S&P Global
Market Intelligence

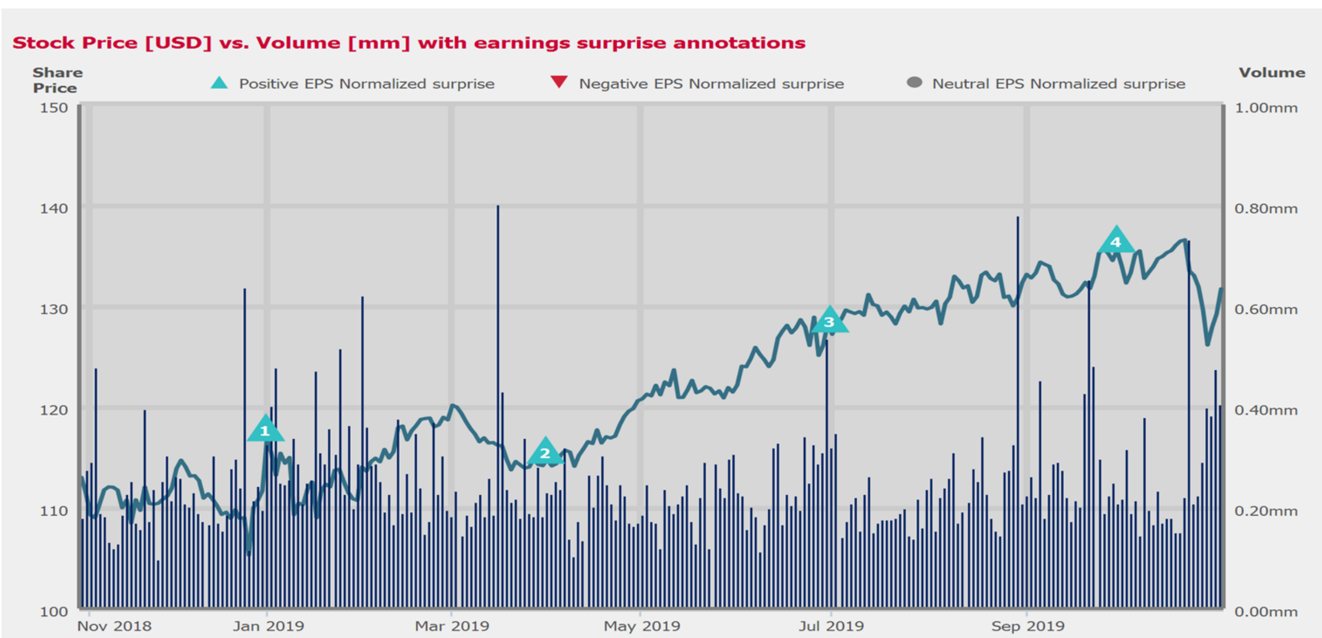
The Hanover Insurance Group, Inc.
NYSE:THG
FQ3 2019 Earnings Call Transcripts

Thursday, October 31, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.11	2.31	▲9.48	2.30	8.27	9.09
Revenue (mm)	1235.25	1242.90	▲0.62	1103.45	4574.55	4834.25

Currency: USD
Consensus as of Oct-31-2019 3:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	1.47	1.51	▲2.72 %
FQ1 2019	1.74	1.96	▲12.64 %
FQ2 2019	1.76	1.88	▲6.82 %
FQ3 2019	2.11	2.31	▲9.48 %

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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

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The Buckingham Research Group Incorporated

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

Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Good morning, and welcome to The Hanover Insurance Group's Third Quarter 2019 Earnings Conference Call. My name is Kate, and I will 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 will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and our Chief Financial Officer, Jeff Farber.

Here to answer your questions after our prepared remarks are Dick Lavey, President of Agency Markets; and Bryan Salvatore, President of Specialty Lines.

Our earnings press release, financial supplements and a complete slide presentation for today's call can be found in the Investor 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 the remainder of the year. There are certain factors that could cause actual results to differ materially from those anticipated. We caution you with respect to reliance on forward-looking statements, and in this respect, refer you to the forward-looking statements section in our press release, Slide 2 on 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 supplements, 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 will review our consolidated financial highlights for the quarter, provide perspective on our Personal and Commercial Lines' performance and update you on our strategic progress in the context of current industry and agency dynamics. As usual, Jeff will provide an in-depth review over financial results. And then we'll open up the line for questions.

