S&P Capital IQ

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The Hanover Insurance Group, Inc. NYSE:THG

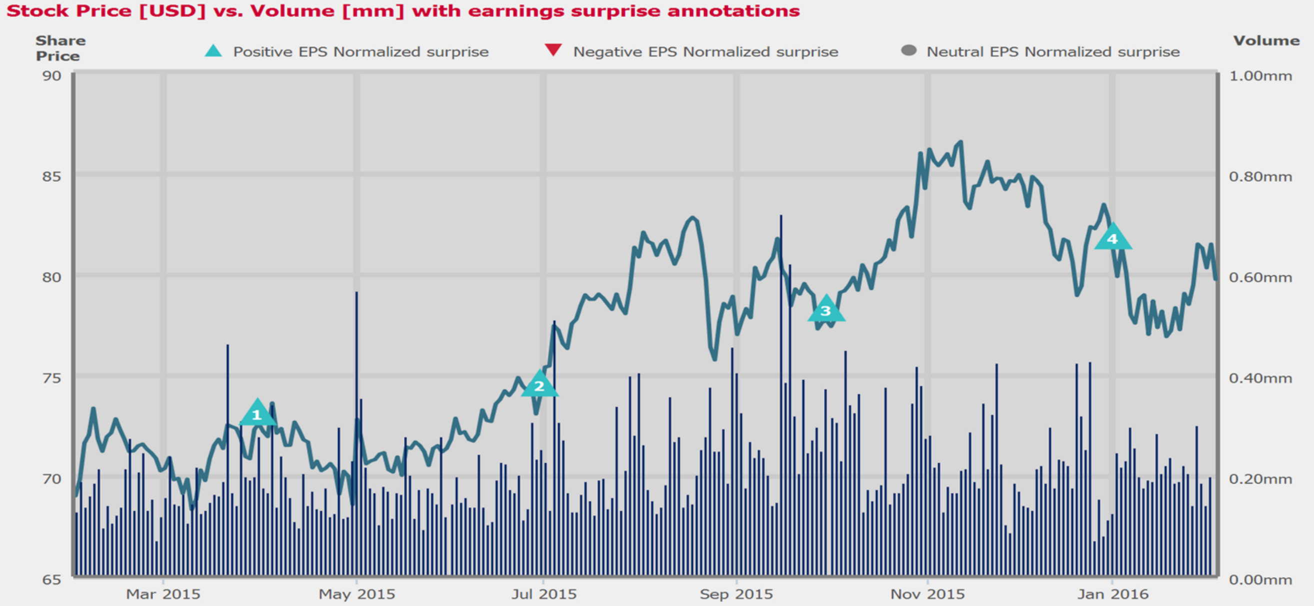
FQ1 2016 Earnings Call Transcripts

Thursday, May 05, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.60	1.64	▲2.50	1.58	6.42	6.88
Revenue (mm)	1181.72	1144.30	▼(3.17 %)	1246.73	4742.05	4908.18

Currency: USD
Consensus as of May-05-2016 2:26 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	1.08	1.27	▲1 17.59 %
FQ2 2015	1.40	1.56	▲2 10.64 %
FQ3 2015	1.45	1.61	▲3 11.03 %
FQ4 2015	1.60	1.82	▲4 13.75 %

Call Participants

EXECUTIVES

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Johan Slabbert
Former Chief Executive Officer

Oksana Lukasheva
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Hanover Insurance Group first quarter earnings conference call. My name is Matthew, and I will be your operator for today. [Operator Instructions] As a reminder, this call is being recorded for replay purposes.

And now, I would like to turn the call over to Ms. Oksana Lukasheva, Vice President of Investor Relations. Please proceed, ma'am.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, Matthew. Good morning and thank you for joining us for our first quarter conference call.

We will begin today's call with prepared remarks from Fred Eppinger, our President and Chief Executive Officer; and our Interim Chief Financial Officer, Gene Bullis. Available to answer your questions after our prepared remarks are Jack Roche, President of Business Insurance; Andrew Robinson, President of Specialty Lines; Dick Lavey, President of Personal Lines; and Johan Slabbert, Chief Executive Officer of Chaucer.

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

Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements including our 2016 outlook. There are certain factors that could cause actual results to differ materially from those anticipated with this press release, slide presentation and conference call.

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 or the financial supplements, which are posted on our website, as I mentioned earlier.

