S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

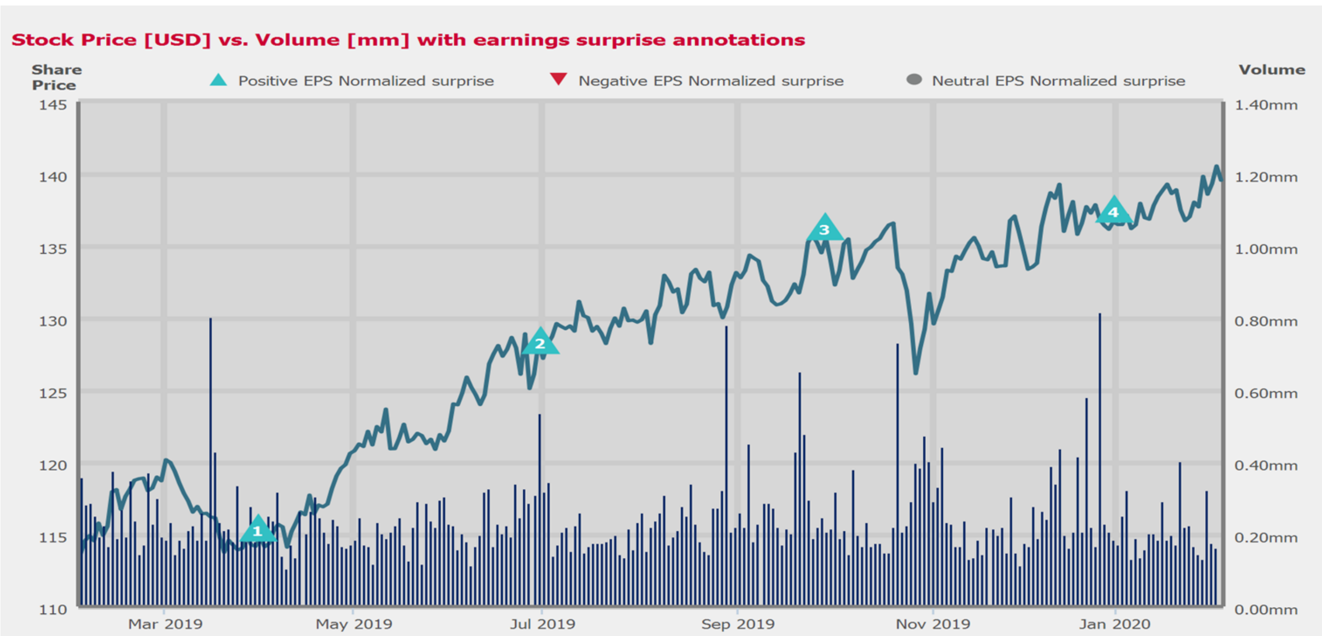
FQ4 2019 Earnings Call Transcripts

Wednesday, February 05, 2020 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.98	2.01	▲1.52	2.07	8.15	8.16
Revenue (mm)	1105.33	1103.00	▼(0.21 %)	1162.60	4584.13	4581.70

Currency: USD
Consensus as of Feb-02-2020 11:41 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.74	1.96	▲12.64 %
FQ2 2019	1.76	1.88	▲6.82 %
FQ3 2019	2.11	2.31	▲9.48 %
FQ4 2019	1.98	2.01	▲1.52 %

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Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
Executive VP & CFO

John Conner Roche
President, CEO & Director

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Richard William Lavey
Executive VP & President of Hanover Agency Markets

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Frederique Suzanne Sleiffer
Keefe, Bruyette, & Woods, Inc., Research Division

Jon Paul Newsome
Piper Sandler & Co., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Good day and welcome to The Hanover Insurance Group's Fourth Quarter 2019 Earnings Conference Call. My name is Gary, 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
Vice President of Investor Relations & Financial Planning

Thank you, operator. Good morning, and thank you for joining us for our quarterly conference call. We'll begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and our Chief Financial Officer, Jeff Farber. Available to answer your questions after our prepared remarks are Dick Lavey, President of Agency Markets; 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, including our guidance for 2020. There are certain factors that could cause actual results to differ materially from those anticipated. We caution you with respect to reliance on forward-looking statements, and in this respect, refer you to the forward-looking statements section in our press release, the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as operating income and accident year loss and combined ratios, excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you for joining our call. This morning, I'll begin with comments on our financial highlights for the year, our strategic accomplishments in 2019 and a high-level overview by business line. Jeff will provide an in-depth review of our financials and our outlook for 2020, and then we'll open the line for your questions.

We are very pleased with our strong performance in 2019. We delivered an operating ROE of 12% and 12.8% after adjusting for the undeployed equity from the sale of Chaucer. We generated premium growth of 4.5% for the year, on the strength of our broad-based profitability across our portfolio and solid execution against our strategic imperatives.

We continue to focus on our objective to be the premier property and casualty franchise in the independent agency channel, advancing our proven strategy, leveraging our position as an agency carrier of choice, our leading specialized capabilities and our commitment to innovation. We drive those distinctive elements of our strategy through our extraordinary talent and unique collaborative culture.

