S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

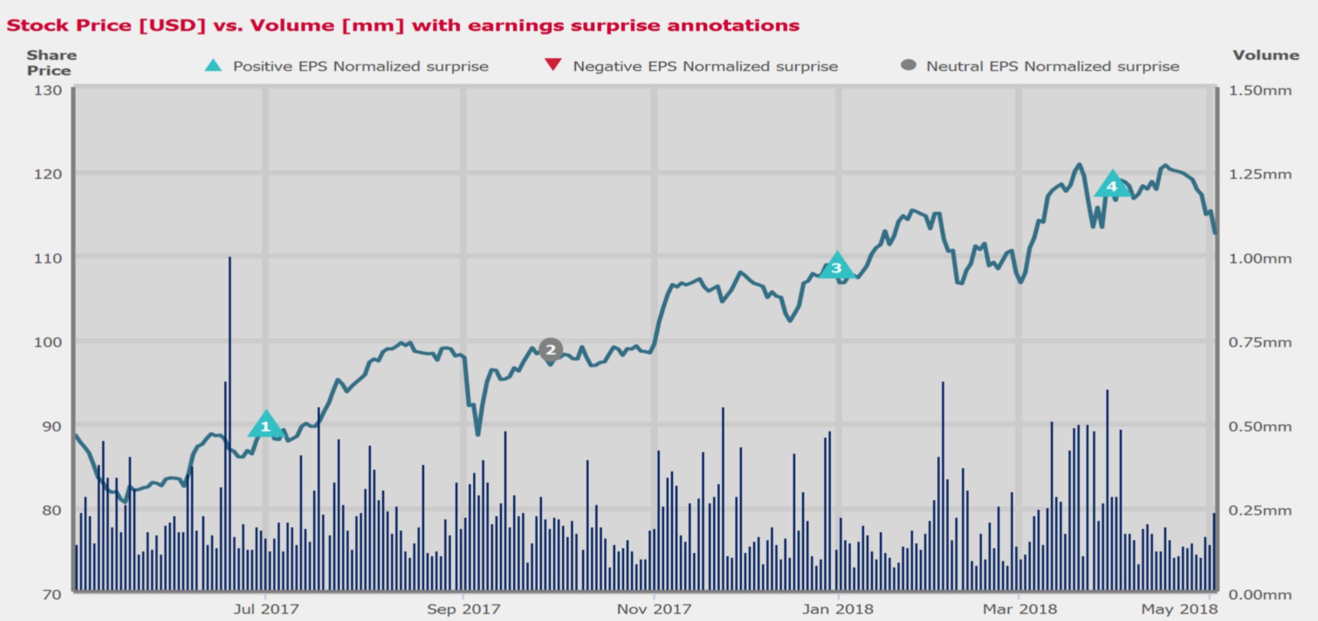
FQ2 2018 Earnings Call Transcripts

Thursday, August 02, 2018 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.07	2.20	▲6.28	2.00	8.49	8.74
Revenue (mm)	1343.35	1363.70	▲1.51	1393.40	5235.10	5503.13

Currency: USD
Consensus as of Aug-02-2018 11:44 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	1.55	1.69	▲1 9.03 %
FQ3 2017	(0.63)	0.11	NM
FQ4 2017	1.85	2.00	▲2 8.11 %
FQ1 2018	1.67	1.95	▲3 16.77 %

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Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
Executive VP & CFO

John Conner Roche
President, CEO & Director

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Richard William Lavey
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Keefe, Bruyette, & Woods, Inc., Research Division

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Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Hanover Insurance Group's Second Quarter Earnings Conference Call. My name is Denise, and I'll be your operator for today's call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Oksana Lukasheva. Please go ahead, ma'am.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, operator. Good morning, and thank you for joining us for our second quarter 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 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 facts, 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. Thank you for joining our call. This morning, I will provide an overview of our second quarter performance. Jeff Farber will review our financials in detail, and then we will open up the line for questions.

We are pleased with our performance in the quarter. We delivered solid results, further demonstrating the strength of our company's agent-centered strategy and distinctive business model. We continued to build on our strong competitive position, successfully executing on our priorities and delivering superior returns for our shareholders.