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

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thank you, Oksana. And good morning, everyone, and thank you for joining our first quarter earnings call. I'm pleased to share with you we're off to a solid start to the year, with strong financial results and continued earnings momentum. We delivered net income per share of $1.80 and a record first quarter operating per share of $1.64, yielding an operating ROE of nearly 11%.

[Technical Difficulty]

Oksana Lukasheva
Vice President of Investor Relations

Sorry about that.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

So as I said, we recorded a first quarter operating earnings per share of $1.64, which was a record for us, and we yielded operating ROE of nearly 11%. Our success during the quarter was fostered by strong execution of our business strategy that resulted in an improvement of our consolidated accident year ex-cat combined ratio of 93%, 1 point better than the same period last year; a relatively low level of catastrophe losses; domestic growth of 4%; and a strong business mix, which favorably positions our current -- our company for the current market environment; strong investment income and stability in earned yield; and some thoughtful capital management actions. Our results through the quarter of fundamentally in line with our expectations, and we remain confident that we will be able to achieve continued progress and deliver earnings growth going forward this year.

I will now turn the call over to Gene to go forward over our financial results, and then I will further discuss our outlook and accomplishments of each of our business.

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Thank you, Fred. And good morning, everyone. Our first quarter results were strong, underscoring the breadth and balance of our underwriting portfolio and our operating and financial expertise. Net income was $78.2 million or $1.80 per diluted share compared to $54.9 million or $1.22 per diluted share in the first quarter of last year. Operating income was $71.5 million or $1.64 per diluted share compared to $57.1 million or $1.27 per diluted share for the first quarter of last year.

The combined ratio was 95% in the quarter compared to 97% in the prior year quarter. Catastrophe losses added 3 points to the combined ratio, 2 points lower than in the prior year quarter, virtually all stemming from domestic business. Loss reserve development was again favorable, but somewhat lower than the prior year quarter.

In Commercial Lines, we were able to drive over 2 points improvement in the current accident year loss ratio, down to 56%, which included contributions from all major lines through continued pricing increases and mixed management initiatives.

Our workers' compensation business continued to benefit from the mix shift toward smaller policy sizes and more favorable risk classes, and we continue to see favorable development in this line.

The accident year loss ratio in commercial auto improved in comparison to the prior year quarter, tracking in line with our full year 2015 loss ratio. We added modestly to prior year auto reserves and BI due to severity, but overall, we are encouraged by our recent progress.

In CMP, strong first quarter current accident year results benefited from very favorable property loss activity. We continue to observe unfavorable development in CMP liability in GL coverages, stemming from an elevated number of litigated cases associated with slip-and-fall claims, particularly in major metro areas. In response, we have implemented most stringent underwriting and claims management processes over the past several quarters related to these coverages. Overall, the package business has performed well historically, and we continue to be pleased with the ongoing profitability in this line.

The underlying loss ratio in Other commercial lines was 2 points better than full year 2015 results. It improved in comparison to the prior year quarter. We are experiencing the positive effects of continued business maturation, pricing actions and the previous discontinuation of certain programs in business classes at AIX in our current book of business, while we saw some continued pressure from these business classes from 2013 and prior accident years.

While the reserving actions in Commercial Lines are somewhat disappointing, the activity came from places we haven't carefully monitored and which we considered in our outlook for the year. Therefore, we remain confident in our overall earnings expectation for 2016.

So for Commercial Lines, in the aggregate, pricing trends, underlying business mix, additional expense ratio leverage along with prudent reserving actions, we believe, should result in further underwriting improvement.

In Personal Lines, the underlying loss ratio for the quarter was 60%, 4 points better than the first quarter of 2015, driven principally by the homeowner's line. Most of the improvement was associated with the mild winter this year, resulting in lower noncatastrophe weather losses. In addition, we are seeing the impact of prior underwriting initiatives and favorable pricing in our homeowners and auto books, providing even more confidence in our ability to generate further margin accretion.

While many in the industry have faced frequency headwinds in personal lines, we have not seen a similar increase, which we attribute to our geographic mix and account focus.

On domestic expenses, though they were impacted by the timing of certain costs, we remain confident that we will deliver 0.5 point improvement in the Commercial Lines expense ratio, while Personal Lines ratio will remain essentially flat to last year.

Turning to the Lloyd’s business. Chaucer delivered yet another solid performance despite challenging market conditions, reporting a combined ratio of 90%, slightly above the prior year quarter. Net catastrophe losses were virtually nonexistent in the quarter, while favorable development was strong at 13 points, with favorable experience in all major lines. We should note that it is consistent with the level of development in 2015 excluding the impact of U.K. motor.

