S&P Capital IQ

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The Hanover Insurance Group, Inc. NYSE:THG

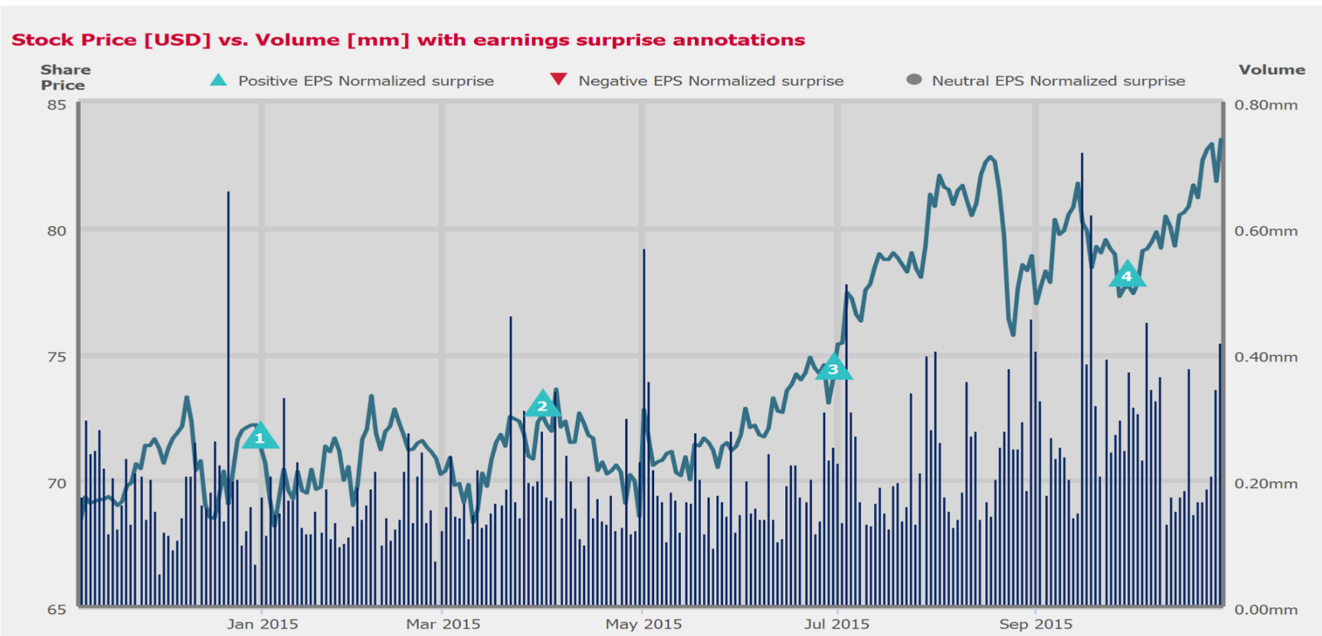
FQ4 2015 Earnings Call Transcripts

Friday, February 05, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.60	1.82	▲13.75	1.53	6.05	6.25
Revenue (mm)	1080.60	1046.10	▼(3.19 %)	1185.60	4788.53	4754.20

Currency: USD
Consensus as of Feb-05-2016 7:05 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	1.50	1.77	▲1 18.00 %
FQ1 2015	1.08	1.27	▲2 17.59 %
FQ2 2015	1.40	1.56	▲3 10.64 %
FQ3 2015	1.45	1.61	▲4 11.03 %

Call Participants

EXECUTIVES

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Former Interim Chief Financial Officer and Executive Vice President

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Hanover Insurance Group Fourth Quarter Earnings Conference Call. My name is Jasmine, and I will be your operator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes. And I would now like to turn the conference over to your host for today, Oksana Lukasheva. Please proceed.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, Jasmine. Good morning, and thank you for joining us for our fourth quarter conference call. We will begin today's call with prepared remarks from Fred Eppinger, our President and Chief Executive Officer; and our Chief Financial Officer, Gene Bullis. Available to answer your questions after our prepared remarks are Dick Lavey, President of Personal Lines; Andrew Robinson, President of Specialty Lines; Jack Roche, President of Business Insurance; Johan Slabbert, Chief Executive Officer of Chaucer; and Bob Stuchbery, President of International Operations.

