S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

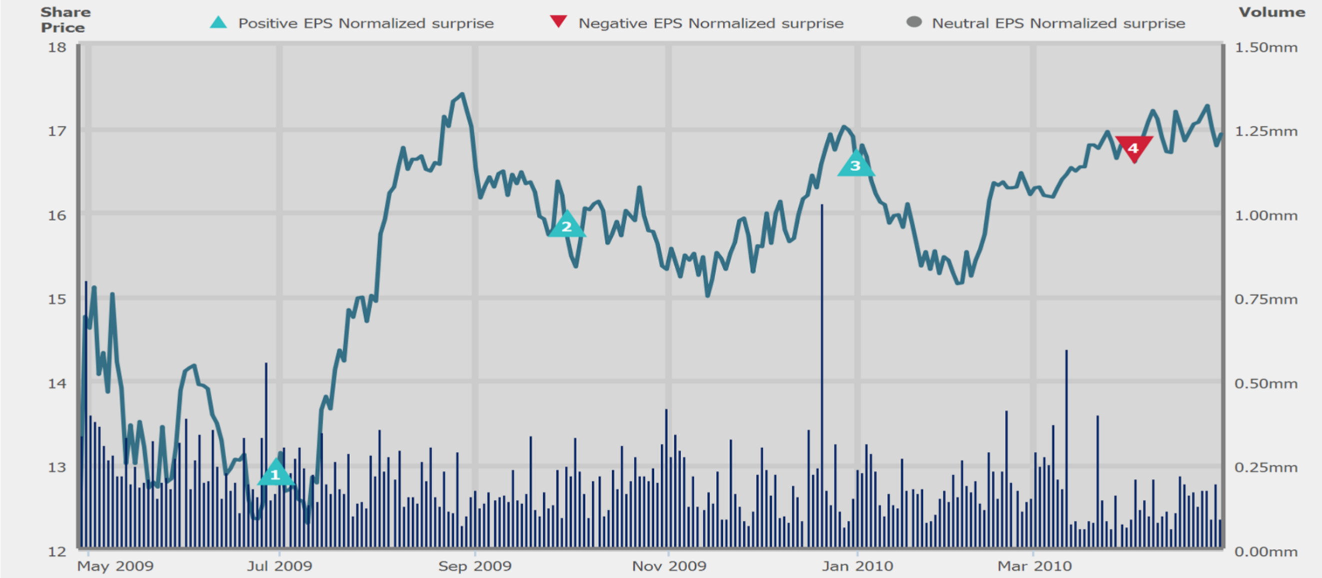
FQ2 2010 Earnings Call Transcripts

Thursday, July 29, 2010 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.38	0.41	7.89	0.33	1.24	1.56
Revenue (mm)	392.23	387.72	(1.15 %)	392.24	1570.53	1609.08

Currency: USD
Consensus as of Jul-29-2010 6:15 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	0.24	0.43	1 79.17 %
FQ3 2009	0.34	0.44	2 29.41 %
FQ4 2009	0.37	0.47	3 27.03 %
FQ1 2010	0.20	0.12	4 (40.00 %)

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EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer DiBerardino

John Joseph Marchioni
President & COO

ANALYSTS

Alison Jacobowitz
Bank of America Merrill Lynch

Caroline Spears
Macquarie

Mike Grasher
Piper Jaffray

Scott Heleniak
RBC

Presentation

Operator

Good day, everyone. Welcome to the Selective Insurance Group's Q2 2010 earnings release conference call. At this time, for opening remarks and introductions I'd like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino. You may begin.

Jennifer DiBerardino

Thank you. Good morning, and welcome to Selective Insurance Group's Q2 2010 conference call. This call is being simulcast on our website and the replay will be available through August 27th, 2010. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call is available on the Investor's page of our website at www.selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax results of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward looking statements, as defined by the Private Securities Litigation Reform Act of 1995. Forward looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's annual reports on Form 10-K and any subsequent Form 10-Qs filed with the United States Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward looking statements.

Joining me today on the call are the following member's of Selective's executive management team: Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, Chief Actuary. Now I'll turn the call over to Dale to review the quarter.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks, Jenn. Good morning. Q2 results were strong despite another high catastrophe quarter due to severe storm activity throughout our footprint. Catastrophe losses totaled $16 million in the quarter, including $3 million in additional development from Q1 catastrophes related to the last storm on March 31st. For the Q2 we reported operating income per diluted share of $0.41, as compared to $0.42 a year ago. While earnings were reduced by the high catastrophe losses, offsets included positive alternative investment income due to general financial market improvements, and favorable prior year reserve development due to positive claim trends.

The Q2 statutory combined ratio was 101, 2.2 points higher than a year ago. Catastrophe losses accounted for 4.5 points on the quarter's combined ratio, partially offset by favorable Casualty Lines reserve development of $11 million pre-tax, or 3.2 points on the combined.