We are pleased with our third quarter results as we delivered strong earnings while profitably growing our business. Our performance reflects the breadth and relevance of our product mix, deep industry expertise and our unique partnership approach, all of which enable our agents to successfully meet the needs of their customers. At the same time, we continue to advance our strategy while delivering on our current initiatives. I'll start with overall highlights for the quarter.

First, we continued our positive earnings momentum, building on a strong year. We delivered an adjusted operating return on equity of 14.3% in the quarter and 13.2% year-to-date. We benefited from better-than-planned catastrophe experience and continued expense ratio improvement.

Second, we generated net written premium growth of 5.6%, representing an increase from the 2.7% and 4% in the first and second quarters, respectively. In particular, we grew in Product Lines and classes of business that meet or exceed our target returns such as Professional Lines business within our Specialty portfolio, Personal Lines and Small Commercial. At the same time, we continue to execute on our underwriting improvement initiatives as outlined earlier this year.

Despite this disciplined focus and the associated portfolio actions, our premium growth accelerated in the quarter as newer business initiatives began to more substantively contribute to our overall growth. These drivers underscore our prudent and thoughtful approach to growth in this dynamic market. We remain committed to delivering a top-quartile return on equity while growing at a rate above the industry average.

Third, our loss performance during the quarter was solid but slightly higher than our expectations in property coverages. We saw elevated non-cat property losses in several areas of our business, including homeowners, some of our specialty businesses as well as in personal auto physical damage. We believe this uncorrelated property volatility is manageable, and we can address these losses effectively with pricing, improved terms and minor adjustments in our underwriting.

On the liability side, trends are elevated, but they remain in line with expectations. You've heard us discuss the deterioration in the liability trends as well as our actions to address them to the last several years. We have attributed these trends to increased medical procedures, delayed reporting and more aggressive and frequent attorney involvement. Like other industry participants, we are concerned about the cost to society of this tort tax that some are referencing as social inflation.

We have been addressing these trends in our book through pricing, underwriting, risk selection and reserving for some time. Over the last couple of years, we reduced our writings in some metro markets where we saw an uptick in severity of slip and fall and other liability-related incidents. In fact, our strong presence and penetration in less litigious states, in particular, in Michigan, Massachusetts and Maine, is influencing our loss trends in a positive manner.

Additionally, we believe that our risk limits and selection, industry focus and lower size and complexity of risks has and will mute the impact of these liability trends. For example, certain recent major industry liability pressure areas such as MeToo and reviver statute-related issues should be relatively minor for us financially based on the information we have today. Of course, we are not immune to the impact of the trends, but we are not surprised by them. And we are working hard to achieve rate increases in line with or better than loss trends.

Turning to our business highlights by segment. In Personal Lines, we grew our top line by approximately 6% as a result of new business growth at mid-single-digit rate increases. Our deep agency partnerships and account focus remain important differentiators for us in the market, especially in the face of increasing competition. We continue to increase our penetration in targeted markets, executing on our strategy to be our agents' carrier of choice for preferred account business. Account business now represents 85% of both new business and our overall portfolio.

Our Hanover Prestige offering, which focuses on customers with more complex personal insurance needs, continues to be very well received by our agent partners and has become a robust source of new business. We believe the upper middle-market sector in Personal Lines is attractive as it plays to our account-centric approach without the high limits and geographic challenges in the high net worth sector. Overall, we are pleased with the progress we have made in our Personal Lines business so for this year.

In Commercial Lines, top line growth in the quarter reflects our continued emphasis on profitability. We closely monitor pricing and loss trends, and we continually look for opportunities to achieve growth in areas where we see the most profit potential.

In Core Commercial, the market segments we focus on continue to behave rationally, and we generated average price increases of 5.5% in the quarter. The slight decrease from the second quarter was due entirely to the exposure component of pricing, which fluctuates from time to time. The rate component of pricing has been increasing slowly and consistently since the beginning of this year. We have been implementing meaningful rate increases in those businesses that need them most, like Commercial Auto for instance. New business momentum in our Small Commercial portfolio continues to be strong, coming from broad-based support across our agency plan.