Before I turn the call over to Fred, let me note that our earnings press release, financial supplement and a complete slide presentation for today's call are available in the Investors section of our website at www.hanover.com. After the presentation, we will answer questions in the Q&A session.

Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements, including our earnings guidance for 2016. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call. We caution you with respect to reliance on forward-looking statements and, in this respect, refer you to the forward-looking statements section in our press release, Slide 2 of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures, such as operating income, operating results, excluding the impact of catastrophes, and accident year loss and combined ratios, 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 or the financial supplement, which are posted on our website, as I mentioned earlier.

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

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thank you, Oksana, and good morning, everyone, and thank you for joining our fourth quarter earnings call. 2015 was a strong year for our company. We are pleased with our result for the quarter, which rounded out another year of solid progress toward both our financial and strategic goals.

For the full year, we delivered net income per share of $7.40, the highest annual income in our history as a public company. Operating income per share was $6.25 in 2015, another all-time record, yielding an operating ROE of 11%. Our success during the quarter and the year was driven by underlying earnings improvement, an increase in net investment income and relatively favorable weather.

Our combined ratio, excluding catastrophes, was 91.8%, an improvement over the prior year. Results for the fourth quarter were also solid with operating income of $1.82 per share and an ROE of 12%.

Throughout the year, we continue to gain momentum in our efforts to achieve target returns. We leveraged our strong market position to improve our financial results, and we have a solid foundation to continue to grow and improve earnings in 2016.

I will now turn the call over to Gene to discuss our financials in further detail, and then I will return with an update of our strategic progress and our outlook for 2016.

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Thank you, Fred, and good morning, everyone. It's a pleasure to be back to share another quarter of strong results with all of you. Net income for the fourth quarter was $78 million or $1.76 per diluted share compared to $90 million or $2 per diluted share in the prior-year quarter. Operating income was $80 million or $1.82 per diluted share compared to $80 million or $1.77 per diluted share in the fourth quarter of last year.

For the full year, net income was $332 million or $7.40 per diluted share compared to $282 million or $6.28 per diluted share in 2014. Operating income was $280 million in 2015 or $6.25 per diluted share compared to $233 million or $5.19 per diluted share last year, which represents a 20% increase on a per-share basis.

Turning to underwriting results. I will focus on full year performance and highlight quarterly details as appropriate. Our 2015 combined ratio improved by more than 1 point to 95.7% compared to 96.9% in the prior year. Catastrophe losses added 4 points to the combined ratio, down close to 1 point from a year ago. Favorable reserve development remain largely unchanged at about 2 points for both years, with highly favorable development in Personal Lines and Chaucer, partially offset by unfavorable development in Commercial Lines, which I will comment on in a moment.

Our ex-cat accident year combined ratio improved by 0.5 point to 93.8%, with reductions in the overall expense ratio driven by Commercial Lines. The underlying loss ratio also improved in both our Commercial and Personal segments, which was partially offset by higher current accident year losses at Chaucer.

I'd like to now review our results by segment, starting with Commercial Lines. Results for the quarter and the year reflect improvement in the expense ratio, as expected. We delivered a full year Commercial Lines expense ratio of 36.4%, representing nearly a 1-point improvement over 2014. This was driven by growth leverage in operating model efficiencies, which we expect to continue but at a slower pace in 2016.

The underlying loss ratio improved by 0.5 point in 2015 with stable underlying performance in all lines, helped by prudent pricing actions and strong quality of the business portfolio.

As we noted in prior reports throughout the year, we experienced unfavorable development in AIX, our program business, as well as CMP and auto. We saw a continuation of prior-year activity this quarter as well, which we recognized by strengthening reserves in these lines. Additionally, in the quarter, our year-end reserving process resulted in the rebalancing of carried reserves among domestic lines, which primarily impacted AIX and commercial auto, offset by workers' compensation and homeowners, but had no net impact on aggregate carried domestic reserves.

At AIX, we experienced unfavorable development, mainly in the 2011 through 2013 accident years in auto as well as in general liability coverages, primarily within programs that were terminated several years ago. We are encouraged by the underlying trends in AIX in recent accident years in response to these underwriting actions and the cumulative 30% rate increases we achieved over the last 4 years.

In CMP, we remain comfortable with the overall profitability of this business, given our past and ongoing mix initiatives and strong pricing trends. But we continue to watch large loss activity from some of the previously reported claims, and we adjusted accordingly reserves in the quarter.

