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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and welcome to the Hanover Insurance Group's Fourth Quarter Earnings Conference Call. My name is Dave, 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.

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you, operator. Good morning, and thank you for joining us for our quarterly conference call. We will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and Jeff Farber, our Chief Financial Officer. Available to answer your questions after our prepared remarks are Dick Lavey, President of Agency Markets; 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 fact, include forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements can relate to, among other things, our outlook and guidance for 2024, economic conditions and related effects including economic and social inflation, potential recessionary impacts, as well as other risks and uncertainties such as severe weather and catastrophes that could affect the company's performance and/or 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, 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 ratio 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 us. The fourth quarter represented a strong finish to a very dynamic but productive year for our company. Catastrophes proved to be very challenging for us in the first 3 quarters of the year. However, CATs aside, we achieved all major objectives of our business plan in 2023. Additionally, we made important progress on many fronts, strengthening our company and enhancing our competitive position and prospects moving forward.

Importantly, we took significant steps to enhance our catastrophe management and we advanced our capability to anticipate and address emerging and future trends as an organization. We also repositioned our portfolio to more effectively respond to evolving industry issues. As a result, we now have even more confidence in our ability to rapidly improve our earnings trajectory and to deliver the top-tier returns you expect from us.

On today's call, I'll share my perspective on our fourth quarter and full year results, and I'll put our top line performance in the context of our margin improvement trajectory. Jeff will review our financial and operating results in more detail, and he will provide annual guidance for 2024. We will then open the line for your questions.

Appropriately, our primary focus in 2023 was to drive critical margin recovery. With intense determination, we believe we did just that. We focused on the many areas of our business that were within our control, developing and implementing a multifaceted margin recapture plan, driving significant increases in pricing and policy terms and conditions to address new market realities, taking underwriting actions in our property lines across the enterprise and mitigating risks by implementing new and proactive loss control and preventative measures.

Our fourth quarter performance reflects the strong progress we've made towards our goals of regaining positive earnings momentum and delivering strong, sustainable profitable growth. In the quarter, we improved our ex-CAT combined ratio year-over-year by nearly 4 points to 90.2%, driven by great execution across all segments of our business with improved margins in Personal Lines, continuing low property large losses in Core Commercial and really strong profitability in Specialty.

Our reserves remain strong, positioning us well as the industry faces emerging liability trends in this dynamic market. We maintained our expense discipline and kept our overall position in check and we continued to benefit from higher net investment income.

Our work continues, but we are very pleased with the progress we have made over the course of the year. Most importantly, we believe our fourth quarter results represent a critical inflection point to deliver improved returns in 2024 and on a go-forward basis.

Looking at our segment highlights. We continued to see the benefits of our margin recapture plan in Core Commercial, reducing our current accident year ex-CAT loss ratio by about 2 points for the quarter and the year demonstrating the success of our rate and property exposure initiatives. And we posted another quarter of strong renewal pricing gains with 12.4% increase in Core Commercial overall and 13.1% in our Middle Market business.

We implemented additional CAT mitigation measures to address evolving weather patterns, including underwriting actions on business with outsized catastrophe exposure, primarily in the Middle Market segment and some in Small Commercial as well. Additionally, we accelerated risk prevention and mitigation actions in our Middle Market segment, resulting in 60% of the targeted 600 middle market accounts either mitigating risks by joining our IoT sensor program or nonrenewing their coverage with us.

The early results of these efforts are very encouraging. During the latter half of 2023, we believe the sensor program resulted in more than 100 instances of successful damage prevention. While growth in our middle market segment was intentionally restrained in 2023, we are confident we made the right trade-offs positioning our business for strong performance in 2024 and beyond.

Small Commercial growth was approximately 6% in the fourth quarter and just over 7% for the year and we expect this business to drive overall growth in Core Commercial in 2024 despite continuing our targeted property underwriting actions in middle market.

Our Small Commercial business production indicators remain robust with increased new business, double-digit renewal pricing and retention within historical norms. TAP Sales, our industry-leading quote and issue platform, continues to generate strong new business momentum as we continue the roll out in the remaining states.

This state-of-the-art point-of-sale system represents a significant competitive advantage in the marketplace and positions us well as more agents consolidate Small Commercial business with strategic partners. And we plan to expand our TAP Sales platform to include workers' comp this year.