In Specialty, our smaller and mid-sized account businesses are experiencing some pricing spillover, particularly in property from broad market firming and a large account size specialty areas. We continue to round out our specialty product set and are seeing tremendous opportunities in new or specialty capabilities such as financial institutions, excess and surplus lines and cyber.

Earlier this month, we introduced Hanover Cyber Advantage, a stand-alone product for Commercial Lines clients. We have a very targeted and conservative underwriting appetite in this emerging line, and we continue to utilize reinsurance as an important risk management tool.

Overall, I am pleased with the business dynamics and market opportunities that continue to present themselves through our results. The profitable growth momentum we have established across our business is a reflection of the broad product and service capabilities we deliver to our customers and the relevance we've achieved with our agent partners.

Our strategy was further validated over the last several months in our many conversations with our agent partners. In early October, we met with the industry's leading agents and brokers at the Annual CIAB Conference. Additionally, last month, I participated at the Insurtech Connect conference in Las Vegas, an industry event that brings together tech entrepreneurs, investors, brokers and insurance leaders from across the globe. The more we talk with our partners and others in and around the industry, the more confidence we have that our strategy is well founded and will continue to drive our company forward. We continue to observe an increasing agency focus on market consolidation, operational efficiencies and digital capabilities. Agents seek ways to use data to enhance client service and create workflow efficiencies. We believe this focus will only continue to grow as our industry becomes less fragmented and further embraces technological advancements. Agencies are seeking to partner with both carriers and insurtechs alike to take their firms to the next level. That is where we believe our strategy sets us apart and the market trends play to our advantage.

Over the years, we have developed a best-in-class consultative partnership approach with our agents. We have invested in tools to help our agents manage their books of business effectively and acquire new customers. These tools allow agents to gain operational efficiencies through a set of valuable agency benchmarking and portfolio management analytics. We also help them better understand their customers' needs, whether through account rounding strategies or specialization road maps and ultimately create mutually beneficial growth opportunities.

The way we embrace digital innovation in insurtech is unique in its agency orientation. For us, digital is a proxy for efficiency and a new way to engage with customers. It is not a way to eliminate the agent from the equation but a way to provide improvements and efficiency across the insurance value chain to both our customers and agents. We call it our digital assist model.

From a customer acquisition standpoint, we help agents acquire digitally-inclined customers through the use of intuitive customer-facing platforms, like the Insurago platform we introduced earlier this year. We enhanced the underwriting and claims management processes by leveraging data, analytics and digital connectivity tools to notably reduce the number of underwriting questions by prefilling pertinent data in the quoting process. We're also investing in customer-facing technologies to improve servicing, claims handling and self-service capabilities. We are incorporating robotics, live chat capabilities, drone technology and video collaboration tools to streamline and improve policy processing and claims handling. Acceptance in adoption rates for many of these innovative solutions are encouraging, and we are confident the company is well positioned to take advantage of the current agency and industry dynamics.

So as I said in my opening comments, we continued our momentum in the third quarter, building on a strong first half of the year and advancing our strategic vision to be the premier property and casualty franchise in the independent agency channel. We are making our company even more relevant to all of our agent partners with our building capabilities. We are intently focused on generating profitable growth. And we are disciplined about investing in those areas that will drive our strategy to the next level.

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

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone. For the third quarter, we generated net income of $118.9 million or $2.96 per fully diluted share compared with $100.4 million or $2.33 per diluted share in the third quarter last year. After-tax operating income was $93 million or $2.31 per diluted share compared with $84.9 million or $1.97 per diluted share in the prior year quarter. Our combined ratio was 94.4% in the third quarter of 2019 compared with 95.1% in the prior year quarter. Prior year reserve development was immaterial during the quarter.

In Personal Lines, we reported unfavorable prior year reserve development of $5.6 million or 1.2 points of the Personal Lines combined ratio driven by continued pressure from auto bodily injuries severity and some onetime homeowners liability claims, which can be inherently volatile.

In Commercial Lines, we recorded favorable prior year reserve development of $5.6 million or 0.8 points of the Commercial Lines combined ratio driven by continued favorability in workers' comp. Our chosen mix of smaller-sized accounts, lower-risk profile insureds and generally favorable industry loss experience continues to drive our excellent performance.