In commercial auto, while we continue to see some activity in liability coverages in older years, we are encouraged by the most-recent year's underlying trends in our book.

Our workers' compensation book has been performing well for a long time. On an accident year basis, we showed improvements of 2 points to the loss ratio compared to 2014, highlighting the value of the mix improvement and pricing actions. Prior year loss emergence has been very favorable for many years now, giving us confidence in our decision to release a portion of the carried reserves in this line in the fourth quarter.

Overall, although work still continues, we feel good about our Commercial Lines business mix, loss trends, and reserve composition. We believe this business is well-positioned to deliver improved results in 2016.

In Personal Lines, the underlying loss ratio for the year was 62.1%, a small improvement over the 62.4% we reported in 2014. Our pricing and mix initiatives continue to drive the overall quality of the business, as demonstrated by nearly 1 point improvement in auto's accident year loss ratio.

The accident year loss ratio for our homeowners line was just under 1 point higher this year, due to a greater-than-usual severity of large losses, both across the year and in the fourth quarter, primarily due to fires.

Chaucer performed very well in 2015, delivering pretax operating income of $184 million on net premiums written of just over $1 billion. Our combined ratio of 87.5% was below our long-term average and guidance. This improvement was driven by a benign claims environment, particularly for catastrophe-exposed business, but at a time of falling premium rates across many lines of business.

Specialist expertise and disciplined underwriting also played key roles. Chaucer's expense ratio was 38.3% for the full year, in line with our expectations, and up slightly from the prior year. As we guided earlier in the year, we expect an uptick in our expense ratio following the disposition of Chaucer's U.K. motor business, which operated at a relatively higher loss ratio and lower expense ratio as compared to the rest of Chaucer's business.

We expect the expense ratio for the ongoing business to be around 41%, which should be offset by a decrease in the overall expected loss ratio.

We continue to believe that in a normal loss environment, our Lloyd’s business should run at a combined ratio in the mid-90s.

Moving on to the top line. Consolidated net premiums written were down 1% for the year. Chaucer premiums declined 17%, mainly reflecting the disposition of the U.K. motor business at the end of the second quarter and the effect of foreign exchange mix. Excluding these items, the underlying premium at Chaucer decreased by approximately 2%, reflecting a strong, disciplined response to the challenging market conditions.

In domestic businesses, we achieved growth overall of 4%, driven by a 6% premium increase in Commercial Lines.

Overall, our bottom line and top line underwriting performance was generally in line with our expectations. In 2016, we will maintain focus on sustaining combined ratio improvement and driving the organization to deliver target returns.

Moving on to investment results. At year-end, cash and invested assets were $8.3 billion, with fixed income securities and cash representing 88% of the total. Roughly 94% of our fixed income securities were investment-grade, and the average duration of the portfolio was 4.3 years. Our investment portfolio remains high quality and is well-laddered.

Our quarterly net investment income increased to $70 million from $68.8 million in the prior-year quarter. For the year, net investment income increased to $279 million, up over 3% since 2014.

While lower new money yields continued to impact returns, we more than offset this impact by reinvesting higher operating cash flows into the portfolio and gradually increasing our investments allocated to higher-yielding asset classes.

The earned yield in our total portfolio was 3.47% in the quarter and 3.44% for the year compared to 3.39% in the prior-year quarter and 3.42% in 2014.

Net unrealized investment gains were approximately $101 million at the end of the fourth quarter compared to $310 million at the beginning of the year and $169 million at the end of the third quarter.

Given the recent fluctuations in the market, we expect additional volatility in our net unrealized gains position to continue. Approximately 16% of the unrealized gains movement in the portfolio of this quarter was driven by our energy holdings. This quarter was also -- we also recognized $18 million of impairments, of which $14 million was energy-related.

Our fixed income energy portfolio, which constitutes about 5% of our overall holdings, is high-quality and well-diversified, with an average rating of Baa1. It consists of 96 issuers and 195 different bonds, with a focus on midstream, larger independents and integrated sectors.

We believe that the majority of our energy holdings are well-positioned against lower crude oil prices and an extended stay at current pricing levels based on significant scale, strong balance sheets and financial flexibility to manage through the cycle. We hold a negligible portion of our assets in energy equities and ETFs. We remain confident in the strength of our energy holdings.