For the quarter, we posted an operating return on equity of nearly 13%, operating income of $95 million or $2.20 per fully diluted share, a consolidated combined ratio of 95.5% and a current accident year combined ratio, excluding catastrophes, of 91.3%, nearly a 1-point improvement over the second quarter of 2017.

In addition, I want to call your attention to the following second quarter highlights. First, we delivered solid top line consolidated growth of 6.9% while maintaining our underwriting discipline. We grew strategically in the quarter, focusing on markets with prospects for more attractive returns, including Personal Lines, small commercial and our more specialized Commercial Lines businesses.

Second, we sustained positive underlying trends in our business, reflecting the ongoing benefits of prior underwriting actions and our thoughtful pricing strategies, which together, mitigated the impact of loss trends. Our ex-cat accident year loss ratio in the quarter improved slightly, to 57.4%, compared to 57.9% in the prior year quarter.

Third, we improved our expense ratio by 0.5 point in our Personal and Commercial Lines segment in the quarter. These improvements were driven by the continued benefit of our expense savings initiative that were executed in July of 2017 as well as the benefit of earned premium growth. Our efforts to efficiently manage our expenses will remain at the forefront of our operating strategies and investment decisions.

Fourth, our results reflect the benefit of favorable development on prior year loss reserves. Chaucer continued to be a source of positive releases, while in our domestic business, development was immaterial overall, with puts and takes between lines, which Jeff will discuss in his comments.

Finally, our earnings reflect the benefit of higher net investment income. Our net investment income of $79 million for the quarter was up 9%, due in part to higher operating cash flows and increased partnership income.

Each of our businesses sustained positive momentum in the quarter. In Personal Lines, we delivered an accident year ex-cat combined ratio of 87.8%, representing over 0.5 point improvement over the prior year quarter. Our underlying loss ratio remains stable, while our expense ratio improved as prior expense initiatives and leverage on our fixed costs from premium growth continued to contribute to the bottom line. Furthermore, we maintained positive growth momentum in Personal Lines, increasing net written premiums by 8%. This growth is a function of rate increases of 4.9% and solid retention at 84.7%. Growth in the quarter also was helped by a renewal rights transaction from a year ago, which is now fully converted.

We continued to focus on writing high-quality new business, comprised largely of Hanover Platinum and packaged accounts. Both are characterized by higher coverage values, greater umbrella penetration and higher retention. Our in-force account business represents approximately 83% of our book. We expect that this business will deliver superior returns, going forward, through higher customer lifetime value.

After a successful launch of our new agency platform in Pennsylvania, we are now rolling it out to our other Personal Lines states. The platform is now available in 7 out of 18 states, and we expect to complete the rollout to our remaining states over the next 12 months.

We are obtaining solid rate increases of 4.9%. We will continue to balance profit and growth opportunities going forward, which could moderate the pace of our top line growth during the next several quarters.

Overall, we continue to gain important Personal Lines shelf space with our agent partners. The market may get increasingly competitive as prior pricing actions improve industry results. We believe our dedicated teams, enhanced capabilities and strong agency franchise approach will allow us to continue to grow profitably in our targeted market segments.

Our Commercial Lines businesses produced strong results as well, delivering measured growth as we maintained our commitment to attractive profit margins. We generated an all-in combined ratio of 93.9% in Commercial Lines during the quarter, in part, due to lower catastrophe losses, favorable reserve development and lower expenses. Adjusting for property variability between periods, our loss ratio trends are fundamentally stable. This reflects the effectiveness of our past underwriting actions, which helped offset the gap between pricing and loss costs.

Our Commercial Lines net written premiums increased 6.4% in the quarter, or 4.3%, excluding the impact of reinstatement premium recorded in the second quarter of 2017, as we continued to benefit from strong retention and new business growth. In particular, we achieved profitable growth in our flagship small commercial business, targeted industries in middle market and our most profitable Specialty Lines. Our small commercial portfolio continues to be very profitable. We anticipate the go-forward growth trajectory to continue to be positive, especially as tax reform fuels growth in the small business sector. We also achieved solid growth in what we believe are the more attractive middle market sectors such as technology, manufacturing and other niche classes.

