S&P Capital IQ

CONTENTS

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 8

The Hanover Insurance Group, Inc. NYSE:THG

FQ1 2017 Earnings Call Transcripts

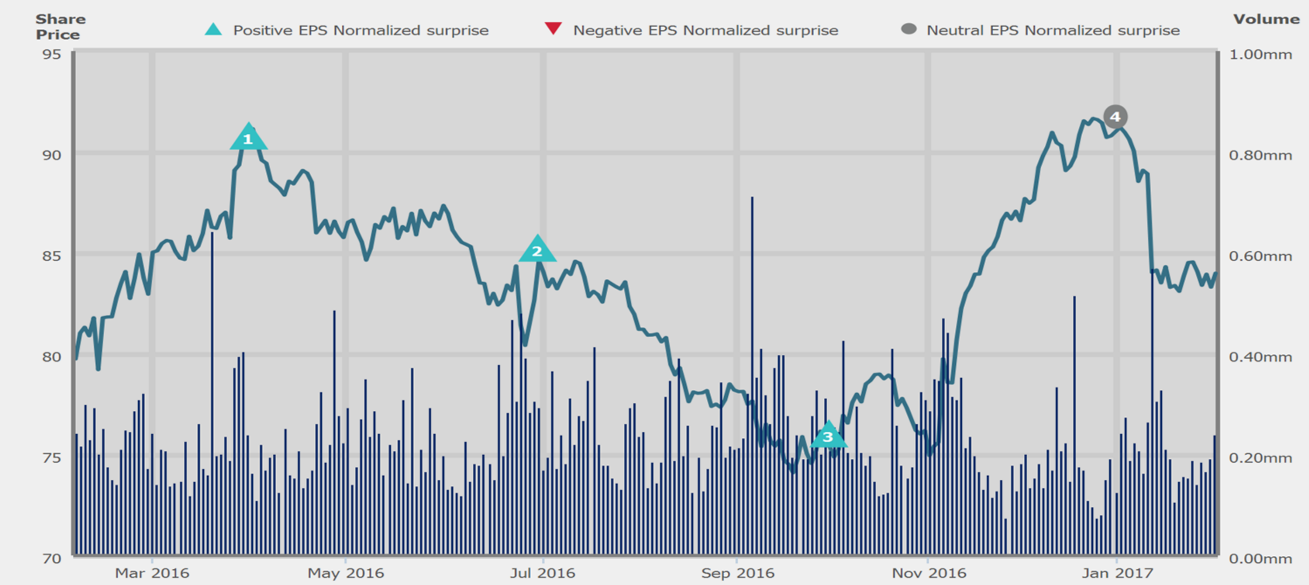
Thursday, May 04, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.72	0.95	▼(44.77 %)	1.74	6.28	6.95
Revenue (mm)	-	-	-	-	-	5009.30

Currency: USD
Consensus as of May-04-2017 8:45 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	1.60	1.64	▲1 2.50 %
FQ2 2016	1.19	1.24	▲2 4.20 %
FQ3 2016	1.55	1.83	▲3 18.06 %
FQ4 2016	1.03	(0.46)	NM

COPYRIGHT © 2017, S&P CAPITAL IQ, A PART OF MCGRAW HILL FINANCIAL.

Call Participants

EXECUTIVES

Jeffrey Mark Farber
Chief Financial Officer

John C. Roche
President of Hanover Agency Markets

John Fowle
Chief Executive Officer of Chaucer

Joseph M. Zubretsky
Chief Executive Officer, President and Director

Oksana Lukasheva
Vice President of Investor Relations

Richard W. Lavey
Chief Growth Innovation Officer

ANALYSTS

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

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Hello, and welcome to the Hannover Insurance Group First Quarter Earning Conference call. My name is Brandon, and I will be your operator for today. [Operator Instructions] Please note this conference is being recorded. And I will now turn it over to Oksana Lukasheva, Vice President of Investor Relations. Oksana, you may begin.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, operator. Good morning, and thank you for joining us for our first quarter conference call. We will begin today's call with prepared remarks from Joe Zubretsky, our President and Chief Executive Officer; and Chief Financial Officer, Jeff Farber. Available to answer your questions after our prepared remarks are Jack Roche, President of Agency Markets; Dick Lavey, Chief Growth Innovation Officer; and John Fowle, Chief Executive Officer of Chaucer.