Adjusting for the exit from the U.K. motor business, Chaucer's current quarter accident year loss ratio increased to 8% -- 8 points compared to the first quarter of 2015. The increase in the quarter was driven by large losses in Energy and Marine, particularly in our trade credit business, where we are prudently establishing reserves for additional potential commodity freight credit-related expenses.

The expense ratio for the quarter benefited from foreign exchange movements in the RITC transaction, which had no effect on earnings but increased the loss ratio and reduced the expense ratio by similar amounts. As previously reported, our expense ratio now tracks at a higher level following our exit from U.K. motor business, which had a much lower commission rate. Taking into consideration our projections through the end of the year, we remain on track to achieve a full year 2016 expense ratio at Chaucer of around 41%.

Although market conditions in most of Chaucer's business classes are challenging, we remain focused on maintaining the size, quality and margins in our current portfolio, and we believe we are in a position to deliver underwriting results of Chaucer in line with our guidance for a mid-90 combined ratio in 2016.

Total consolidated net written premiums declined 6% for the quarter all in and 2% excluding the impact of the U.K. motor sales. Commercial Lines grew 4%, Personal Line premiums increased 3%, while Chaucer net written premium declined by 20%. Fred will have more color on our top line performance in a few moments.

Overall, our bottom line and top line underwriting performance was generally in line with our expectations. We remain on track to sustain combined ratio improvement and to deliver target returns.

Turning to investment results. Cash and invested assets were $8.4 billion at the end of the quarter, with fixed income securities and cash representing 89% of the total. Our fixed maturity investment portfolio had a duration of 4.2 years and is roughly 94% investment grade. The portfolio remains high quality and well laddered.

Net investment income was $68 million for the quarter compared to $70 million in the prior year quarter. The decrease is the result of a lower average invested asset base, in large part due to the transfer of the U.K. motor business and associated investment assets. This was partially offset by the investment of higher operating cash flows and additional income from growing asset classes such as commercial mortgage loan participations, equities and partnerships.

Our total portfolio pretax year was in line with the prior year quarter at 3.41%, while the earned yield on fixed maturities drifted slightly lower to 3.57% from 3.64% in the first quarter of 2015.

I'll finish with a few comments on the strength of our balance sheet and capital position. We ended the quarter with $3.8 billion in total capital and a debt-to-total capital ratio of 21%. Our book value per share was $69.30, up 4.7% from December 31, 2015, and 5.1% from March 31, 2015. Excluding net unrealized gains on investments, book value per share was $63.52, up 1.3% from December 31, 2015, and up 8.6% from March 31, 2015.

During the quarter, we continued to actively and opportunistically manage capital. We purchased approximately 610,000 common shares for $48 million at an average price of $79.23 per share. As of May 3, we had $241 million remaining under the current share repurchase program.

In the beginning of April, we successfully priced and issued $375 million of senior unsecured notes due in 2026 with a coupon of 4 1/2%. We will use the net proceeds from the issuance to redeem our outstanding 7 1/2% notes due in 2020 and our 6 3/8% notes due in 2021.

We expect to record a nonoperating charge of approximately $58 million after-tax in the second quarter, principally associated with the redemption make-whole provisions.

Locking in a lower cost of debt should further enhance our long-term earnings power and reducing ongoing operating expenses. We will also increase the overall tenor of our debt capital and create a larger, more liquid, lower-priced benchmark going forward.

Overall, we are very pleased with our strong balance sheet position and believe it will continue to provide a solid foundation on which to grow our business.

With that, I'll turn the call back to Fred.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thanks, Gene. We are very pleased with the progress we made in the first quarter in both our domestic and our international businesses. Overall, we performed in line with our expectations. Specifically, we grew our Personal Lines business, achieving strong profitability. We grew in targeted segments in Commercial Lines, while continuing to improve mix; and we continued to navigate through challenging market conditions at Lloyd's, while continuing to invest in our specialty portfolio.

We feel good about our progress made to date and the prospects that lie ahead. More specifically, in Personal Lines, net written premium growth was slightly ahead of our expectations at 3.2%, driven by our strategic focus on account business, new business momentum and strong pricing discipline. We held rate at approximately 5%, which remains above loss costs; and our retention improved to 83%, up 0.5 point over the same period of last year.

We have several initiatives underway to capitalize on the momentum we have established in our Personal Lines business. We continue to gain strong traction in our Hanover Platinum product, now fully deployed across all our target states. This enhanced coverage and service offering is associated with high-quality account business, high umbrella penetration as well as much stronger retention. Our Platinum product has elevated the overall quality of our Personal Lines business and has allowed us to write more of our agents' best business.