Catastrophe losses were $35.2 million or 3.1 points on the combined ratio, reflecting a relatively quiet domestic catastrophe quarter in our footprint. Excluding catastrophes, our combined ratio was 91.3% versus 90.9% in the prior year quarter. The increase was driven by elevated property losses in several businesses.

Our expense ratio improved 30 basis points to 31.7% from the prior year quarter as we continued to benefit from the leverage on our fixed expenses from premium growth. The improvement was also due to the timing of agency compensation in the prior year quarter. At the same time, we continued to fund strategic investments in our businesses from expense savings across our organization. We remain committed to deliver the expected expense ratio improvement of 20 basis points in the fourth quarter.

I will now review the financial results of our 2 main businesses. Starting with Personal Lines, we delivered a current accident year combined ratio, excluding catastrophes, of 89.2%, up from 87.9% in the same period last year due to higher losses from physical damage.

In homeowners, our ex-cat current accident year loss ratio was 48.3%, 1.2 points higher than the prior year period primarily due to non-cat weather losses. We have had elevated non-cat weather experience in the first 3 quarters of this year, which we are addressing with taking rate in targeted areas.

The Personal auto ex-cat current accident year loss ratio was 69.8%, 1.9 points higher than the third quarter of 2018. This increase reflects the timing of 2018 liability loss selections in auto. Liability trends are tracking in line with our expectations in the quarter.

On the property side, we saw an increase in losses in comprehensive coverage, stemming from animal hits as well as hail particularly in the Midwest and the Northeast. As discussed by others in the industry, we are also watching for increases in physical damage severity due to the cost of repairs. Despite some loss pressure, our Personal Lines business remains highly profitable and delivers target returns.

With that said, we continue to address the areas of pressure through rate and targeted mix initiatives. Personal Lines net written premiums increased 6.1% in the quarter driven by rate increases and organic new business momentum. Retention declined very slightly, an indication of the competitive market and our discipline to pursue rate where needed, but it remains at a healthy level. Our growth in Personal Lines is a reflection of our strong market position and differentiated product set.

Moving to Commercial Lines. Our current accident year combined ratio, excluding catastrophes, was 92.7%, consistent with the prior year quarter. Our Commercial Lines ex-cat current accident year loss ratio decreased 20 basis points from the prior year quarter to 58%. Commercial Lines profitability was affected by large property losses in other Commercial Lines, primarily in Marine. This was offset by improvements in workers' comp and the timing of current accident year loss adjustments in auto in the third quarter of last year. In addition, property experience and commercial auto physical damage was also favorable this quarter. Auto liability loss selections remained consistent with prior quarters. We achieved rate increases in this coverage of 11% in Q3, consistent with the second quarter as the market continued to support the need for additional rate.

Turning to workers' comp. The current accident year loss ratio improved by 1.2 points to 61.2% based on our loss experience and updated view over prior year trends. While we remain pleased with the solid performance in workers' comp, we continue to monitor this line closely given ongoing rate pressure.

Commercial Line's net written premiums grew 5.2% for the quarter led by our Specialty business. Growth continues to track favorably despite the continued impact of targeted profit improvement actions.

Moving on to our investment performance. Net investment income was $68.8 million for the quarter, 3.6% higher than the prior year period due to increased cash flows from operations, partially offset by a lower partnership income. In addition, we are seeing a minor impact from lower interest rates, which have reduced yields on the reinvestment of fixed income assets.

Cash and invested assets were $8.4 billion at September 30, 2019, with fixed income securities and cash representing 85% of the total. Our fixed maturity investment portfolio has a duration of 4.2 years and is 96% investment grade. Our well-laddered and diversified portfolio remains high quality with a weighted average of A+.

Our operating effective tax rate for the quarter was 20.4%, slightly lower than the statutory rate due to the net favorable impact of excess tax deductions on certain stock compensation. We anticipate the effective tax rate going forward will approximate the statutory rate of 21%.

During the quarter, we made final true-ups related to the Chaucer sale, including a final adjustment of the contingent consideration and various other tax-related items, which resulted in a $12.8 million increase to after-tax nonoperating income.

Turning now to equity and our capital position. Our book value per share was $78.01, up 4.9% for the quarter compared with $74.39 per share at the end of the second quarter. The increase was attributable to net income and unrealized and realized gains on investments. This was partially offset by the payment of regular quarterly dividends.