We increased core Commercial pricing by 5.1% in the quarter. This represents an improvement of more than 1 point compared to first quarter of 2018 and is consistent with our expectations. Commercial auto pricing remains strong, although the industry, overall, still has some way to go before it reaches target profitability levels.

Workers’ compensation, on the other hand, continues to be very profitable in this economic environment. Consequently, we are seeing continued pricing pressure in this line, despite some marginal improvement during the second quarter.

Overall, rates in our core Commercial business, though improved, still remains slightly below our long-term loss trend assumptions. In line with the industry, we are seeing some evidence of benign short-term loss trends in certain lines, including workers' comp. We believe, however, it is prudent to have a long-term outlook for liability coverages. We believe past pricing, underwriting and mix management actions, coupled with our ability to work in partnership with our agents, will drive a stable loss ratio as demonstrated by our underlying results in the second quarter.

Our domestic Specialty business also delivered strong results in the quarter, with low double-digit growth in our Professional Lines businesses. We continued to advance key strategic initiatives during the quarter, expanding our product offerings and strengthening our teams, providing our partners with enhanced specialty capabilities.

Overall, we are excited about the profitable growth momentum and the operating efficiencies gained in our domestic business. We continue to leverage our distribution platform, products and service capabilities and investments in innovation to help our partners grow. We are confident we can sustain our positive financial trends going forward.

Moving to our international business. Our Chaucer team once again leveraged its underwriting expertise to deliver solid results in the quarter. Chaucer continued to meet our earnings expectations, in part, due to lower catastrophe losses. Chaucer's underlying performance was strong as the team continued to skillfully manage the challenging market conditions and maintain positive momentum across those insurance and reinsurance classes that offer attractive returns. At the same time, we reduced our involvement in the most difficult lines of business, notably, London market marine and some casualty classes.

Chaucer increased its gross written premiums by 13% in the quarter, a testament to its market insight and strong competitive position. At the same time, net written premiums grew at a slower pace of 6%. We continue to leverage reinsurance to rightsize the gross exposures within our risk appetite while maintaining client and industry segment relevance and building on our position in targeted classes. With Chaucer's strong market leadership position and thoughtful underwriting expertise, we are confident this business will grow and continue to generate profitable returns.

Additionally, we are pleased to see some encouraging signs of increased discipline in the Lloyd's market. Lloyd's leadership has initiated a more proactive approach to specific underperforming syndicates as well as underperforming businesses across all syndicates. It is asking participants to revalidate their underwriting strategies and present remediation plans for unprofitable lines. Chaucer has consistently outperformed the Lloyd's market and should benefit from this increased intervention from Lloyd's.

Before I turn the call over to Jeff, I would like to talk briefly about our review of strategic alternatives for Chaucer. Overall, our strategic review is progressing as planned. With our advisers from Goldman Sachs, we continue to fully explore our options. In the meantime, the Chaucer team remains focused on driving our international business forward, building on the strong market position and the exceptional reputation it has established over time. This is the extent of the information we can share on this call. We look forward to providing you with an update in due time.

With those comments, I will turn the call over to Jeff for a review of the financial results.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone.

For the quarter, we reported net income of $99.3 million or $2.31 per diluted share compared to $78.4 million or $1.83 per diluted share in 2017. After-tax operating income was $94.6 million or $2.20 per diluted share compared to $72.3 million or $1.69 per diluted share in the prior year quarter. Our combined ratio was 95.5% consistent with the 95.6% posted in the prior year quarter.

Overall, catastrophes during the quarter totaled $63.6 million or 5% of premium, largely in line with our second quarter assumption as well as prior year quarter results. Domestic catastrophe losses came in at $59 million with the largest impacts from wind, hail and tornado events in Michigan, Connecticut and New York in May and June, primarily in our Personal Lines business. Chaucer's losses were mild at only $4.8 million for the quarter. Excluding catastrophes, we reported a combined ratio of 90.5% compared to 90.8% in the prior year quarter, driven by an improvement in our domestic business mostly in the expense ratio.