Additionally, we continue to make investments to improve ease of use for agents and to help them address business opportunities. We expect these investments to strengthen our market position and accentuate our value proposition to our agency partners.

Additionally, we remain on track to enter the Pennsylvania -- to enter Pennsylvania Personal Lines at the end of this year. While this will not have meaningful impact on 2016 results, it's a significant milestone that marks our momentum and confidence in our ability to strategically expand our geographic footprint across the U.S. and with our value-added offerings. The benefits of the hard work we have done over the last few years to improve our mix, both geographically and through the launch of Platinum, have come to fruition and are clearly evident in our results. We delivered a very good underlying performance, improving our accident year combined ratio excluding catastrophes by over 3 points to 88.3% compared to the same period last year.

Overall, we are very pleased with our strong first quarter results in Personal Lines; and we believe we can continue to deliver improved underwriting profitability and grow at a steady, deliberate pace of low single digits in 2016.

Turning to Commercial Lines. We delivered solid net premium growth of 4%. We remained disciplined in our approach, balancing price and retention to drive needed margin, while maintaining steady growth momentum. We achieved pricing increases of 4.3% in the core lines in the quarter, with solid retentions of 83%. While the market continues to exert rate pressure, we have been tightly executing our pricing segmentation in both our small and middle market businesses. We continue to prudently balance retention on our best business, while simultaneously driving higher price increases on less profitable risks.

As we have said in the past, pricing sophistication is not the only one of the levers we use to improve margins in today's competitive environment. We implemented property and exposure actions,. We have taken substantial action in auto, and we have over the last handful of quarters taken targeted underwriting and pricing actions in CMP liability in response to the elevated prior year activity we experienced.

Additionally, we are building upon industry specialization and target segments to better align customer risks to our capabilities, enhancing our value-based offering and mix to achieve consistent performance through the cycle. This approach better positions us to help our agents consolidate their business and to compete more effectively in the current market environment.

In Specialty Lines, we continue to build scale and momentum as these businesses are benefiting from the market disruption and the addition of top-quality talent. In health care, our expanded allied capabilities focusing on facilities risk has given us strong momentum coming out of 2015 and into the first quarter of 2016.

In management and professional liability, the 2015 launch of our updated private company and nonprofit D&O package is gaining real traction, with true best-in-class products, claims and service center capabilities.

Additionally, our launch of Merit, our transactional E&S business in its fourth year of operation, is beginning to make notable contribution. We expect that specialty will be a strong source of profitable growth going forward.

Overall, we are very pleased with the composition of our business, the pace of growth and the overall quality of the Commercial business portfolio, and we continue to be on the path to deliver profitable growth of mid-single digits this year.

Turning to Chaucer. Overall, earnings were in line with our expectations, although lower than in prior quarters. As we have reported in the past, underwriting performance in our recent years have benefited in part from very benign claims experience. Given the competitive market of Lloyd's, we are being cautious with our approach to growth and focusing on our areas of distinctive capabilities.

We believe we'll be able to deliver our long-term financial target with a combined ratio in the mid-90s. On the premium side, the decline of 20% in the quarter at Chaucer ex U.K. motor was at the high end of our range expectations but very consistent with our strategic approach.

Underwriting margins and profitability remains the utmost priority at Chaucer. As discussed, we are actively using reinsurance to manage our risk appetite, while retaining leadership and influence in our chosen specialty classes. This enables us to effectively exchange top line premium for greater earnings stability. About half of Chaucer's net premium decline in the first quarter was due to this strategy, as most of our reinsurance renews in the first quarter.

Additionally, in the quarter, we responded proactively to a challenging energy market, reducing our position in certain parts of this business. As you know, these actions have been and will be offset by our investments in a number of specialty areas that we have pursued over the last couple of years. These initiatives will continue to develop and provide increasing benefits to our top and bottom line in '16 and beyond. For example, we recently introduced a new freight forwarder and logistics insurance unit, which will work closely with the Hanovers and the Marine team to deliver new solutions for the cargo logistics industry. Early in the quarter, we added a new team, and we created a political risk solution for emerged markets that builds on our emerging market offering to provide brokers and clients a broader solution set for their political risk requirements.

Additionally, we recently joined in a strategic partnership with AXA to expand our access to new business opportunities in Africa through our extensive distribution network.

Though we expect Chaucer's top line to reflect the challenging market this year, we will continue to leverage our access to business through Lloyd's, The Hanover agency network and other production platforms to create profitable growth opportunities. All in all, Chaucer remains on target to reach our outlook and financial plans for 2016.