The $150 million ASR program we entered into with Scotiabank on June 27 completed on October 28. And we received the final delivery of approximately 200,000 shares yesterday. In total, we purchased 1,150,000 shares under the agreement. Our remaining deployable equity related to the sale of Chaucer is now approximately $250 million. Over the next month or so, we will complete the usual annual financial planning cycle, which will give us a clear view of investment needs and opportunities. In addition, cat season will end soon, putting us in a better position to make capital deployment decisions. To be clear, we will not be presenting an adjusted operating ROE in 2020.

Annualized operating return on equity was 13.3% for the quarter or 14.3% after adjusting for the remaining on undeployed equity and net investment income related to the Chaucer sale. Our strong third quarter performance reinforces our strategic focus, financial discipline and commitment to delivering sustainable top quartile results. And as always, we are carefully managing our expenses, positioning us to continue investing in the areas that are important to our agents and customers.

Looking ahead, we are progressing through our performance target set forth at the beginning of the year. We also note that our fourth quarter catastrophe assumption is set at 3.6%.
With that, we will now open the line for your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Jack, in your opening comments, I think I heard that you referenced, particularly Commercial, some of the stronger growth coming from new initiatives. And I was wondering, specifically, if that's more of a specialty-oriented business that you've been talking a little bit about and trying to grow and, if so, if you could give us a little more color there on where you're seeing success and what sorts of lines of business.

John Conner Roche
President, CEO & Director

Yes. Thanks, Matt. I appreciate your question. Yes, I think, clearly, we are getting additional traction in some of the new areas that we focused on within specialty. We advanced a financial institutions practice that started with some of the professional coverages and followed up with some of the P&C coverages, and Bryan can elaborate on that further. We've been moving forward with kind of a retail E&S orientation. We've been moving forward with our cyber product, both the embedded product as well as a monoline product. But I would also say Matt, that more broadly, when we're saying initiatives, we have a number of initiatives across the firm to accelerate our penetration in our existing products with more agents. As our business model matures, we're getting more and more of our specialty resources deployed to more agents. And we have got better alignment across the regions in order to get that deeper penetration from broader agents. So Bryan, I don't know if you want to elaborate further on that.

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. So we are definitely starting to get some traction on our newer product offerings that Jack referenced. But I do think for the quarter, the biggest impact for Specialty came from those initiatives that Jack mentioned and we're really embedding our relationships more fulsomely with the Specialty Lines. And just to share some of the numbers around that, the growth is strong. The Specialty growth for the quarter was 7.1%. And a lot of that was driven by our most profitable lines. So in, for example, our professional, liability and health care lines made over 10% growth. In our E&S and our HSI businesses, we had double-digit growth, so really seeing some traction from these initiatives that we're pushing on.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then just one other, if I could, probably more for Jeff. You -- Jeff you mentioned kind of auto BI continuing to be a nuisance, and I think that's an industry-wide problem. Is there -- as you -- as we kind of moved on and it persists, has anything -- have you seen any new drivers of it emerge, kind of the reasons behind it? Or do you think that it's the same drivers and they just kind of continue to get worse and not, kind of move the other away?

Jeffrey Mark Farber
Executive VP & CFO

Thanks, Matt. I mean really with respect to Personal Lines auto, which the comments were related to in general, it's really more of the same. So the active lawyer involvement, some of the delayed reportings, some of the increased medical. Overall, as you know, that's a really profitable book for us. And we're getting a lot of rate. In fact, in BI, in Personal Auto specifically, we're getting 10% of rate. And overall, we had no favorable or unfavorable development. And so we had workers' comp, which certainly offset the Personal Auto development.

Operator

The next question is from Christopher Campbell of KBW.

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

Congrats on the quarter.

John Conner Roche
President, CEO & Director

Thank you, Chris.

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

I guess, first question is could you break down the Commercial pricing. It kind of slowed down this quarter into the rate and exposure pieces. And we just kind of go in the opposite way from the industry survey. And I know that you guys bake in rate and exposure in there. So just trying to understand those components.