During 2019, the property and casualty insurance industry environment exhibited even more complexity as profit pools, loss trends and rate movements continue to change more dynamically than ever before. Traditional market cycles have clearly given way to more sectoral and geographic forces that require more sophisticated and savvy approaches to underwriting, loss analysis and portfolio management. We demonstrated that we are developing an industry-leading ability to anticipate the market dynamics and react with agility and expertise in order to deliver strong results that foster continued momentum. We stayed focused on the ultimate goal, delivering profitable growth and allocating capital and resources to our higher margin businesses.

Turning to our financial highlights for the year. While the P&C industry is clearly experiencing higher overall loss trends, liability trends in our businesses, while certainly elevated, performed relatively consistent with our expectations. We believe that we have benefited from prior portfolio mix and pricing actions over the years, including reducing our exposure in major metropolitan areas, targeted underwriting actions and exiting all unsupported umbrella business. These actions are now helping us limit the impact of some of the industry headwinds, including social inflation and increased attorney involvement and should be beneficial as we head into 2020.

In 2019, we also benefited from catastrophe experience that was more favorable than last year and below historical averages. In addition, we reduced our expense ratio beyond our initial expectations while funding business investments with deliberate resource trade-offs and disciplined expense rigor.

The year was not without its challenges. As we announced in mid-January, we saw elevated non-catastrophe property losses in the fourth quarter, not inconsistent with some of the activity we have seen earlier in the year. This was driven by a combination of non-cat weather activity in homeowners as well as higher incidences of property losses in CMP and certain specialty lines. Although the uptick in property losses over the past few quarters was consistent with industry trends, it was disappointing nonetheless. We have performed the appropriate due diligence on these businesses, and we maintain a high level of confidence that we have a quality portfolio and can make constructive adjustments in the current market to maintain our momentum. We believe that some of the loss pressure is likely a function of more extreme weather, high employment and a fairly robust economy, which is producing more activity-based losses. We are at the point in the economic cycle where we need to be especially prudent. We are taking actions in certain areas, including using targeted reinsurance tactics, changing terms and conditions and increasing rates.

Now I'll update you on some key strategic accomplishments for the year, which fall into 5 categories: our business and agency mix, enhanced capabilities, technology innovation, talent development and capital allocation. First, our goal for the year was to continue to grow while improving profitability and reducing vulnerability to some of the more pronounced industry liability loss trends.

We strengthened our portfolio by accelerating growth in our most profitable businesses, executing pricing actions in areas of need and reducing unprofitable areas, particularly programs in Commercial Auto. At the same time, we achieved profitable growth across key segments, such as Personal Lines, Small Commercial and middle market niches as well as certain Specialty Lines.

We continued to enhance and build on our agency penetration. Transactional new business in Personal and Small Commercial continued to accelerate, demonstrating agency followership in the most profitable areas of our business. In addition, the number of agents that write over $5 million in total premium with us grew by 1/3 over the last 3 years. This agent cohort generates nearly 60% of our overall premium and delivers meaningfully better underwriting profits. At the same time, the number of agents that write more than 5 lines of business with us has increased over 25% since 2015, a testament to our broad product capabilities and the value they bring for our agents and customers.

We also continue to appoint new agents and agency locations in 2019, mostly in our less-penetrated states. Over the last 3 years, new and expanded agency relationships generated more than $150 million in written premium. These strong mutually beneficial relationships with our agents enable us to navigate the dynamic market even more successfully together.

Second, we continue to build out some of our newer products last year, including the depth and breadth of our E&S, cyber and financial institution businesses. We also enhanced our professional liability platform, Hanover Miscellaneous Professionals Advantage, building on our robust suite of professional liability solutions for our agents and insureds.

In Personal Lines, we expanded our Hanover's Prestige brand across all of our Personal Lines markets in 2019, delivering high-value auto, home and condominium coverage to customers in all of our Personal Lines states. Our prestige brand generated strong premium growth in 2019. This growth provides further evidence that our whole account philosophy is resonating with our agents and their customers, improving our position as our agent partners' carrier of choice for preferred accounts.

Third, we continue to invest in our underwriting and quoting platforms, while at the same time, driving innovation across our business. We are creating operational efficiencies and enhanced customer experiences across the entire insurance value chain through specific use cases, third-party data integration and process enhancements. Our targeted initiatives with Insurtechs and other plug-and-play options are delivering more insightful, innovative and efficient tools to our agents.

Our investment in major underwriting and quoting platforms are now getting towards the tail end of the process. For example, our TAP sales platform has now been deployed to all of our Personal Lines states, allowing for more granular pricing and underwriting and providing agents with a seamless quoting experience. We also are finalizing the build-out of our Small Commercial underwriting platform and plan to launch it throughout 2020 and 2021, along with our enhanced product offering. We believe both platforms will prove to be best-in-class and will enable us to more effectively interact with outside data sources and third-party digital tools for the benefit of our agents and customers.