We also had an active quarter for capital actions. Our main capital priority remains to support our growth. We continue to return capital to shareholders, repurchasing $48 million worth of shares in the first quarter; and additionally, we actively managed our debt and took advantage of the low interest rate environment by issuing $375 million of 10-year notes at 4 1/2%.

As a whole, we look ahead with confidence as we track in line with our original earnings guidance. We have good momentum in our businesses, which sets us up for this year and for next, as we enjoy the impact of improved retention, positive rate and a strong quality of the business we are writing.

In regards to our progress to name my successor, I expect an announcement will be made relatively soon. In the meantime, as you can see, from our results, the business is performing well. We are not skipping a beat financially or strategically, as demonstrated by the numerous business initiatives domestically and at Chaucer as well as our capital management actions. The board remained rock solid on selecting the right candidate for the job, and I'm confident that it is succeeding, and you will learn the fruits of its efforts before long.

With that said, this is in all likelihood my last conference call with you. It's been an honor and privilege to serve here, and I have every confidence that the company will continue to prosper and that my successor, the leadership team, our employees and our partner agents will succeed in taking this company to the next level. I appreciate the support you've shown me over these last 13 years, and I will miss these quarterly calls with you, at least most of them.
And with that said, we would like to now turn -- open to the operator for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Matt Carletti of JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

I just have 1 question; you covered most of the kind of the topics I jotted down in your prepared comments, and that relates to capital management and the buyback. It was roughly $50 million in the quarter, and when I put that together with your dividend, it's pretty darn close to kind of quarterly earnings. Is that -- absent any changes, any opportunities for strong growth or consumption of capital along other lines, that it's kind of capital return through buyback and dividend roughly equal to earnings kind of a reasonable expectation or run rate?

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

I would say no more than that. We will continue to be opportunistic, and it's one of the levers that we use to achieve our overall performance targets. So I wouldn't necessarily take it and multiply it times 4. It's a question of what the opportunities of if and when we want to deploy our capital.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, so Matt -- I think that's right. And so Matt, you know that what we try to do is make sure we're thoughtful and not carry a lot of excess capital. We think we have -- what we've done is built pretty resilient earnings and in my view much more consistent earnings and earnings growth power. So we try not to pull a lot of capital. So we'll continue to do it. Now it's an interesting time, right? So there's a lot of different ways to do that. And we're trying to be opportunistic on the shares price given the volatility. But you'll see a continuation of the softness as far as getting the capital back in [indiscernible].

Operator

Your next question comes from the line of Charles Sebaski of BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

A good quarter overall, but like to drill in a little bit more on the Commercial Line adverse. I realize there lots of things going right, but the $14 million in the Other line, in particular, I think probably is one of the things that might give people a little concern. Was wondering if you could just help us out what kind of confidence that we're not going to -- that this kind of bleed is not likely to persist? And any other that you'd share on that.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, so let me -- I'm going to hand it off a little bit to my colleagues. But one of the things when I look at -- as we look at what happened in the first quarter, as you know, for the last 3 years or something, what we try to do is react very quickly to any activity and take as much of it to the bottom line that we see immediately. I would tell you that it is all in areas that we kind of been focused on. It's within kind of the context of our plan and our outlook. So I think, for me, we're right on track to continue the earnings increase. There's really no surprise. The current accident years are holding up really quite nicely, and so there hasn't been any emergence or anything in areas that -- at all new or surprising. And Andrew, you want to give some more specific color on?

Andrew S. Robinson

Former Executive Vice President of Corporate Development and President of Specialty Insurance

Yes. So Chuck, this is Andrew. Not -- as Fred said, there isn't really a great deal of change in terms of what we saw from the prior quarter. There's a little bit of tilt towards GL that was driven by 4 specific claims, 2 of which were large settlements were -- which were considerably above our case reserves, and 2 that we moved to limit its losses. What I would say is slightly different is that where last quarter some of what you saw was -- I mean, our strengthening -- in this particular case, most of what you saw or nearly all of what you saw is key strengthening. And I think that the decision here is that after the fourth quarter movements that we didn't want to erode the IBNR strengthening that we put out there. And so there's a little bit of that going on. But in terms of the underlying trends, not -- there's not a great deal of change from the last quarter.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. So 2 large settlements, larger than established case. Is that mean -- I mean, like when you look back on the GL and you have settlements in excess of case, does that make you think that maybe the remainder of the case needs further IBNR or increase of existing cases that are still there? Or was that all part of this?