I will now review our underwriting results by business. Personal Lines combined ratio of 97.6% increased 5.8 points compared to 91.8% in the prior year quarter. This was driven by elevated catastrophe experience, and to a lesser extent, unfavorable development mainly in auto. Our current accident year combined ratio, excluding catastrophes, improved by a 0.5 point to 87.8%. This reflects the cumulative impact of the improvement in the expense ratio from our expense management actions executed in July 2017 and as well as growth leverage on fixed expenses. Our accident year loss ratio, excluding catastrophes, of 60.1% was favorable to the prior year, driven by the expense component of the loss ratio. The underlying loss trends in both auto and homeowners are largely in line with the prior year and with our expectations.

In the second quarter, Personal Lines experienced $7.8 million of unfavorable development, primarily driven by the 2016 auto accident year. We experienced increased severity on existing 2016 bodily injury claims and reflected that activity in our ultimate picks. However, we remain confident with both the ongoing profitability of this line and our 2017 and 2018 accident year selections. We continue to benefit from favorable frequency trends that both help offset increased severity as well as insulate us from future development trends. Importantly, we have achieved significant bodily injury cumulative earned rate increases of 10% over the past 2 years.

Top line growth was 7.9% in the second quarter, as we seek to balance growth with profit in our current geographic footprint. Our average rate increase in Personal Lines was 4.9%, along with retention of 84.7%, as we continued to leverage our book for profitable growth.

Our Personal Lines business continues to achieve target profitability, and we believe we have a line of sight into consistent performance going forward.

Turning to Commercial Lines underwriting results. For the quarter, we reported a combined ratio of 93.9% compared to 99.4% in the same period in 2017. This improvement was partly attributable to elevated catastrophe losses in the prior year quarter. On an ex-cat basis, we improved our current accident combined ratio about 1 point to 91.3%. This was driven by the reduction in the expense ratio as a result of the expense savings initiative executed in 2017.

We continue to maintain our rigorous expense culture and benefit from growth leverage on our fixed expenses. Though the magnitude and timing of the expense ratio improvement could shift based on prior year comparisons, we are pleased with our progress. Overall, we have achieved the savings planned and expect to deliver a 0.5 point improvement on the full year domestic expense ratio in 2018.

Our accident year loss ratio, excluding catastrophes, of 56.5% was in line with the prior year and our expectations. Workers' compensation loss experience continues to be favorable. It is in line with broader economic trends and consistent with our mix of smaller, lower-risk accounts. We also improved our current accident year loss ratio in Other Commercial Lines by more than 2.5 points compared to the prior year period. We are encouraged by the current performance and business trends, and we believe they positively reflect underwriting actions previously taken. The loss ratio comparison was also impacted by higher-than-usual large loss property experience and related reinstatement premium recorded in the second quarter of 2017. An increase of 2.4 points in the CMP loss ratio in the second quarter of 2018 to

55.3% was entirely driven by variability in property losses. Our year-to-date loss ratio is fundamentally in line with our original expectations and we remain confident in the quality of this book of business.

Finally, we continue to actively manage our commercial auto business mix, achieving high single-digit pricing increases. These efforts have manifested themselves in more stable underlying loss ratios.

In the quarter, Commercial Lines realized $8 million of favorable prior year development led by reserve releases in Other Commercial Lines and workers' compensation, which were partially offset by unfavorable development in commercial auto. The unfavorable development in commercial auto is driven by increased severity on existing cases in our liability coverages. We, in the industry, continue to see elevated severity in liability lines in prior years, which we believe is attributable to trends associated with increased attorney involvement, driving patterns and other economic factors. We continue to push hard at obtaining price as well as ongoing underwriting actions to improve the performance of our commercial auto line of business. But we recognize there is more work to be done for both us and the industry. Overall, we are pleased with the progress we have made in our top and bottom line domestic results.