Additionally, we made important investments in our claims processes and capabilities, adding photo claims functionality to our adjusting process and various predictive modeling tools. This work enables us to enhance our operating efficiencies and take advantage of economies of scale in our claims functions, which will help us drive both loss and expense ratio improvements over time. We think this and other changes will benefit both our agents and customers.

We have paid for the incremental cost of these projects through prudent expense management, including reductions in savings in less critical areas of our operations. This discipline is essential as digital capabilities are critical and constantly evolving, which requires continuous investment rather than large onetime capital expenditures.

Fourth, attracting, retaining and developing our talented team is perhaps the most important ingredient in the success of any company in our industry. So I could not be more proud of the success we had on that front in 2019. For example, we expanded our Specialty leadership team and made new leadership appointments in Commercial Lines to oversee our middle market businesses as well as product and underwriting. We established new positions, including Chief Data and Analytics Officer and Chief Digital Officer to lead our overall efforts to use data, analytics and technology even more effectively and to create sustained value. Additionally, we strengthened our human resources team to lead our human capital strategy and further develop our culture of inclusiveness, agility, collaboration and innovation.

Finally, in 2019, we continued to be prudent and accountable stewards of our shareholders' capital. Upon completion of the Chaucer sale at the end of 2018, we returned an initial $450 million of sale proceeds in the form of a $250 million accelerated share repurchase agreement and a $200 million special dividend.

Over the course of 2019, as we continue to generate capital to fund organic growth opportunities, we distributed the remaining Chaucer proceeds through 2 additional ASR programs and a second special dividend. Moving forward, we will follow our normal capital management cadence and framework, using internally generated capital to support profitable growth and return the capital generated in excess of our growth needs to shareholders as warranted.

Before I conclude my remarks, I will provide a high-level overview of our performance by business, beginning with Commercial Lines. We are very pleased with our Commercial Lines' progress and execution on strategic priorities in 2019. Our goal for the year was to grow, while adjusting our portfolio to achieve sustainable and improved profitability and to further expand our specialized capabilities.

We delivered a full year 2019 Commercial Lines combined ratio of 92.1%, excluding catastrophes, and we grew almost 4%. Early indication is that Commercial Auto, one of our critical areas of focus for profit improvement initiatives last year, is performing slightly better than our expectations. We are not out of the woods yet, but we are seeing progress after considerable nonrenewals and double-digit rate increases that we achieved in 2019 and earlier.

In our program business, we still have some additional work to do. We discontinued certain programs from the book in 2019. We will continue some of this work this year to ensure profitability in this business. Excluding targeted underwriting initiatives in Commercial Auto and programs, we generated overall Commercial Lines growth of 6.1%, with increasing growth momentum throughout the year in our higher profit margin businesses such as Small Commercial and Professional Lines within Specialty.

Additionally, our newer Specialty capabilities such as excess and surplus lines, cyber and financial institutions are gaining momentum. The pricing environment in Commercial Lines continues to be dynamic, but it did improve as the year progressed. Industry-wide rate decreases and benign loss trends in workers' compensation persisted, while double-digit rate increases in Commercial Auto continued throughout the year. We are observing firming trends in certain property and specialty lines in response to the large property losses and social inflation that many industry participants have been observing.

Our Core Commercial pricing increased during the fourth quarter to 7.9%. The rate component continues to increase in a measured way. Also, as we have seen in prior quarters, exposure can and did drive some of the quarterly variability. Overall, we enjoy a strong market position in Commercial Lines. We are excited about the market dynamics, and we have confidence in our continued performance.

As we look forward to 2020, we believe we have a strong line of sight to mid-single-digit growth overall and double-digit growth in some of our most distinctive and profitable sectors.

Our Personal Lines business had a very solid year. This business delivered a combined ratio of 91.6%, excluding catastrophes. While we experienced some pressure throughout the year from non-catastrophe weather and continuing prior year bodily injury trends, this business continued to achieve target returns. Our current year liability trends remain in line with our expectations, but we prudently increased our fourth quarter loss picks to reflect the increased legal environment and medical cost spilling over into the Personal Auto Line, which we have been observing in our prior year claims.

Our Personal Lines business increased net premiums written by 5.7% for the year, driven by new business growth and rate increases. While the Personal Lines market remained very competitive throughout 2019, we continue to hold the line on pricing. We achieved 5% rate increases in this business in the fourth quarter, and will continue to balance pricing discipline with retention needs to produce optimal results.

Today, account business represents approximately 85% of our portfolio, and we believe our new sales platform and account-centric product offerings will further fuel the growth of our whole account business. With continued price increases and strong support from our partners, we feel very good about 2020 prospects for Personal Lines and are targeting mid-single-digit growth.

We begin the New Year with healthy broad-based profitability, a strong book of business and outstanding agency relationships that will enable us to pursue market opportunities with more market insights. We are confident in our ability to navigate the dynamic loss environment effectively.