Before I turn the call over to Joe, let me note that our earnings press release, financial supplements and a complete slide presentation for today's call are available in the Investors section of our website at www.hanover.com.

After the presentation, we will answer questions in the Q&A session. Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call.

We caution you with respect to reliance on forward-looking statements, and in this respect, to 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 Joe.

Joseph M. Zubretsky
Chief Executive Officer, President and Director

Thank you, Oksana. Welcome, everyone, and thank you for joining us today. This morning, I will provide an overview of our first quarter results and business performance. Jeff will review our financials in detail. And then we will open the line for questions.

Overall, we are pleased with our performance in the quarter. While higher-than-expected catastrophe losses in our domestic business impacted our quarterly results, each of our core lines of business generated strong underlying performance. Our continued strong performance provides a firm foundation for us to deliver on our Hannover 2021 strategy, providing exceptional insurance solutions for our distribution partners and policyholders while delivering superior returns for our shareholders.

For the quarter, we delivered operating income of $40.8 million or $0.95 per fully diluted share; a consolidated combined ratio of 99.5%; a combined ratio, excluding catastrophes, of 92.4%; and an operating return on equity of 6.1%, approximately 9.2% normalizing for catastrophe losses in the quarter.

Several aspects of our first quarter results are worth noting. First, we produced a solid top line consolidated growth of 3.7%. Adjusted for a 2016 reinsurance-to-close transaction of Chaucer, top line consolidated growth was 5.3%. We continued to grow responsibly during the quarter, maintaining

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

stable underlying loss ratios. We selected areas for growth carefully, growing in markets where we could effectively leverage our distribution strengths and competitive position.

Second, our catastrophe losses in the quarter were $84 million, $32 million greater than our first quarter catastrophe budget, mostly due to severe weather in the Midwest in the month of March. While higher than expected, our catastrophe losses in the quarter were not outsized relative to the industry experience or market share and appetite for risk.

Third, catastrophes aside, our bottom line results in our domestic and international segments are in line with our overall expectations. In fact, our ex catastrophe operating earnings increased slightly quarter-over-quarter despite more normal winter weather and large loss activity in our numbers this year compared to unusually low large loss activity in mild winter weather last year. In addition, this profitability improvement reflects our growing earnings base, improved business mix and expense leverage. Both domestic and Chaucer ex cat combined ratios in the quarter were in line with the first quarter of last year.

Finally, the reserves in our domestic business on pro accident years held steady, as expected, and did not generate unfavorable development in the quarter. Based on the loss experience we observed in the quarter, we continue to believe the reserve actions taken at the end of 2016 position us to more likely produce favorable rather than unfavorable development.

Considering our first quarter performance, we believe we are on track to deliver on the 2017 outlook we presented at our Investor Day in February, assuming catastrophe losses are in line with our original full year expectation. I will now take a few minutes to review individual segment performance.

In Personal Lines, we delivered an overall combined ratio of 101.6% and 91% excluding catastrophes. Our first quarter ex cat results were impacted by normal weather-related seasonality in the Northeast and in the Midwest. This seasonality had been factored into our plan assumptions and is in line with historical experience. The underlying trends in our personal auto business were favorable. Current rate increases continue to keep pace with increasing loss severity trends. And claim frequency remain flat due to favorable geographic and quality mix. We continued to build on our strong growth momentum in Personal Lines during the quarter, with net premiums written increasing by 7.4%. This strong growth is a function of continued rate increases, new business momentum and improved retention. Retention now is nearly at an all-time high at 84.8%, due in part to the growth of our Platinum product in the portfolio. Personal Lines policies in force grew 2% from the prior year quarter.

We are very pleased with the quality of the new business we are writing. Account business, which tends to be characterized by higher coverage values, greater umbrella penetration and higher retention, represents 88% of our new business writings. We are also pleased with the geographic spread of our growth, as we continue to improve agency penetration in states where we have smaller market share.

