S&P Capital IQ

CONTENTS

Selective Insurance Group, Inc. NasdaqGS:SIGI

FQ4 2015 Earnings Call Transcripts

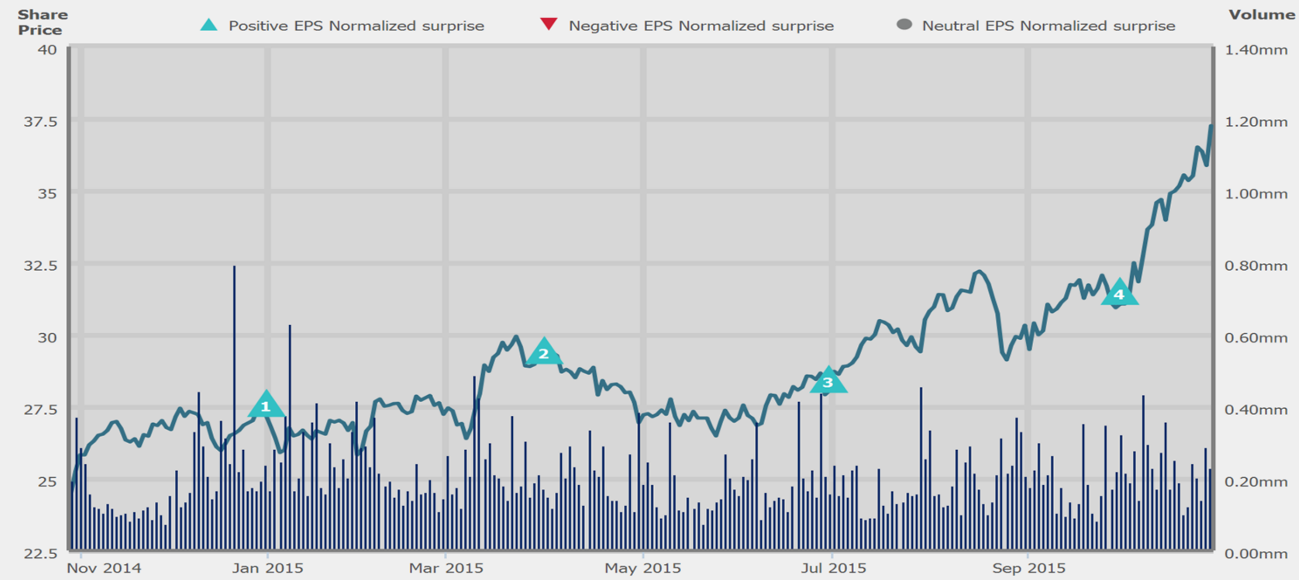
Friday, February 05, 2016 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.68	0.81	▲17.39	0.62	2.59	2.70
Revenue (mm)	-	545.60	-	-	-	2131.90

Currency: USD
Consensus as of Feb-01-2016 6:12 PM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	0.66	0.72	▲1 9.09 %
FQ1 2015	0.45	0.48	▲2 6.67 %
FQ2 2015	0.58	0.62	▲3 6.90 %
FQ3 2015	0.68	0.81	▲4 19.12 %

Call Participants

EXECUTIVES

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Gregory E. Murphy
Chairman and Chief Executive Officer

Jennifer W. DiBerardino
Former Senior Vice President of Investor Relations

John J. Marchioni
President and Chief Operating Officer

ANALYSTS

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good day, everyone. Welcome to Selective Insurance Group Fourth Quarter 2015 Earnings Conference Call. At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino. Ma'am, you may now begin.

Jennifer W. DiBerardino
Former Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to Selective Insurance Group's Fourth Quarter 2015 Conference Call. This call is being simulcast on our website and a replay will be available through March 4, 2016.

A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website, selective.com. We use operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after tax impact of both net realized investment gains or losses and 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 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 Report on Form 10-K and any subsequent Form 10-Qs filed with the U.S. 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 members of Selective's Executive Management Team: Greg Murphy, CEO; John Marchioni, President and Chief Operating Officer; Dale Thatcher, CFO; and Ron Zaleski, Chief Actuary.