As I look ahead, I am energized about our prospects. We believe the differentiated consultative relationship with our agent partners, combined with our broad portfolio, will continue to play to our advantage as we seek to deliver new, highly profitable business. Together with our partners, we are well positioned to capitalize on emerging opportunities and to continue to successfully build on our businesses.

With that, I will turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone. For the quarter, we reported net income of $109.8 million or $2.76 per diluted share compared with $123.6 million or $2.88 per diluted share in 2018.

After-tax operating income for the quarter was $80.2 million or $2.01 per diluted share compared with $64.9 million or $1.51 per diluted share in the prior year quarter.

For the year, net income was $425.1 million or $10.46 per diluted share compared with $391 million or $9.09 per diluted share in 2018. Operating income for the year was $331.6 million or $8.16 per diluted share compared with $292.1 million or $6.79 per diluted share in 2018.

With the full year of results now behind us and some property variability by quarter in certain lines, it is more informative to primarily focus my comments on our full year 2019 results and to mention quarterly movements where relevant.

Our full year earnings reflected a combined ratio of 95.6%, an improvement from 96.1% in the prior year, due to lower catastrophe losses in 2019 and an improvement in the expense ratio.

Full year catastrophes totaled $169.3 million or 3.8% of earned premium, which was below our catastrophe load assumption of 4.6%. During the quarter, catastrophes totaled $35.1 million or 3.1% of earned premium, 50 basis points below our fourth quarter assumption. The largest driver of catastrophe losses were Dallas tornadoes in October. Excluding catastrophes, we delivered a full year combined ratio of 91.8%, toward the higher end of our original guidance of 91% to 92%. Overall, prior year reserve development in 2019 was immaterial, with puts and takes by line. We tend to react to emerging trends and other loss activity quickly to avoid large issues down the road. We feel very comfortable with our reserves overall.

During the quarter, we increased our Personal Lines prior year reserves, driven mainly by Personal Auto. This was due to continued pressure from auto bodily injury severity claims. Initial indications of 2019 claims are favorable as we continue to push rate to overcome anticipated increased losses in this line. However, we are being prudent with our expectations for how these claims will behave.

We also increased our prior year reserves in other Commercial Lines, primarily in the program business, which includes certain discontinued programs, as Jack mentioned earlier. On the positive side, we continue to experience favorable development in workers' compensation, in which loss costs are still behaving extremely well.

Our portfolio is skewed towards Small Commercial, which is where our workers' comp exposure is growing, contributing to a more favorable loss profile. We continue to monitor market pricing, claims trends and macroeconomic conditions for any indications of a change in trends.

We delivered a 50 basis point improvement in our expense ratio, ahead of our expectations, due to our disciplined approach and, to a lesser extent, the timing of some spending versus 2020.

I will now review our 2 main businesses, starting with Personal Lines, which posted a full year current accident year combined ratio, excluding catastrophes, of 90.1%, up from 89% in 2018. This reflected a 1.5 point increase in our current accident year loss ratio.

In homeowners, our 2019 ex-cat current accident year loss ratio was 47.9%, up 1.5 points from 2018, primarily due to non-cat weather-related losses.

As noted in our pre-release a few weeks ago, in the fourth quarter, we experienced some non-catastrophe weather activity in our homeowners unit, primarily hail events in both the Northeast and Upper Midwest. Elevated non-cat weather was a factor in our results throughout 2019, and to some extent in 2018 as well. We are addressing that trend by continuing to take rate, including 4.8% in the fourth quarter. In the meantime, we are assuming the elevated non-cat weather pattern will continue in 2020.

The Personal Auto ex-cat current accident year loss ratio was 71.6% in 2019, 1.5 points higher than full year 2018. This primarily reflected an increase in current accident year losses associated with higher cost of repairs and an increase in comprehensive coverage costs from weather- and animal-related collisions in the second half of the year.

Additionally, given the trends we are seeing in prior years for bodily injury coverage, we are taking rate and prudently increasing our loss assumptions. Auto bodily injury claims activity for the current year remained well in line with our original expectations.

Our production performance in Personal Lines was solid. Net written premiums increased 5.7% in 2019 and 4.4% for the fourth quarter. We continue to be very disciplined achieving rate increases above market levels, and we are accepting a slight decrease in retention as a result.

Moving to Commercial Lines. We posted a full year current accident year combined ratio, excluding catastrophes, of 93.2%, up from 92.1% in 2018, reflecting the increase in our current accident year loss ratio. As Jack mentioned, our results in Commercial Lines reflected the property loss variability we experienced throughout the year, primarily Hanover Specialty Industrial and Marine, which continues to be very profitable.

In the fourth quarter, we also saw some property activity in CMP as well as some property losses in our program business. We are taking corrective actions where necessary, but are prudently assuming that a portion of the increase in losses will continue.

The loss ratio in our Commercial Auto book improved 2.6 points to 69.6%, driven by the cumulative impact of our substantial underwriting actions and rate increases in excess of 10%. Looking ahead, we remain cautiously optimistic that the combination of rate and underwriting actions will continue to enhance our results.