Moving on to Chaucer. The combined ratio for the quarter was 95.7%, another solid performance despite the continued pricing pressure in the London market. Catastrophe losses were low in the quarter at 2.2%, helped by $5.5 million or 2.6 points of favorable reserve releases on prior year catastrophe events. The current accident year loss ratio, excluding catastrophes, was 55.1%, slightly lower than 56.3% posted in the prior year quarter. It included the benefit of higher quota share utilization, which was partially offset by elevated large loss experience.

Chaucer reported favorable ex-cat prior year reserve development of $10.5 million or 4.9 points in the quarter. Including favorable catastrophe reserve changes, development was $16 million or 7.5 points. Our reserve strategy remains prudently conservative, and our balance sheet remains very strong. Chaucer's expense ratio for the quarter was 43.3%, slightly below our guidance and higher than 42% in the same period of 2017. Relative to our expectations, current quarter expenses benefited from FX movements on certain overseas deposits. Though quarterly fluctuations are common, our longer-term expectations remain in the mid-40s.

Moving on to net investment income. In total, net investment income increased by 9% in the quarter to $78.7 million, aided by higher cash flows from operations and increased partnership income. Reinvestment of higher operating cash flows was partially offset by the impact of lower cumulative earned yields in our fixed income portfolio, though we are seeing an uptick in new money yields in the quarter.

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 20%, slightly lower than the statutory rate, due to the impact of tax deductions on stock compensation. We anticipate that the effective tax rate, going forward, will roughly equal the statutory rate of 21%.

Moving on to our balance sheet, reinsurance renewals and the strength of our capital position. During the quarter, book value per share increased 90 basis points to $69.17. The increase was primarily due to strong earnings, partially offset by dividend payments and changes in the fair value of the fixed income portfolio due to interest rate movements. As you know, a large portion of our domestic catastrophe reinsurance program renews on July 1. We renewed the expiring portion of our 3-year domestic catastrophe program and our annual property per risk program at similar structure and terms.

Additionally, effective 7/1, we have supplemented this program with a top and aggregate reinsurance solution, which provides for $75 million of coverage in excess of aggregate $300 million in domestic losses or against a single extreme event, on the top of our existing reinsurance tower that exhausts at $1.1 billion. This coverage reduces our earnings volatility and provides additional capital flexibility, all at competitive pricing terms. It does not impact our earnings outlook for 2018.

From a capital management perspective, we returned $12 million to shareholders through stock repurchases in the second quarter. We have a total of $121 million available for purchase under our current share buyback authorization. We also returned $23 million of capital through our regular quarterly dividend during the quarter. Our capital management and allocation framework remains consistent, as we think about internally generated excess capital and potential proceeds from the sale of Chaucer.

Our first priority is to invest in profitable and accretive business growth opportunities, organically and inorganically. Second, we will support our strong dividend track record. And finally, we also will continue to be opportunistic in deploying capital through stock buybacks, and potentially, debt management and special dividends. Overall, we are very satisfied with the strategic and operating progress we made, which has directly translated into solid quarterly results.

Our strategic focus, unique competitive position, strong agent partnerships, financial rigor and disciplined underwriting practices continue to serve us well. With another quarter of strong results, we are confident we can deliver on our original full year 2018 guidance. And note that our third quarter catastrophe assumption is 5.7%.
With that, we will now open the line for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] And your first question this morning will be from Paul Newsome of Sandler O'Neill.

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

I wanted to focus a little bit more on the expense cutting efforts. And obviously, there's the project you did. But as we look out further, is there more expense cutting to [be had]? Is there more -- is there a long-term goal in terms of how low you think you can get your expense ratio?

John Conner Roche
President, CEO & Director

This is Jack. Thanks for the question, Paul. I think the way I would characterize it for you is that along with the effort that we put forth in the third quarter of last year, we imposed kind of a higher level of rigor and financial discipline in the organization. And we did that with the idea that we were going to have to continually look at new investments that are important to our future and to the business growth. And that we needed to kind of put ourselves in a position where we could continue to look at some of the expenses and some of the previously important resources that we had in the organization. So what I'd like to believe is that, a, we have real expense leverage in our growth, which is what -- where I think you'll see most of the improvement come from. But we have also positioned ourselves so that as we find investments that we think are important to our business, for the most part, we'll be able to fund those with some expense initiatives that we can generate inside the company. Jeff, do you want to follow up on that?