Turning to Specialty. We achieved excellent profitability in the quarter, beating our low 50s target for ex-CAT current accident year loss ratio again while implementing healthy rate increases and delivering lower-than-usual large losses.

In 2023, Specialty increased earnings for the fourth consecutive year while delivering its highest ever pretax operating income results. This business achieved especially strong performance in management liability, marine and excess and surplus lines with combined ratios in the high 70s to low 80s for the year.

Renewal price increases for the quarter totaled 11.6% primarily attributable to Specialty property lines. Specialty net written premiums declined modestly quarter-over-quarter and retention declined slightly, the result of strategic underwriting actions as we increase nonrenewals on specific underperforming programs.

Excluding program business, Specialty net written premium growth was approximately 6% in the quarter, and retention remained stable. Program nonrenewals were largely completed during 2023. We expect net written premiums growth in the Specialty segment to ramp up throughout 2024 with a return to mid-single-digit growth in the first quarter and upper single-digit growth for the year.

As we look ahead, we have visibility to improve growth opportunities in executive lines, in particular, in our management liability and health care lines. We are well positioned to continue to capitalize on market opportunities in Marine, enabling us to build on what today already is one of the largest inland marine franchises in the U.S. Specialty market. And we are excited about the growth opportunities within our newer offerings, E&S, wholesale and small Specialty.

We expect the launch of our new E&S policy administration platform in April of this year will enable us to more efficiently capture increasing opportunities with our agents and brokers at attractive rates and profitability profiles. Specialty continues to represent a powerful growth engine, one that we anticipate will serve to profitably strengthen our consolidated top line, while providing important diversification to our overall mix of business.

Looking now at our Personal Lines business, we improved profitability in this segment by more than 5 points in the quarter, due in large part to the effectiveness of our margin recapture plan. We continued to achieve higher renewal price increases in both auto and home, up approximately 15% and 29%, respectively.

We also intentionally narrowed our new business appetite, in particular, in areas of higher concentration, which given the current market disruption, is the best way for us to ensure the underlying profitability of our coveted high-quality Personal Lines portfolio. Additionally, we continued to execute on other levers of our margin recapture and catastrophe resiliency plan in Personal Lines as we strive for further diversification of our property exposures.

For example, we are rolling out all-peril wind and hale deductibles, our new business, in targeted states. We are implementing these deductibles on renewals starting in February in Wisconsin with multiple states to follow in April. As a result of pricing and new business actions, along with increased nonrenewals, our growth slowed to 2.1% in the fourth quarter. Our retention and PIF levels also declined as expected in the fourth quarter in particular, in our Midwest region as we address areas of micro concentrations.

PIF in the Midwest shrunk approximately 2x to 3x the rate of PIF reductions in other regions. We are comfortable with this trade-off which we expect will enable us to improve our overall business mix and catastrophe resiliency. That said, we are already starting to make adjustments to our new business funnel in select states, and we are positioning ourselves to take advantage of growth opportunities in geographies where pricing is adequate.

We anticipate measured price-driven growth and a meaningful profit recovery in Personal Lines this year and we expect to achieve our target Personal Lines ROE in 2025.

Overall, we are encouraged by our strong fourth quarter performance, and we are pleased to begin the new year with positive operational and financial momentum. Through the introduction of enhanced products and technology, disciplined pricing, and risk prevention measures, we further strengthened our business in 2023, adapting to the rapidly changing dynamics of our industry as well as the economic, social and weather changes that impacted the broader marketplace.

We begin 2024 with a renewed sense of optimism, a determined focus and confidence, knowing we have a proven strategy, the capabilities, the distribution distinctiveness, and the talented and committed team necessary to deliver strong, sustainable, longer-term value for our shareholders and all of our stakeholders.

With that, let me turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP, CFO & Director

Thank you, Jack, and good morning, everyone. I'll begin with an overview of our fourth quarter results, then I'll discuss our segment results and our investment performance and share our consolidated 2024 guidance.

We closed out 2023 with a strong and very profitable fourth quarter, reporting an all-in combined ratio of 94.2%, outperforming our original expectations. With the accelerating momentum of our margin recapture plan, year-over-year margins improved in each segment in the quarter. Our CAT loss experience in Q4 was comparatively benign resulting in 4% of net earned premium, 2.8 points related to fourth quarter events with 1.2 points representing prior quarter catastrophe true-ups.

