S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

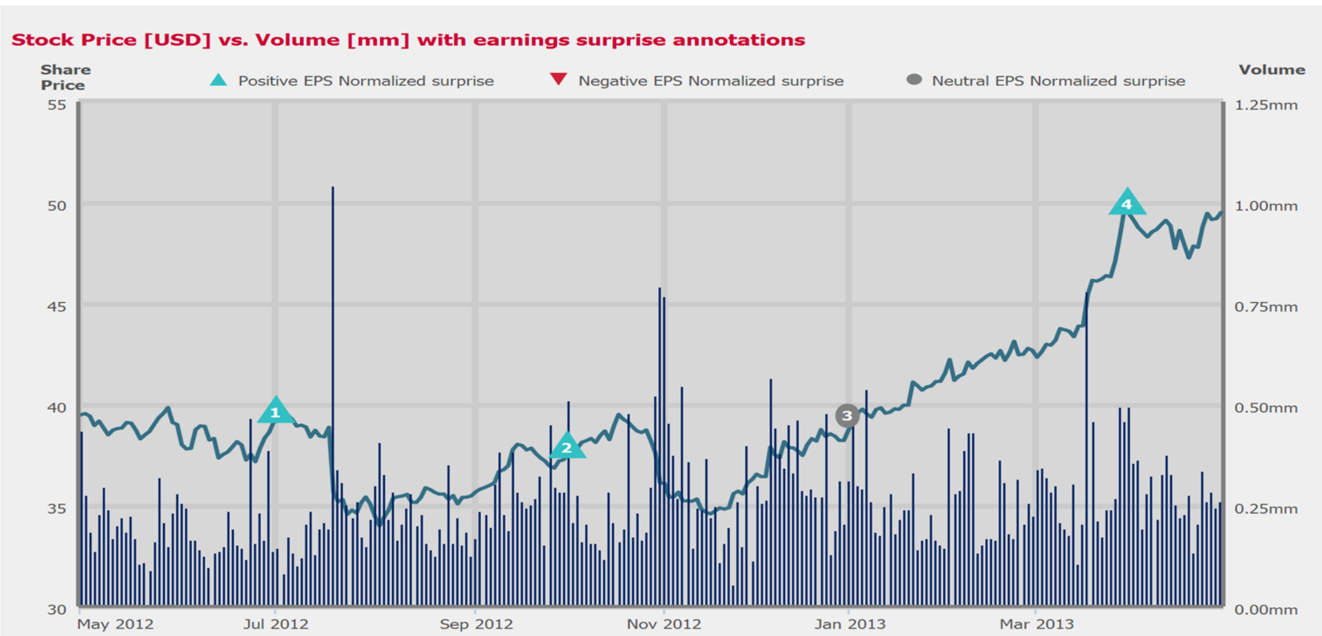
FQ2 2013 Earnings Call Transcripts

Thursday, August 01, 2013 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.71	1.05	47.89	0.80	3.98	4.46
Revenue (mm)	1284.58	1242.60	(3.27 %)	1177.27	4641.35	4797.40

Currency: USD
Consensus as of Aug-01-2013 8:38 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	0.19	0.22	1 15.79 %
FQ3 2012	0.68	0.72	2 5.88 %
FQ4 2012	(1.80)	(1.65)	NM
FQ1 2013	1.05	1.32	3 25.71 %

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EXECUTIVES

Andrew Scott Robinson
Executive VP, Corporate Development & President, Surety

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Frederick Henry Eppinger
Former President & CEO

John Conner Roche
President, CEO & Director

Mark R. Desrochers
Former Senior Vice President and President of Personal Lines

Oksana Lukasheva
Vice President, Investor Relations

ANALYSTS

Christine Amanda Worley
JMP Securities LLC, Research Division

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Sam Hoffman

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

Presentation

Operator

Good day, ladies and gentlemen, and welcome to Second Quarter 2013 The Hanover Insurance Group, Incorporated Earnings Conference Call. My name is Aisha and I will be your coordinator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this call is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Ms. Oksana Lukasheva, AVP, Investor Relations. You may proceed.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, Aisha. Good morning and thank you for joining us for our second quarter conference call. We will begin today's call with prepared remarks from Fred Eppinger, our President and Chief Executive Officer, and David Greenfield, our Executive Vice President and CFO. Also available to answer your questions after our prepared remarks are Jack Roche, President of Business Insurance; Andrew Robinson, President of Specialty Lines; Mark Desrochers, President of Personal Lines, and Bob Stuchbery, President of International Operations and Chief Executive Officer of Chaucer.

