S&P Capital IQ

CONTENTS

The Hanover Insurance Group, Inc. NYSE:THG

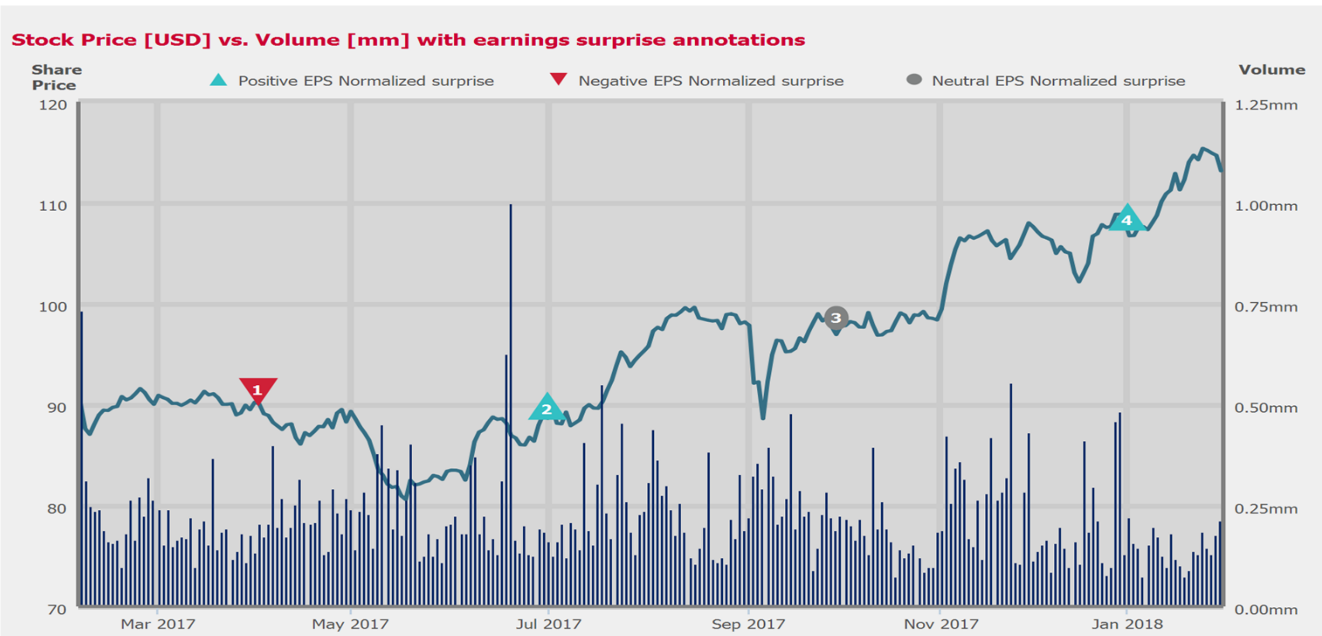
FQ1 2018 Earnings Call Transcripts

Thursday, May 03, 2018 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.67	1.95	16.77	2.06	8.50	8.78
Revenue	-	-	1.08	-	-	-
Revenue (mm)	1251.05	1264.60	-	1345.70	5233.10	5489.25

Currency: USD
Consensus as of May-03-2018 11:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	1.72	0.95	1 (44.77 %)
FQ2 2017	1.55	1.69	2 9.03 %
FQ3 2017	(0.63)	0.11	NM
FQ4 2017	1.85	2.00	3 8.11 %

Call Participants

EXECUTIVES

Jeffrey Mark Farber
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John Conner Roche
President, CEO & Director

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Richard William Lavey
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Jon Paul Newsome
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Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Welcome to The Hanover Insurance Group First Quarter Earnings Conference Call. My name is Richard, and I'll be operator for today's call. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the call over to Oksana Lukasheva. You may begin.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, operator. Good morning and thank you for joining us for our earnings conference call. We will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and our Chief Financial Officer, Jeff Farber.

Available to answer your questions after our prepared remarks are Dick Lavey, President of Agency Markets; John Fowle, Chief Executive Officer of Chaucer; and Bryan Salvatore, President of Specialty Lines.