Commercial Lines' net written premiums grew 6.5% for the fourth quarter and 3.7% for the year, reflecting both certain underwriting actions and a rigorous attention to growth in our most profitable businesses. We are committed to improving the profitability of our overall portfolio as we build our new capabilities and grow in our most profitable segments.

Turning to our investment performance. Net investment income was $72.7 million for the quarter and $281.3 million for the year, up 4.8% and 5.2% for the quarter and year, respectively, over 2018. The increase was primarily driven by the temporary investment of Chaucer equity, which is now fully deployed and higher operational cash flows, partially offset by lower prevailing new money yields.

During the year, we invested the excess equity created by the Chaucer sale in late 2018, which contributed approximately $8 million of additional net investment income in 2019. With these amounts now fully return to investors, we will not have the added lift to net investment income.

Accordingly, adjusting for the NII from the Chaucer Capital, we expect our 2020 net investment income to remain consistent with 2019, with higher cash flows offsetting prevailing lower yields.

Cash and invested assets were $8.2 billion at the end of the year, with fixed income securities and cash representing 84% of the total. Our fixed maturity investment portfolio has a duration of 4.3 years and is 95% investment grade. The well-laddered and diversified portfolio remains high-quality with a weighted average of A plus.

The operating effective tax rate for the quarter was 20.7%, largely in line with the statutory rate.

Turning now to equity and our capital position. As previously announced, we entered into an ASR program with Wells Fargo in December to repurchase 150 million of our common stock. As of the settlement date, we had received approximately 900,000 shares where 80% of the total shares expected to be repurchased under the agreement. We expect to receive the final delivery before the end of the first quarter.

In addition, we returned the remaining capital from the sale of Chaucer through the special cash dividend of $2.50 per share at the very end of 2019. We are pleased with the prompt execution of our capital deployment plan.

The special dividend and ASR, including the timing of share delivery, reduced our book value per share in the quarter, which was partially offset by net income. As a result, our book value per share declined in the quarter by 2.7% to $75.94.

We are confident about our overall capital position. As we move forward, we will remain good stewards of capital, and we will redeploy earnings into profitable business growth or return capital to our shareholders. We regularly consider methods to optimize the capital for our shareholders, and we are constantly assessing our options.

With broad-based profitability and an effective capital allocation strategy, we continue to target a return on equity of 13% and higher over the longer term.

Before opening the line for questions, we want to share with you our guidance for 2020. We anticipate overall net written premium growth in the mid-single digits, driven by growth in our most profitable businesses. We expect lower net investment income compared to 2019 to reflect the removal of excess capital from the divestiture of Chaucer with increased insurance cash flows and reduced interest rates largely offsetting one another.

Our expense ratio should decrease by about 10 basis points in 2020, putting us at 60 basis points of improvement over 2 years. Our combined ratio, excluding catastrophes, should be approximately 91% to 92%. We are taking a prudent approach to loss selections given market uncertainty. While at the same time, we expect property pressure to ease up some in 2020.

Our cat load for the year is 4.6%. We expect an effective tax rate that will approximate the statutory rate of 21%.

Let me remind you of our seasonality. Our more northern footprint tends to show higher non-catastrophe weather losses in the first quarter. Our first quarter cat load is 4.4%, slightly below our full year ratio. With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I think, first, Jeff, just wanted to circle back on your NII guidance. I think I heard it a little differently in your NII comments versus guidance comments. Did -- is -- what I was supposed to hear that it's -- once you take out the $8 million of Chaucer, it should be flat year-over-year with cash flow offsetting yields?

Jeffrey Mark Farber
Executive VP & CFO

That's correct, Matt. You have it right.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Perfect. Just want to clarify that. Then shifting to the operations. You always give your price, can you give us a little more granularity there and don't need to nail down numbers, but even just kind of rough the pieces. What -- how much is pure price versus exposure? Because I know both are in there. Is it fairly equal-weighted? Is it shifting now as the market changes, that one is driving it more than the other?

John Conner Roche
President, CEO & Director

Yes, Matt. This is Jack. I assume you're talking about Commercial Lines?

Matthew John Carletti
JMP Securities LLC, Research Division

Yes. I'm most focused on that. Yes.

John Conner Roche
President, CEO & Director

Okay. Yes. So overall, I think what we would tell you is that throughout the year, we saw the rate component of Commercial Lines pricing continue to notch up really incrementally throughout the year, consistent with really the trajectory in the prior year. So -- and we also said, I think in the script and I've said in the past that the exposure part of this does move around a bit from quarter-to-quarter. And so I think last quarter, it was probably a little below our normal trajectory. In this quarter, probably a little bit above our normal trajectory. So if you look at that net total of that trajectory, and you see -- we haven't really disclosed the rate-rate component and the component that goes with exposure that we think continues into our pricing. But I think if you think of 2/3 of that as the trajectory of that core pricing below the level, that'll get you close.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Very helpful. And then just a couple more numbers questions. You talked a little bit about the programs and how you non-renewed a handful of them in '19 to kind of prove the underwriting results. Can you just help me a little bit with the timing of those? I'm just thinking it from a standpoint of when they might have went into effect across the course of '19? And then when we anniversary them in terms of apples -- getting back apples-to-apples in 2020.