Now I'll turn the call over to Greg for introductory remarks.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thank you, Jenny, and good morning. The fourth quarter marked the conclusion of another great year for Selective, and we're proud of our results. In 2015, we continued to demonstrate our ability to generate profitable growth at 2.5x the expected industry level.

From an underwriting standpoint, 2015 was the best statutory combined ratio for Selective since becoming listed on NASDAQ. Our success was driven by: one, true franchise value with Ivy League distribution partners; two, our unique field model, coupled with sophisticated underwriting and claims capability; and three, providing a superior customer experience. These 3 pillars have positioned Selective with sustainable competitive advantages that drive our outperformance relative to the industry.

In 2012, we laid out a 3-year profit improvement plan to achieve a targeted 92% combined ratio, excluding catastrophes. This goal is based on reaching an operating return on equity of 300 basis points over our weighted average cost of capital. In 2014, we achieved a 92.5% combined ratio and, in 2015, drove an additional 3-point improvement. We exceeded the ROE target at 2015 despite the headwinds from a decline in our after tax return on investments.

The rate of Commercial Lines renewal price increases are beginning to slow, which makes further underwriting improvements more challenging. However, in the fourth quarter of 2009 and for every quarter since, we generated Commercial Lines renewal price increases that have met or exceeded our expected claim inflation. For 2015, we produced an overall renewal pure price increase of 3.4% for the quarter. For the month of January 2016, we generated a solid 2.8% Commercial Lines renewal pure price increase.

In addition, our underwriting and claims improvement reduced our combined ratio by 2.2 points. This is a relationship business, and we have the best relationships in the industry with our Ivy League agents. These distribution partners are committed to driving profitable growth as well as providing a superior customer experience, which translates into delivering excellent results. In 2015, we wrote $1.9 billion of Standard Lines business with only 1,100 agents for an average premium of $1.7 million per agency.

Our relationships with our distribution partners have been built on trust and many years of working together. Additionally, they are a result of access to senior management and the franchise value we provide, which translates into strong, new business growth with a 3-year compounded annual growth rate of 9% and, two, agency survey scores that have averaged 8.6 out of 10 over the past 3-year period.

Looking ahead and with the benefit of our unique field model armed with sophisticated underwriting and claims tools, our goal of 2016 and beyond is to continue to outpace industry growth rates while maintaining overall profitability. To that end, our Commercial Lines growth will come from: one, executing on our small business strategy through the redefined small business teams rolled out in 2015; two, new business production from the addition of Agency Management Specialists; and three, adding agents in areas where there's strong new business opportunity to ultimately increase our agents' state market share from 17% to 25%.

We also expect to increase our share of wallet with our distribution partners from about 7% today to our longer-term target of 12%, achieving both these goals with more than double the premium opportunity than our existing 22-state footprint. We also expect our E&S business to contribute premium growth by leveraging opportunities for new business while improving profitability through pricing and better tools and analytics. In Personal Lines, as our Selective Edge product gains more traction which results in a buyer, we expect increased premium production.

We remain highly focused on pricing discipline to improve our underwriting performance in order to mitigate lower after tax portfolio yields and reach our targeted ROE amount. Selective is uniquely positioned to thrive in this environment for 2 reasons: one, the low investment returns force companies to generate underwriting profits, and many Commercial Lines carriers have not invested in sophisticated tools of both claims and underwriting like Selective has; two, our leverage advantage, which means that every one point of combined ratio we generate equals one point of return on equity or twice the industry average. As a result, the competition must price its product higher in order to achieve a better combined ratio.

We're also making the necessary strategic investments in technology to deliver a superior customer experience across all communication channels, or what many refer to as omni-channel. We view omni-channel as a game changer in an industry that's been slow to adopt change, particularly within its distribution force. We're focused on becoming a more customer-centric company, providing customers with 24/7 access to transactional capabilities and information. When combined with our digital strategy, we believe this capability will significantly improve the customer experience and will also drive increased customer loyalty and retention. As part of our digital strategy, we have self-servicing capabilities through our mobile app, mobile web and the Internet. We also relaunched the company website with a modern look and feel and responsive capabilities.