We delivered a combined ratio, excluding CATs, of 90.2% in the fourth quarter, 3.9 points better than the prior year period. On a full year basis, our ex-CAT combined ratio of 91.3% is consistent with our original guidance of 91% to 92%. Our consolidated current accident year loss ratio, excluding catastrophes, improved by approximately 3 points in the quarter to 60.2%, reflecting the earning in of our pricing increases and execution of profitability measures we introduced in 2022 and '23.

At 30.5% for the full year, the expense ratio was better than expectations and our full year guidance of 30.8%. The improvements were attributable primarily to reduced variable compensation items in 2023. Prior year development was slightly favorable for the quarter. In Specialty, we saw continued favorability in our claims made professional and executive lines, primarily management liability.

Prior year development in Personal Lines was unfavorable, driven by umbrella coverages reported in Home and Other, as we increased our prior year loss expectations on auto-related umbrella losses. We increased current year umbrella picks to address the trend.

Now I'll review our segment results. Starting with our Core Commercial segment. We delivered a current accident year ex-CAT combined ratio of 91.4%, a 1.7 point improvement over the fourth quarter of 2022. The Core Commercial current accident year loss ratio, excluding catastrophes, improved 2.4 points to 57.8%. Strong improvement in commercial multi-peril was partially offset by prudent loss picks in workers' comp and commercial auto.

The key takeaway here is the success of our commercial property margin improvement initiatives as evidenced by a more consistent pattern of lower large loss activity in middle market and Small Commercial multiple peril lines. Looking ahead, we expect the loss ratio in Core Commercial to remain stable as we continue our property work, take rate and address potential increases in liability trends including increased medical costs and social inflation.

Our Specialty segment reported another exceptionally strong quarter as the current accident year ex-CAT combined ratio improved 1.4 points compared to the fourth quarter of 2022 to 85.9%, driven by lower large loss activity in property lines. The underlying loss ratio improved 2 points to 49.5%, which was below our expectation for the quarter. Although we expect to continue to benefit from rate increases in the specialty book, we are embedding more conservatism for loss inflation in liability lines as well as a return to more normal level of large losses in our 2024 loss ratio expectations.

Turning to Personal Lines. The current accident year ex-CAT combined ratio was 93% for the fourth quarter, improving nearly 6 points from the same period of 2022. Auto current accident year loss ratio, excluding catastrophes of 78.5% in the fourth quarter improved 7.1 points year-over-year. This result reflected the benefit of earned rates and milder than normal weather in the Northeast and Midwest, which favorably impacted claims frequency.

Additionally, although collision loss severity remains elevated compared to our original expectations, our data indicates that severity is easing, in particular, used car prices. We are also experiencing some deceleration in the cost of parts as well as rental costs due to shorter repair cycle times.

At the same time, we remain cautious about liability coverages in auto and reflected an elevated loss expectation in both prior and current accident year picks in bodily injury. However, as the benefit of rate continues to earn in and property loss trends ease, we expect this will drive significant loss ratio improvement for auto in 2024.

Home and Other current accident year loss ratio, excluding catastrophes, improved 0.7 points to 53.2%, driven by rate and exposure adjustments earning in partially offset by prudently increased 2023 loss ratio expectations for umbrella coverage in response to prior year development.

Looking ahead, we expect the benefit of earned pricing building in and moderating property loss trend to drive a meaningfully improved Personal Lines current accident year ex-CAT loss ratio in 2024. Furthermore, we anticipate some additional improvements as the result of increased home inspections and new business rigor in homeowners implemented in 2023. We expect significant margin improvement in auto and home to pace a return to target profitability by the end of this year on a written basis and in 2025 on an earned basis.

Turning to reinsurance. On January 1, we successfully completed our multiline casualty reinsurance renewals, securing a similar structure to expiring agreements with reduced co-participation and a slightly lower-than-expected price increase. As a reminder, for most casualty risks, our per loss reinsurance attaches at $2.5 million. We've worked to establish robust relationships with our reinsurers, who recognize the strength of our recent liability rates, very selective umbrella appetite and prudent casualty and umbrella rating structures. Additionally, our insurers appreciate our diversified state-specific casualty growth strategy.

Moving on to investment performance. Net investment income increased $5.7 million to $81.6 million for the fourth quarter, primarily driven by strong fixed income results from higher bond investment rates. Net investment income came in slightly below our expectations in part due to lower investment partnership income, which is on a one quarter lag and can be lumpy.