I'll finish up with a few comments on the strength of our balance sheet, capital position and financial leverage. We ended the quarter with $3.7 billion in total capital, $2.2 billion in U.S. statutory capital, the highest that it's ever been, and a debt to total capital ratio of 22%. We feel very good about our balance sheet and our capital position.

At December 31, book value per share was $66.21, down from -- down 0.5% in the quarter and up 2% since year-end 2014. Excluding net unrealized investment gains, book value per share grew 8% in 2015, reflecting strong earnings throughout the year.

For the full year, we've repurchased approximately 1.6 million common shares for $127 million or an average of $77.76 per share. We also repurchased $35 million worth of shares in January. We have $254 million remaining under the current $900 million share repurchase program.

As we look ahead to 2016, we believe our capital is best deployed as a tool to support the growth of our business. However, we fully expect to continue to be opportunistic when considering stock repurchases.

In summary, we have entered 2016 with a solid capital and balance sheet position, strong underwriting results and focused growth momentum, all of which provide us with a great foundation for strong underwriting results and earnings growth.

With that, I'll turn it back to Fred.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thanks, Gene. In 2015, we took another important step toward strengthening our long-term returns, making strong progress on our priorities and positioning the company for another successful year in 2016. We'll continue to develop a more attractive business mix that will lead to more resilient earnings. We continue to grow prudently and target segments and improve our position with partner agents while maintaining solid pricing and strong retention. And finally, we effectively managed capital and other resources to improve shareholder returns.

While we remain focused on continued improvement, we feel very good about our market position and the fundamentals of our business as it stands today. Our success thus far, coupled with strong momentum and the earning levers at work in our business, gives us confidence as we look forward to 2016.

With that said, I will now review our accomplishments and outlook by business, starting with Commercial Lines.

Net written premiums grew 3% for the quarter and 6% for the year, led by strong pricing, retention and new business momentum. We maintained discipline in our pricing strategies and capitalized on our agency-focused approach, as evidenced by strong rate increases and high retention levels.

Overall price increases in core commercial were 5.2% in the fourth quarter, slightly down for the third quarter, although still well above industry type from -- I'm sorry, excuse me, above industry pricing trends.

Retention in core lines continued at the historic highs of 83% for the full year, reflecting strong levels of agent and customer satisfaction with our value-added products and our focus on small-sized accounts, where pricing remains fairly rational.

Retention ticked down slightly in middle market in the fourth quarter, however, as a result of some increased competition in the large account space.

While the market remains challenging, particularly in the larger account market, we remain optimistic given our business mix and target account size, and are well-positioned for continued profitable growth in 2016.

Overall, we believe we will be able to maintain mid-single-digit growth in Commercial Lines in 2016, as we earn in the benefit of 2015 rate actions and take advantage of our strong position with partner agents.

We are very pleased with the quality of our portfolio. An overwhelming portion of our existing book and new business are specialized by industry type and come from targeted risk classes and favorable risk profile, creating a business portfolio capable of delivering target returns through the cycle.

Additionally, we are satisfied with the mix of business and specialty. We made strides in healthcare, professional liability and management liability during the past year, growing by double digits at a very profitable combined ratio.

At AIX, where we experienced unfavorable reserve movements, development primarily stemmed from programs that were discontinued several years ago, while our go-forward programs are performing well and our most current accident years remain very strong.

We are very pleased with the overall composition of our portfolio, the momentum in Commercial Lines and the traction we have and we are making with our best partners, helping them consolidate business. We believe we will be able to further improve the underlying loss ratio and leverage expenses by 0.5 point.

Turning to Personal Lines. 2015 marked a very important milestone for our Personal Lines team, as we achieved net written premiums growth for the first time since launching our exposure management initiatives in 2012. Overall growth was solid at 2% for the year and 1% for the quarter, which reflects pricing consistency, our focus on selling value and an improved business mix through the success of our Hanover Platinum experience product.

We successfully obtained rate increases of 5% consistently throughout the year, which still remain above loss cost, while improving retention by 1.5 points in 2015.

We believe our focus on high-quality account business allows us to maintain a stable profitable book of business. We achieved growth in account policies in force in the fourth quarter, underscoring the success of our account-focused strategy. Platinum's success positions us comfortably within the emerging affluent [ph] market, which we plan to proactively address in a more focused way going forward through service capabilities, product and pricing refinements.