Jeffrey Mark Farber
Executive VP & CFO

Sure. Just to add to that, I think, over time, you'll see a shift to -- of certain expenses from slightly less productive to more valuable expenses as we continually optimize how we're spending our money. But for the most part, for your models, I would count on the continuation of the leverage on our fixed costs that we've been getting from the premium growth rather than see meaningful net reduction in expenses, but pivoting to value-add types of things.

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

Great. And then my second question, I would love to hear a little bit more about the severity issue in Personal Lines on bodily injury. And I guess, is there more than just rate that needs to be done here at -- or to make you more confident that the bodily injury severity reserve issues won't continue into the accident years of '17 and '18?

John Conner Roche
President, CEO & Director

Yes, I'll let Jeff speak to kind of the balance sheet reserve side of this. I would tell you that, overall, we are very pleased with the performance of the Personal Lines business. I think we continue to differentiate ourselves in the marketplace and be confident that the steps we took a half a dozen years ago, to really take kind of the pricing algorithms by line of business and bring them together to really have a true account proposition, is proving to be quite important and helpful. And that's where we get frankly, margin, is to deliver on a more stable pricing environment for high-quality customers. And so I think that factors into kind of the overall environment. Relative to the bodily injury trends, I'll let Jeff talk to some of the specifics that we've been working through.

Jeffrey Mark Farber

Executive VP & CFO

Paul, in this quarter, as we said, we reacted to continued increase severity into our private passenger auto BI for the 2016 accident year. And we talked about the rate that we've been getting, and we've been getting over 5% a year for each of the last 2 years. But I think, also meaningfully, we've studied the frequency trends. And when you look at specific cases, we have a lot of confidence that our frequency trends are a lot lower. So while it's early in '18, you've only got 6 months, and in '17, you've got 18 months. If we compare that to the '16 year for the same time periods, the level of cases is meaningfully lower. So the combination of rate and frequency gives us a lot of confidence for '17 and '18. And overall, we're very comfortable with our level of reserves. And as you know, from time to time, we'll have some increases and decreases in individual lines as we react to those trends appropriately.

Operator

And the next question will be from Larry Greenberg of Janney Montgomery Scott.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

How much did the last year's renewal rights transaction help the Personal Lines premium growth this quarter? And I assume it will be on an apples-to-apples basis in the third quarter?

John Conner Roche
President, CEO & Director

Yes, I'll let Dick Lavey respond to that specifically.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Larry, thanks. Yes, overall, it was approximately about 1 point of growth on the book. And that -- we look back on that transaction very favorably. It was a terrific boost to our book of business in Massachusetts. It opened up some new distribution points for us and offered up some opportunity, actually, for future growth as well. But if you look back, just apples to apples, it was just about 1 point of growth.

John Conner Roche
President, CEO & Director

And as we said in the script, we -- that basically comes to conclusion in terms of the conversion. So I think what you'd see is that it's sufficiently in the base today. And our hope and expectation is that some of those new distributors, in combination with our existing distributors, will continue to generate kind of above-market growth. But in terms of the conversion, that is completed in the second quarter of '18. We do have -- just add to that, we do have an exciting back half of the year in Massachusetts, where we'll be introducing our TAP Sales and our Platinum product. So it was nice to have those new agents onboard, prior to that rollout.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Great. And what was the impact from better partnerships in investment income?

Jeffrey Mark Farber
Executive VP & CFO

In the quarter, if you look at the financial supplement -- what page is that on? Yes, if you look at Page 17, we detail that out. Larry, I would say that in the first quarter of '18, we saw an outsized impact that we shared with you in the first quarter. In the second quarter of '18, obviously, investment partnership income moves around a little bit. But it was a more traditional level of positive returns in the second quarter of '18 versus a real outsized level of return in the first quarter.

Operator

[Operator Instructions] The next question will be from Christopher Campbell of KBW.