Before I turn the call over to Jack, let me note that our earnings press release, financial supplements 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 guidance for 2018. There are certain factors that could cause actual results to differ materially from those anticipated. We caution you with respect to reliance on forward-looking statements and, in this respect, refer you to the forward-looking statements 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 and accident year loss and combined ratios, excluding catastrophes, 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, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you for joining our call. This morning, I will provide an overview of our first quarter results and business performance as well as comments on our strategy. Jeff Farber will review our financials in detail, and then we will open it up for questions.

We are very pleased with our first quarter performance. Our businesses performed well, delivering results consistent with our expectations despite higher-than-expected winter weather catastrophe losses in our domestic business. This performance further demonstrates the strength of the foundation on which we are building our company, as we continue to advance and execute on our strategy, provide exceptional insurance solutions to our distribution partners and policyholders and deliver superior returns for our shareholders.

For the quarter, we posted operating income of $84 million or $1.95 per fully diluted share; a consolidated combined ratio of just below 97%; the combined ratio, excluding catastrophes of around 91%; and an operating return on equity of 11.8%.

In addition, I want to call your attention to the following first quarter highlights: first, we produced solid top line consolidated growth of 6.6%, while maintaining stable underlying loss ratios. We grew responsibly in the quarter, carefully building our presence in markets with attractive returns and effectively leveraging our distribution strengths in our distinctive business model. Second, as previously announced, we experienced elevated catastrophe losses in the first quarter due to severe winter weather in the Northeast and Midwest. While higher-than-expected at $71 million, our losses were in line with our market share in the affected states. Third, the underlying trends in our businesses are strong and improving, driven by our enhanced business mix, prior underwriting and pricing actions and effective execution of our expense management initiatives.

Our ex-cat combined ratio in the quarter improved approximately 1 point compared to the prior year quarter. Each of our businesses sustained important positive momentum in the quarter. In Personal Lines, we delivered an overall combined ratio of 96% and 89% excluding catastrophes, representing an improvement of 2 points from the prior year quarter. We continue to benefit from recent expense management initiatives and gross leverage, generating a 1-point improvement in our expense ratio from the first quarter of last year.

While our first quarter ex-cat loss results improved year-over-year, they were still impacted by normal weather-related seasonality in the Northeast and Midwest, albeit to a lesser degree than in the past. As we continue to diversify our portfolio, both from a geographic and sector perspective, we believe we can further mitigate the seasonal effects on our results over time. We continued to build on the strong growth trajectory we've established in Personal Lines, increasing net written premiums by 9.6%. This is a function of improved retention, continued rate increases and new business growth. Retention was very strong at 85.3% due in part to the growth of our Hanover Platinum product. Overall, policies in force grew 3.6% from the prior year quarter.

We remain very pleased with the quality of the new business we are writing. Account business now represents 85% of new business. It is characterized by higher coverage values, greater umbrella penetration and superior retention, which results in higher lifetime value.

We also are pleased with the progress we are making in advancing our strategic and operating priorities. After expanding into Pennsylvania and piloting our state-of-the-art agency platform, we are now introducing our enhanced capabilities across our existing Personal Lines footprint in order to enhance our product, pricing segmentation and agency experience.

In combination with our Hanover Platinum offering, our new capabilities allow us to target customers with more sophisticated insurance needs even more effectively.

Overall, we are continuing to further penetrate with our partner agents, particularly in states with significant headroom in profitability. We are delivering strong growth and improving the quality of our Personal Lines portfolio.

Going forward, we expect to pursue additional rate increases in certain states and continue to balance profit and growth opportunities, which may somewhat dampen our top line growth throughout the rest of the year.

Our Commercial Lines businesses generated strong underlying results as well, reflecting our commitment to maintaining solid margins and measured growth in the current environment. We generated a combined ratio of 97% in the quarter, which included higher-than-planned catastrophe losses. Excluding catastrophes, we delivered a 91% combined ratio, 3 points better than in the first quarter of last year. This result underscores the effectiveness of our past underwriting actions. It also reflects more normal property experience in the current quarter.

We increased Commercial Lines net written premiums by 7.5%, as we continued to improve retention and generated strong new business growth in markets where conditions are favorable. In particular, we are seeing profitable growth in small commercial, targeted industries in middle market and our most profitable specialty businesses.