However, net investment income annual growth of 12.1% for 2023 exceeded our original guidance, and we believe that the current rate environment will continue to provide an accumulating benefit to NII next year and over the next few years. Book value per share increased 16.4% in the fourth quarter to $68.93 driven by an improvement in unrealized loss position on the fixed income portfolio and strong earnings. With continued volatility in interest rates, and weather uncertainty, we remain on the sidelines for repurchases this quarter.

However, we have a long history of returning capital to shareholders through dividends and share repurchases. Our philosophy hasn't changed and we expect both levers to remain key tools for our future.

Now I'll turn to our catastrophe ratio guidance. To provide some context, we recently completed a comprehensive reevaluation of our model catastrophe losses, our historical experience and non-modeled risks. Our reevaluation this year augmented the detailed modeling and risk analysis process that we conduct each year. As we usually do, we use the prevailing hurricane and other peril models.

Additionally, the reevaluation of our view of catastrophe risk includes the results from the recently updated severe convective storm and winter storm models. We also expanded our assumptions for nonmodeled CAT perils and allowed for additional prudence to account for items not fully contemplated in CAT models, including recent experience, social inflationary impacts and contractor behavior, demographic trends and risks associated with an aging public infrastructure.

Candidly, this year, we picked higher on the probability curve. There is a page in our earnings presentation deck that outlines the changes. As a result of this comprehensive analysis, we have determined the CAT load to be 7% in 2024 with an expectation for it to decrease in 2025. The nearly 2-point increase in CAT load, combined with 15% property earned price in 2024 amounts to an increase of approximately 60% in CAT loss dollars between 2023 and 2024, excluding growth.

The process for 2024 did not meaningfully contemplate the impact of homeowners deductibles or other changes in terms and conditions. We expect these factors to have a more substantial impact beyond 2024 and be contemplated in CAT loads for 2025 and future years.

We also expect that property exposure reductions in certain geographic concentrations in the Midwest as well as a gradual change in business mix toward profitable liability lines will reduce CAT loads over time. Accordingly, we believe that the 2024 CAT load will be the high watermark for our planned CAT percentage.

Turning to the rest of guidance. Based on current and anticipated business conditions, we expect operating return on equity to be strong in 2024 and consistent with our long-term targets in 2025. Net written premium growth is expected to be in the mid-single digits with Specialty in the upper single digits. We anticipate that targeted underwriting actions will reduce Personal Lines growth to the lower single digits. Our full year combined ratio, excluding catastrophes, is expected to be in the range of 90% to 91%, which represents about one point of improvement from 2023 investor guidance.

We expect to achieve an expense ratio of 30.7%, equating to 10 basis points of improvement from the 2023 ratio when normalized for variable compensation payouts commensurate with target profitability. Recall 2023 target was 30.8%. Again, our CAT load is 7% for the full year 2024, and 6.5% for the first quarter. Net investment income is expected to increase by approximately 10% for the year, driven by higher fixed maturity yields and higher cash flows. We expect an operating tax rate to approximate the statutory rate of 21%.

To sum up, we continue to make excellent progress on our margin recapture initiatives as we focus on delivering sustained profitable growth for our shareholders. And we have a healthy balance sheet that allows us to deliver on our strategic priorities in the year ahead. We are very optimistic about our positioning as we head into the next few years.
Operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Michael Phillips with Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

I guess first question is on the favorable development in Core Commercial, where you had some continued benefits on workers' comp. I guess is there anything behind the scenes there that maybe offset that a bit? And then talk about -- if you could talk about what we're seeing from the industry in terms of the casualty issues for the older accident years and how you think you might be immune from that?

Jeffrey Mark Farber
Executive VP, CFO & Director

Thanks, Mike. We did have favorable development in Core Commercial, and that consisted of workers' comp favorability offset by relatively small amount of liability, unfavorability between commercial auto and some umbrella. And that's been a relatively consistent pattern across the year as we have done our best to be proactive in addressing the liability trends as we see them and as we've been worried about them, we've been talking about it all year and also last year.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. You mentioned in your presentation, I think it was on the CAT load, a shift to more to liability lines. Can you maybe kind of put some time frame around that and maybe the magnitude of that?