Commercial Lines growth continues to be a challenge given economic and competitive conditions. Commercial Lines net premium written declined 6% in the quarter driven mainly by $18 million in return audit and endorsement premium that was essentially flat a year ago as the economy and unemployment continue to impact audits. New Commercial Lines business declined 21% in the quarter, while renewal pure price was up 3.3%. Policy retention declined a point to 75%, as we continue to push for positive Commercial Lines pure price. We are mindful of the delicate balance between price and retention, and we monitor it very closely. We reported a Commercial Lines statutory combined ratio of 99.9% in the Q2. Cat. Losses contributed 3.7 points to this combined ratio.

Commercial Property x catastrophes performed very well with a 79.8$ statutory combined ratio. General Liability also had a good quarter, reporting a statutory combined of 93.5% as did Commercial Auto with 87.9%. Commercial Auto results were positively impacted by favorable development of 13.7 points as a restful of lower than anticipated severity, primarily in the 2007 to 2009 accident years. General Liability results included 11.9 points of favorable development in the quarter, related to 2008 and prior accident year.

The Q2 Worker's Compensation statutory combined ratio was at 127.4. This line continues to be negatively impacted by return audit and endorsement premium and also includes about 12.9 points of adverse prior year reserve development related to severity in the 2008 and 2009 accident years. There's also some pressure on the current 2010 accident year; however frequency continues to trend lower.

We rolled out the first predictive model for the Worker's Compensation line in 2006 and the second generation model for this line in 2009. Given that the models are primarily predictive of the probability of frequency, they did not predict the level of severity development that we experienced. The economy and unemployment levels continue to weigh on this line of business the most. Worker's Compensation is also the most regulated line of business, and while we increased pricing 2% in the Q2 it is more difficult than other lines to raise price. Additionally we are seeing some very aggressive competition for Worker's Comp, as some carriers use flat 10% commissions, making it even more competitive.

Personal Lines net premium written grew 14% in the quarter to $67 million. The Personal Lines statutory combined ratio for the quarter was 107.6%, including 8.5 points of catastrophe losses. Retention improved 4 points from the Q2 of 2009 while we continue to drive rates higher. We successfully completed the negotiations on our July 1st, 2010 excess of loss treatise. The Property excess of loss treaty was renewed with the same terms as expiring, and the treaty rate decreased 2%. The Casualty excess of loss treaty was also renewed with the same terms as expiring, and the treaty rate increased 9%.

Turning to investments, Q2 net investment income after tax increased 28% to $28 million, and was primarily driven by after-tax alternative investment income which increased $8.9 million from the Q2 2009 to a $3.2 million after-tax gain. The Q1 rebound in the equity and credit markets drove the improvement for alternatives.

Commercial Real Estate continues to produce a loss, albeit only $321,000 after tax this quarter versus $1.2 million in the Q1. Partially offsetting the positive impact alternative investments had on investment income, was decreased in fixed income due to lower yields and a higher than usual short=term and cash position. We expect this cash to be opportunistically deployed in Q3.

Our fixed income portfolio after tax yield was 2.9% for the quarter. Expenses were higher than usual in the quarter, due an additional $300,000 after tax charge from the outsourcing of the investment department, which was completed in the Q2. We hired two managers to invest our fixed income portfolio, Conning Asset Management and Deutsche Asset Management, with Conning being the lead with a larger allocation of the portfolio. As we have stated, we don't anticipate a change in investment strategy, just the execution model. We believe we will benefit from broader sector-specific knowledge, advanced risk management tools, and greater flexibility and trade execution. Over the longer term we expect better risk-adjusted investment yields.

Compared to a year ago, the unrealized gain position improved from $4.7 million pre-tax on June 30th, 2009, to $89.6 million at June 30th, 2010. Other than temporary impairments, or OTTI, in the quarter were recorded at $4 million after tax, versus $8.1 million in the Q2 of 2009, primarily reflecting the continuing credit crisis and the associated securitized problem loans. Private label structured security exposure has been substantially reduced to $108 million, with $12 million in unrealized losses. Commercial mortgage-backed securities, which continue to be the most challenged, represent $63 million of the total, and $8 million of the unrealized loss.

Invested assets were up 8% from a year ago to $3.9 billion. Market to amortized cost on the whole fixed income portfolio remain strong, ending the quarter at 104.2%, up from 99.5% a year ago. We've lowered our exposure to equities to only 1.6% of invested assets versus 2.3% a year ago as a result of the sale of our master limited partnership portfolio in the quarter. This sale resulted in a $10 million pre-tax gain.