Our Commercial Lines business generated strong underlying results as well. Our performance in the quarter reflects our focus on maintaining solid margins and thoughtfully growing our business in the current competitive environment. We reported a combined ratio of 100.2%, which included higher-than-planned catastrophe losses. Excluding catastrophes, we delivered a 94% combined ratio, in line with our first quarter performance expectations, which take into account first quarter seasonality and property losses.

Commercial Lines net written premium increased by 3.5%. We continue to generate strong new business growth and improved retention in markets where conditions are favorable, in particular in small commercial and our highest margin specialty businesses. Small commercial grew 7%, due largely to strong retention and solid new business growth.

Core commercial price increases at 3.2% in the quarter matched those at the fourth quarter of 2016 and were higher than industry averages in many of our competitors. These rate increases are marginally below our long-term lost cost assumptions. However, our recent underwriting actions, mixed shift toward more profitable segments and our ability to work in partnership with our agents should enable us to continue to produce a stable loss ratio. Our domestic specialty businesses also generated strong results in the quarter, with upper single-digit growth in our most profitable segments.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

We leverage our sophisticated product solutions to increase penetration with our agent partners. As we have articulated in our strategy, specialty growth with our agency plan is expected to be an important contributor to our overall growth.

Moving to Chaucer. Our team turned in another solid performance in the face of continued challenging London market conditions. Chaucer delivered a combined ratio of 93.5% in the quarter, which is consistent with our long-term target of a mid-90s combined ratio. Chaucer produced an excellent accident year loss ratio, excluding catastrophes, of 51%. This reflects fewer than normal large losses in the quarter, which has been consistent with other London market players. Our favorable current year experience was offset somewhat by an increase in reserve position on prior accident year large claims.

Chaucer reported a solid top line performance in the quarter. Adjusting for the impact of the reinsurance-to-close transaction in the first quarter of last year, net written premiums increased by 7.6%. Newer business initiatives, including our partnership with AXA in Africa and our focus on adding 3D exposure where margins are attractive, contributed to this growth.

We continue to use reinsurance capital effectively, limiting our risk appetite in more challenging classes and in market segments with heightened competition. Our Chaucer team also continues to work with the Central Bank of Ireland to advance our application to establish an EU-based subsidiary with its headquarters in Dublin. Once approved, this entity will provide clients with greater platform flexibility and help us access European regional markets while managing the uncertainties surrounding Brexit.

In summary, we are pleased with our performance in the quarter, putting aside higher than planned, but not outsized domestic catastrophe losses. We delivered strong underlying results, maintained our balance sheet strength and achieved solid prudent growth in markets where we are able to produce target returns on capital. As we advance our Hannover 2021 strategy, we are intently focused on execution, and we are excited about our prospects.

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

Jeffrey Mark Farber
Chief Financial Officer

Thank you, Joe, and good morning, everyone. For the quarter, we reported net income of $45.2 million or $1.05 per diluted share compared to $78.2 million or $1.80 per diluted share in 2016.

After-tax operating income was $40.8 million or $0.95 per diluted share compared to $71.5 million or $1.64 per diluted share in the prior year quarter. Our combined ratio was 99.5% compared to 95% in the prior year quarter, reflecting much higher-than-planned natural catastrophes for our domestic business.

Catastrophe events generated losses of $84 million before taxes or 7.1 points of our consolidated combined ratio compared to $31 million or 2.7 points in the first quarter of last year. In our domestic business, catastrophe losses totaled $77 million or 7.9% of earned premium. Most of the cat activity occurred in the month of March, including a Midwest windstorm in the beginning of the month, which alone resulted in losses of $37 million before taxes. For the most part, these losses impacted our Personal Lines business.

Chaucer catastrophe losses were relatively low at 3.5% of earned premium. These losses were largely driven by Australian weather events, which produced $6 million of losses.

Excluding catastrophes, we generated a combined ratio of 92.4%, in line with the prior year quarter. Our strong overall underlying performance in the quarter shouldn't be overlooked by comparing it to the unusually low non-cat weather and low large losses in the first quarter of 2016. We expect our domestic property lines to incur higher losses in the first quarter of the year. And first quarter 2017 activity was right in line with our expectations.