Our quarter-over-quarter growth comparison also was helped somewhat by the favorable impact of reinstatement premiums. We are pleased with small commercial business growth in the quarter and remain confident in the increased trajectory going forward.

In addition, our middle market book is experiencing solid growth in attractive industry classes as evidenced by growth in the technology and manufacturing sectors, for example. We increased core commercial pricing by 3.8% in the quarter in line with our fourth quarter of 2017, although pricing still remains below our view of long-term loss trends. Past underwriting actions, mix shifts towards what we consider to be more profitable segments and our ability to work in partnership with our agents should enable to continue to produce stable loss ratios as was demonstrated in this quarter's results.

Our domestic specialty business also delivered strong results in the quarter with high single-digit growth in our most profitable segments, including management and professional liability. We continued to leverage our specialty product solutions to increase penetration with our existing franchise agent partners, a key component of our go-forward growth plan.

With this strategy in mind, we continue to invest in new capabilities and tools for our agent partners. For example, we introduced TAP Sales Marine, an online platform, that enables agents to service contractors' equipment policies more effectively. We also launched an insurtech solution focused on professional lines coverages for micro, small commercial companies, allowing agents to service our customers better and faster while improving agency productivity.

Overall, we are excited about the growth momentum, profitability and operating dynamics in our domestic business. With continued strong contributions from Personal Lines and Small Commercial coupled with building momentum and increasing earnings in targeted middle market and specialty segments, we believe we can sustain these trends going forward. Additionally, with our business always on the move, we are well positioned to respond effectively to the changing needs of our agents and customers in this rapidly transforming industry.

Moving to Chaucer. Our team turned in another very solid performance. Chaucer's earnings in the quarter were in line with our expectations, although somewhat lower when compared to the prior year quarter, primarily due to FX movements, higher brokerage expenses and an unusually benign large loss experience in the prior year quarter. Chaucer net written premiums were down 1.8%, while gross premiums showed a solid increase. Our strategy is to maintain our relevance to clients while building our position in targeted classes in anticipation of more attractive market conditions. We continue to use reinsurance capital to manage our retentions and risk appetite, laying off some of the risk in areas such as property and treaty. At the same time, we continue to target growth with -- where we see opportunity, helped by strategic initiatives, such as in our casualty lines where we have recently deployed new underwriting teams and acquired an Australian MGU last year.

As demonstrated in our past results and in the most recent quarter, Chaucer has an impressive ability to manage through shifting market conditions. The team's underwriting acumen and strong leadership position combined with recent business investments give us great confidence that this business will continue to thrive and grow profitably.

Before I turn the call over to Jeff, I would like to provide some perspective on our decision to explore strategic alternatives for Chaucer. Chaucer has been an important contributor to the success of our company since we acquired the business in 2011. Chaucer has surpassed our earnings expectation over time and continues to provide opportunities for collaboration, business development and risk management between our domestic and global teams.

As you know, given the dynamic and competitive nature of our business, it is essential that we continually assess our business strategy in our operating model, making changes whenever appropriate to ensure that we are well positioned to deliver on our promises to our shareholders and all of our stakeholders.

I want to emphasize that we are exploring alternatives from a position of strength. Both our domestic and our international businesses are performing well and have strong prospects going forward.

Consequently, we believe we have good and viable options, whether we pursue a possible sale or retain the business and develop it alongside the continued growth of our domestic businesses. We are fully exploring all of our options. Should we ultimately sell Chaucer, proceeds would be used to support various capital initiatives, which may include but are not limited to greater investment in our domestic businesses whether through organic or inorganic growth, stock buybacks and regular or special dividends. We would use these proceeds with the best interest of our shareholders in line, applying the same financial rigor, discipline and foresight we apply in every capital allocation and management decision we make.

We are in the early stages of this process and we'll keep you and all of our constituents informed as appropriate. In the meantime, our talented Chaucer team remains focused and committed to driving our business forward, building on its leading market position and reputation as an exceptional underwriting business.

At the same time, domestically, we will continue to grow and enrich our businesses working closely with our agent partners to invest in innovative products, platforms and enhance capabilities, ultimately taking our businesses to the next level.