For any company using an independent agency channel for Standard Commercial Lines, the customer experience is more challenging because it's a shared experience between the carrier and the agent. In our case, having true franchise value provides us with a significant competitive advantage as our distribution partners are more willing to take the customer experience journey with us. As part of that strategy, we have launched an in-house customer experience consulting program for our agents. This program provides the agency customized plans for an enhanced-customer experience.

Based on our 2016 market view and our strategic competitive advantages, we provide the following guidance: a statutory combined ratio, excluding catastrophes losses, of approximately 91%; catastrophe losses of 3.5 points; after tax investment income of approximately $100 million; and weighted average shares outstanding of 58.5 million.

Now I'll turn the call over to Dale to review the fourth quarter results.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Thanks, Greg, and good morning. As Greg highlighted, the fourth quarter marked the conclusion of yet another remarkable year for Selective as we continued to fire on all cylinders. We entered the year at a record 89.4% statutory combined ratio, excluding catastrophe losses, in line with our revised 89% guidance. Catastrophe losses added 3 points to the combined ratio for the year, which is below our expectations of 4 points. We reported a very strong operating income per diluted share of $2.70 for the year.

Our statutory combined ratio in the fourth quarter was 93.2%, which was even with the same period last year. The underlying combined ratio, excluding catastrophes and prior year casualty development, was 94.9%. Cat losses for the quarter were 0.6 points, well below our fourth quarter expectations but higher than last year as the fourth quarter of 2014 included an unexpected $8 million reinsurance recoverable, which resulted in a net benefit from catastrophe losses in that quarter. Non-cat property losses were also lower compared to the fourth quarter of 2014, resulting in a 2-point favorable impact on the combined ratio. We reported operating income per diluted share in the quarter of $0.81, up from $0.72 a year ago.

Favorable prior year casualty reserve development in the quarter was $12 million or 2.3 statutory combined ratio points compared to $9 million or 1.9 points a year ago. For the year, favorable prior year casualty reserve development was $67 million compared to $48.5 million in 2014. 2015 marks the 10th consecutive year of favorable development. The favorable development is largely attributed to a decrease in severity in both the general liability and workers' compensation lines of business. Our overall reserve position remains strong at 12 points above the midpoint of the range.

Through the quarter, overall statutory net premiums written grew by 9.5%, which was driven by a 13% decrease in new business written and renewal pure price increases, which kept pace with claim inflation. Standard Commercial Lines premiums were up 11% for the quarter, led by a 21% increase in new business and renewal pure price of 2.7%. For the quarter, this line generated a statutory combined ratio of 89.2%, a decrease of 6.8 points compared to a year ago. The improvement was driven by: lower non-cat property losses; favorable prior-year casualty reserve development, most notably, in our workers' compensation line of business; renewal of pure price; and claims and underwriting improvements.

Including 13.1 points of favorable prior year casualty development, workers' compensation reported a 90.1% statutory combined ratio in the quarter, improving 22 points from a year ago. The favorable development is largely attributable to lower frequency and lower expected loss costs, which reflect our ongoing focus on improving this competitive line of business through underwriting, pricing and claims initiatives.

General liability also reported strong profitability this quarter with an 88.8% statutory combined ratio. This line benefited from 7.9 points of favorable prior-year casualty reserve development, which was driven by a favorable claim frequency and severity. Earned renewal pure price increases in excess of expected claim inflation also added to the improvement in this business line.

Commercial auto reported a 103.7% combined ratio for the quarter, driven by an increase in loss severity.

Standard Personal Lines statutory premiums declined 2% in the quarter, driven by a reduction in new business. Retention improved 3 points to 83% while renewal pure price remained strong at 4.2%. The Personal Lines statutory combined ratio was 94.7% for the quarter, including 1.9 points of catastrophe losses. In the prior year period, the statutory combined ratio was 78.2%, including a 4.6 point benefit in cat losses.