We are making good progress on capturing the significant opportunity that remains within our agency base through extensive agency planning and by leveraging analytical tools and ongoing investments to improve our value proposition to agents and target customers.

Although the Personal Lines segment is challenging to grow given the prevalence of commoditized offerings, we look forward to 2016 with optimism. Equipped with a strong and unique service model, strong position with agents and a deep insight into the needs of our target market, we are confident that we will see steady low-single digit price and delivering improving underwriting profitability in 2016 and beyond.

At Chaucer, we delivered outstanding results once again, ending the year with $184 million of pretax operating income, driven by strong underwriting discipline and the benefit of favorable loss environment.

In addition to Chaucer's strong financial performance, we are pleased with the clear strategic specialty focus. We continue to leverage our disciplined underwriting skills and acquired new complementary expertise within political risk, trade credit and cargo. We also successfully exited the U.K. motor business to focus time and capital on what we regard as the more profitable specialty opportunities.

Undeniably, the market of Lloyd's continues to be challenging. Although even in the toughest markets, our expertise and our target specialty classes should enable us to create some growth opportunities. We will continue to leverage our access to business through Lloyd's, the agency network and other production platforms.

At the same time, underwriting profitability remains our utmost priority at Chaucer. We actively manage our diversified product portfolio to protect, and where possible enhance, margins.

Looking ahead to 2016, we believe Chaucer can continue to deliver strong underwriting returns in the mid-90s combined ratios in line with our long-term historical performance and prior guidance.

With great overall earnings momentum in our businesses and confidence to our balance sheet and capital strength, we more proactively returned capital to shareholders in 2015, increasing dividends for the 11th consecutive year and returning more than $125 million through share repurchases.

As we look forward, we continue to be excited about the future. Our team, capabilities and market position provide momentum to continue to drive earnings growth.

I would now like to take a moment to provide our 2016 financial outlook. Our operating earnings expectation for 2016 is in the range of $6.30 to $6.60 per share. As a basis for our outlook, we expect written premium growth of low to mid-single digits, net investment income to remain in line with 2015 levels and an overall combined ratio of 95% to 96%. This assumes catastrophe losses at 5% to 5.5% of earned premium.

Finally, I would like to note that we continue to make progress on the search to name my successor, and the board remains focused on ensuring we have the right candidate for the next phase of our journey. However, it is premature to provide any additional details at this time. Having said this, I remain entirely engaged and will continue to be until the board names the right candidate, and he or she is prepared to step into this role. We do not expect to lose a beat during the transition period.
Operator, at this time, I'd like to open the line for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

I just had one question, and it relates to capital. I was hoping you could kind of paint the mosaic for us. If we look at the guidance you gave, you're talking about low, mid-single-digit top line growth. We're now at a point where the ROE is called double digits. So you're compounding capital kind of faster than you're eating it up with growth. And between, let's call it buybacks and dividends, you returned about $200 million last year, if my math's right, and the guidance for this year implies something in the $300 million range of operating earnings. So I guess, my question is, you're compounding earnings faster than you're eating it up with growth, which is a good problem to have and, at least to this point, haven't even quite returned full earnings back to shareholders. So how should we think about that going into 2016? Should we see, whether it's through a buyback or increased dividend or a pay down of debt, an increase in that utilization of capital through those means? Or am I missing something, and there's something else that's taking capital?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. I mean, again, I think -- Matt, I think 2 points. I think as we've always said, we think about capital toward profitable growth. But to your point, what we've also done, if you look at our experience, is we're very thoughtful about making sure we don't carry tremendous excess. And we're thoughtful about trying to get it back in a more efficient way. What you've seen us do in the most recent couple of quarters, there's been a lot of volatility in the market and our stock, and we try to be opportunistic through the share buybacks to do something. In the last few years, we've played all the levers you talked about. So what you could be assured is that we're going to continue to be pretty thoughtful about how do we make sure we have the right capital base going forward, and that you won't -- I don't see us changing that philosophy. We will try to figure out the best way and the most efficient way if we do have excess capital to make sure we return it. And as I said, I think that those levers you mentioned are the levers that we are considering and thinking about proactively. And as I said, at the very beginning of all of this, is that we obviously want it to go toward profitable growth when we have it, but we're also not going to be inefficient or not effective with the excess capital.