As we push forward, we will continue to focus on our 3 main strategic drivers: leveraging the strength of our agency distribution, increasing our specialized capabilities and helping our partners grow through innovation.

I will now turn the call over to Jeff to review the highlights of our financial performance. Jeff?

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone. For the quarter, we reported net income of $67.7 million or $1.57 per diluted share compared to $45.2 million or $1.05 per diluted share in 2017.

After-tax operating income was $84 million or $1.95 per diluted share compared to $40.8 million or $0.95 per diluted share in the prior year quarter.

The difference between net and operating income in the quarter was due to the decline in fair market value of equity securities of approximately $23 million before taxes, which are now recognized in net income in accordance with the new accounting standard.

Our combined ratio was 96.9% compared to 99.5% in the prior year quarter with higher-than-planned catastrophes in both periods. Catastrophe losses in the quarter were elevated and reduced our income by $71 million or 5.6 points.

Domestic businesses accounted for $65 million of cats or 5.2 points of our total combined ratio, primarily from severe winter weather storms in the Northeast and Midwest during January and March. Meanwhile, Chaucer catastrophes were light at under $6 million.

Our catastrophe results included the benefit of favorable development of approximately $9.5 million with $6.8 million and $2.7 million coming from domestic businesses and Chaucer, respectively, primarily from 2017 hurricanes and California wildfires. Excluding catastrophes, we achieved a combined ratio of 91.3%, 1 point lower than the prior year quarter driven by improvements in both the domestic loss and expense ratios, partially offset by higher expenses at Chaucer, mainly due to the impact of foreign exchange rates.

Now to review our underlying results starting with Personal Lines. Our combined ratio, excluding catastrophes of 89.1% was nearly 2 points lower than the 91% posted last year, reflecting an improvement in both the expense and underlying loss ratios. Our accident year loss ratio, excluding catastrophes, improved 1.4 points to 60.8%.

Homeowner's results benefited from lower-than-usual non-catastrophe-related activity in the quarter. We continued to see stable loss results in personal auto, as we maintained our mid-single-digit rate increase, which is slightly above our long-term loss trend. Personal auto frequency and severity continued to perform as expected. The quality of our Personal Lines business mix and account offering, along with our ability to continue to obtain rate increases in line with loss trends, gives us confidence that we can continue to deliver above-target profitability going forward.

Turning to Commercial Lines. Our accident year combined ratio, excluding catastrophes of 91.5% was significantly better than the 94% posted last year, reflective of an improved expense ratio and a lower loss ratio. Commercial Lines' current accident year loss ratio, excluding catastrophes was 56.2%, down 1.4 points from 57.6% in the first quarter of last year with improvements across all lines.

Our commercial multiple peril line is performing well. As expected, the elevated level of large losses in the first quarter of 2017 has returned to more typical levels. Loss trends in the remainder of the book are also performing well, supported by previous mix in pricing actions including in commercial auto.

Workers' compensation loss experience continues to be favorable in line with broader economic trends and as a result of our prior mix shift towards smaller, lower-risk accounts. We also improved our current accident year loss ratio in other Commercial Lines by 1 point compared to the prior year period. We are encouraged by the current performance and believe it positively reflects underwriting actions previously taken.

Both Personal and Commercial Lines benefited from cost-reduction initiatives executed in 2017 as well as fixed cost leverage gained from robust premium growth. The domestic expense ratio improved by 1 point to 32.4% in the first quarter. We expect to see a 0.5 point of improvement for the full year. The disciplined financial rigor that we have implemented, including the continuation of an expense and agile investment culture is showing its benefits. We evaluate new expenses carefully, hire thoughtfully and realign existing resources and investments through strategic priorities as needed.

Overall, prior year loss development in our domestic business was 0 with favorability in workers' compensation offset by unfavorable movements in domestic property coverages, specifically in our Personal Lines and commercial auto business, primarily due to late December winter weather.

Moving on to Chaucer. The combined ratio for the quarter was 97.2%, another solid performance despite continued pricing pressure in the London market. Current year attritional and large losses in the quarter were as expected, bringing the overall accident year loss ratio, excluding catastrophes to 53.3%. However, this does compare to an unusually low level of large losses in the prior year quarter, which was one of the lowest since the acquisition in 2011.