In Personal Lines, our accident year loss ratio, excluding catastrophes, for the quarter was slightly better than expected at 62.2%. Our personal auto loss ratio was slightly lower than the prior year quarter, driven by favorable indemnity experience, which can vary from quarter-to-quarter. We continue to see slightly

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

elevated severity in bodily injury and physical damage coverages. However, the combination of rate increases and stable frequency in our book suggests that the personal auto line will continue to perform well.

Our homeowners' loss ratio in the first quarter was 49%, up from 41.2% a year ago. Given our significant market presence in the Northeast and Midwest, we expect our property loss ratios to be elevated during the first quarter of each year, as it was in the current quarter.

Our loss ratio in the prior year quarter, however, was unusually low as a result of mild weather and low large loss activity. Our expense ratio in Personal Lines was up 0.7 points over the prior year quarter, given the timing of certain incremental investments, but in line with our plan for the quarter. We expect our expense ratio to come down modestly as the year progresses and we gain leverage from the prior written premium growth.

More importantly, the quality of our business mix, along with our ability to obtain rate increases in line with loss trends, provide confidence that we can deliver on our original guidance subject to the uncertainty of catastrophes throughout the year.

Turning to Commercial Lines. Following the extensive reserve analysis we conducted during the fourth quarter of last year, prior accident year performance was as expected. We continue to believe that our reserves are appropriate and reflect our view of prior year loss trends, which generally remained unchanged from 3 months ago.

Our Commercial Lines current accident year loss ratio, excluding catastrophes, was 57.6% compared to 56.2% in the first quarter of last year, driven by commercial multiple peril. Our CMP property results in the first quarter of this year were in line with our expectations and reflect typical seasonality for this business. The increase in our loss ratio quarter-over-quarter, however, was unfavorably impacted by the unusually low CMP property losses sustained in the first quarter of last year.

Our higher CMP liability loss ratio is in line with historical performance, which is above the reported first quarter 2016 results. We continue to take a cautious approach, reunderwriting and repricing portions of the book impacted by higher liability trends.

Aside from CMP, all other commercial lines exhibited improved performance quarter-over-quarter. Although the commercial auto loss ratio improved, it is still at a level which is below targeted profitability. We continue to actively manage the business mix and achieve mid-single-digit pricing increases to bring commercial auto to target profitability.

We also improved our accident year loss ratio in Other commercial lines compared to the prior year period. We are encouraged by the current performance of AIX and surety, which validates the actions previously taken.

Chaucer delivered another solid performance in the quarter, reporting a combined ratio of 93.5%, with some variability between current and prior year results. Catastrophe losses in the current quarter were for the most part in line with our expectations. We also reduced our estimates on certain prior year catastrophe losses, which together brought the overall catastrophe loss ratio to 3.5 points of the combined ratio. Excluding catastrophes, our combined ratio of 90% was in line with the prior year quarter.

Current year attritional losses in the quarter were as expected. Large losses were unusually low, bringing the overall accident year loss ratio, excluding catastrophes, to 51%. This is one of the lowest quarterly loss ratios since we acquired this business in 2011.

Chaucer's prior year development was favorable, but lower than usual at $2.3 million. Attritional losses, which lend themselves to more precise actuarial reserving methodologies, produced $26 million of favorable development. However, the increase in reserve for large prior year claims served to offset what otherwise was a normal level of favorable loss runoff in the quarter.

Given the nature and complexity of this business and the inherent high levels of uncertainty over settlement amounts, we expect movement in ultimate loss estimates for certain claims as they mature.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Chaucer's reserve strategy is prudently conservative, and our balance sheet remain strong. While we fully expect prior period development at Chaucer to fluctuate from quarter-to-quarter, we continue to believe that it will be a meaningful contributor to Chaucer's earnings throughout the year.

The Ogden discount rate change had a minimal impact on our first quarter results, increasing prior year reserves by $2.5 million in our casualty reinsurance business, where we write some assumed U.K. motor risks. The sale of our direct U.K. motor book in 2015 included prior year reserves. And therefore, we do not have any lingering insurance exposure from that business.

Our Chaucer expenses ratio for the quarter was 40.1% compared to 38.9% in the prior year quarter. In the first quarter of 2016, Chaucer recognized $17.7 million of premium and an equal amount of loss reserves related to our reinsurance-to-close transaction, or RITC, which had no effect on underlying earnings. However, this transaction increased our overall loss ratio by approximately 4 points and reduced our expense ratio by a similar amount last year. Excluding the impact of RITC in 2016, our expense ratio was 2 points lower in the first quarter of 2017 than in the prior year quarter, driven by business mix and growth leverage.