Homeowners reported a combined ratio of 78.6% in the quarter compared to 55.3% a year ago. In addition to higher non-cat losses in the 2015 fourth quarter, catastrophe losses a year ago were a net benefit of 9.2 points on this line. Renewal pure price in this line remained strong at 4.7%.

The Personal auto combined ratio in the quarter was 116.1%, up from 104.8% a year ago. There was no prior year casualty reserve development this quarter compared to the 5.4 points of favorable prior year casualty reserve development in the fourth quarter of 2014. Renewal pure price for the quarter was 4.2%.

Excess and Surplus Lines continued to generate strong growth with a 16% increase in statutory net premiums written in the fourth quarter, driven by strong retention and price increases. The E&S statutory combined ratio in the quarter was 125.6% compared to a 96.6% reported in the fourth quarter of last year. In 2015, we realigned the E&S claims operation into corporate claims. During the fourth quarter, we completed a review of all complex claims, which led to a reassessment of both case reserves and IBNR. As a result, adverse prior year casualty reserve development of $10 million added 21 points to the combined ratio of the quarter.

We also bought the $5 million adjustment to the 2015 current accident years. We will continue to deploy our corporate claims practices into the E&S operation, including the use of more robust monitoring tools. We're applying the same discipline that enabled us to substantially improve our workers' compensation claims handling, and we expect to drive improvements in our E&S claims management practices in the future.

The overall statutory expense ratio was elevated for the year, mainly due to the higher level of underwriting profitability, which resulted in approximately an extra half point on our expense ratio from higher supplemental commission to our distribution partners. Adding to that was the increase in pension expenses due to the accrual of service costs for eligible employees and the negative impact of the low interest rate environment.

We successfully renewed our 2016 property catastrophe treaty with the program remaining at $685 million, in excess of a $40 million retention. The top $250 million layer is now 79% collateralized in order to minimize the credit risk inherent in reinsurance transactions, particularly for long tail events. We also renewed the treaty that specifically covers catastrophic events outside of our 22 states Standard Lines footprint. This $35 million in excess of $5 million per occurrence treaty reduces potential volatility from catastrophe events that would be specific to the Excess and Surplus Lines book of business. Pricing on the overall program decreased similarly to the pricing reported broadly in the market for January 1 renewals.

Moving to investments. After tax net investment income declined to $23.3 million for the quarter from $24.5 million in the fourth quarter of 2014. The decline was largely driven by lower returns from the alternative portfolio, which continues to be impacted by the portfolio's exposure to private equity and energy-related limited partnerships. As a result of lower alternative investment income and the continued low interest rate environment impacting our fixed income portfolio, our annualized after tax portfolio yields in the fourth quarter declined to 1.8% from 2% a year ago. For the year, after tax net investment income decreased 10% to $94 million, driven primarily by a $10.1 million after tax decline in the alternative investments portfolio for the reasons I just mentioned. For 2015, after tax new money yields averaged 1.7% as we continue to invest in high-quality fixed income products.

Operating cash flow at 18% of net premiums written increased in 2015 by 64% compared to 2014, driving an increase in invested assets to $5 billion. Our fixed income portfolio continues to be highly rated with an average credit quality of AA- and a 3.7-year duration, including short-term investments. For the entire portfolio, the pretax unrealized gain position decreased to $69 million from $124 million at the end of 2014. The pretax unrecognized gain position in the fixed income held-to-maturity portfolio was $8.2 million or $0.09 per share on an after tax basis. Surplus and shareholders' equity were each $1.4 billion at the end of 2015 while book value per share increased 8% to $24.37 from year-end 2014. For 2015, annualized operating return on equity was 11.8%. This exceeded our 8.7% weighted average cost of capital by more than our 300 basis point target.

Now I'll turn the call over to John Marchioni to review Insurance Operations.