Before I turn the call over to Fred, let me note that our earnings press release, financial supplement and a complete slide presentation for today's call are available in the Investors Section of our website at www.hanover.com. After the presentation, we will answer questions in the Q&A session.

Our prepared remarks and responses to your questions today other than statements of historical fact include forward-looking statements including our expectations for 2013. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call. We caution you with respect to reliance of forward-looking statements and in this respect refer you to the Forward-Looking Statement section in our press release, Slide 2 of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as operating income, operating income per share, operating results excluding the impact of catastrophes and development, ex-cat loss and combined ratios, and accident year loss and combined ratios among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release or the financial supplement which are posted on our website, as I mentioned earlier.

With those comments, I will turn the call over to Fred.

Frederick Henry Eppinger
Former President & CEO

Thank you, Oksana, and good morning everyone. Thank you for joining our second quarter earnings call. I am pleased to report strong results this quarter as each of our business segment generated improved returns. Operating income for the quarter was a $1.05 per diluted share and $2.37 per diluted share year-to-date, which translates to an annualized operating ROE of 8% for the quarter. Our combined ratio for the quarter was 98% which represents the notable improvement over the 103 for the second quarter last year despite challenging quarter for the industry catastrophes. Six months into the year, we are pleased with the continued progress on improving our underwriting margins and advancing our strategic priorities that will position us for stronger performance in 2014 and beyond.

I will discuss our progress on our priorities, our view on market conditions and our outlook following David's remarks.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you Fred, and good morning everyone. We're reporting strong performance this quarter both in terms of our financial results as well as progress towards our goals.

On a consolidated basis we generated net income of $53 million or $1.19 per diluted share compared to $21 million or $0.46 per diluted share in the prior year quarter. Operating income this quarter was $47 million or $1.05 per diluted share up considerably from the $10 million or $0.22 per diluted share in the second quarter of last year.

At June 30, book value per share was $57.41, down 2% compared to year end 2012 and 3.6% in the quarter reflecting the increase in market interest rates this quarter which caused the decline in realized investment gains. Book value per share excluding net unrealized investment gains increased 3.4% year-to-date and 2% for the quarter.

Our combined ratio of 98.4% this quarter compared to 103.1% in the prior year quarter. The improvement was the result of higher underwriting income in both domestic and Chaucer operations. Better underlying margins as well as favorable comparison in catastrophe losses and prior year development drove a notable improvement in domestic results.

Chaucer benefited from higher favorable prior year reserve development partially offset by more normal level of catastrophe losses. Pre-tax catastrophe losses in the quarter were $60 million or about 5 points on the combined ratio compared to $74 million or 7 points in the prior year quarter. Chaucer's catastrophe losses were approximately $13 million this quarter and included floods in Europe and Canada as well as U.S. tornadoes. Domestically, tornadoes, hail and flood events were $47 million.

The lower cat losses this quarter emphasized the importance of our exposure management actions especially in light of the continued increased level of weather activity. Overall, net favorable prior year reserve development for the quarter was $27 million or 2.5 points of the combined ratio. Chaucer generated favorable reserve development of $31 million stemming from resolution of certain energy claims and better than expected experience in casualty and property businesses. Chaucer's favorable development also included a benefit from foreign exchange movements, primarily the Australian dollar, that was higher than usual this quarter.