Our $1.6 billion municipal bond portfolio is very high quality, with an average AA+ rating. 70% of the portfolio is in the health and maturity category, with the balance in available for sale. Revenue bonds represent 61% of the total municipal bond exposure, with the bulk of those in essential services. The portfolio is geographically diverse, with exposure in 48 states. Municipalities and public entities in Texas represent our largest state exposure at 12%. No other state represents more than 6% of the portfolio. Our fixed income managers have large municipal credit groups that provide deep resources to monitor the state economic and regulatory environment, and where possible, make adjustments to the portfolio.

Our overall fixed income portfolio maintains a very high credit quality of AA+ and duration of 3.3 years including short-term, and 3.7 years excluding short-term. We continue to watch for inflationary trends and feel we are well positioned to weather potential increases.

Surplus cross-back over the $1 billion mark in the quarter and stockholders' equity increased 4.7% from year-end 2009 to $1 billion. Our book value remains very strong with very little impact from intangibles. Book value per share increased from $18.83 at year-end 2009 to $19.65 at the end of the quarter. The dividend yield currently stands at 3.4%, providing a good return while the stock trades at 79% of book value.

The improvement in our capital position continues as the premium to surplus ratio was 1.4:1 at quarter end, down from 1.7:1 a year ago. While we view our stock valuation as very attractive, we are maintaining our current levels of operating leverage and capital. The environment of late has created a new normal for capital levels and we will maintain any excess capital to be prepared for an anticipated market hardening and to fully realize our growth capabilities.

Now I'll turn the call over to John Marchioni to review the insurance operations.

John Joseph Marchioni
President & COO

Thanks, Dale. Good morning. Given how competitive it remains in the commercialized space I'm proud of our employees' efforts. Our inside underwriters continue to maintain prince discipline, and as a result we are seeing increasing pressure on retention which is down about a point from a year ago and about a point-and-a-half from last quarter. We are monitoring this closely as we continue to retain the best-performing business at the highest rate, while seeing more of the worse-performing business walking away from fairly substantial price increases.

On a point of renewal basis, overall policy retention for the quarter was 88%, up slightly from 2009. Pressure on retention levels remains greatest on the larger accounts. The overall mix of our business continues to improve with policy retention at the point of renewal for the lower quality 1 diamond and 2 diamond business coming in 6 points less than average as we added almost 9 points of additional rate on this business. Our best performing 4 diamond and 5 diamond business retained at 2 points better than average with rate increase of 2%.

During the Q2 we refined our strategy to focus our pricing efforts most aggressively to achieve profitability on the 1 diamond and 2 diamond business, while focusing strongly on retention for the 4 diamond and 5 diamond business. In the end, pricing will fall out where it will.

Working with our 980 agency partners, our field underwriters are writing the majority of new business in the highest quality 4 diamond and 5 diamond range. Submission activity from agents remains strong but there continues to be pressure on hit ratios. Commercial Lines new business was down 17% for the first half of the year compared to 2009. By segment, automated one-and-done small business was up 6.5% to $41 million. Middle market, or AMS-generated business, was down 22.3% to $71 million, and Selective risk managers, our large account business, was down 49% to $6 million.

New business pricing was up a very strong 5.9% in the quarter, further demonstrating the discipline we've instilled in our operations. Form a profitability perspective, the line showing the greatest strain is Worker's Compensation. While frequencies have declined 27% over the past three years since our deployment of predictive modeling, severity continues to rise. We are seeing increases in pain management treatment beyond the point of maximum medical improvement. This development is exacerbated by the economy where jobs for the injured worker to return to are harder to come by.

Our business owners' results are also not in line with our expectations. While a portion of this underperformance is a result of heavier than normal catastrophe activity, 12 points on a year-to-date basis, we are taking specific underwriting and pricing actions to improve this line's performance. In addition, it's important to note that the performance of the associated lines of business - Worker's Compensation, Automobile, and Umbrella - result in much stronger profitability on an account basis.

We continue to make progress in diversifying our Commercial Lines book of business. In the quarter, non-contractor new business comprised 63% of Commercial Lines new business, up from 58% a year ago. Personal Lines results are improving, but that improvement is masked once again this quarter by catastrophe activity. If we exclude cat. losses the combined ratio year-to-date was 97.5%. The pricing, product, and technology changes we've made to grow the book with granular pricing capabilities through our matrix modeling is showing traction. We continent to grow the book with new business up 27% year-to-date. We anticipate filing rate increases in 2010 that will potentially generate $14.8 million in additional premium. Twenty-five increases have already been filed year-to-date.

We continue to be optimistic about achieving our goal about being profitable in the Q3 and Q4 of 2010. We are confident about achieving profitability for three reasons - number one, our immature book will continue to age; two, we will begin to earn the implemented rate increases; and three, we will continue to get additional rate where possible and continuously refine our model.