John J. Marchioni
President and Chief Operating Officer

Thanks, Dale. Our Insurance Operations had another great quarter and closed out an exceptional year with record results. In 2015, we had an overall statutory combined ratio of 92.4% and ex catastrophe combined ratio of 89.4% and net premiums written growth of 10%. These results reflect our strong position in the marketplace and demonstrate our ability to drive profitable growth.

Standard Commercial Lines growth was very strong this year at 11%, driven by new business growth of 26% to $340 million and solid renewal pure price increases. For the year, our Commercial Lines statutory combined ratio was 89.2, an improvement of 6.3 points from 2014. With the use of our sophisticated underwriting tools and the expansion of our small business underwriting teams and AMSs, we were able to profitably grow our core business by leveraging technology in the relationships we have with our distribution partners.

New business growth in Standard Commercial Lines was strong in 2015. We deepened relationships with our existing distribution partners and expanded our AMSs, which helped drives strategic appointments of new distribution partners while also enhancing their ability to generate quality new-build market accounts. Additionally, our small business teams also deliver on growing their business.

On the Commercial Lines renewal portfolio, our success is attributed to disciplined underwriters, the use of sophisticated tools and advanced analytics we provide to make the best possible business decisions. In the evolving pricing environment, our results clearly highlight the benefits from the technology and resources we have put in place for our underwriters.

In 2015, Standard Commercial Lines retention was strong at 83% and renewal pure price was 3% on a written basis, in line with expected claim inflation. For our highest-quality Standard Commercial Lines accounts, which represent 53% of our premium, we achieved renewal pure rate of 1.9% and point of renewal retention of 91%. On our lower-quality accounts, which represent 10% of our premium, we achieved pure rate of 7.7% and point of renewal retention of 80%. The ability to assess and price accounts in such a granular level has allowed us to outperform even in a competitive marketplace.

Our renewal pure price increases overall in 2015 were 3.4%, which was above expected claim inflation of approximately 3% and also at the upper end of our 2015 guidance to achieve between 3% and 3.5%. Personal Lines pure rate was strong at 5.8% for the year with homeowners achieving a 7.5% rate increase. For E&S, where half of the business is new each year, we believe a blend of pricing adequacy for new and renewal pricing provides better insight. In 2015, we achieved an overall increase of 4.6% in rate adequacy for our casualty lines of E&S business, which is the majority of the book.

In workers' comp, we are pleased with the success with our investments and initiatives dedicated to this business line. For the year, we achieved an 88.2% statutory combined ratio. This includes $37 million or 12.8 points of favorable reserve development, driven by lower frequencies and severities as a result of our significant underwriting and claims initiatives over recent years, including claims escalation at Brodney Faction [ph] modeling. Although workers' comp continues to be a more complex and challenging landscape, we believe we have the right tools and team in place to sustain this profitability is 2016 and beyond.

Although our Excess and Surplus Lines business experienced tremendous growth year to date, we recognize the profitability levels are not acceptable. While direct premiums written were up 22% for the year, driven largely by a 23% increase in new business, profitability in this book of business was negatively impacted by adverse development.

For the year, our E&S business generated a statutory combined ratio of 108.4%, up 9.2 points from a year ago due primarily to $16 million or 9.3 points of adverse prior year casualty development. The market segments that we write in E&S are predominantly habitational, contractors, bars, restaurants and taverns with liabilities of $1 million or less. The composition of this low-hazard approach has been consistent since we purchased the books of business in 2011. Our focus for 2016 would be to continue to concentrate our efforts in these segments where opportunities for profitable growth exists with an eye also towards geographic diversification of the book.

We are addressing margin improvement in E&S through a mix of business shift, claims improvements and targeted pricing increases. New business pricing is on target and in line with our return expectations. We are driving targeted renewal price increases on challenged segments and implementing a series of changes through our E&S claims operation to improve outcome.