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

Briefly on top line results. Firm-wide net written premium growth was 3.7% or 5.3% excluding the impact of the Chaucer RITC transaction in the first quarter of last year.

This was driven by increasing momentum in Personal Lines with growth at 7.4%, Commercial Lines at 3.5% and Chaucer at 7.6%, excluding the RITC transaction. Market conditions remained competitive in many of our segments. However, our deep agency and broker relationships, coupled with our strong product capabilities, continue to create opportunities for us to write high-quality business at stable margins.

Moving on to investments. Net investment income increased by 4% in the quarter to $71 million compared to $68 million in the prior year quarter, as we continue to reinvest higher operating cash flows from underwriting activity. Cash in invested assets were $8.8 billion at the end of the quarter, with fixed income securities and cash representing 87% of the total.

Our fixed maturity investment portfolio has a duration of 4.4 years and is 94% investment-grade. The portfolio remains high quality and well laddered. The operating effective tax rate for the quarter was 28.5% compared to 32.4% in the first quarter of last year due to the impact of tax deductions taken in connection with vested or exercised stock compensation.

We expect the 2017 full year rate to be approximately 32% to 32.5%. I'll finish with a few comments on the strength of our balance sheet and capital position. Our book value per share grew 1.5% to $68.44 in the first quarter. Book value per share, excluding net unrealized gains on investments, increased 1%.

From a capital management perspective, we returned $14.6 million to shareholders through stock repurchases as of May 1 of this year. We have a total of $169 million available for purchase under our current share buyback authorization. We also returned $21.4 million through our regular quarterly dividend.

Despite elevated catastrophe losses in our domestic business, we're pleased with the underlying performance in the quarter. Our strategic focus, unique competitive position, strong agent partnerships, high-quality products and services and disciplined underwriting of financial management practices once again served us well.

With a quarter of strong underlying results to our credit, we are confident we can deliver on the targets we identified in our full year 2017 guidance of 95% combined ratio, provided catastrophe activity for the full year reverts to our original annual assumption.
With that, we will now open the line for your questions. Operator?

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] From JMP Securities, we have Matt Carletti.

Matthew John Carletti
JMP Securities LLC, Research Division

Just have a few questions. Maybe start on Chaucer. Can you give us any more color on the -- kind of sounds like a small handful of large claims that develop a little bit. On the nature of those claims, there has been some claims out in the market, just curious if they were energy related, political risk related or otherwise?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

Sure, Matt. This is Jeff. The large loss claim activity at Chaucer actually in total came in on plan. And the large loss activity, as we said, was very low in the current accident year quarter. But obviously, it was offset by a handful of newly reported claims on prior accident years and they've updated to a handful of case reserves on existing claims. Our analysis demonstrate that these claims were largely uncorrelated. They were not claims you see in the headline news of major industry events, but are just a function of the randomness of operating a casualty book. So we are confident that although it was an unusual emergence, the way that claims emerged in the quarter that we have our arms around this business, it's profitable and probably won't recur again in the near future.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay, great. And then another question on just -- it's been a few months since Investor Day and a couple of things you pointed to were another rollout of your Platinum product in new states in Personal Lines as well as kind of the build-out of domestic specialty capability. I know it's only been a few months. But any updates there you can provide in new states that you've stepped into or new products that you've launched?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

I think I'll kick it over to Dick in a moment. But the Personal Lines story continues very favorable. As you know, that entire business was repositioned over the past 5 years. We had policy in force declines since we repositioned the book. And now we're growing again. Policy in force are up 2%. We've gotten 4 to 5 points of rate in each of the 4 -- past 4 to 5 years. And the mix of that business has changed considerably. There's a higher model line complement to that years ago. And now, as we said, 88% of our new business is account-based, 30% of the entire book is Platinum. So not only are we growing at 7.4%, but the mixed shift and the quality of the book is very, very high. I'm going to turn it over to Dick to talk about Pennsylvania and some of the other growth initiatives that we have, including our foray into the emerging affluent markets.