We have a series of initiatives underway to enhance our claims handling process. These initiatives focus on improved workflows, better management of litigation and cycle times as well as medical expense management.

Now, I'll turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thank you, John, and good morning. The underlying Commercial Lines and Personal Lines results were solid once again this quarter, and our investment performance improved, driven by positive alternative investment returns. Premium volume has declined as the economy continues to take its toll. Audit and endorsement return premiums reduced our new premium written by 5% for the quarter and year-to-date. Again this quarter, high industry-wide catastrophe losses pointed to the need to raise rates and property lines. The industry cannot continue to play take-out with the impact of catastrophe losses. These losses need to be priced in. Additionally, declining interest rates call for rising Commercial Lines prices in order to produce appropriate returns on equity.

As the competitive Commercial Lines environment shows little signs of improvement, we continue to scratch our heads over the pricing we're seeing from our competitors around our footprint. We are all experiencing the same industry forces, but Selective's one of the only carriers willing to raise Commercial Lines prices. In fact, we have successfully had positive Commercial Lines prices for the past five quarters. We were able to achieve positive rate for two main reasons: one, our excellent agency relationships; and two, the tool sin place to granularly price Commercial Lines business.

According to analysts and investors, management teams say it's the competition who continues to cut price and not them, and their agents will not allow them to increase price. When the market firms we believe our success rate for both renewals and new business will greatly increase as a result of the sophisticated pricing tools and strong agency relationships. Relationships really matter in times like this and we have some of the strongest in the industry.

For Personal Lines year-to-date there's much less resistance to rate increases, as shown by our strong new business growth of 27% and a 4 point improvement in retention, which now stands at a solid 83%. As price and retention continue to strengthen, we're on track to meet our Personal Lines profitability goals.

Overall it's a very difficult Commercial Lines marketplace due to a soft economy and undisciplined competition. It is unfortunate, however, that it seems to be the general consensus that a hard market is another year away. If that's true industry-wide commercial lines action year results and returns will likely deteriorate for the next two-year period and valuations will continue to be under pressure, most likely leading to industry-wide consolidation. We believe that companies competing on price as their only competitive advantage will fall behind in the next market cycle. Our competitive advantages continue to center around franchise value, sophisticated underwriting and granular pricing tools due to our second generation models; technology that provides our agents with ease of doing business; strong agency relationships as a result of our unique field model; and too, a strong A.M. Best rating of A+.

We have the capacity for profitable growth. We have the people, tools, and strategies in place to persevere through this soft cycle and thrive in a firming cycle. Year-to-date our statutory combined ratio was 101.9, catastrophe losses were partially offset by favorable loss development as our underwriting results remained within our expectations. Therefore we're maintaining our statutory combined ratio guidance of 101.5 for 2010. The weighted average share assumption of 54 million remains the same.
Now I'll turn the call back to the operator for your questions.

Question and Answer

Operator

Thank you. We will now begin the question-and-answer session. (Operator instructions.) Our first question comes from Mike Grasher. You may ask your question, and please state your company name

Mike Grasher
Piper Jaffray

Mike Grasher with Piper Jaffray. Good morning, everyone, and congratulations on putting together a nice quarter in a very difficult environment. I wanted to go back to the, I guess you had broken out the sort of the small, middle market large account businesses in terms of the 4 diamond and 5 diamond. What's been the sort of change that you know, the net premium written down in Comp, in General Liability and Commercial Auto - how much of that is sort of the exposure units versus price versus culling of accounts? If that's a way we can look at it.

Gregory Edward Murphy
Chairman & CEO

Why don't I start with part of it and then John and Dale can jump in. Let's focus o the price aspect first, that's the easiest part to drill down on, Mike. Year-to-date our price in Comp, as you know that's the most regulated line out there in terms of pricing and that line was up only 2.2%. As you know our year-to-date pricing is 3.3 overall. That's, Comp is a line that we've been concerned about and from a regulatory standpoint many of the price filings coming out of NCCI are trailing by as much as two years in terms of loss trend.

So that's an area where we've gotten 2.2% of price and then I'll just touch on the audit and endorsement, and then the other guys can jump in on the other factors. Audit and endorsement overall on Comp for the quarter was $8.5 million of returned premium on audit aspect against the $6.5 million number a years ago. So you've seen… And our expectation on that, Mike, was that that would actually start to flatten out as we got through the Q1 and clearly into the Q2 '10, and that hasn't. And I think that's reflective clearly of a very, very soft economy.

And then from an endorsement standpoint our Comp premium was down $1.5 million in the Q2 of '10 versus $5.5 million of '09. So that's a little bit about what's happening in terms of pricing and the economic factors on audit and endorsement. And John or Dale, why don't you comment on some of the larger account pressure you're into on top line there.