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

I guess my first question is on the Commercial Lines pricing improvement. So just -- I'm assuming a lot of that is commercial auto. But just what lines is that coming from?

John Conner Roche
President, CEO & Director

Yes, actually, Dick and Bryan can probably speak to some of the specifics. I would say, overall, you're right, that we continue to push in commercial auto. And also, on the workers' comp side, even though the pricing is still quite competitive, we had some marginal improvement in the second quarter. So if you will, less negative, which helped lift the overall commercial pricing. But Dick, I don't know if you want to provide some more detail.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, no. No, I think you hit the headlines right. We're seeing positive pricing in all lines but work comp, as Jack said. So positive rate increases, the highest of which is in auto, in the mid- to high single digit. And we expect, frankly, those to go higher going forward. And we're seeing broad-based acceptance of that rate. We did see improvement in work comp. However, it's still negative. And then positive rate in the property and GL lines.

Bryan James Salvatore
Executive VP & President of Specialty

Yes. And this is Bryan. And I would add that we're actually seeing solid pricing across, really, all of our Specialty businesses. Our new money is strong. The retention is strong with that. So we're seeing that, really, across our businesses, with real particular contribution from our Professional Lines areas.

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

Got it, very helpful. And then just -- Jack, you had mentioned, I think, in your opening monologue that the Commercial rates are still below your long-term loss cost trends. So should we be assuming your -- Hanover's Commercial loss cost trends are like 550 bps, 600 bps, like, something like that?

John Conner Roche
President, CEO & Director

Yes, Chris, thanks for the question. We don't get to that level of specificity. What you should assume though is that, as we look across all the lines of business and we're monitoring, like everybody else, what's happening externally to commercial auto and what could be happening as the economy continues to push, that what's in our pricing as we've articulated in the past, is a combination of rate and exposure. And so we certainly consider the part of exposure that is attributable to insurance to value for property as part of our pricing that is going to cover loss trend. And we continue to focus on long-term loss trend. We think it's a trap to look at some benign activity in workers' comp or even some of the things that we're observing in the CMP lines as -- not how to think about it. To think about it in terms of pricing over the long-term, and when we sum all that up, we see ourselves still slightly below that loss trend. As we also said, though, that we believe we have plenty of underwriting improvement and mix change that is sufficiently covering that gap. And I think this quarter shows again that we have strong underwriting performance, driven by all those levers.

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

Okay. And then just, I guess another question on the reserve. I think Paul asked a question on the auto reserve. So I'll just -- do you see any issues in GL? Like I know that's been an issue in the past. So anything you're seeing on the liability side that would be concerning?

John Conner Roche
President, CEO & Director

I don't think there's really anything to update in the quarter. We had -- our general liability experience was, frankly, consistent with our expectations. And there was no real story there.

Jeffrey Mark Farber
Executive VP & CFO

Yes, we always worry about liability and always look at it closely. But not really a story developing in '18 at the moment.

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

Okay. And then, Jeff, I think this last one is for you. Just a numbers question. I noticed the interest expense trended downward sequentially, but the debt levels seemed to be remaining the same on the balance sheet. Any color here?

Jeffrey Mark Farber
Executive VP & CFO

Chris, I have to look at that. I didn't -- I'm not aware of anything that should be driving that. We haven't really done anything with our -- and it's been over a year since we bought a little bit of debt back, I think, a year or so ago. So it really shouldn't be -- it shouldn't be doing much. But we'll take a look at that. I didn't notice a meaningful piece.

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

Yes, because it went from like $11.6 million this quarter and that was down like $800,000 from $12.4 million last quarter. So just wonder if there's anything happening there.

Jeffrey Mark Farber
Executive VP & CFO

We'll take a look at it and see. It could be some accounting or something with a lease that ends up there. But I'll take a look at it. But nothing we did with our debt that -- nothing reset that should be doing that.

Operator

And ladies and gentlemen, that will conclude our question-and-answer session. I would like to hand the conference back over to Oksana Lukasheva for her closing remarks.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, everybody, for your participation today. We are looking forward to talking to you next quarter.

Operator
Thank you. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. At this time, you may disconnect your lines.