Chaucer reported favorable prior year reserve development of $8.7 million or 3.9 points in the first quarter of 2018. In addition, because of the accounting for reinsurance on a particular contract that records recoveries as net investment income, it is appropriate to consider most of the elevated NII at Chaucer effectively as favorable prior year development.

As we've said in the past, the nature and complexity of the Chaucer business warrants a high level of reserving caution. Our reserve strategy remains prudently conservative, and our balance sheet remains strong.

Chaucer's expense ratio for the quarter was 45.2% compared to 40.1% in the prior year quarter. The increase was primarily driven by the impact of foreign exchange movements on overseas deposits and foreign exchange translation of sterling-denominated expenses. The pound was considerably stronger in the first quarter relative to the dollar than it was a year ago. Brokerage expenses also increased due to mix changes and higher quota-share cessions.

Moving on to net investment income and balance sheet considerations. For all of Hanover, net investment income increased by 17% in the quarter to $83 million, aided by higher private equity partnership income by $5 million and $2.3 million higher recoveries from certain reinsurance contracts mentioned earlier.

Underlying investment income trends remained stable as a result of reinvesting higher operating cash flows, partially offset by the impact of lower earned yields in our fixed income portfolio, though we are seeing an uptick in new money yields.

Cash and invested assets were $9.3 billion at the end of the quarter with fixed income securities and cash representing 86% of the total.

Our fixed maturity investment portfolio has a duration of 4.3 years and is 95% investment grade. The portfolio remains high quality and well laddered.

The operating effective tax rate for the quarter was 19.4%, lower than the statutory rate due to the impact of tax deductions on stock compensation. We anticipate that the effective tax rate will be roughly the statutory rate of 21% for the remainder of the year.

I'll finish with a few comments on our balance sheet and the strength of our capital position. During the quarter, book value per share decreased by 3% compared to $68.56 at year-end. This primarily reflected a decrease in fixed income fair values due to an increase in interest rates, which was partially offset by the strong earnings.

As part of a new accounting pronouncement, unrealized gains on equity securities of $146 million were reclassified to retained earnings, reducing accumulated other comprehensive income, but increasing retained earnings with no impact to shareholders' equity.

Equity fair value changes are now recognized in net income through realized gains, and therefore, can create volatility in this line going forward, reflective of market swings. From a capital management perspective, we returned $16 million to shareholders through stock repurchases as of the end of April.

We have a total of $131 million available for purchase under our current share buyback authorization. We also returned $23 million through our regular quarterly dividend. We remain very focused on our shareholders' capital with a clear capital allocation and management philosophy.

The enhanced earnings power from our executed expense initiatives, the tax reform benefits as well as excess capital from a potential Chaucer disposition will create opportunities to deploy such capital in a thoughtful and effective way.

Our first priority is to invest in profitable business growth opportunities organically or inorganically. We have a strong track record of building our businesses through organic business development, team conversions and acquisitions and believe we are well positioned to continue to do so as we leverage the strength of our domestic distribution platform. Second, we will support our strong dividend track record. And finally, we will also continue to be opportunistic in deploying capital through stock buybacks and potentially debt management and special dividends.

Overall, we are pleased with our results as well as the strategic and operating progress we made this quarter. Our strategic focus, unique competitive position, strong agent partnerships, financial rigor and disciplined underwriting practices served us well. With a quarter of strong results, we are confident we can deliver on our original full year 2018 guidance. And note that our second quarter catastrophe assumption is 5.4%.
With that, we will now open the line for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question in the line comes from Matt Carletti from JMP securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple questions. First, I was hoping you could give a little bit of color surrounding how the workers' comp plan of business is progressing? Nice improvement in the accident year loss ratio in the quarter. And I think that's also where the favorable development came from in that segment. Can you just talk a little bit about kind of the trends you're seeing in that market? And how you are addressing them?