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

Yes, so when we see this, I think, in general, we are, as an organization -- and I think it cuts across the organization, we are very attentive to go back and ask ourselves to what extent we have the right case strength in like types of exposure. Because you can start to see, while those 4 examples are rather random, some of them fit with some other things that we've seen in the past. And so we do go back, and we ask ourselves for similar types of legacy claims do we have the right case strength. And frequently, we'll do a bit of a sort of volatility analysis on our claims, and then we'll adjust case if we believe there's like situations that require that kind of adjustment.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. So I would say we feel very good about what our picks are, as they said, and that we're on track. That's what I meant by within our plan and in our focus and on track to do kind of what we said we're going to do and increase earnings. And I would also say that our balance sheet, for me, last year, this year is stronger. I mean, that's -- we're in a good place.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

All right, great. Under the Personal Lines business, wonder if you can comment on the growth. Obviously, stronger than you thought, a little stronger than I thought, and that's great. Wondering if this is attributable to the Platinum product, to how the Platinum product is fitting to this and is this maybe a better run rate going forward? I know you gave a little color, but I guess within the product mix and particularly the Platinum piece of it.

Richard W. Lavey
Chief Growth Innovation Officer

Sure. Chuck, this is Dick Lavey. So we're excited and happy with the performance on the top line. So that when you look at all the KPIs associated that build up to that top line number, feeling really good about the retention list. We do think there's some room there still, and Platinum will contribute to an improved retention going forward. Our new business was strong, up 7%. So yes, the answer is Platinum, which now makes up close to 20% of our book and 75% to 80% of our new business, is absolutely going to lead to improved performance, we think, and we hear from our agent partners that it's a first-rate kind of best-in-class product offering. So going forward, we continue to -- we'll see that mix improve. I think I've cited before some of the nice kind of mix statistics that come along with Platinum, like 44% of the time we're selling an umbrella with the full package. That over time leads to higher retention, we know from our kind of analytic work. So all things kind of point to the right direction. That said, we feel comfortable that a low single-digit growth is the right number for us to see into the rest of the 2016. Our PIF is, as you may have seen, kind of flat sequentially from prior quarters, so we're happy about that. Meanwhile, our account PIF has been growing really since the first quarter of 2015, so that we expect to continue as well. So all in, we're -- you should expect from us kind of a thoughtful, measured growth plan. As we think about expansion into other states, we're also going to be very thoughtful about that. Fred referenced that we'll be heading into Pennsylvania tail end of this year, into the winter, so that'll open up some nice growth opportunities for us going forward. But you should expect kind what you're seeing from us this year.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Great, I appreciate. And then, finally, I guess, on to Chaucer, if I can, and the large losses in the Marine and trade credit. Wondering if can get just a little bit more color on the trade credit and the commodity-related losses? Are these IBNR from commodity movements? Are they case losses? And what commodity movements are most sensitive to that business?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

All right, go ahead.

Johan Slabbert
Former Chief Executive Officer

Chuck, I'll respond, it's Johan speaking. In general, the commodity prices we're referring to is in the steel and iron ore area, and most of this is IBNR rather than case reserves. As a result of the deterioration, you can imagine the scenario whereby orders have been placed and prepaid and they decline in commodity price whereby the trader receives the goods at a substantial lower value, and that will continue to put pressure on the trade credit exposures. So from that perspective, we're anticipating there will be deterioration. So we have put in an IBNR to reflect that in the first quarter.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And that kind of makes up the majority of the accident year increase?

Johan Slabbert
Former Chief Executive Officer

It's split into 2 different areas. There is energy outside of the trade credit and political risk scenario where we have a number of larger-than-expected losses across -- or an additional turret [ph] loss, which reflects Modic [ph]. And then we've had 1 or 2 other smaller ones, but I would say 50% of it is energy. The other 50% would be our political risk trade credit exposures.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

I appreciate all the answers and congratulations, Fred, on getting things wrapped up at the top of the shop.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thanks, Chuck, appreciate it. Appreciate it.

Operator

Your next question comes from the line of Dan Farrell of Piper Jaffray.

Daniel D. Farrell

Piper Jaffray Companies, Research Division

A couple of questions, just another follow-up on the Personal Lines PIF. You talked about sequentially finally hitting a point where it's levelized, and it's obviously been declining year-over-year. I'm curious, from what you said I think that -- has the decline been driven more by the mix -- the net of the mix change, whereas you've been growing account businesses, but you've been really shrinking the other stuff? Or is it less exposure, more mix change, I guess? And are we hitting a point where now that the cap business is a bigger piece that we'll finally can transition to sort of some PIF growth?