John Conner Roche
President, CEO & Director

Sure. I'll say a couple of comments and then turn it over to Bryan. I would remind you that we have constantly been kind of pruning and adjusting our program profile for really the last few years, increasingly moving the portfolio to be more programmatic business with our broad-based franchise partners as opposed to kind of a singular program with an MGA that doesn't have that broader relationship with the company. So -- and most recently, including, if you remember, at the end of last year, we targeted programs and the auto centric classes or portion of our middle market business as particular areas that we were going to prune as we look at the liability environment moving out a little bit.

So I'll turn it over to Bryan to give you a little bit more specificity. But I want you to see this as kind of a continuation of making sure that the business that we have in the program sector is strategic and increasingly more profitable.

Bryan James Salvatore
Executive VP & President of Specialty

Yes. Thanks, Jack. Matt, what I would add is that -- an important comment Jack made is that this is a business that we view as increasingly strategic with our select agents. So we're very careful about how we manage that -- those exits from those programs, but we're also sort of very committed to doing that where we need to. As a result, each quarter, we took action on an increasing amount of the program business. It resulted in our shrinking that program business by 8.5%, and I think you'll see that continue through the first half of '20.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. That's very helpful. And then one last quick numbers question for, I guess, Jeff. Just on the few lines that saw the more -- they weren't massive, but more significant prior-period movements. So Commercial -- or sorry, Personal Auto, the commercial programs, and then on the other side of the workers' comp. Can you just give us a little bit of color on which accident years drove the majority of that movement?

Jeffrey Mark Farber
Executive VP & CFO

So Matt, thanks. Overall, we feel really comfortable with our level of reserves. And as we've said, we're going to react to these things when we see them so we don't have bigger issues going forward. Overall for the year, the favorability offset unfavorability. For the most part, it was relatively spread across, let's say, the last 3 or 4 accident years. I think we've talked about the bodily injury in auto being -- '16 and '17 were the primary years. Workers' comp was sort of spread evenly with a number of years, some older and some getting closer to more recent. So it really varies by line, but it wasn't -- other than the bodily injury at Personal Auto, it wasn't any particular line or either really recent or really old.

Matthew John Carletti
JMP Securities LLC, Research Division

Congrats on a nice year, and best of luck going forward.

John Conner Roche
President, CEO & Director

Thanks, Matt.

Bryan James Salvatore
Executive VP & President of Specialty

Thank you.

Operator

The next question is from Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

A few questions. The first question is on the guidance, 91%, 92% for 2020. I think it was a similar level for 2019. Maybe starting with the Commercial Lines. When you look at the pricing actions, and then you look at the loss cost trends, how are we thinking about margin improvement from here, assuming normalized losses and non-cat activity?

John Conner Roche
President, CEO & Director

So Amit, overall, in terms of our guidance, thinking about 2020 relative to '19, we do expect some margin improvement, again, from '19, with Personal Lines largely being flat. So we're seeing some elevated property and some auto BI that we feel we need to react to. And in the Commercial Lines, we're actually seeing improvement there. So Specialty, we expect to have somewhat reduced property losses. And in Core Commercial, it's really a combination of the property volatility returning slightly to a normal level and also the Commercial Auto improvement taking full hold. So the combination of continuing to get double digit pricing, and the earn in fully of the underwriting action should give us a little bit of a lift. And overall, there's a margin improvement from '19 to '20.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's helpful. Maybe just staying on the loss cost discussion and switching back to the PowerPoint Slide 6, which I think you've done a great job in outlining how the social inflation trends and your book interacts. The question I had is you mentioned the limits, et cetera, and I think you're highlighting how your limits are at $1 million -- 90% of your book is at or below $1 million limit, et cetera. There is a debate, which is emerging in this space, which is talking about how low limits might not insulate companies from social inflation. And in fact, social inflation, in some cases, has made its way down from the larger limits to the lower limits. Maybe you can talk about the broader trends and also about your specific experience over the last 12 months or so?

John Conner Roche
President, CEO & Director

All right. Thank you for that, Amit. This is Jack. I'm going to kind of talk about it at a high level and then I think Dick has some few thoughts that he wants to share. As you look at Slide 6 in our presentation, we really thought it was appropriate to remind everybody that the increased severity that's been making its way into the liability lines, obviously, first in Commercial Auto in a pronounced way, is something that we've been wrestling with and the industry has been wrestling with for a number of years. But if people will recall, midway through 2018, we saw some elevated losses coming through, particularly in the auto area that caused us to make some adjustments and -- in our picks, in our pricing, in our underwriting.

We also want to remind folks that, 3 or 4 years ago, we were maybe one of very few companies that was identifying some CMP liability claims patterns that looked challenging to us. At that time, if you remember, we talked about losses that were primarily slip, trip and fall type losses in the major metropolitan areas, although you could see some of it in some of the more challenging litigation environments. So all of this was a way for us to kind of say, how do we share with folks what we've already told you about the improvements that we've made in the portfolio, and then some contemporary things that we're doing to address the mix of the business, both sector and geographically?