Personal Lines growth was negatively impacted this year by targeted nonrenewals of less profitable accounts, coupled with a decrease in new business due to the competitive landscape in this line. We view Personal Lines as a complementary business to Commercial Lines, and it plays a significant role in building our share of wallet with our distribution partners. We feel this book of business needs to generate a combined ratio in the low 90s, and we are focused on making the necessary improvements to get there.

The deployment of the Selective Edge product last year has been very well received by our distribution partners, and we expect to gain additional traction in 2016. Growing Personal Lines with the Edge product will support our goals to achieve the appropriate profitability in Personal Lines. For the year, the Edge product accounted for 15% of our automobile new business and 22% of our homeowners new business, and we are optimistic this trend will continue.

Overall, we are very pleased with the performance of our Insurance Operations this year, and it's very rewarding to see the hard work from all levels of the organization be recognized with strong results. We are well positioned in the market to continue this positive momentum throughout 2016.

Now I'll turn the call back over to Greg Murphy.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thank you, John. At Selective, we strive to be the best. Our dedicated employees leverage our competitive advantages and are highly committed to reaching our goals, driven by true franchise value with Ivy league distribution partners, unique deal model, coupled with sophisticated underwriting and claims capability and delivering a superior customer experience.
With that, I'll be happy to answer questions that you have. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question is from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A few questions. The first question I have really relates to the E&S segment. As both Dale and John pointed out, the results there have been a little bit disappointing. I guess I take from your comments and your action plan that you view it as somewhat more of a claims management and handling problem than, I'll call it, an original underwriting problem, which is to say not writing business that you shouldn't be writing in the first place. Can you just talk about that in a little bit more detail and kind of why you're confident that the claims approach is really going to be the winning strategy there?

John J. Marchioni
President and Chief Operating Officer

Yes. Thanks, Mark. It's a great question. This is John. So a couple of points. I think the way you've weighed it out, I would actually agree with. It's not an underwriting issue that we're concerned about. We haven't got any of the segments of business that our team there doesn't know how to underwrite. What I would say is, and this reflects what you heard in the prepared comments, there are some pricing issues, specifically on the renewal inventory that we targeted. We know where they are. They're in a couple of geographies and a couple of segments, and that's where the more aggressive action needs to take place. These are not necessarily segments we don't think we could produce solid margins in, but the pricing levels on those -- in our renewal inventory need to be more aggressively addressed. I'd also add to that, that we're also comfortable that our new business pricing levels, based on our targeted rate levels, are actually coming in very strong. So keep in mind that the retention on this book tends to be lower, and about 50% of our premium, at any given year, is new. So the fact that we're comfortable with the strength of our new business pricing, we think, bodes well on that side. Now to your point on the claims improvement, there is a big opportunity there. And as Dale mentioned in his prepared comments, we look to our experience on the workers' comp side and we don't write comp in E&S. This is a GL -- predominantly GL and a little bit of property in this book, but the experience of our team with our Standard Selective operations over the last several years show that they can deliver these kind of results. So we migrated our E&S claims operation into our Standard claims operation in the beginning of 2015. They've instituted a number of changes relative to how we manage both litigated and non-litigated files, how we take advantage of our staff council, that's very effective in our Standard footprint, how we manage our panel council outside of our footprint. We've created tighter spans of control to make sure the supervisory structure is in place to drive better outcomes. And because this is GL, we actually feel that we can achieve better outcomes more quickly than we did at workers' comp, because you can, in fact, influence the outcomes of the existing inventory files. So we remain confident in the approach we laid out. We still view this as a business segment that we can be successful in. We believe we got the plan to get us there.

Gregory E. Murphy
Chairman and Chief Executive Officer

Yes. And Mark, if I could. This is Greg. So the other part, just -- again, just to reemphasize. You got to remember this is E&S-light. This is low hazard, low limit. So normally when you guys start to see the edges of E&S issues, they have a tendency to have a lot underneath it. This is not a high-hazard E&S book. This is what we do every day. It's construction, it's a lot of habitational. So there's nothing really unusual in this book per se. So I think it's pretty much, as John laid out, some renewal pricing that we need to get more aggressive on. And it's, for the most part, the claim activities, which I can only say to you, as you saw what we did in comps, and I would say that you'll see the same type of actions that we had in comp manifest themselves throughout E&S book.