Richard W. Lavey
Chief Growth Innovation Officer

Yes, that's exactly right, Dan. We -- our efforts to improve profitability and shed some of the mono line business will start to tail off, and that has been the drag. So we will -- you'll start to see that PIF pickup.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, as you know, this -- we did a lot of exposure stuff early on. This is really just the mono line, right, letting the mono line go in various ways, sometimes proactively with arrangements with other competitors where we facilitate it; in some places, it's just through the planning process. And so that -- what's exciting about where Personal Lines is, to me, is that ends, and then you're really living off the partnership.
The other thing I would tell you is that we just came back from our partnership meeting with our best partners. And what's interesting to me is they all -- the importance to their business of this account-oriented business is quite significant, and they see our product distinctively better. So what we're all working hard at with them is actually transitioning some of their installed base of business to our product set because it'll be better for them long term, which will give us a boost at the tail end of this year and going into next year. I think we have really good momentum in that product right now.

Richard W. Lavey
Chief Growth Innovation Officer

Just one final comment, Dan, to put it in perspective. We sort of like to boast about this number, but 86% of our new business coming on the books today from our partner agents is account business. So you can really feel that -- our distribution plan understands the kind of business that we write. It doesn't mean we don't write any mono line obviously, but the majority of it is in account business, and we -- that's a coveted thing to be able to achieve in this industry, we think. 81% of our installed book is account business. So it's....

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, the demographics are perfect. It's really the -- it is their sweet spot for account -- middle market and upper middle customers that really want the full service, which really bodes well for our future retention.

Richard W. Lavey
Chief Growth Innovation Officer

And so as you heard me say, that account PIF has been growing since earlier last year. So it is this kind of drag that will soften as we go forward from the mono line business.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Great, that's helpful. And then a question in the Commercial Lines segment. I was wondering if you could comment on how you're feeling about commercial auto right now? I think if we had talked to you almost any past quarter you would still say that's an area that we're concerned and might still be running hot and we're monitoring closely. But it seemed like this quarter not much of a change in reserves and the accident years coming down. Do you think we're more sort of hitting an inflection where you might have less concern in that area going forward?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, I think that's true. I think as an industry commercial auto is far from back to where it needs to get to in terms of overall profitability. But we feel more confident than ever that our current trajectory with our accident years are looking good, that the amount of claims that are vulnerable to this kind of delayed litigation phenomenon that we've experienced is the pool of claims is going down. It's gotten to a pretty finite level. So yes, when we look back in the rearview mirror, we're seeing that accident year -- our prior accident year drag diminish, and we're feeling as good as we ever have about our current accident year picks. You're also seeing across the industry and certainly in our results, again, real strong pricing. As I said at the last call, we had roughly 7 or 8 points of pricing over the last 3 years in this line. This year we're still in that mid- to upper single-digit range, and the market is continuing to allow us to both get price over loss trend but also continue to drive our mix in a favorable way.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Great. And then one just sort of numbers thing. I apologize if I missed in prepared remarks. Do you have what new money yield was on the portfolio versus where we are in existing yield right now?

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

It's 267.

Operator

Your next question comes from the line of Christopher Campbell of KBW.

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

Just further -- just a further question on the succession. Will the new CFO be named in the announcement when the CEO is announced?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

So a couple of things. So Gene has agreed to stay on as long as we need him. But one of the issues we have right now -- or one of the opportunities we have is in parallel we've been working on the CFO search, and I feel very good about that. So as soon as we finalize the CEO, I'll be working with him to make the selection. And so what's going to happen is that's going to be quite accelerated from the announcement. It won't be like this -- the length of this one. It'll be shorter, but it won't be simultaneous. But we've done a lot of work and reached out and had a lot of good conversations. So I feel very, very good about being able to move on that in short order after the CEO pick.

