg is you avoid having a debate as to how to calculate it. So you can drag it right from there. As far as a normal quarter for us if you look over the last 3 years for non-cat property, the numbers ran right around the $60 million for a normal quarter so you can kind of use that although obviously the premium base moves around a little bit too.

Operator

[Operator Instructions]. The next question comes from Mark Dwelle with RBC Capital Markets and your line is now open.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Couple of questions, on the E&S segment, you reported pretty good growth there. Any particular products that you're gaining traction in there?

John Joseph Marchioni
President & COO

I wouldn't say it's necessarily product specific. I think our appetite there has been fairly stable over the last year or so. I just think as we talked about last quarter we had gone through a lot of integration and a lot of changes in terms of the servicing structure for the wholesale agents and that disruption I think set us back a little bit, earlier in the year. And now that we're through that I think you're just starting to see our growth get back to a more normalized run-rate versus what we expected.

We still think as we said in the prepared comments, there is a lot of opportunity left. We're getting good growth outside of our selective core foot print. We also think there is still lot of untapped potential within our foot print by partnering up our retail agency partners with our wholesale partners and we're going to continue to really push on that. But I would say it's not necessarily product specific, it's more execution on our part across the board that I think we had some distractions earlier in the year.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

The second question and give me some leeway as I talk this through, as I look at your statutory ex-cat combined ratio of 91.6, and look at it over the last few quarters, what I see is that the accident year component is actually rising and the reserve development portion is also rising. Now the latter isn't a bad thing but I guess I would have thought that with the amount of rate that you continue to take and the long term run-rate you have had on doing so that we would by this stage perhaps seeing both further improvement in the accident year margin as well as the incremental favorable development. Can you comment on that?

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Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

The big thing really is that we have seen some elevated non-cat property losses in the last couple of quarters. We don't view that as any kind of deterioration in the book, just part of the ongoing kind of cycle that you see that occasionally their fortuitous losses that will end up driving up a combined ratio for a short term time frame. So if you -- as we look at that and go through that process we're still encouraged by the underlying combined ratio and the progress that we continue to make.

Gregory Edward Murphy
Chairman & CEO

So we look at that, we almost think about it this way that to put it in terms of combined ratio points, the excess property non-cat added 4 points to the combined ratio which was previously offset by the favorable development. So we started to look at those -- they are different in nature, they are both unusual relative to the performance. You are seeing that core underlying improvement in the liability lines and that's the important part. So when you look at GL, you look at commercial loan, you look at comp, you look at all those lines relative to our expectation, those lines which are most of the business are definitely on track. What threw us off was the non-cat property mainly in home and mainly in CP and commercial property.

So you're on -- your questions are very specific and very well directed but I want to make sure you understand it is exactly the improvement we expected but just like Dale said it, it's the volatility of the prop side that took us off our mark and we don't view that as an ongoing trend.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So when I think about non-cat property which is isn't itself kind of an odd discussion but if we had 15.7 points this quarter and that was 4 points higher than a year ago, would you consider last year's run-rate of call it 12ish points to be a normal level or was last year's level likewise elevated from whatever you might regard as the longer term base line.

John Joseph Marchioni
President & COO

I would say that depending on the time frame that you look at because obviously there is always some level of volatility in property, but a more normal kind of baseline is somewhere between that 11 points to 13 points would be what you would expect to see. So, this is somewhere between 2 points and 4 points higher than what you would otherwise see.

Operator

The final question comes from [indiscernible]. Your line is now open.

Unknown Analyst

First question, are you able to give us update on pricing in July?

John Joseph Marchioni
President & COO

No, other than the fact that we have given you a pricing expectation for the year which was 6%.

Unknown Analyst

If I did my math correctly, it looks like the fixed income yield on the portfolio was up a decent amount, were there any onetime items there?

John Joseph Marchioni
President & COO

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We did have a onetime recovery on an old bond that pushed the yield up a little bit for the quarter but again going back to the same kind of reference that Greg made our guidance remains unchanged for the year that we will achieve our $100 million after tax investment income number.

Unknown Analyst

And lastly are you able to comment on how much of the retention decline you think was due to kind of the strategic non-renewals you have talked about?

Gregory Edward Murphy
Chairman & CEO

In the personal lines arena or commercial lines?

Unknown Analyst

Both.

Gregory Edward Murphy
Chairman & CEO

I would say in the personal lines arena the vast majority of what we saw in retention declines was driven by targeted actions on our part. In the commercial lines arena we only saw a slight movement relative to retention levels and honestly that’s just a constant balancing between our pricing strategy and where the market is. So there is -- we don’t see anything in the retentions on the commercial line side at this point that concern us but on the personal line side it's largely driven by our actions.

John Joseph Marchioni
President & COO

One thing I will point out on the retention just to be a little clearer because we gave you some rounded numbers before. So the retention in 2013 we indicated as 83% and it calculates at 82.6% and if you look at the retention in 2014 in the second quarter it's 81.9%. So it's even closer than the rounded numbers would appear.

Operator

[Operator Instructions]. At this time there are no questions in the queue.

Gregory Edward Murphy
Chairman & CEO

Okay, well thank you very much for your participation on our call this morning. If you have any follow-up items please contact Jennifer or Dale. Thank you very much.

Operator
Thank you for your participation in today’s conference. Your call has ended and you may now disconnect. Once again your conference has ended and you may now disconnect. Thank you again for your participation.

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