John Conner Roche
President, CEO & Director

Sure. This is Jack. Let me make a couple of overarching comments about that, and I'd love for Dick to kind of follow up on some of the specifics. As we said in our prepared remarks, the dip over second quarter was entirely attributable to the exposure element which it does bounce around from quarter-to-quarter. And I wouldn't say that there's anything in -- about that exposure change that is really that relevant to our pricing. But what has been happening is steadily, we have been getting some increases in the rate components of, what we call, new money or our overall pricing. And so that's encouraging. We have seen, I think, more and more expansion of that and we're anticipating that, that will continue based on a lot of the noise that you're hearing in the quarter. And so maybe what would be good is if Dick would just provide a little bit of color. And then we could just finish with kind of building off of the commentary that Bryan started with last quarter about we are seeing some improvement on the specialty side of pricing that doesn't necessarily get as much attention.

All right, Dick?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Sure. So essentially, we believe pricing is essentially at or close to loss trend. And of course, the dynamic differs by line of business, so maybe just a few comments about a couple of them. So on the Commercial Auto side, we're seeing our highest price increases here, where we need it the most, about 11 points in the quarter. Of course, this is above loss trend in both our middle market and our small commercial business and frankly, seeing broad-based acceptance of this level, and believe we need to continue at that level for the -- several quarters going forward.

On the work comp side, Jack just referenced this, we've been able to manage through the state-filed rate decreases effectively, however, still experiencing negative rate like the industry, and we're below long-term loss trends for this line. But exposure's on the rise, right, due to the strong economy and higher payrolls, which is offsetting that negative rate increase and some percentage of that exposure we believe definitely acts as rate. So watching the frequency closely on that as that labor market tightens and when this line's going to firm up in pricing. And we do see some good competition there. Good news is we're growing our Small Commercial work comp book at a much higher rate, essentially all of our growth is coming from the small commercial side, where we have 5 to 10-point performance advantage.

And then our property in GL, it's been positive over the last several quarters in the kind of a low mid-single-digit pricing. We see room there to push on both sides.

Bryan James Salvatore
Executive VP & President of Specialty

Yes. And then relative to Specialty, I think I'll just remind us of something Jack said also which is that we do operate in the marketplace below those large accounts that have been getting a lot of the attention relative to pricing recently. That said, we are seeing some spillover, and so the ability to get price across a lot of this Specialty Line exists. And we have been getting that price, going after it and achieving it in a way that I would say is measured, appropriate and segmented, but we're getting the rate now, and we're seeing that firming.

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

Okay, great. Well, thanks for that color. That's very helpful. Touching on the workers' comp, I noticed the core loss ratio was down 120 bps year-over-year, then the reserve releases fell by about $3 million year-over-year as well. So I guess, if you're seeing less redundancies in the older accident years and then rates are coming down, why aren't the loss cost picks and workers' comp rising?

John Conner Roche
President, CEO & Director

Yes. I think, first and foremost, what Dick said is a major factor for us is that the loss ratio differential between our Small Commercial business and our middle market business, and that's true for the industry, it's pretty substantial. So when you have robust Small Commercial growth, combined with flattish middle-market workers' comp growth, the math actually works quite rationally. And so that said, we are our own biggest critic about where are we with loss trends, what are we seeing in current accident year versus what we're seeing in the development of the prior years. And we continue to be surprised, frankly, that the loss trend, the current loss trend that we're experiencing is still very benign. So the combination of mix change and a continuation of very benign loss trends, we believe, is benefiting us and many in the industry.

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

Okay. Great. And then a question on the reserves, so just at a very aggregate level. So I was looking back, and this is like your 11th consecutive quarter of like no net development. So I guess just how likely could it be that Hanover's either building up like a very sizable release or a potential charge down the road. And I guess, why aren't the reserve movements more like naturally flowing?

Jeffrey Mark Farber
Executive VP & CFO

Well, thank you -- thanks for the question, Chris. This is Jeff. Overall, we feel very good about our reserves, and we're committed to reacting when we see things. And we want to be comfortable with our reserve position. And I think, given all of the loss trends and the challenges, I think it's not appropriate to expect meaningful favorable releases anytime soon, and we feel comfortable with the reserves and the position. But we show lots of details in our lines. So you're always going to see items where we need to shore up a little bit more and now we've got -- fortunately, we have had plenty of room in other lines to be able to naturally offset that.