In our domestic lines we had modest reserve additions relating to personal and commercial auto bodily injury coverages. We also recorded modest unfavorable development in surety as our loss experience this quarter reflected the resolution of a number of claims primarily in our run-off book. These additions were somewhat offset by reserve releases in commercial multiple peril and workers compensation lines.

Moving on to a discussion of accident year results excluding catastrophe losses, the underlying loss ratio on our domestic businesses improved as expected. In line with our first quarter comments we suggest you also review our current quarter results against the full year 2012 loss ratios given the re-estimation of accident year loss picks we undertook in certain lines in the second half of last year.

Keeping this in mind, our commercial lines' current accident year loss ratio was 61% compared to 61.6% in the second quarter of 2012, and 62.2% for the full year in 2012.

Our C&P loss ratio favorably compares to both prior year quarter and full year 2012 loss ratios due to a combination of pricing, disciplined risk selection and lower incidents of large losses. Workers compensation continued to benefit from our focus on smaller accounts, lower risk classes and rate increases.

In commercial auto, the current quarter accident year loss ratio was somewhat higher than the full year 2012 result. We're experiencing strong pricing gains in this line, however, we continue to take a cautious approach to loss picks given the bodily injury severity trends that we have seen and which are evident in industry data.

As expected, our accident year loss ratio and other commercial lines has improved from year end as a result of our underwriting and pricing actions. As we continue to realize the benefit from earned premium growth and improvement in operating efficiencies the commercial line's expense ratio in the current quarter was in line with our expectations. The current year expense ratio is higher than the prior year quarter primarily due to a lower level of performance based expenses recorded in the prior year period.

As far as top line growth is concerned, we're pleased with the overall growth of 5% achieved in commercial lines during the quarter given our continued mix management, re-underwriting and pricing strategies. As importantly, continuing strong pricing trends and a shift to a more profitable mix gives us even greater confidence and further margin expansion in the future.

In personal lines, our accident year loss ratio excluding catastrophes was 62.4% in the current quarter compared to 64.1% in the second quarter of 2012 and 65.5% for the year. Both auto and homeowners has improved. As we continue to earn in strong pricing increases and make meaningful upgrades to the underlying quality of our book of business.

On a top-line basis, net premiums written this quarter remained even with the second quarter of the last year. We continued to execute on our rate and exposure management strategies in the quarter, which resulted in lower policies in force and retention.

Moving on to Chaucer, this segment reported an accident year combined ratio excluding catastrophe losses of 97.3%. The underlying loss ratio was 56%, relatively in line with the prior year quarter and long term averages while the expense ratio was elevated at 41%.

Chaucer's expense ratio can fluctuate from one quarter to the next based on movements in foreign exchange rates, the impact is generally modest, but at times like what we saw this quarter and in the first quarter we could experience more significant movements. This quarter, weakening of the Australian dollar resulted in roughly a 4 point increase to the expense ratio. The expense increase is somewhat offset by the movement in prior year reserves that I mentioned earlier.

The expense ratio through the six months of the year stands at about 38%, which is consistent with our full year outlook.

Chaucer's net premium written were $351 million this quarter compared to $330 million in the prior year quarter representing 6% growth. This growth is mostly attributed to the higher retained business at Syndicate 1084 that we previously discussed. Partially offsetting the increase was a true-up in energy due to re-estimation of premiums related to exploration and construction projects following the implementation of tighter safety regulations worldwide.

Summarizing underwriting trends in all of our businesses, we're pleased with the year is unfolding and what it means to our improving position. Chaucer continued to deliver strong performance and our underlying loss ratios in the personal and commercial lines are benefitting from our pricing and profitability initiatives. The modest prior year development is an improving trend, and our exposure management activities are evident in our catastrophe loss experience.

Moving on to a discussion of our investment portfolio, at June 30, 2013, cash in invested assets were $7.8 billion, with fixed income securities and cash representing 92% of the total. Roughly 94% of our fixed income securities are investment grade and the average duration of the portfolio is 4.2 years.