John Joseph Marchioni
President & COO

So clearly, as we said our pricing on renewal continues to be positive, as does our pricing on new business. And that's largely across the board. We continue to be an account underwriter. So when you think about those lines, they tend to hang together in terms of hit ratios, in terms of retention. As Greg indicated, because of the difference in how base rates are established for Comp versus the other lines they may look a little bit different in terms of overall price achievement. But that is a big impact on it.

The other part of this is from a retention perspective, as we mentioned in the prepared comments, our retention is weakest as my sense is the entire industry's would be at the largest end of the market. That's where there continues to be the greatest deal of competition; that's where you continue to see companies getting overly aggressive on new business. And therefore our retention is under a great deal of pressure there. So that's also driving a fair amount of the decline on the top line you're seeing.

So on a policy count basis retention remains fairly strong. On a premium basis, because of that distribution from small to large it's under pressure.

Dale Allen Thatcher

Former Executive VP, Treasurer & CFO

I guess the only other thing I'd add, Mike, is obviously with positive pure price the decline in premium volume is not a matter of giving up price so much as decline in exposure, which is coming through as you saw in the audit premiums. So those policies still exist but they're smaller. So you got the contractor at the start of the year with 15 employees is ending the year with 10 employees. Our average policy size is declining as a result of that.

Also as John indicated, a lot more pressure on the top end as far as policy size, so you see a lot more policies that we walk away from there. Yet, at the same time at the very small side of the equation, the one-and-done side of the business, we continue to increase our production there. So again, that will drive a smaller average policy size, but also one that is much less susceptible to price fluctuation and much less price sensitive. So overall, I think it improves the overall book ultimately.

Gregory Edward Murphy
Chairman & CEO

And Mike, the one thing I will say, too, is that Comp is the one line we're most concerned about from an inflationary standpoint. You've got a lot of things that are going to be happening in healthcare that are going to change the paradigm for pricing by providers and physicians. And we feel or we're concerned about the cost issuing capability back onto the private payers and particularly how that would land squarely on the backs of Worker's Compensation providers and also the medical aspect and the Personal and Commercial lines aspects of our policies. So we are very closely monitoring that and you know, are just concerned about the inflationary aspects there.

Mike Grasher
Piper Jaffray

Okay. And just to clarify, I think you said new pricing up 5.9%, John. Could you clarify or explain exactly how that's measured? If it's a new account coming in, how do we know it's 5.9%? Is it relative to last year's new accounts?

John Joseph Marchioni
President & COO

Yeah, it's done on a book of business level. And unlike renewal pure price where you could actually look at the same policy set from one year to the next, with new pure price what we do is look at base rates on a class of business level and average schedule mod, individual account credits, and put those two factors together and compare them year-over-year to see what your price looks like class by class. Now, what it doesn't account for is that improving mix we're showing. So when you think about the improving mix of new business from a quality of accounts standpoint as measured by diamond score, that would actually put downward pressure on your pure price for new business because if you're writing more high-quality accounts you expect to write them and lower pricing levels relative to manual; still achieve profitability but write them at lower pricing levels, more schedule mod in particular. So that's a downward pressure.

So despite an improving mix of new business we're still at positive price. But I's a combination of base rate changes year-over-year plus average schedule mod.

Gregory Edward Murphy
Chairman & CEO

And Mike, I would say that this is an internal benchmark that we use and it's a gauge for us to see how aggressive our people are in the field , and it's up against, like John said, a manual premium and it takes into consideration what our base rates are, what kind of credit we're putting on it. It doesn't say what the competition wrote the account for, and I understand that - that's information that you generally do not have. But what we do have is a base line and it's a gauge to sense how we're doing overall as an organization. It's not a perfect measurement but it is a good measurement to kind of sense that.

Mike Grasher
Piper Jaffray

Okay, fair enough. And then Greg, just a final question and I'll get back in the queue. Your comments around the market and whether or not it continues to be soft for the next year or so. What's your own opinion or what's your outlook as we move forward? Obviously you're seeing your own rate from a bigger picture perspective. How much longer can sort of this soft environment continue?

Gregory Edward Murphy
Chairman & CEO

Well, in my mind it can't continue and that's why, Mike, we've been raising rate… And when I say "raising rate," we've been raising rate for a long time, probably two years now, but have had positive rates for five quarters now. We just don't understand and don't match the rhetoric that we hear from many other companies. You've seen a lot of the press releases and conference calls that have come out recently and you know, the rhetoric doesn't match with positive rate. And that causes more pressure and more difficult in achieving what we're trying to get done in a more complex marketplace.