John Conner Roche
President, CEO & Director

Sure. Matt, overall, we're very pleased with the trends in the workers' comp line after, as you know, several years of improving the portfolio, moving it to a better mix, driving towards a lower-average account size, somewhat anticipating some of the competition in the upper middle market and the mid-middle market space, improving through some of our new areas in verticals, including technology that tend to have an advantaged workers' compensation profitability. So overall, as you stated, we continue to have a good balance sheet on the workers' comp line, the trajectory of our accident year performance is as expected. And we feel -- we couldn't feel better about the performance for the line.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then, maybe just shifting gears quick over to Personal Lines. I mean, you touched on it a little bit, but I just wanted to ask you about kind of how the kind of revamped Platinum product is being received in the market? And then kind of looking further ahead, where do you stand on, do you still have plans to kind of grow into additional states kind of maybe push westward? Or do you -- is it more of continued growth in your current footprint strategy for the near term?

John Conner Roche
President, CEO & Director

Yes. Good question. Because, obviously, we have a real unique position in the Personal Lines space right now. I think we're one of the better performing Personal Lines businesses. And so we are really excited about deliberate steps we took several years back to move towards being an account player, trying to leverage the skills and the capabilities that would most lend themselves to an agency distribution approach in Personal Lines. So I'll turn it over to Dick Lavey to kind of talk about how confident we are in -- going forward and how that's going to lead towards how we further invest in the Personal Lines business.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, Matt. So yes, we're really pleased with the progress that we're making on the Platinum product. If you look across our whole book, it's about 37% of the book today, 43% if you exclude Massachusetts where it doesn't reside. And you've heard us in the past that the profile of that business is just terrific. So limits profiles of 100 and 300 are over 90%, our umbrella penetration is over 30%, multi-car accounts close to 60%. So we just -- it brings to us that -- the profile of the customer that we like. In addition to Platinum, as you know, we've rolled out a new platform, which is going to allow us to move into the more complex account arena sort of moving upstream on the Coverage A curve. And we launched that in Pennsylvania, which is, to great success, with the agents there. They're really happy with both the product features as well as the system. So to your second part of your question, we are now poised to roll this platform out to the rest of our footprint, which we're doing. This year is a big year for us. By the end of this year, we'll be in the bulk of our state. So into next year, we should be complete with that. We believe strongly that there is a lot of headroom within our current footprint. So the rollout of this platform, we're thrilled to bring it to our current agents and that will bring us some upside, but it will also position us to think about state expansion eventually. Our view on that is that we'll likely fill out current footprint before we start to step outside our Eastern Hemisphere footprint. But you can imagine we're thinking hard about that strategically. So all-in, very good.

Operator

Our next question in line comes from Paul Newsome from Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P.

Is there much of any of a tenure effect in the Personal Lines business given the new product and mix shift there?

John Conner Roche
President, CEO & Director

Absolutely. That was our view going into our refocus, if you will, on account business. We clearly saw several years back that the fascination with multivariate pricing and monoline strategies was not serving most people well unless you played on the periphery of the better business. So we absolutely are seeing improved tenure related to the movement towards account business and the movement towards a better product.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Paul, I would just add that we see retentions in the Platinum product upwards of 90% -- 89%, 90%. So as you know, we have strong retention overall in the 85%, but when you -- which is the account focus. But you step into this Platinum products, we're actually seeing higher retention. So it's starting to take hold.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P.

So let's retention, I was actually thinking about what they call tenure effect, meaning when you enter a new product usually and you have a seasonality -- seasoning effect where you end up with some profitability depressions. And I was wondering, if your book would have any of that embedded or is that fully through the book at this point?

John Conner Roche
President, CEO & Director

Yes. Okay, now I better understand where you're going with. I thought tenure in this kind of broader sense is how long do we keep at a customer once we acquire them and that what we were speaking through to those retention statistics is that the tenure continues to improve and further extends the lifetime value the customer comes through at least on the acquisition cost side. To your point though that any time you go to a new place, you bring in an element of new business penalty or loss ratio risk. And the early indications are that our loss ratios are performing at or slightly better than what we expected. So we do not anticipate any new business -- enhanced new business penalty to our book in Personal Lines as we continue to grow.

Operator

Our next question in the line comes from Chris Campbell from KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Starting with Commercial Lines. So all the products showed year-over-year core loss ratio improvement, but the presentation also says that the current pricing is below loss cost. So how should we think about the potential for future commercial core loss ratio gains given the adverse pricing dynamics?