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

Okay. Great. Well, that's very helpful. And then just one last one the share repurchases and Chaucer proceeds. I guess, what are the plans for the remaining $256 million? And then beyond that, like if those potentially were used for an additional ASR, what percentage would -- should we be thinking about just normal repurchases once all the Chaucer capital is gone? Is there like a certain target you guys have, in terms of like returning like operating income as repurchases over time? I guess, just trying to get a sense for once we get all the noise of the Chaucer capital going away. How should we be modeling this kind of more of the attritional repurchases over time?

Jeffrey Mark Farber
Executive VP & CFO

So overall, as we said in the prepared remarks, we're in the final stages of going through our annual planning process and that gives us an idea do we have -- what opportunities? What needs do we have for that capital? We're in the late stages of the cat season. So it's sort of convenient to wait a little bit and just make sure that we don't have anything that could surprise us. And then in reasonably short order, we'll make final decisions on what we want to do with that capital. We're -- we'll be coming back to investors with our plans after we've determined those. But as I mentioned, and I meant it, we're not going to be preparing an -- or providing an adjusted operating ROE. So we feel pretty comfortable that won't need to be provided or -- going forward.

The second part of your question on capital management. Historically, we haven't really provided specific guidance on what we're going to do. Historically, we have had a pattern of adjusting the dividends. So that we can return about 30% to 1/3 of the operating earnings. And then we have generally supplemented that, as appropriate, with stock buyback. So we will continue to do that over time. And I think, it will probably return to a more traditional level of routine dividend, ordinary dividend and stock buyback as appropriate. But we're very focused on the return on equity. So obviously, we've got a right -- continue to rightsize the capital as we continue to generate it at a very rapid level.

Operator

The next question is from Amit Kumar of Buckingham Research Group.

Amit Kumar
The Buckingham Research Group Incorporated

Congrats on the print. A few questions for you. Let's maybe go in the reverse order, picking to Chris' discussion on capital. Just to be very clear, are you signaling a complete disposition of the remaining excess capital by year-end? I'm just trying to connect the dots on your comments that you won't be using the adjusted ROE map going forward.

John Conner Roche
President, CEO & Director

This is Jack, Amit. Thanks for the question. I think we are going to maintain a very consistent approach to this question, and I think our track record is a good one in terms of being clear that while we continue to investigate opportunities that are emerging in the market, both organically and -- inorganically and organically, that we have pretty strict criteria, and we have a high level of discipline about how we develop smart growth. And in today's current environment, that does provide some guardrails, not only in terms of our strict criteria but in terms of the market environment that we're playing in. So what we are signaling to you is that unless something significantly changes, we continue to follow down a path of being very shareholder-orientated, returning the capital that we don't plan to use in relatively short order. And then continuing to assess the capital needs that we have for the kind of growth that we're anticipating. And as we head into 2020, we do believe there'll be some opportunities, but we also know, as Jeff said, that we're generating a fair amount of excess capital through our returns. And that means that we should be focused on when and how we can deliver that capital back to our shareholders.

Amit Kumar
The Buckingham Research Group Incorporated

Just sort of keeping on that point. We've been talking about inorganic opportunities for some time, and we've talked about -- you mentioned the guardrails. Could you give investors some confidence that we won't wake up over the next few months and see that Hanover is involved in some sort of large acquisition in terms of trying to utilize this capital?

John Conner Roche

President, CEO & Director

I think I've personally been very consistent on this point, Amit. And so I can reiterate when I've said along this last year, that we do not anticipate any type of transformational acquisition based on the market conditions as well as the inventory that we have reviewed. We will continue to look for small or capability-orientated acquisitions. And unfortunately, we have not been able to find something to our liking. We would never discount that, but I can commit as I have that we're not planning on doing anything transformational from a M&A perspective.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's actually very helpful. I have 2 other quick questions. The one other question is on personal auto end, and I think you talked a bit about in the prepared remarks on the auto BI and the trends you've seen. And I wanted to -- I think you might've mentioned some regional component to that. But are these the usual states? Was there 1 state where you saw that? And do you plan to take additional rate action? Maybe just expand a bit more on that thought process on the higher auto BI.

John Conner Roche
President, CEO & Director

Yes. this is Jack, again. And I appreciate this question and the way you worded it, Amit, because I think we have a very good story to tell here. And it's helpful to go back over the last couple of years and see how we consistently try to address what has been continued elevated loss trend in the Commercial Auto arena. So as you know, we, like most people in the industry, observed some accelerated severity back in the 2012 area. We filed that for -- I'm sorry, I was over on Commercial Lines, and I understand the question was more Personal Lines-oriented. Is that true?