So like we said we've refined our strategy and we're focusing on retention at the best end of the market. We're focusing on getting and continuing to get rate on the worse end of the market. And that's our strategy as we move forward. We would like to have much more aggressive strategy than that but based on what we see, I just don't think that that's a year away. It's unfortunate, it's a year away though. But we all suffer from the same declining interest rates, we're all suffering from the same you know, wind activity and hail and other catastrophic events. And at the end some of that needs to be priced into the marketplace.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

What I might add to that, Mike, is that it seems strange to us that A.M. Best is indicating an accident year Commercial Lines combined ratio for this year of about a 1.06. You tack on negative pricing for the year and you're talking a 1.08 at least next year. There's no ROE in a 1.08 that anybody can write home about, so it just doesn't make sense why prices aren't going higher right now, although obviously I understand with the economy and the shape that it's in it's difficult to sell those price increases. But anyway…

Mike Grasher
Piper Jaffray

Okay, that's helpful. Thanks very much.

Operator

Thank you again. (Operator instructions.) Our next question comes from Scott Heleniak. You may ask your question. Please state your company name.

Scott Heleniak
RBC

Hi, Scott Heleniak with RBC. Couple questions first on the investment portfolio. You guys mentioned deploying cash in Q3. Just wondering where you expect to deploy that cash specifically and what kind of yields you expect versus kind of where they are now?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Well, basically the difficulty with deploying cash right now is that we want to deploy it in the corporate space. The problem with that is the corporate new issuance, at least at the quality level, is not where we would like to see it. But obviously we'll continue to work on that, and one of the advantages of having the outside managers is you get much better execution, much higher allocations when you do have IPOs of bonds. So it is al title bit, you know, a better kind of situation that you're going to have there.

What we're looking at in terms of yields, they're definitely down from where they have been. And but certainly they're better than cash yields that we're seeing right now. I mean cash is barely saying anything. So to get a couple of points out of a bond yield makes sense. We don't anticipate any substantial movement in terms of duration. So it would be invested in the corporate space at that same kind of a three-and-a-half-year duration. It really kind of depends on what's going to be available out there in the marketplace.

Scott Heleniak
RBC

Okay. And then next, you guys had a nice contribution from the alternative portfolio this quarter. Any sense on what that might look like for Q3? That's all still reported on a quarter lag, right? So do you have any general sense on what hat contribution might look like for Q3?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

That is a one quarter lag but we're not prognosticating the alternative performance beucas they've been obviously very volatile. We continue to be optimistic, let's put it, with regards to the fact that we do have some stability in the broad marketplaces. You are seeing about a lot more chatter around positives in terms of distributions starting to occur from some of the alts as they see opportunities to start new funds. So we're generally optimistic but we're not prognosticating any specific numbers.

Scott Heleniak
RBC

Okay. And then moving on to cat. losses, they were again a little bit higher than normal this quarter. Just wondered if you could break out how many weather events you had cat. losses for and then specifically what the loss was from the Tennessee flooding?

Gregory Edward Murphy
Chairman & CEO

I don't have that right in front of me here. I can tell you that but was a significant number of small cats. that added up to that number amount. So it was broadly throughout our footprint.

John Joseph Marchioni
President & COO

And Tennessee wasn't that large. I mean we don't, it was like, this was a quarter of non-headline cat. activity that ended up being a series of smaller, 1.5 to 3 million style events, wind, hail, you know, in some cases flooding and you know, you do pick up flooding in Commercial Lines polices; but nothing that was major like last year, not last year, last quarter - some of those significant weight of snows, you know, big, 30+ inch snowstorms in Maryland, Virginia, D.C., and some of these other areas that created a lot of loss activities. This was a series of smaller style events.

Scott Heleniak
RBC

Mm-hmm, okay. And then just one last question. You mentioned the decline in retention. I'm just wondering how much of that is, I know you talked about large-account business is where you're kind of losing them. Just wondering how the retentions are holding up in the small account business which is really kind of your core anyway. So is most of that 1.5 decline in retention, is most of that or virtually all of that large-account business?

Gregory Edward Murphy
Chairman & CEO

Well, you know, our retention overall for the Q2 was, and this is just overall retention in Commercial Lines was 75.2 and on a year-to-date basis it was 75.8. So we only lost a little bit of ground on the quarter. And what we have seen is that we are having more difficult at the upper end of the market because that's the area where other companies are trying to meet their premium targets from and are extremely competitive. We talk to our field guys regularly, and in some cases our guys are telling us that we cannot even get to the price that some of the competition is putting on the table when they're trying to take some of these large accounts. We can't even get there. I don't know if John has some specificity around that…

John Joseph Marchioni
President & COO

Yeah. Retention for small accounts continues to be strong. We look at it in essentially $20,000 buckets up that chain in terms of size, so it continues to be very, very strong on the small end and then as you move up it clearly gets weaker. The other important item of note, and in the prepared comments you see that we report on total retention as well as retention at point of renewal. The fact that retention at point of renewal is holding relatively firm, that's where you'd expect to see the real big impact of our pricing stance. And you're not seeing it as such there, whereas total retention includes those accounts that don't reach their expiration date. So the impact of the economy is driving to a certain extent your total retention number.