John Conner Roche
President, CEO & Director

Sure. I think we'll try to kind of bring you back to the messages that we've been stating, I think, for several quarters now that while pricing overall is slightly below what we believe to be long-term lost trend, we also know that in the short term, there are some favorable trends that kind of take a little bit of pressure off of that. But probably more importantly, as you know, we are executing a much more sophisticated pricing segmentation that we think serves us extremely well, getting more price on the accounts that need it, pushing out the accounts that frankly don't validate and getting even more sophisticated in terms of how we price to the existing portfolio. We also think that another lever that allows us to maintain stable Commercial Lines loss ratios in the core business is through the focus on new business in the most advantageous sectors. A lot of the niches that we built products for, technology sector, human services sector, the educational institutes, that's where we're getting a disproportion of our growth. And frankly, those sectors greatly outperform the more general business. The workers' comp mix changes we've made are serving us well as you see our trends are quite favorable there, and so that's contributing to our ability to have some improvement despite not fully reflecting loss trends in our pricing. And then, last but not least, as you know, we have had some bumps in the road in the past in some of our specialized businesses, in the program business, in the contract surety business. And as those businesses start moving in a very better direction for us, we believe that's contributing and making up for any gap we have between pricing and loss trend.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Great. That's very helpful. Just another one on commercial. There was a little bit of adverse development in commercial auto in the quarter? So just any color you could provide on what's driving that? And how are you thinking about your current year loss picks there?

John Conner Roche
President, CEO & Director

Yes. For the most part, it really was an extension of some weather that caught us at the end of the year, and frankly, wasn't contemplated. We don't have any particular concerns about that late development out of '17.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. So that was kind of similar to what you saw in the Personal Lines book? Just...

John Conner Roche
President, CEO & Director

Exactly. There was a pretty good correlation between the personal auto and the commercial auto, late weather that hit us on the fourth quarter picks.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Great. And then just shifting a little bit to capital management? So I know there is a strategic alternatives and you're kind of earlier -- you're early on in that process? And Jack was very helpful to kind of lay out what the capital management priorities would be. I think one thing you mentioned was potentially inorganic growth. So what -- just thinking strategically, what would Hanover be interested in buying that it doesn't have right now? And then, how would you view that just in terms of a lens of elevated M&A pricing right now?

John Conner Roche
President, CEO & Director

Okay, great question. Yes, I want to be very clear that we -- you should think of us going forward like you have seen us over the last 6 or 7 years, focused on opportunities -- inorganic opportunities that are on the smaller end, more on the nichey end. We were fortunate to get a renewal rights deal in the OneBeacon deal, it doesn't come around very often. But for the most part, what you've seen us do is go [after at] specialized capabilities that are of the right size, that we can assess the balance sheet implications, that we're not going to overpay for. And then, we can translate through our distribution approach and to deeper penetration with our franchise partners. So I don't want to overemphasize this. It really comes down to the opportunities that present themselves. Our planning is around getting deeper penetration with our existing capabilities into our agency plan, and we see plenty of headroom. But like we have in the past, if we see some smaller nichey kind of specialized capabilities come available, we'll certainly give those a good review and see if they can add to our arsenal.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then just one more. So assuming hypothetically if Chaucer were to be sold, right? Now Hanover would be shrink, right? And so a smaller, more nimble Hanover might be more attractive to especially we've heard some larger account competitors talking about how they want to move into smaller business? Now would a sale be something that you would consider? Like -- if it was like a reasonable offer that made sense?

John Conner Roche
President, CEO & Director

Listen, we're obligated to manage the business in a way that's in the best interest of our shareholders. That said, we have a lot of confidence in the business that we're building. I think the performance in this quarter, we can continue to build on a more consistent top quartile performance, we think that's less likely. But at the end of the day, we're here to pay a return to the shareholders, and we realize we have an obligation as a publicly traded company. I can't emphasize enough to you though that as we -- every quarter, we gain more and more confidence in our ability to differentiate ourselves in the marketplace. We have plenty of growth opportunity. And we believe this market environment allows us to navigate quite nicely to continue to grow this business.

Operator

[Operator Instructions]

Oksana Lukasheva
Vice President, Investor Relations

All right. It looks like we don't have any more questions today. Thank you all for participating, and we're looking forward to talking to you next quarter.

Operator
Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.