John Conner Roche
President, CEO & Director

Yes, Mike, this is Jack. Listen, I think as a company, we've worked hard over the last decade to try to diversify the firm, both geographically and from a line of business mix standpoint. As the weather challenges really were pronounced in 2023, we're even more motivated to accelerate the property and liability, property and casualty mix, but do so in a very thoughtful manner.

So I think what -- way we'll lay this out for you over time is that it will be something north of incremental, but it won't be seismic, right. We still like our book of business, we have a great package approach in the core lines, much of our specialty business is kind of lower limits casualty business that's pretty distributed across some targeted, favorable areas.

But because of the nature of the account size, it is -- the growth rates are more measured than they would be if you were going into brand-new categories or writing larger accounts. So I think what I would say to you is that we're going to continue to move our mix in the right direction.

But I suspect what you'll see over the next 12 to 18 months is that our book mix, which has clearly been challenged by the weather patterns and hyperinflation, will become a little less disadvantaged than maybe even advantaged as some of the liability trends present themselves. So we're trying to keep that in mind as we move our book mix forward.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Very helpful. And just last one real quick, I guess, maybe a quick numbers question. Can you just give a sense of the size of your personal bill book?

John Conner Roche
President, CEO & Director

Personal umbrella.

Jeffrey Mark Farber
Executive VP, CFO & Director

Yes. It's in the range of $60-ish million.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

6-0, you said?

Jeffrey Mark Farber
Executive VP, CFO & Director

Yes.

Operator

Next question comes from Meyer Shields with KBW.

Sean Keller Reitenbach

It's Sean on for Meyer. My first question is on Core Commercial reserves. Just a follow-up on that. Do you -- can you guys like break down the numbers for the $2.2 million reserve releases between workers' comp and liabilities?

Jeffrey Mark Farber
Executive VP, CFO & Director

Yes. We don't have all that detail right in front of us, but at year-end, we'll obviously publish those, but they weren't very significant. There was no piece that was particularly large there.

Sean Keller Reitenbach

Okay. Got it. My second question is on the specialty growth. Can you please provide more details on the nonrenewal of certain programs?

John Conner Roche
President, CEO & Director

Yes. I would just say a couple of comments and then let Bryan speak very specifically to that. I think as we said in previous calls that I asked Dick and Bryan to accelerate our profit improvement really across the enterprise. And even though that we have really outstanding margins in the specialty business, like any book of business, there's opportunity for improvement, and there's areas where a little bit of addition by subtraction makes sense. So I have a lot of confidence in our ability to restore our growth. But Bryan can speak to you a little bit more about what we did in '23 and our trajectory for '24.

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. And just following what Jack said, really, the activity was really focused on 2 fairly large casualty-oriented programs in which the margins we just felt was no longer acceptable. So we thought it was back to take action. The impact to net written premium from those programs was most pronounced in Q3 and Q4.

And so as we look towards this year, we see that impact really moderating. We don't see it having a significant effect, and we actually see ourselves returning to growth this quarter and frankly, delivering upper single-digit growth for '24.

Sean Keller Reitenbach

Got it. Can I ask you one more question if I can. Just on CAT. I know like part of this -- beginning of this year, there are some severe convective storms. So how is it looking from where you guys are seeing right now?

John Conner Roche
President, CEO & Director

I'm sorry, you were talking about into Q1?

Jeffrey Mark Farber
Executive VP, CFO & Director

January.

Sean Keller Reitenbach

Yes.

John Conner Roche
President, CEO & Director

Yes. We -- so we usually don't disclose CATs intra-quarter. That said, we do believe, based on what we observed and I think what the industry has observed talking to others that these were a different set of storms that came upon us in the first quarter, not as prolonged in terms of the freeze, the temperature swings were a little bit less dramatic in terms of intense up and down, particularly against a winter storm Elliott. And obviously, it didn't happen over a holiday long weekend when many of our customers were caught off guard timing-wise.

So even since last year, we believe that our book of business is much better positioned. Many large properties are now equipped with temperature and water sensors, and we have a robust customer notification protocol in place. So I think the way I would -- without specifically answering first quarter oriented CAT losses, I can tell you that these were different types of storms. And our -- the work we did, I think, will serve us well in the first quarter.

Operator

The next question comes from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

On -- back to Personal Lines, obviously, good to see the progress and the pricing increases, and it looks like you're pushing the terms and conditions changes fairly successfully. But I'm -- when you said you expect to achieve target ROEs in '25. I just wanted to make sure your -- you don't mean by like to their run rate by the end of the year, you mean the full year end.