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

Okay. My next question is on the adverse commercial CMP reserve development, which has kind of been steady the last 3 quarters. Are there any particular accident years that you're seeing this come from?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

They're really transcending over the last 3. And as I described in the last call, they are coming from a finite group of claims in primarily major metropolitan areas, heavily New York and Southern California and the like, that are for the most part slip, trip and falls that we are getting kind of late notice of the medical buildups and the litigation from these claims. So in that regard, it's similar to some of what you saw in commercial auto, but what's different is that these are -- it's a much smaller portion of claims. It's much -- even more sensitive to the major metropolitan areas where we believe that there is an increased focus on litigation on soft tissue and alight-type injuries that are showing up in a delayed fashion and more pronounced fashion than historically seen. So this is our third quarter of acknowledging some prior year development and in the GL line as a part of the CMP. And as we promised, we're trying to kind of deal with this as we go, and we don't see this being an outsized issue. But we're diligently working not only on the claims side to make sure that we're getting it right but also have taken some substantial actions in the major metropolitan areas to make sure we don't have outsized exposures that primarily are kind of from slip, trip and fall-type occupancies, whether that be real estate or retail.

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

Okay. Just a question for Gene on the debt refinancing. My counts are correct. It looks like you're saving about $8.3 million pretax or roughly like $5.6 million post-tax. I'm just assuming a 32% tax rate. Given that you're paying $58 million in a make-whole to retire it, I'm calculating about a like 10-year payback period where I would think normally like 5 would been marginal. So I'm just trying to get a little bit more color behind like the strategy of that debt refinancing.

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Well, I would say it's less than driven by kind of a cash-on-cash analysis; but it is the market opportunity that we see and the fact that we think that, that has a window that isn't sustainable forever. We know that we want to continue to use leverage in our capital structure, so we felt that this was an -- the right opportunity. The issue of kind of the cash-on-cash calculation, I mean, another perspective is economically that higher cost of our existing debt economically has already been incurred. The question is how long you want to take to pay. It's already built into basically the fair value of that liability. So we just felt that really there are 2 separate situations that we have going, and we do need to manage leverage sort of in the low 20s. So all in all, we felt this was the right time to do it because the market was available to us, and we didn't want to miss it.

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

That's helpful. And then just 1 final question on Chaucer. If I back out U.K. motor from last year's results, I still end up with about 340 bps of higher reserve development. So just given the -- I think it was like the 820 bps uptick in the current accident year core loss ratio. Taking -- backing out U.K. motor, how should we think about Chaucer's core losses and reserve releases going forward?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, I think, in general, what I would tell you is, as I said, our view is the balance sheet is stronger today than it was at the end of the year and stronger than last year. So in that business, we are conservative about our reserving, and so we believe that you're going to see a similar pattern to what we've done over the last year into the future year likely. And again -- and we do not believe in any shape or form that it was outsized like this quarter from our track record.

Johan Slabbert
Former Chief Executive Officer

I'll just add a few more comments to that. In terms of what we're seeing in the diminishing margins, you would automatically assume that the loss ratios will creep up. However, to Fred's point earlier, is we are purchasing reinsurance in a slightly different shape to avoid that. So we don't see a significant deterioration in the current year loss ratios.

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

Good luck to Hanover and best of luck, Fred, in the future.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thanks very much.

Operator

Your next question comes from the line of Larry Greenberg of Janney.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Actually all my operating questions have been answered. But I guess, just on the CEO announcement coming relatively soon, I mean, I guess 3 months was the outside time frame for that given your conference call comment. But I mean, it sounds like you're implying maybe something in a matter of weeks, is that a fair interpretation?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, it is. I'm not going to be that specific, but yes, it is.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay. And Fred, I just want to congratulate you on just a pretty incredible tenure at Hanover, and I'm sure you have a lot of shareholders who would be equally thankful for that run that you've had, and certainly good luck in the future.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thank you so much, Larry. Appreciate it. What's interesting about Larry's question, in my view, is that I think the outlook for the next 2 years is the brightest the company has ever been. And I think what you've seen in the trends in most of the businesses is that our ability to continue to grow earnings and be well positioned is probably as strong as this company has ever had. So it's pretty exciting right now.

Operator

And your next question comes from the line of Wayne Archambo of Monarch Partners.

Wayne J. Archambo
Monarch Partners Asset Management, LLC

I just want to echo the prior comments. As a long-term shareholder of the stock, I'm very sorry to see you leave. Your -- the work you've done speaks for itself, and I think hats off to you for enhancing shareholder value over the years. And I hope the Board of Directors is up to task to find a suitable replacement. Best of luck, Fred.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thank you so much, Wayne.

Operator

Thank you much, indeed, for your questions, ladies and gentlemen. I'd now like to turn the call over to Oksana Lukasheva for the closing remarks.

Oksana Lukasheva
Vice President of Investor Relations

Thanks to all of you for your participation today, and we look forward to speaking to you next quarter.

Operator
Thank you for joining in today's conference, ladies and gentlemen. This concludes the presentation. You may now disconnect. Good day.