So we look at that very closely, and when you look at that as well from small to large you'll see that the price sensitivity on the smaller end is keeping those retentions at the point of renewal relatively high, and that's where we're really seeing the pressure on the bigger end, at point of renewal.

Scott Heleniak
RBC

And how do you define large account? Is that over $50,000 in premium or…?

John Joseph Marchioni
President & COO

Well, for us we look at, in different buckets, but our pressure starts above $100,000. That's wher you're really starting to see the pressure. We traditionally define large accounts as $250,000 on an account basis, $100,000, $150,000 by line. But when you look at where the pressure is on retention it really starts to hit when you get above $100,000 on an account basis.

Scott Heleniak
RBC

Okay. Thanks a lot.

Operator

Thank you. Our next question comes from Caroline Spears. You may ask your question and please state your company name.

Caroline Spears
Macquarie

Hi. Yes, this is Macquarie. My first question is just on the Commercial Lines side. In terms of competition there, who is it that's being most competitive? Is it still both regionals and large companies, or is it other large competitors? Or is it one more than the other?

Gregory Edward Murphy
Chairman & CEO

It's a combination of both. No more specific than that.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

You know, the one thing that I think drives that is I do think that you know, we talked earlier about our new business pricing and how we monitor our new business pricing. It's our sense that a lot of other companies don't have that same capability. So although they may have some level of price discipline on their renewal book they just don't have a way to monitor the new business. And obviously our renewal is their new business that they're striving to get. So I think that that is a piece of what drives some of that competition, and why you hear rhetoric at the top about prices being firm for that particular company but it's not when it gets down to the street level.

Caroline Spears
Macquarie

Okay, thanks. That's helpful. And then just shifting onto the Personal Lines. Are you all nervous at all about the recent up tick in cat. activity that you've seen? And do you have any… Sort of as you grow in that line. And then do you have any initiatives underway to ensure profitability there as this segment of the business starts, continues to grow?

Gregory Edward Murphy
Chairman & CEO

Yeah. We're very, we monitor our cat. wind loads very closely as part of the new business process in the underwriting piece of business. WE know where it fits on the cat. map and we know our aggregations, so yes. And actually we've grown most of our personal Lines business in-state rather than more on the coastal areas. So yes, that's something that we closely monitor.

And it's funny - a lot of the activity, just generally cat. load has been more holistic wind, straight wind, hail, or other aspects of it. And those are perils that now through our bi-peril product that we have we can work to closely match the pricing for those. And we are driving much higher, we are driving rate. And what we're most pleased about, Caroline, in this segment is that our rate has been you know, several years of price increases.

We are very pleased with where we stand in the marketplace with respect to New Jersey Personal Auto, and then the fact that we've been growing our non-New Jersey business and we're comfortable with where we stand and what we're doing in terms of our rate mix of business and from an overall, the fact that there is anew business penalty as you grow that segment. And in the home market, I think prices just have the capability to elevate a little bit because the home, long-term home experience - and the industry hasn't been particularly good and I think that's a product that's too thinly priced.

John Joseph Marchioni
President & COO

Just another couple additions to that: Greg is absolutely right. We track very closely expected loss to wind versus property premium and have managed that number pretty aggressively over time. So if u look at our growth in the property side for Personal Lines, even in those coastal states the mix is very strong away from the coast. The other thing I'll add is that when we talk about bi-peril rating, we're one of the few companies in the market doing that right now. So your rate on seven different perils including wind and weather as separate perils, separate from crime and theft and fire - so that's not just about managing your coastal wind exposure. You're also managing your weather exposure in the Mid-Western states.

And then finally the rate activity we've talked about in Personal Lines, if you were to look at our property rate changes in the Midwestern territory you're in the double digits there, and the market's bearing that out so you're seeing a lot more rate flowing through that Midwest book as well.

Caroline Spears
Macquarie

Okay, thanks. Have you guys quantified how much your Auto and Homeowners rates were up in the quarter?

John Joseph Marchioni
President & COO

Yeah. 4.3% is the rate increase renewal in the quarter.

Gregory Edward Murphy
Chairman & CEO

Overall.

Caroline Spears
Macquarie

Okay. And then just final question - I know you talked a little bit about consolidation perhaps in the future if the market continues to remain soft, and I was just wondering what your perspective is, basically from Selective's perspective on consolidation, you know, one or two years out.

Gregory Edward Murphy
Chairman & CEO

Yeah, and we've talked about this before, and you know, we look for something that obviously from our business models, it's tougher for us to look for something in this footprint. And so if it was something that had the capability to bring new product into our existing franchise that would be an opportunity, cause anything really outside of that would probably trample all over a very strong franchise. I mean there's not a lot of companies out there that will do 22 states with 980 agents, writing an average premium volume of $1.5 million in their agencies. You've got to understand we rank #1, #2, #3 in a significant portion of our agencies, and that's where the franchise aspect starts.