Net investment income was $6.7 million for the quarter compared to $68.5 million in the prior year quarter. This modest decline is the result of low new money yield. Additionally, we recognized $13.7 million of net realized investment gains compared to a net realized loss of $3.4 million in the second quarter of last year.

The earned yield on our fixed maturity portfolio was 3.98% in the second quarter of this year compared to 4.31% in the prior year quarter. The increase in market interest rates this quarter drove the decline of net unrealized gains in our fixed income portfolio by approximately $123 million after taxes. As you know, we have a conservative long-term view on our portfolio that has served us well through the years.

Our portfolio turnover is low, so prevailing interest rate fluctuations will affect the market value of the fixed income securities we hold. However, we believe we will realize embedded value of our investments over time.

Moving on to a discussion of our balance sheet and capital, we continue to proactively work to optimize the efficiency of our capital structure and even with the decline in net unrealized gains, we ended the quarter with a strong capital position of $3.4 billion.

During the quarter, we continued to opportunistically reduce our financial leverage by repurchasing $40 million of higher coupon debt. We also repurchased approximately 960,000 shares for $47 million. On a year-to-date basis, we repurchased 1.5 million shares at a cost of $72 million or $48.30 per share which represents approximately 3% of the shares outstanding at year end 2012.

As we are now closed to completing our targeted repurchase for the year, we will continue to be opportunistic but at a more moderate pace. We view share repurchases as an effective capital management option given the right set of circumstances. However, we will continue to consider capital deployment for profitable growth and business development as the primary use of our capital.

Finally, all of our capital metrics remain in line with our internal target and in line or better than rating agencies requirements for our ratings.

With that I will turn the call back to Fred.

Frederick Henry Eppinger
Former President & CEO

Thank you, David. For the first 6 months of 2013 we met our profitability improvement targets. Given our progress in momentum, I am even more confident that we will deliver on our goals for the year and further improve performance in 2014. I would like to comment on 3 of our strategic priorities for 2013 and the progress in the quarter starting with our efforts to reduce our volatility and enhance our underwriting margins through our exposure management efforts. This quarter we made progress on this important strategic initiative as we built on our achievements in prior periods.

Over the last few years we have been strived with some true of our geographic balance and adjust our property casualty mix. As a result, a top 4 states represent a progressively lower portion of our book and we increased the proportion of our casualty business in our portfolio moving from 36% 5 years ago to roughly at 50-50 split today.

However, given the recent weather patterns, we thought it was critical to take some aggressive, but surgical actions to attack some of our property concentration risk. As we previously mentioned we reduced about $120 million of premium in 2012 and targeted another $200 million of reductions in 2013.

Through 6 months, we have reduced $45 million in Personal Lines, $20 million in core Commercial Lines and about $30 million in specialty. As we look at our second quarter results, we believe we are beginning to see the impact of these efforts as we saw reduced volatility in areas where the industry experienced elevated weather losses.

We are targeting a similar amount of reductions in the second half of the year and while this has reduced our domestic growth rate by over 5 points, we are satisfied with the tradeoffs of improving profitability and earning persistency these efforts are expected to deliver.

Our second strategic priority for us is to execute aggressive but targeted rate actions to improve our underlying margins. We are pleased with the pricing gains we achieved this quarter. We realized pricing increases of 9% Personal Lines and 8% in core commercial and continued low teen increases in specialty.

In core commercial, we continued to see strong pricing momentum. The strongest increases were in auto followed by business owner's multi-peril policy. The only place we saw a slight moderation in pricing was a middle market package policies where our pricing metric is affected by exposure management actions. And as importantly we are confident that we will continue to obtain solid price increases to maintain a strong level of retention rates as we move forward in 2013.

We continue to approach price increases in a thoughtful and targeted manner that minimizes disruption to our agents and improves the overall quality of our book. We are gaining momentum with new business flow which helped drive improved growth in our core commercial from 4% in the first quarter this year to 8% in the current quarter.