Matthew John Carletti
JMP Securities LLC, Research Division

Right. Is there a preference at the moment? I mean, let's just say everything equal, though, where we stand now -- and that's a big assumption because things are changing quickly these days in the world around us -- is there a preference towards -- given where the stock's trading -- buybacks versus pay-down of debt versus dividend? Or it's just some balance of the 3?

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

I would say it's a balance of all 3. And we are continuing to try to be opportunistic, interested in perhaps repositioning our leverage a little bit on the debt side. But we will look at that as we proceed through the year. We do have plenty of room in our stock buyback program, so we have some opportunity to deploy that. And we just [indiscernible].

Operator

And our next question comes from the line of Larry Greenberg with Janney.

Lawrence David Greenberg

Janney Montgomery Scott LLC, Research Division

Fred, running through the operating unit kind of guidance or thoughts, you said, I think, a 0.5 improvement in Commercial Lines. I wasn't sure if you were saying in the underlying loss ratio and the expense ratio each or combined?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, that was just the expense, Larry.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

That was just the...

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

So [indiscernible] 0.5 point was just the expense, yes. And so obviously, in total, when you back into it, there will be other improvements, obviously.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay. So you -- so presumably that you're expecting underlying loss ratio improvement, both Commercial and Personal?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. Yes.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay, great. And on the AIX, I hear you, these are terminated programs. There's a history of terminated programs being the gift that keeps giving throughout the industry for some time. Just wondering if you can give us some comfort that you've gotten [ph] that, maybe what the reserve balances are, maybe the paid loss trends on it. Is there any more you can provide on that?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. So the -- if you recall, 2.5 years ago, that is -- we were more skewed -- a little bit too skewed, actually, to wheels-related programs. We saw the trends in commercial auto, and we felt that we couldn't get enough out of pricing and underwriting at the time. I wouldn't say that they were horrible programs. I would just say that the trends were against us, and we thought we were a little skewed toward auto, and we didn't think we could get it where [ph] we were [ph]. So we discontinued. It was probably $55 million to $60 million of a handful of programs. And what this is, is kind of a ground-up kind of taking a look at that and taking a position to make sure we're a little bit more conservative about what we have there. I would tell you, for the whole company, that we're about as strong as I have ever seen for our balance sheet since I've been here. So I feel very, very good about where we are, what we've done and what we've been doing. So I feel -- we're good, but we're going to continue to be conservative and react to things as we see it. But I feel pretty good about it. And that book itself, again, is a very attractive book of business right now. And we feel very good about what we have. So I don't know if that's helpful, but...

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Yes, fair enough.

Operator

And our next question comes from the line of Charles Sebaski with BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Wanted to just follow up on that last question on the AIX and the commercial auto business, both, and maybe just ask for a different way on where that business, where the reserve strengthening has come from is loss-picked? Because if I look at the presentation you have -- I don't know what page -- Page 8, the auto accident year seems to be improving, right? It's gone to from 71.2% to 70.3%. So you have improvement in the current accident year and then strengthening in the back-years. So I was wondering, to get an idea, what are those back-years picked at? And where is that coming from, just to get some, I guess, prospect or some understanding of the movement?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. So the AIX is in the other. So it's -- there is auto and other lines in that other, okay? So those are -- they're in 2 different geographies on that page. So that's the answer of where it is. And again, what I would tell you in general is that we feel very good about where we are with auto and the actions we've taken. The issues that we had were in that '11 to '13 time frame, and we talked about it in multiple calls. We've kind of reacted to it early and aggressively. So...

Charles Joseph Sebaski
BMO Capital Markets Equity Research

I guess, what I mean is what are those accident years '11 to '13 picked at right now? What's the loss pick on the '11 to '13 AIX book today versus relative to where they were before this reserve adjustment? Are they picked at an 80% versus a 70% that the rest of the commercial book is for 2015 from the presentation? Or are they at a 75% or are they at a 65%, and there's still potential for them to develop adversely relative to commercial trend in general? That's what I'm trying to get, is where's the AIX auto book picked at for these back-years currently?

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Well, as they've developed, some of those years have picked at -- have developed out at over 100. I mean, that's obviously from the outcomes, right, but...