Richard W. Lavey
Chief Growth Innovation Officer

Yes. So Matt, really pleased with the way our implementation is going from a system rollout perspective. As you know, entering Pennsylvania was an important milestone for us to roll up the [indiscernible] this new system has some terrific features, ease of doing business features, prefill, automated umbrella codes. We'll have an automated dwelling fire product. And then importantly, as Joe just said, it launches us into the emerging affluent capabilities that we've been building and allows us to create these trim packages to move up to even our [indiscernible] appetite. So really pleased with the way it's going. We have modest expectations on the business impact in 2017 from that. Frankly, we've appointed about 15 agents or so.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

So it's a kind of slow ramp. But generally speaking, it was just important for us to get the system in place and test its capability. So thumbs up for that.

Joseph M. Zubretsky
Chief Executive Officer, President and Director

The next is specialty.

Matthew John Carletti
JMP Securities LLC, Research Division

I did -- I know you talked out expanding capabilities there a little bit. I don't know if anything has been put in place.

Joseph M. Zubretsky
Chief Executive Officer, President and Director

It actually has, and it actually performed very well in the first quarter. So as you -- if you remember, we said we're going to leverage Chaucer globally and internationally, leverage the domestic high [indiscernible] focused business and develop a wholesale channel. But first area of growth will come from increasing penetration with our existing agencies, Matt. And while total specialty grew 2.5% in the quarter, if you adjust for the pullback in surety, which was entirely appropriate given the issues in that business, every line of business in the specialty book grew at mid- to high single-digit rates. And it's a function of agency. Support agents would rather give us the specialty business as a companion product to the package rather than give it to a pure-play specialty player since we have the entire relationship. So we're pretty pleased with not only the profitability of the book, but the growth in many of the lines of business in the quarter.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then just one last quick one on the cats. Given particularly the Midwest exposure and your market share there, that makes a lot of sense of how the number fell out. But the question is, how do you view whether or not you make a pre-announcement for a quarter, because I do think just if you look where consensus was, a view of where the public's feeling is, It did catch us a little by surprise, the magnitude of it. Is there are hard dollar threshold, or how do you think about whether or not you make a pre-announcement?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

Yes, Matt, that's a fair comment. Look, our historical practice has been to make announcements, what I call, the industry headline events certainly was one of them. But Michigan itself and Illinois, the storm that actually was most costly to us with the $1.1 billion event. Look, we're going to revisit the policy. If it's helpful to you a few weeks before our earnings release to have the cat number out there, so you can adjust your models, Jeff and Oksana and the team, we're going to relook at the policy and we're going to consider altering it.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. I would vote in favor of that just in quarters where you have an outsized number like this. I think that's one black line model, I think it's the biggest number since in a quarter since mid-'14, and like you said, was the headline event. So great. Wonderful.

Operator

From Sandler O'Neill, we have Paul Newsome.

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

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

I just have some actually modeling kind of questions. One, on the tax rate, the last several years, the tax rate has been sort of in the mid-20s. I assume that's mainly an investment portfolio structure reasoning. If I got -- if I heard right, you're looking for that tax rate to go up a fair amount. What's going behind that? Is there a change in the portfolio or other issues?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

Jeff?

Jeffrey Mark Farber
Chief Financial Officer

Paul, thanks for the question. Let's just be careful. You may be looking at the net income rate versus the operating rate. So what I gave in my remarks was the operating income tax rate. The operating income tax rate in the current quarter is a little bit lower than we expect for the year. So we expect 32% to 32.5%. The net income rate will continue to be lower, because we have a tax position that we call and identify mixed straddle, which makes use of some older capital loss carryforward. And so that essentially sits associated with some older investments, which have been dealt with long ago. But they roll through net income over time, and they will continue to do that over the next few years. What's important, I think, is really the operating rate. It was lower this particular quarter because of a change in accounting from stock compensation, whether it be units or options. When those appreciate, it used to be that the increased tax deduction went through your equity section starting January 1, it went through your income. So that goes through operating.

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

And then my other modeling question is the other operating expenses. Could you talk about sort of the outlook for that? It is a little bit higher than I anticipated -- a little bit higher than I expected this quarter?