As David mentioned, personal lines growth and retention reflected a decline in units from profitability and exposure management actions in both homeowners and auto. We expect this trend to continue through the rest of the year as we implement our various portfolio actions. We also believe this will in turn result in a modest decline in our net written premium and personal lines in the second half of this year.

That said, we continue to see premium growth in states with partnered agents targeted for growth. This helps us build a strong impetus for expansion in personal lines which should drive growth in 2014 as our plan exposure reductions trail off.

U.S. Specialty network premium was relatively flat this quarter as the corrective underwriting actions on a couple of businesses continued to run their course. In many of our specialty businesses, however, we’re seeing strong new business renewals and strong pricing, namely in specialty property, professional management liability and health care segments where our offering continues to gain traction with the best and most sophisticated agents in the country.

To conclude our discussion around exposure management rate and growth, I would note that we’re using a number of levers to improve our underwriting margins and returns as we pursue our profit improvement strategy. We believe our portfolio mix optimization are proactive and hands-on approach to Asia and emphasis on value added products lead to continued improved underwriting results and more robust growth.

Finally, this was another quarter of profitable performance at Chaucer. The segment produced $37 million of pre-tax earnings in the second quarter and $78 million year-to-date. We continue to execute on our strategy of focusing our efforts on areas of the business we believe have a strong and distinctive underwriting capability, which include a number of specialty areas such as marine, casualty, energy and protocol risks. These lines complement our overall strategic focus specialty capabilities and build on our portfolio business which in turn provides diversity to the U.S. weather exposures.

In conclusion, speaking about our business overall, we continue to be encouraged by the healthy pricing, stable market conditions and profitability dynamics of our business. And we’re confident that our strategic initiatives are working to help us improve our underwriting performance for 2013 and into the future.

As I stated earlier, we’re confident about our expectations for the balance of 2013 and we believe we are on track to deliver a combined ratio excluding cat losses in the range of 93% to 94%. Our cat catastrophe assumption for the second half of the year remains at 5% and with a more active third quarter than fourth quarter.

The momentum we’re building this year including the quality of our business mix and rate adequacy coupled with continued progress and traction with the best agents make us increasingly optimistic about our ability to meet our goals in 2013 and continue to make further gains in 2014.
Operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Dan Farrell with Sterne Agee.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Just for a question on renewal rate increase in the quarter, can you tell us within personal lines what the increases were for auto and home?

Mark R. Desrochers
Former Senior Vice President and President of Personal Lines

This is Mark Desrochers, the auto increase was about 8% and about 10% on the home.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

And then, a question on some of the reserve movement in the quarter, I guess, just on the other commercial segment, I think, in your prepared remarks you highlighted surety as maybe one of the drivers, can you comment a little bit more detail on some of the overall drivers of additions there. And then specifically with surety, I think you said, it was a run-off book and I think in the past you said there is some visibility and to seeing when those things end. I was wondering if you could comment on how many claims or accounts might still be involved from that and how you see that progressing going forward?

Frederick Henry Eppinger
Former President & CEO

Yes, I think as far as the other category, it is primarily a surety adjustment. If you look at what's happening, we feel very, actually very good about that whole category, everything is kind of right on plan what we expected through the year, there has really been no surprises in any of the categories. This was part of the run-off book as we said at the last year, we got lot of transparency of that, we got the bulk of it behind us last year, but we still expect it to have some activity this year. But, we're right on track for what our plan is and we feel really quite good about that business. I don't know Andrew if there is anything you want to add.

Andrew Scott Robinson
Executive VP, Corporate Development & President, Surety

I would just add 2 other points Dan. One is that we manage the outstanding penal amounts and the work to complete and at effectively that exposure and that is coming down in a way that is very consistent with our expectations, actually better than our expectation. I would just say, sureties will not be right, so the claims come through I would not read into this quarter as being any change from our sort of prior discussions around this.

And certainly, our hope is that and our experience has been that claims will come through in one quarter and we're aggressive on our suborn salvage, so we expect in later periods to be able to reclaim some of those losses.