John J. Marchioni
President and Chief Operating Officer

And one more point I would add, Mark, is much like we have on our Standard Commercial Lines and Personal Lines side, which we highlighted over the years as a competitive advantage, is our relationship with a smaller group of distribution partners. We have that same approach on the E&S side. So we distribute that product through a group of about 90 wholesale relationships. Those are very strong partnerships. And that's an indication to us that they will continue to work closely with us to address these targeted areas.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That's very thorough and helpful. Hopefully, it'll have the same results that the workers' comp did. It's certainly a big area of leverage. It brings me to my second question. Specific to the guidance, I guess the -- I assume that as your -- as per your custom, the 91% statutory guidance for combined ratio is excluding any possibility of favorable reserve development.

Gregory E. Murphy
Chairman and Chief Executive Officer

That is correct. We sign off on the quality of our balance sheet at the end of any given year. So our assumption is for no reserve development, either positive or negative.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Understood. The question, I guess, that I would pose then is it -- it seems like your -- I'll say it this way. I guess it seems like that's not a terribly aggressive target, considering the opportunities that you have on the E&S side and the run rates that you're already achieving on the commercial book. Is there something -- and likewise, I guess the rate increases that you're getting across the book, which seem to track at or above loss trend. I guess the question I have is, why wouldn't '16 be a bit more comparable to '15's actual realized results?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

So let me walk you through that. But -- when you look at the -- let's talk about the 2015 year, and I you know you've seen a lot of our competitors talk about 2016 relative to 2015 on the -- what they refer to as the underlying combined ratio. So when you look at our underlying combined ratio, it's a 92.8%, and you get there by simply taking the recorded combined ratio of 92.4%, adding 3.4 points of development and subtracting cat losses of 3 points. So when you look at what we call underlying, which is what many of our competitors call underlying, it's a 92.8%, and we are taking that down by 180 basis points to get to a 91%. So I think there's way more improvement in our guidance than I'm hearing more from our competitors. So there is a lot of improvement in there. It's just like that you're stacking up a forecasted 2016 against the calendar year combined ratio that's been lowered by almost 350 basis points of favorable development. So therein lies a little bit of it, and I would tell you that, that reflects earned rate in excess of trend. It also reflects underwriting and claim improvement, and all of those things are in there. So again, I just want to make sure that when you're comparing our numbers to other Street numbers, there's 180 basis points of improvement in there.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay, that's helpful. The last question that I have is really related to the winter storms of, I guess, a couple of weeks ago now. Are you seeing any kind of -- you definitely write heavily in the most impacted areas. Are you seeing any notable upticks in claims volume or claims activity? Or -- I know you're not going to guide this early on it, but just some thoughts there would be helpful.

Gregory E. Murphy

Chairman and Chief Executive Officer

I mean, obviously, it hit in our footprint, so clearly we will have losses. But also, as you indicate, we have not pre-released any information with regards to that. So that's really about all that we can say. It's a normal thing to have happen, is winter storms in the winter in our footprint. So it is our expectation, and we price for that within how we sell our product.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Maybe ask -- let me ask it a different way. Compared to some of the more significant loss events last year, is the claims activity running at or below what we saw in some of the larger losses last year?

Gregory E. Murphy
Chairman and Chief Executive Officer

Mark, that would be providing guidance that we haven't done publicly to this point. So I don't like orange jumpsuits.

Operator

[Operator Instructions] At this time, sir, we don't have any other questions queued up on the...

Gregory E. Murphy
Chairman and Chief Executive Officer

All right. Well, thank you for participating on the call this morning. If you have any follow-up items, please contact Dale and/or Jennifer. So thank you very much for participating today.

Operator
Thank you, speakers. And that concludes today's conference. Thank you all for joining. You may now disconnect.