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

Chuck, this is Andrew. The one thing I would say is that there were aspects of what made up those programs that are different than what is in our commercial auto business. It was some heavier exposure, and then some of the loss trends that we saw were specific to particular [indiscernible] kinds of actions that we saw emerging specific to this type of business. So I think that if in terms of your question, if you're trying to compare it to commercial auto and, say, okay, where do those picks sit versus commercial auto for the comparable years, I don't think we start there. We're basically trying to reserve to what we think is a conservative ultimate for that book for those years. And that -- so just I'm not sure it's comparable as much as we're really looking at that book into itself.

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

They're substantially all case reserves at this point. There's not much IBNR left in those periods. So it really isn't a pick, it's case reserves.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay, okay. But -- so that AIX book, though, is well over 100 then, right? I mean, it's, okay, there's not an IBNR, but the current -- for those '11 to '13 they've blown out, right? They're over 100% combined then?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

No. Again, these are discontinued programs we've put up on these picks, okay? So it's apples and oranges, what you're talking about. We feel that they're very fully reserved.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay, that's fair. I guess, I had another question on Chaucer. And I don't know if this is just a factor of the U.K. book sale. But it seems that the growth -- it seems like the reinsurance seed has gone up, the gross-to-net for 2015. Is this a factor of the U.K.? And I guess, in general, given the pricing dynamic in the London market that's going on in specialty, is there any changes going to be going on in that basis for further reinsurance on that side or other loss mitigation? Obviously, the performance has been good, but from a pricing standpoint, my understanding is that's a more competitive place today?

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Yes. Again, so I'll -- go ahead, Johan. You want to take it?

Johan Slabbert
Former Chief Executive Officer

Sure. Well, I'll try and pick the questions out there, Charles. So from a '15 perspective, the net-to-gross ratio, obviously, as you pointed out, would be affected by the removal of the motor, which was midyear. What we expect to see in the future, what's in the -- a component of the fourth quarter as well as in '16, is some protection against that competitive market you were referring to by retaining a lower level, therefore, getting better protection from our reinsurance programs. So you will see some movement in that going forward as well.

As you pointed out, it is a competitive market, and that's fueled by the absence of any massive or significant cat events, as well as the compounded effect of additional capital bring in by new entrants. So again, that would drive us to a strategy whereby we'd look at reinsurance as a mechanism to protect our existing portfolio.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. I don't think I have any others. I appreciate the answers.

Operator

And our next question comes from the line of Dan Farrell with Piper Jaffray.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Just a question, and I was on late, so I apologize if you've touched on this, but I was hoping to get a sense of the reserve ranges that are now booked for some of the areas in Commercial Lines, where you've taken actions. So obviously, from the rebalancing, you've taken down workers' comp. You added to commercial auto and to other commercial. Where are those -- where are the carried reserves now fall within sort of the actuarial ranges from a broad-based perspective?

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Well, from a -- again, from a broad-based perspective, we feel very confident relative to the strength of the balance sheet and our actuarial expectations relative to carried reserves. And I would say that the tuning that we did at the end of the year, where we had very high confidence levels in comp and home, we moved some of those reserves into more liability areas, where we had relatively less confidence levels. But we still have high confidence levels in all of the lines.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

I guess, what I'm trying to get at, if I was a making a guess, your workers' comp reserves were probably towards the high end of the range and maybe those other areas might have been middle or lower or something lower than that. Is everything now at the mid or above the mid, is what I'm trying to understand? Or maybe -- if you can give that internal data, that would be great.

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

I wouldn't want to give a definitive statement as strong as that, but I would say that generally that would be the case.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Okay, okay. And then I have a question on pricing. I mean, you had another good quarter of rate, which seems like it still would be moderately in excess of loss trends. This would give you -- bake in some of the improvement in the accident year on an earned basis hopefully in 2016. And my question is looking ahead, how much runway do you see for any further rate in excess of loss trend given the competitive environment? Can you still sort of maintain that for the near term?

John C. Roche
President of Hanover Agency Markets

Yes. This is Jack. It's hard to have to a crystal ball. I think we're encouraged by the fact that we finished the year on a strong note. And despite some deceleration in the commercial environment, we're holding pretty well, kept our head above loss trends. We go into 2016 with expectations that there may be some further deceleration, although there's certainly a lot of noise with some of the other competitor activity out there that there may be a flattening out of the pricing environment. And certainly, in areas like auto, we see sustainable rate increases. There seems to be more players each quarter falling into the auto issue. And so that gives us more and more confidence that we're going to continue to deal with -- to take advantage of that. If you think about the last 3 years, we've averaged around 8 points of pricing in the auto line, and we're going into 2016 with expectations that we're going to at least be mid-single digits or better. So it depends on the line of business mix. It depends on how far the property market continues to push down while the casualty lines are tending to hold steady or, in some cases, push up. But probably the other thing I would say is that we go into '16 with pretty high confidence that our earned premium will bring some additional pricing into our results, and that so far we don't see anything that suggests a precipitous drop-off from where we are today.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

That was very helpful.