So, I would just say in general, I would not over-read sort of what flowed through the financials for this quarter.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Okay. Then it's fair to say then the more recent core business within surety is performing as you would expect it to be, correct?

Andrew Scott Robinson
Executive VP, Corporate Development & President, Surety

Absolutely, very much so, there is nothing that's emerging into the first six months of the year that would change our view of how that is proceeding for us.

Operator

Your next question comes from the line of Vincent DeAugustino with KBW.

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

Let's going to maybe try to focus some maybe longer term strategic stuff and some of the more near-term stuff seems to be going pretty well. Mark from the topic that is come up couple of times this quarter on other calls with personal auto was shift towards lower cost models and a focus on a shift towards maybe pushing some customers through online channels and with the latter on kind of refrained to Hartford's comments.

I am just little surprised by this, because this seems like a decade-long observation, but it's come up a couple of times this quarter. So, I am just curious how you feel about the personal auto competitive environment with maybe some potential changes going on with independent agent focused insurers either in the model format they're using or at least cost structure and then obviously the cap that the agency providers are going to try to protect market share, so again, just curious of your thoughts on the competitive landscape in the space?

Frederick Henry Eppinger
Former President & CEO

This is Fred, just let me comment on this, let Mark, we have been talking about this for a while, we have actually invested a lot in this notion of franchise value and having fewer agents that sell value and full accounts. We moved our book as you know to full accounts, the platinum watch and all the investments we have made on this what I would call kind of the value added approach. We've seen nothing in our numbers that say that the market we're targeting has become more price sensitive or that the shopping behavior has changed in this.

What has happened is this movement towards aggregators and lots of agents and using kind of a commodity approach to mono-line is being prevalent by a lot of people in the market, and so, I think those that have that approach may have seen some trends. But if you look at what's happening with us, the retention of our business with our partner agents on this type of account has gone very well, we're going to putting in pretty significant price increases and retaining the business and so, we're actually, again, I'm sure there are segments that aren't having it. The other thing that's intriguing to note is the agency channel over pretty long period of time has held its own. The captives have come under more stress as a share then the agencies channel actually, the agency channel has held pretty well.

So, while we understand the dynamics and we understand the shift and the various channels, we are pretty bullish on our approach and frankly, our ability to grow that business and a lot of the segments. But, to your point, this is the trend that has been going on for while. There is obviously some growth in the direct and there a lot more compared ratings attention particularly I would argue in this aggregation agent model which is a lot of these little agents that basically just shop model on policies. So, I don't know Mark, is there comments about where we are now.

Mark R. Desrochers
Former Senior Vice President and President of Personal Lines

I think the only comment I would add to Fred's point is again, our focus on the total account value oriented customer is it's probably what would differentiate us from seeing that kind of shift in the marketplace. We have gone from probably a company that was 50-50 mono-line, 4-5 years ago to our in course book today is between 70%-75% account rounded and I would say, even the newer business that we are writing, it's even at much higher percentage than that. So because we are focused on that part of the market, I don't think we have yet seen this kind of commoditized price pressure that some others are talking about.

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

That's good. Just to jump to Jack. Can we talk about commercial auto a little bit because if I look at the commercial X auto core loss ratio improvement that would have been about 240 basis points. So, understanding that your business has much more orders and contractor type rather than heavy trucking or passenger transport, I am just curious if there is anything that you are seeing from a loss cost trend standpoint emerging specific to commercial auto more recently because it seems to be somewhat of a recent industry thing that still what's somewhat surprising from my standpoint just on the relative nature of say more lines or other Lines being more difficult at times than commercial auto.

John Conner Roche
President, CEO & Director

Yes, I think your assessment of our portfolio is correct in that we tend to ride a smaller average account size. We tend to have a different type fleet than some. And while we do have some orders and contractors; really a vast majority of our fleet are actually private passengers not to dissimilar to the Personal Lines, they just happen to be owned by businesses or light trucks, well beyond the contract sector.