The last point I would make just is about the issue around the limits profile of a company. I would tell you, in aggregate, mathematically, this problem exacerbates itself as you move up the limits profile. Is there some evidence that you're seeing more and more litigation and activity at lower levels of the business? I think the answer is yes. And we talked about that a little bit in our Personal Lines business that we're even seeing some evidence of some change there. But mathematically, from a loss ratio standpoint, it gets very much exacerbated if you're a higher limit player, if you have a huge umbrella book of business.

And so Dick, do you want to provide some color on that?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. I think I'll just add a few color commentary. You're absolutely right, Amit. The low -- our view is lower limit certainly helps insulate you from this trend. But certainly, we're seeing it in our business. But just as importantly, moving away from certain classes or geographies is going to help as well. So what our -- what we showed you here was that we've taken some action. And more importantly, the outcomes for the improvements that we pushed ourselves on in these areas, which we think further insulates us or mutes the effect of the social inflation into the future.

So what we show you is GL premium in our middle market book and how we pushed ourselves away from certain classes of business where that was more prevalent. So slip, trips and falls, you would tend to find more in real estate, retail, hospitality, restaurant. So you can see 25% reduction for us over a 3-year period. So class of business is one way to help insulate you, geographies is the other. So we don't spike out exactly what -- which these cities are, but major metropolitan areas which were more litigious in nature, we watch those patterns closely. And again, pushing our GL premium in middle market out of those geographies pretty significantly, 30% in one area and 55% in the other.

Amit Kumar
The Buckingham Research Group Incorporated

The other question I had was -- maybe switching gears to Personal Auto. I know you sort of briefly responded to the loss cost trends, the previous question. Maybe can you expand on the frequency and severity trends in BI and PD? And how should we expect them over 2020?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Sure. Yes. I can take that one. So a good question. We don't have a crystal ball, obviously. But a key question, I think, remains about the future of the frequency trends. Because when you talk about this, I think we would say the severity is likely to continue in phys dam. So collision and comp, the cost of repair on the phys dam side. Industry trend, similarly, we see that severity continuing. Also on the bodily injury, without severity continuing, the litigation costs, the medical cost that we've talked about. So I think it's appropriate to expect that to continue. The frequency has been benign, and in some cases, declining. And that access -- the counterbalance, of course, to that increase in severity. So where does that go? We blend those things together, we see a pretty fairly consistent sort of go-forward view of the loss cost.

John Conner Roche
President, CEO & Director

And this is Jack. I think what's critical to and what we've highlighted before is in Personal Lines, you can react to this, I think, more swiftly, right, through pricing and through some of the deductibles that we're imposing upon the business. So that's why we're comfortable that while we see some of these trends coming forward, and we're paying attention, particularly to that frequency number that Dick is alluding to, we can continue to make material adjustments, particularly with our new platform in Personal Lines that allows us to adjust pricing more granularly and more quickly.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

And to be prudent, Amit, we've planned for those trends to continue. And if we can manage them a little better, then we'll certainly do our best.

Amit Kumar
The Buckingham Research Group Incorporated

That's a fair point. Last question. On the capital management, and I'm sure you missed my capital management excess capital question. Your comment was you'll be good stewards of capital, you'll look for profitable business growth and then return capital. When you look at the opportunities versus capital versus stock multiple, is a special dividend or an increase in dividend down the road, is that maybe a better option versus a stock buyback here? Or how should we think about those sort of different buckets, one over the other?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Certainly, Amit, we look at all of those things. And our first priority would be to deploy it in the business and generate real strong returns. And if there was anything else we could do, even small, inorganic, we would do that. We'll figure it out in terms of what's the best for shareholders. But at different price points of valuation, certainly, stock buyback becomes more attractive or less attractive. So we're going to continue all the alternatives. I think having excess capital in a short-term nature, like Chaucer, that dictates a special dividend. It sort of feels appropriate. The difference -- as you think about ordinary dividend and special dividend, certainly out of operations, one has to think about that a little differently. So stay tuned, and we'll keep you posted as best we can.

Operator

The next question is from Freddie Sleiffer with KBW.

Frederique Suzanne Sleiffer
Keefe, Bruyette, & Woods, Inc., Research Division

Firstly, just on workers' comp, how are rising medical inflation and rising wages impacting your workers' comp loss trend?

John Conner Roche
President, CEO & Director

Thank you. This is Jack. Appreciate your question, Freddie. Listen, we've been around the workers' comp line for a few decades now. And as I said in my earlier comments, these are really truly unprecedented times. When you think of loss trends in workers' comp, they've generally really followed the economy and over time, seeing kind of indemnity kind of pushback and medical payments really come to the forefront. And even though there is still medical inflation out there, what is getting challenging, I think, for the industry to understand and it happened to be helpful, but not challenging in a negative way, is understanding the difference between the cost of medical procedures, and if you will, medical inflation, with the reduction, frankly, in incidents and types of claims. And we have done a lot of analysis inside to determine how much of the reduced loss trend, and frankly, negative loss trend in a couple of years was the function of a robust economy versus changes in jobs, changes in risk management or even claims management. So I think it's safe to say that the kind of environmental shift within the businesses are offsetting normal medical inflation that's coming through. And like every good company, we do a lot of analysis. But the -- you can get caught up in faults precision. Because the part that's the hardest to understand is, why are there less losses coming through the system than historically has been the case?