Operator

And our next question comes from the line of Meyer Shields from KBW.

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

Can you talk a little bit about what's going on, on the liability side of CMP? Is that like an industry-wide issue or general liability? Is the environment deteriorating?

John C. Roche

President of Hanover Agency Markets

Yes. This is Jack again. I wouldn't say -- it's a bit early to start talking about whether it's really a trend within our business. And certainly within the industry, I think there's a couple of competitors as we watch that are starting to suggest that they have some severity change in their prior years. But as we said last quarter, right now, the way we're looking at it, is there is some -- a small subset of cases that are having additional severity. There is some heightened litigation on certain types of claims that tend to not only push up the indemnity outlook, but also are dragging along some legal expense. And I think what we suggested in the past is that we're committed, based on what we learned through commercial auto and what we see as far as our philosophy, to stay on top of even smaller bumps in the road. That we're trying to avoid big surprises with trying to capture, particularly on the casualty lines, things that are slightly outsized to our trend analysis. So you're going to see us -- this is the second quarter where we've decided to recognize some prior development in the CMP liability. But it would be premature for us to call that a trend based on it being a relatively small subset of cases that we're watching.

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

Okay. The second, can you talk a little bit -- I guess, the only thing that really surprised me in the quarter was the slowdown of commercial net written premium growth on a sequential basis?

John C. Roche
President of Hanover Agency Markets

Yes. This is Jack again. I think what I would -- if you look at some of the more detailed, predominantly what you saw was 2 things. We had a middle market retention dip of roughly 5 points that was predominantly made up of one large account that was acquired. We're not a big, large account player. So when one large account is acquired, that shows up in our numbers. But also, there was some heightened competition on the larger or the upper-middle market business, and we elected to not let our book deteriorate over that pricing. We have a very small portion of our book that's in accounts over $500,000, and we intend to stay very disciplined if that market is going to continue to be hyper-aggressive.

So I say that we go into the first quarter with a better outlook. We don't see -- we certainly don't anticipate one of our largest accounts being acquired, but we also got out of the block nicely in January. And so we're hoping that, that will be kind of more of an aberration.

Also, the last point is on new business, as we get to the end of the year, it does occasionally get aggressive when some people are behind. And I hope what you'll see in our results is that we're focused on profit and making sure that we don't just grow for growth's sake. That said, we have confidence that we can generate the appropriate level of growth in '16. And we'll stay diligent on that.

Operator

And our next question comes from the line of James Ellman with Seacliff.

James Ellman

Just was hoping to get a little bit of color on the energy holdings in your investment portfolio. And of course, I mean, you don't have to mark them to market, but I was hoping you might be able to give us a little bit of color as to where that portfolio is trading in the market today to the extent that they are bonds that actually do trade.

Eugene M. Bullis
Former Interim Chief Financial Officer and Executive Vice President

Well, our market, at the end of the year, was at around $91 million overall for the total portfolio. And I think it's drifted down a bit in the month of January, about $20 million. Our overall mark actually went up about $30 million for the whole portfolio. So it's -- we believe it's very manageable. We obviously mark to market through the balance sheet, and then we do a ground-up credit analysis for everything that we think is appropriate for us to recognize an impairment on. We went through that exercise. We continue to monitor it. We've monitored the activity since the end of the year. We don't see anything that we need to react to, and we'll just continue to stay close. But we think overall, our -- it's a very high-quality portfolio. There's very little in equity or ETFs or anything like that that's energy-related. And we're quite confident that we can ride it out. We've done stress-testing on the portfolio as well to see what would happen relative to oil prices staying low, and we feel confident that we're in a strong position and it's a good portfolio.

Operator

And there are no further questions at this time. I would now like to turn the call back over to Oksana Lukasheva for closing remarks.

Oksana Lukasheva
Vice President of Investor Relations

Thank you all for your participation today, and we are looking forward to speaking to you next quarter.

Operator
Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. So you all have a good day.