So, what you have heard us talk about in the past, and I think David articulated that, was that mid last year, we recognized that we were little behind and that there was some severity trends we had to address in addition to some of our views of our picks. We made the proper adjustments. We continued to try to make sure that on the prior years, we are staying on top of that as you see, nothing major, but something that we feel important to stay on top of but as we look at 2012 and into 2013, we feel like we are substantially on top of those trends and when you combine that with the pricing over the loss trend that we are predicting we feel pretty comfortable that we are headed down the right path and lastly what you will see now going into the second half of the year is that the adjustments that we made last year will serve us well in terms of showing you some hopefully material improvement going forward.

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

Okay, great. And then one thing is understandably kind of been a shift in focus is just on sequential changes and rates and just would general commercial renewal rates are doing, but one of the things that I am, kind of, curious about just given your smaller commercial account focus on to the point you just made and maybe some focus on contractors, are you seeing anything from an exposure standpoint more recently either positive or negative?

John Conner Roche
President, CEO & Director

Exposure in terms of loss exposure, or in terms of…?

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

Sorry. More economic exposure, just payrolls, business receipts that sort of thing.

John Conner Roche
President, CEO & Director

Yes. Overall we continue to see I think we consider be a slow to moderate recovery you know it varies by sector. But certainly in certain geographies in the Southwest, and California and others just starting to see quite a pickup, we see in Michigan a nice recovery in the manufacturing sector.

So, all to your point, we see that and continue the improvements in our premium audit, additional premiums we see that in enhanced renewal basis. But overall, it's hard to, kind of, factor this in to your underwriting performance but the health of the business really universally through the small and midsize accounts is coming back and that should serve us well going forward.

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

Okay, great. And then just a Chaucer question, with the energy premium impact on the estimate reduction from energy lines is that a onetime true-up or should it be some lingering impact on go-forward quarters that we should expect?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Hi, Vincent, it's David. You know what it's the premium re-estimation, we do this all the time. This quarter it just happen to be more sizable adjustment and so I would normally characterize premium estimates as they happen all the time but the size of this one and what's happening in the market which probably may come in on, I would consider that a onetime adjustment and I think in fact going forward should be pretty marginal.

Operator

[Operator Instructions] Your next question comes from line of Sam Hoffman with Bluepress.

Sam Hoffman

Congratulations on the progress. I just have a question for Fred, which is obviously you are getting a lot of improvements through the thinning which is reducing your volatility and also your pricing which is improving your margins. What is it going to take do you think, strategically to get your book of business kind of equivalent to the benchmarks, kind of travelers to having Berkeley who are kind of in the 95% combined ratios?

Frederick Henry Eppinger
Former President & CEO

It's great question. I actually think we are right on track. To me when you think about this 3 or 4 points additional improvement, it really is a combination of all 3 levers that we are pulling. I feel really good about what we have done with getting the mix of business a lot more attractive and attractive segments and while some of it is new, if we look at those and take the price on top of it, we are well on our way to get the margins in a sustainable place where they are much more significant.

The volatility, again, a lot of what we are doing there is just it's historical thing. We have some geographies where we just have outsize concentrations and we didn't feel that we could get price that would be top quartiles through this cycle and we will be able to get that and because of our momentum in the more attractive business and the price points we are getting, that's going to shift.

I would also say that over time in our commercial lines, because we have some additional expenses there from our building those businesses and setting it that we also have some expense leverage that will come over the next 2 years and our commercial lines will get us. But if you look at the combination of all of those 3, I feel really good about our ability to make a significant step forward in '14 and then in the '15 to get the sustain returns because our mix is better, balanced in the right categories. We have a nice distinctive position.

So, I am more confident than I have ever been because of this portfolio is in the right place and again, you guys who follow us know a lot of the better companies are still releasing dollars from '03, '04. We were not a very good company in '03 and '04 and if you treat this type of this time in the market cycle effectively and you get a good price for a number of quarters above that serves you well not just now, but it serves you well for forward quarters and I think we have set ourselves up just right that way.