Amit Kumar
The Buckingham Research Group Incorporated

Yes, sir. That's okay. Yes, that's correct. But I'll take your discussion, I mean I'll take anything.

John Conner Roche
President, CEO & Director

Yes, sorry about that.

Amit Kumar
The Buckingham Research Group Incorporated

We can come back to Personal. But go on.

John Conner Roche
President, CEO & Director

Okay. Yes, let me just finish up on Commercial, and then I'd be happy to actually -- to have Dick follow up on PL also. But anyway, I think what we're proud of and what we're trying to stay diligent on is that if you recall last year, about midway through the year, we started to observe some further elevation in the loss trends in Commercial Auto that concerned us. And so in the third quarter 2018, we decided to change our picks not only for the third quarter but retrospectively for the year and that created some elevated current accident year loss ratios at the time and also caused us to look back at the recent prior year -- prior accident years and make sure that we were truing those up appropriately. So as we look back over the last year, we acknowledge that the loss trends have continued to elevate, but we think that the changes that we make in our picks, in our reserves, in our claims procedures and importantly, in our underwriting and pricing approaches, are what's helping mute and address some of these elevated trends. And so we're not immune to these trends, but I'd like to believe that we are as on top of these trends and addressing them as much as it possibly can be done. And if you remember, we came into this year telling the investment community that we were going to taper the growth a little bit, in part to make sure that we could get after some Commercial Auto issues and not let this get away from us.

Amit Kumar
The Buckingham Research Group Incorporated

Yes. And on the Personal Auto, do you want to just hit on that.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

I can give you a brief answer on that. So the auto BI trend that we see really is across the footprint in the BI stage, outside of the PIF stage. So we watch that very carefully. As you know, Personal Lines is all about your performance in individual states. And we are able to achieve the rate, that 9%, 10%, on the BI in the states where we need it the most. So we watch that trend and specifics about it. I wouldn't say that it's coming from 1 of 2 states, it's more broad-based than that.

Amit Kumar
The Buckingham Research Group Incorporated

Okay. That's all right. And then last question. I think Jeff or someone made some comments regarding the MeToo and the reviver. And the comments exactly was this is relatively minor for us based on information we have today. Was there some sort of a ground-up analysis, which you did, or examination of old documents? Or maybe just talk a bit more about that?

John Conner Roche
President, CEO & Director

Yes. This is Jack, again. We, like I would imagine most people in our industry, have done thorough analysis and assessment of what these exposures could mean to us in our prior portfolios as well as in our existing portfolios because even as if you don't have any legacy exposures, clearly, we believe these trends have an impact on how you price your business going forward and frankly, what kind of business you decided to pursue. So as -- particularly, if you think about the reviver laws and anticipating how that could continue to evolve, we did a thorough assessment of what our exposures were back -- well back to '70s, identified what types of policies we have, and frankly, what limits were exposed. So as we see this issue develop, we have a relatively high level of confidence that, not only did we not over-participate in the kind of business that lends itself to this exposure but where we did, the limits were extremely low. And then lastly, the reinsurance attachment points that we've had historically also provide an additional level of comfort.

Operator

[Operator Instructions] The next question comes from Paul Newsome of Sandler O'Neill.

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

Congratulations on the quarter -- call -- or the quarter, please. Chris and Amit were nice enough to ask the first 24 of my 25 questions. So the only thing I wanted to ask was the -- we've talked a lot about bodily injury on the Personal Lines side, but all states have actually had a spike in physical damage frequency. Did you see any of that as well? Or was that maybe just all of it?

John Conner Roche
President, CEO & Director

I'll let that -- turn that over to Jeff maybe.

Jeffrey Mark Farber
Executive VP & CFO

Yes, this is Jeff. So we did see an increase in our frequency trend on the comprehensive coverage part, which we referenced in our prior comments around animal hits but glass and towing also, with an increase in frequency and severity, right? So more expensive windshields to repair, longer repair times. So rentals tend to be a bit longer. So nothing that we can't overcome and price for, but that is something that emerged in our book. We are not seeing frequency on the property damage or the collision side. So we feel very good about it.

Operator

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

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Thank you, everybody, for participating today. Looking forward to talking to you next quarter.

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