I guess you don't -- when we think about ROE, should we think about kind of your historical combined ratio over long periods of time kind of in the high 90s because you would have more operating leverage. I don't know if there's any kind of guidance or math you can help us with on what the implied combined ratio is or any if you don't want to give the explicit to some kind of triangulation that might help.

Jeffrey Mark Farber
Executive VP, CFO & Director

So we leave 2024 at target profitability on a written basis and for the full year '25 on an earned basis, I think you should think mid-90s combined ratio for Personal Lines as being what we think about our long-term investment ROE targets, Mike.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. That's helpful. And on the investment income, I might -- you gave a lot of good disclosure in the prepared remarks, so maybe I missed some of it. But -- can you remind us what your new money rate is. And I believe -- I don't believe -- I can see that you have a larger gap between your new money rate and your current fixed maturity yield because I believe you had less floaters than many of your peers.

So what is your new money rate? I don't know if you're able to give what your assumption is on your portfolio yield on the fixed income portfolio within your guidance for '24 because I think there's maybe some upside to '25 too for -- if I'm thinking about the dynamics correctly.

Jeffrey Mark Farber
Executive VP, CFO & Director

So we've been buying fixed income in recent days or recent weeks at 5% or so on AA, high-quality, 7-year type fixed income. So we're very comfortable -- as you said, there's a very large spread between either the yield in the portfolio on an NII basis or what's expiring on a daily basis, and that bodes very well for '24 growth and even better, candidly, for '25.

Michael David Zaremski
BMO Capital Markets Equity Research

So if it is the '24 growth hindered by just the lack of cash flow this past year, and I guess you get -- could you get more -- there's maybe more upside in '25, I guess we can do the math using the curve. Just -- I want to just -- I guess, you give specific guidance, I just want to make sure we're not missing anything beyond '24, given the gap.

Jeffrey Mark Farber
Executive VP, CFO & Director

Yes. So '23 was clearly hindered -- as much as we grew 12%, it was hindered by the lack of cash flow because up until this quarter, we hadn't made money for the last 4 quarters. So we would have benefited greatly from that extra cash flow. That does have some impact on 2024. But by the time you get to 2025, much, much less, and we really come out of it with a mature level of cash flow.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. And maybe I'll sneak one last one in. Specialty, you've had excellent results over time there. I believe you kind of talked about taking some more conservative loss picks. I believe, you're alluding to it on a go-forward basis. So we should be making sure we think about our -- the loss ratio embedding some forward-looking conservatism. I don't know if you want to give any further color -- unpack the comment?

Jeffrey Mark Farber
Executive VP, CFO & Director

Even with conservative liability loss picks, we're guiding toward a low 50s loss ratio for Specialty over a long-term basis, notwithstanding the 2023 being better than that.

Operator

The next question comes from Grace Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

I think that you've mentioned that the 7% CAT load for this year should be a high watermark. I'm just curious about kind of the magnitude of the incremental benefit that you're expecting in 2025 just from the additional actions that you're not really, fully contemplating in this 7% number? And if we should think about the 2025 CAT load as being pretty set over a long-term basis? Or just given the ongoing mixed shift efforts that you've mentioned, if we should expect kind of a downward drift from those levels as well?

Jeffrey Mark Farber

Executive VP, CFO & Director

Grace, I know you have to model '25 as your customers expected, but we're really not prepared to give a 2025 guidance at this point. Having said that, I think the amount of written rate that we've been getting in late '23 and into '24 and have the impact that, that earned rate has on '24 and even '25 is meaningful and will be helpful beyond loss trend. That, coupled with all of the terms and conditions changes that we articulated in the prepared remarks, I think will have a decent impact on that. But it's a little early to -- a little early for us to declare a sizing.

Grace Helen Carter
BofA Securities, Research Division

And I guess back to the Specialty book, I mean, you've obviously called out that results were a little bit favorable versus expectations this year. But I guess taking into account the nonrenewals in the book as well as ongoing strength in pricing, how should we think about any potential incremental sort of margin benefits versus original expectations for this year for that book going forward? And I guess just the trade-off between the unit growth opportunities in that business versus reaching these margin expectations that you have?