So we are trying to be thoughtful of our picks. We are trying to be thoughtful of our pricing and we are thoughtful about our mix. But again, what's nice for us is we have so much momentum with our agents right now. We can do this re-balancing without really slowing down our access to the best business. That's the real asset that we have right now because so much of our re-underwriting is with legacy agents and because of the quality of what we have got right now, the momentum has been sustained to the best agent. So that is our goal, that is clear and we're getting within sight of what we need to do, but it is the question, right, the right question.

Sam Hoffman

Okay. And my other question is can you talk a bit about what's happening in the other commercial line specialty in terms of your growth. I know, you're reducing some programs, but can you talk a bit about what you're reducing, how is improved margin going forward and then when you expect to resume growth?

Frederick Henry Eppinger
Former President & CEO

I think it's really been two points, it's been contract surety that we have obviously resized in the run-off business, but it's also and we mentioned a little bit last quarter, there were some targeted programs that we felt could not get to the returns to the cycle that we wanted. There was couple of wheels once and another one. But, so we acted on it. But, the vast majority of our specialty business is well positioned and frankly even in our program areas those that remain are in great place for getting price and we're actually getting good market opportunities.

Mark R. Desrochers
Former Senior Vice President and President of Personal Lines

I would just amplify the last point that Fred made which is we're seeing a lot of very good market opportunities and while you can't see the ultimate numbers the kind of growth that really does exist underlying new opportunities, there certainly is across the board, across the entire spectrum every business is well positioned. And in fact, the new business pipeline and volumes and the pricing of that is all very attractive. That said, if you decompose to professional and management and health care areas in particular just year-over-year our growing at a level that is very positive for us.

Sam Hoffman

Okay. So, you guys are getting kind of 10%, 11%, 12%, 13% rate in those areas and yet the reductions are offsetting the growth for now.

Frederick Henry Eppinger
Former President & CEO

And it's lumpy, right, exactly. Obviously a couple of these programs if they're $15 million or $20 million, I mentioned that we're getting off, I think, this quarter was I think $20 million or $25 million this quarter. They come off in a lump if you will.

Operator

Your next question comes from the line of Matt Carletti with JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

Hi, it's actually Christine Worley for Matt.

Christine Amanda Worley
JMP Securities LLC, Research Division

I had a question about growth at Chaucer specifically in the UK motor line, we had been hearing that line was getting increasingly more competitive so I just wanted a little more color around the opportunity that you're seeing there. I think, it was up about 30% in the quarter which is pretty strong growth.

Frederick Henry Eppinger
Former President & CEO

Yes, I mean, we are seeing rates fall back of the UK motor, but it's from all time high and it was to be expected. The other thing that we are seeing the effect of now is the changes that we've seen in legislation particularly around Glasgow which is going to stop to see some changes around referral fees, legal costs et cetera. So, if anything the growth that we're seeing now, is the premium growth particularly coming from last year, which was at higher levels of rates and we're not seeing anything that we didn't expect this year.

So, we're still relatively positive about UK motor. Some of the commentary you would have seen in the press around sort of comparing average prices a year ago to-date tend to be the topper end of the more extreme end of younger driver prices and the average premiums they're quoting in those studies are lot higher than with the ample portfolio we write at Chaucer.

So, what we as Bob is mentioning we got the lot of rate over the last 2 or 3 years, it has moderated to some extent because of the reform. Our rate moderation is a lot less than what the market is taking because we're kind of a specialty position and our experience there continues to be very strong. So, we're feeling very good about the business, it's not something we're aggressive in or anything, a lot of it is earn-in and prior rate that is helping us.

Operator

[Operator Instructions] There are no further questions in the queue at this time. I would now like to turn the call back over to Oksana Lukasheva for closing remarks, you may proceed.

Oksana Lukasheva
Vice President, Investor Relations

Thanks to all of you for your participation today and we're looking forward to speaking to you next quarter.

Operator
Thank you for participation in today's conference, this concludes the presentation, you may now disconnect. Have a great day.