So that, you know, that is difficult in-state. And then from a footprint expansion capability, that may bring another set of opportunities. And my belief is as we move through there may be renewal write deals out there, there may be a whole host of other activities that may become available that you haven't seen in years past.

Caroline Spears
Macquarie

Okay. Thank you all very much.

Operator

Thank you. (Operator instructions.) Our next question comes from Mike Grasher. You may ask your question. Please state your company name.

Mike Grasher
Piper Jaffray

Hi, everyone. I wanted to go abck and ask about the alternatives. the $94 million that is committed, over what time frame does that get deployed?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Well, although it's a $94 million legal commitment, we expect that there will be some significant portion of that that will never be called. So there's no requirement that any of it actually be called by the general partners. Obviously some of it will be. So it really kind of depends on the investment opportunities that the general partners end up seeing. I would say that, you know, as you look at our schedule that we put in our investor packet you'll see that there's about $30 million of secondary equity funds. Those probably have a higher likelihood of being called just because that's probably the most active space in the alternatives space right now.

The other thing to look at, as you look at the schedule that we provide is the older the fund the less likely the remaining commitment will be called, at least in full. Again, doesn't mean that they can't legally do that and we can't really provide you any precise number on that. But it really will have to play out with the investment opportunities the general partners see on a go forward basis.

Mike Grasher
Piper Jaffray

Okay. So it's not like you're committed to x amount in 2010 or 2011, or something like that.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

They tend to have specific investment periods which, and then generally they'll have an option on that even to extend the investment. So it's generally going to be, you know, I guess five to seven years beyond the vintage when they can call the commitment. But we've had funds in the past that have closed without ever fulfilling their commitment.

Mike Grasher
Piper Jaffray

Okay. And is there a duration on the legality of it or on the agreement? Is there sort of "Okay, it expires after five years or three years or seven years," or whatever it might be?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

It does vary. Each one is different, and as I said, they each generally have an investment period of five to seven years. So if they haven't made a call in that time frame then you're not going to end up having that. But it does vary by commitment.

Mike Grasher
Piper Jaffray

Okay. And then I guess the final question around this: How do the rating agencies look at this? Do the view it as committed capital or is there a haircut on this?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Not on the remaining commitment. They only look at the NAV and it's treated as an other asset, and does have a little bit higher charge than an equity investment. But basically they treat it equity-like.

Mike Grasher
Piper Jaffray

Okay.

Gregory Edward Murphy
Chairman & CEO

And that's the way we've always kind of described this, as a sub-equity allocation strategy and it has way outperformed the S&P 500 but you know, Mike, you and I have talked about this many times. The problem with this is geography in a sense when it comes to the P&L and the volatility it creates. This is why we're always opportunistically looking at this portfolio and price discovery in this segment has improved tremendously.

Mike Grasher
Piper Jaffray

Thanks very much.

Operator

Thank you. Our next question comes from Allison Jacobowitz. You may ask your question. Please state your company name.

Alison Jacobowitz
Bank of America Merrill Lynch

Hi, Bank of American Merrill Lynch. Thank you. I didn't hear it, I just wanted to see if there was anything unusual or if you could talk a little bit about the expense ratio in the quarter, and also the other earnings. Maybe just from a modeling perspective, how that might trend going forward, both those items.

Gregory Edward Murphy
Chairman & CEO

Yeah, I wouldn't say there's anything dramatically unusual in the expense ratio in the quarter. You know, obviously the other expenses, as we've talked before, the biggest fluctuation that you end up seeing there really comes from the, how our equity acts because that's our long-term awards run through there. So it's a compensation expense at the holding company level, and that's where those numbers run. So that's the biggest item that you see there. I don't know that I would model anything differently other than whatever you expect our stock price to do.

Alison Jacobowitz
Bank of America Merrill Lynch

Okay, thank you.

John Joseph Marchioni
President & COO

And the other thing I would add, I mean our variable expense have been remaining pretty consistent in the 19, 19.1, 19.2, and there was a very, very modest up tick in variable costs in the quarter of about 40 basis points - it went from 19.1 to 19.5. So it flops around a little bit but that's pretty consistent.

Alison Jacobowitz
Bank of America Merrill Lynch

Okay, thanks.

Operator

Thank you. (Operator instructions.) One moment please for our next question. At this time I'm showing no further questions.

Gregory Edward Murphy
Chairman & CEO

Alright. If you have any other follow-up items please contact Jennifer and Dale. Thank you very much.

Operator
Thank you. And this does conclude today's conference. Thank you for your participation. At this time you may disconnect your line.