Frederique Suzanne Sleiffer
Keefe, Bruyette, & Woods, Inc., Research Division

That's helpful. And then just following up on that, how are you incorporating any risk of social inflation spreading to workers' comp?

John Conner Roche
President, CEO & Director

I'll have to think about that for a second. I don't know that we have specifically tried to align social inflation to the workers' comp line of business. I'd have to kind of defer to some of the folks that are maybe kind of doing some of that more granular analysis, but nothing comes to mind that jumps out at me.

Frederique Suzanne Sleiffer

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

Okay. And then just moving on to Personal Auto. Just wondering if intensifying bodily injury severity is specific to any particular region? And how are you feeling about overall personal with your pricing in 2020?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. I want to make sure I heard that question correctly. The bodily injury severity is not sort of attached to any particular geography. I'd say that's a fairly broad spread phenomenon. But I think your second question was around pricing. And yes, we would say, the market environment is certainly becoming increasingly competitive. We've seen our competition decelerate their rate increases. So still achieving positive increases. As you would expect, we track this very closely. We have terrific comparative rater information by state and so we've been holding steady on our rate. We -- our filed position both in auto and home is above the industry, and we're feeling a little bit of a pinch in the retention there. But we think that's a wise trade-off as you prioritize profitability over growth. So it is a competitive environment. We're seeing some potential evidence that these competitive pressures may actually not have that persistency over time. As we had talked earlier, the severity we're experiencing in the industry, both on the phys dam, bodily injury is putting justifiable pressure on profit. So we think other carriers likely will respond. So I think that's a question of how long this competitive environment persists.

John Conner Roche
President, CEO & Director

And as we said earlier, we're getting 5 points of rate for Personal Lines overall, but for bodily injury, specifically, we're getting meaningfully more than that.

Bryan James Salvatore
Executive VP & President of Specialty

That's right.

Operator

[Operator Instructions] The next question is from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congrats on the quarter. Most of the detailed questions that I could ask, maybe I'll give you -- towards the end of softball here. Could you talk a little bit about sort of longer term, where you want to build out more particularly? I mean as we -- not so much 2020, but as we think about it over a multiyear period? Is it just more of the same? Or are there specific areas that you'd like to see heavily overweighted with growth over the next several years?

John Conner Roche
President, CEO & Director

Yes. Thanks for that, Paul. This is Jack, again. Listen, it's an interesting time for us as a company after spending quite a bit of time rebuilding this portfolio and creating more diversification, driving more specialization into really all of our businesses. So I would start off with -- what we're most proud of is that our -- we have really broad-based profitability today.

Our Personal Lines business is generating terrific returns, our Core Commercial business is generating great returns, and most of our Specialty businesses are above hurdle rate or better. So it's a kind of a high-class problem to say, where do you want disproportional growth? We also know that we have to continue to work on our continued diversification. So we have a bias where we can to kind of casualty-oriented specialized business that allows us to continue to get the property to casualty mix, and to continue with our geographic expansion and diversification. But as you know, in our business, if you don't do that profitably then the diversification doesn't really help you that much. So I would say that we have options down the road, and options are to see if, at the right time, it makes sense for us to expand our Personal Lines footprint. Don't need to, but have that opportunity.

We have great momentum in our Small Commercial business. That continues, and I think you'll see us continue to prioritize that. The middle market business, I think if the environment plays out like we think, our specialized niches that are embedded in that business could have some real upside to them. But last but not least, and Bryan can speak to this. We have real momentum in getting our Specialty businesses with our franchise retail agents to really start thinking about building that portfolio more assertively with us.

So Bryan, maybe you can build on that?

Bryan James Salvatore
Executive VP & President of Specialty

Yes. Sure. So I guess, a couple of comments. First, I would point out that when I look at the overall Specialty portfolio and the growth that we've achieved, when I take out the actions that we're taking in the program business, the rest of the Specialty business grew by 7% in '19. And we're looking for similar growth like that going forward. And I would add that some of our most profitable, largely casualty-driven areas such as our broad-based Professional Lines business, our E&S business, they're growing high single digit, double digit-type growth. And that, to me, is very powerful.

Additionally, we do think quite a bit about what is important? What is valued by our agents? And so as we continue to push there and continue to build-out, right, I think Jack before mentioned some of our newer propositions such as our financial institutions business and the work that we're doing to really expand our E&S business in the retail space. But those are areas that we have put a lot of focus on, and we expect to see real contribution from them going forward as well.

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
Vice President of Investor Relations & Financial Planning

Thank you, everybody, for participating today. We are looking forward to talk to you next quarter.

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