Jeffrey Mark Farber
Chief Financial Officer

Yes, I think it fluctuates a little bit from time-to-time. We had some investments in the Personal Line book that are sort of rolling through to the first quarter, and we had planned those. So our expenses are really right on our plan for the quarter. As we roll through the remainder of the year, we expect to get leverage on our fixed expenses as the earned premium increases. So I think you'll see it come down marginally over the year. You may be comparing it to last year, and there were some unusual items that were reducing expenses in the first quarter of last year temporarily.

Operator

From Janney, we have Larry Greenberg.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Just a quick housekeeping and then a more general question. The housekeeping, I think you mentioned that you had some favorable cat development in Chaucer. Just wondering if you can give what the gross acted in your cats were and then what the favorable development offset was. And then the more general question. I'm just wondering if you've done anything -- I think at the Investor Day, you talked about leveraging the relationship between domestic and Chaucer? And just looking for any color on whether anything has gotten going on that yet?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

All right, I'll kick it to Jeff and John to address the cat question on Chaucer.

Jeffrey Mark Farber

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Chief Financial Officer

Sure. So in the first quarter, our cats were $7.3 million. John, any color on the cats overall for Chaucer?

John Fowle
Chief Executive Officer of Chaucer

Yes, we had $6 million on the current year, which is really Cyclone Debbie hitting Australia. And then we've got $3 million coming back -- that we just allowed in for the U.S. tornado losses, but nothing too material.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay. So then there was $1.7 million-or-so of favorable development against that?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

That's correct. That's correct. In terms of leveraging Chaucer's capability domestically, we're at the beginning stages of that. I think one of the -- we recognized that Chaucer has built some cyber capability. One of the areas -- one of the first areas we'll explore in Chaucer building a global product that will also be used domestically. We'll begin the area of cyber, but too early to report anything more dramatically now really.

Operator

[Operator Instructions] From KBW, we have Meyer Shields online.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Jeff, 2 questions. I seem a little confused. When you talk about the full year cat load and the full year tax rate being in line with prior guidance, is that what you expect for -- do you expect 3 quarters to be line, or do you expect the full year? In other words, are we lowering the expectation for cat loads for the following 3 quarters and raising expectation for taxes?

Joseph M. Zubretsky
Chief Executive Officer, President and Director

The answer is no, we are not. We -- as you know, we're sort of providing on an annual average loss basis. And obviously, we can't predict that storms in the last 3 quarters will be $32 million better than we planned. So the statement we made is all of the non-cat metrics are on plan to hit our 2017 guidance for the year. Obviously, the wildcard will be cats coming in as planned or better than planned to beat the $32 million over into the first quarter. Jeff, anything to add.

Jeffrey Mark Farber
Chief Financial Officer

I don't think so other than cats are obviously variable. And it -- we'll see what happens in the remainder of the year, as we can't revise the plan. And hopefully, we'll be lucky to make it up.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That helps clear my confusion. And also, I think, Jeff, you touched on liability or litigation loss trends. And I was hoping you could elaborate on what you're seeing.

Jeffrey Mark Farber
Chief Financial Officer

Yes, I mean, so maybe I'll pass it to Jack, as we're seeing that in CMP. But we're not unlike others. In some of our commercial multi-peril business and the liability side, we are seeing some involvement

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

[indiscernible]. And we continue to see on the Personal Lines side, we're seeing some bodily injury severity. We attribute some of that to lawyers, but Jack...

John C. Roche
President of Hanover Agency Markets

Yes, this is Jack. What I would say this quarter is really no new news. What we've been experiencing is an uptick in bodily injury severity in the auto lines, and then most recently, slip, trip and falls major -- for the most part seen in major metropolitan areas. There has had been a progressive uptick in attorney involvement, which kind of manifests itself in a variety of different ways, including higher medical run-ups, occasionally higher rewards. But in terms of the quarter, we haven't really witnessed anything that changes our view on last year's picks and how we dealt with that in the reserves as well as we went into the first quarter.

Operator

We have no further questions at this time. We will now turn it back to Oksana for closing remarks.

Oksana Lukasheva
Vice President of Investor Relations

Thank you very much for your participation today, and we're looking forward to speaking to you next quarter.

Operator
Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2017 Capital IQ, Inc.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.