John Conner Roche
President, CEO & Director

Grace, this is Jack. I think anybody that's in this business right now has a newfound respect for the changes in loss trends and the level of uncertainty that we have to adjust to. So the way I think about it, and I think the way we are operating is we are trying to get double-digit growth and better in the businesses that not only are producing good margins, but that we have the most confidence in. And that is accentuated by where we think social inflation and litigation trends are likely to be least pronounced or impactful.

On the other end of the spectrum, as Bryan articulated with a couple of the programs when we have areas of the portfolio that are not meeting our hurdle rate and pose potentially an outsized exposure to those same trends, we're not afraid to take some pretty aggressive action. So Jeff guided you on some low 50s loss ratios overall, which I think kind of is where we prefer to stay in terms of our guidance and upper single-digit growth for next year. And frankly, if we see the environment prove beneficial, we'll push harder than that. But right now, based on our outlook, that feels like the right guidance.

Operator

The next question comes from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

First question, I was hoping you could just give us a little bit more details on the -- or even reminders on the swings in the expense ratio. It's -- obviously looks like it's going up this year versus last, but there were some pieces in there that were probably not sustainable.

If you could unpack that a little bit, just to give us a better understanding of what's the return to normal? And what is even potentially new investments?

Jeffrey Mark Farber
Executive VP, CFO & Director

Thank you, Paul. So 30.5% was the actual 2023 expense ratio. 30.8% was our original guidance for 2023. And if you normalize for the agent -- reduced agent comp and, to some degree, reduced employee variable compensation for essentially CATs during the year, you'd get right back to the 30.8%. So going forward, we've guided to 30.7%. And this is the first time that we've guided to only a 10-point reduction.

So I think what we're doing is asking for your patience for this one year to only go down 10 points -- 10 basis points and what we're really trying to do is we've had some expense pressures largely around and including doing everything we can on margin recovery. So we're focused on the loss ratio which is hundreds of basis points versus the 10 basis points, and we're focused overall on the combined ratio.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. That's great. And a separate question, maybe a few additional thoughts on the PIF growth or lack thereof, the shrinkage. In Personal Lines, it seems to be the thing that I'm getting the most questions off this morning from investors is, if this is -- I mean to me, it seems what logical from what you're trying to do, but I guess there's some concerns out there that it never stops. So any thoughts on sort of -- when you think that might just sort of how the waterfall would work for policy in-force in changes on the Personal Line side as you work your way through the recovery?

John Conner Roche
President, CEO & Director

Yes, Paul, this is Jack. I really appreciate that question because we want to be able to express kind of where we are in that journey. And first off, I would start off by saying that we are really right on our targeted outcomes that we put in front of ourselves when we realized that we needed to show tremendous agility in terms of adjusting our pricing, looking at our CAT exposures more assertively.

And so I couldn't be happier with where we are coming out of the year in terms of adjusting our growth, slowing down new business, particularly where we have the most concentrations and allowing the earned pricing to catch up and for us to start initiating our deductible approaches into the renewal book.

So I'll turn it over to Dick, but I have a lot of confidence that the Personal Lines team is not only performing well in this very dynamic environment, but has all the right levers and controls in place to optimize in '24.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Great. Thanks, Jack. So just maybe a couple of other comments, and then I'll get to your question of just sort of what's the future look like in terms of PIF shrinkage. So yes, we couldn't be happier with the way our results came through in the fourth quarter based on what we had architected as our plan, specifically shrinking in the Midwest 3x as much as the rest of the country.

That was a really important outcome for us, but also keeping profitable business. We have sophisticated segmentation. So keeping the tenured business, the customers that have been with us longer versus those that just came on the books most recently. So very kind of complex set of KPIs and trade-offs that we make.

We put guardrails in place. To your point, we want to make sure we continue to achieve those targeted outcomes. And we're already sort of tweaking the dial, so to speak, and turning either new business guidelines off that we might have turned on, adjusting new business rates, adjusting renewal rates, to accomplish the kind of growth in the right places.

There isn't a single answer. There's a very nuanced response that we're seeing from competitors. We're all using the same levers, but to different degrees with either rate or terms and conditions. So we're -- I'm really happy with the outcomes. We're going to watch it carefully, but we will see PIF shrinkage throughout 2024 as we execute this plan.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Oksana Lukasheva for any closing remarks.

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you and appreciate your participation today. We are looking forward to talking to you next quarter.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.