S&P Capital IQ

CONTENTS

Selective Insurance Group, Inc. NasdaqGS:SIGI

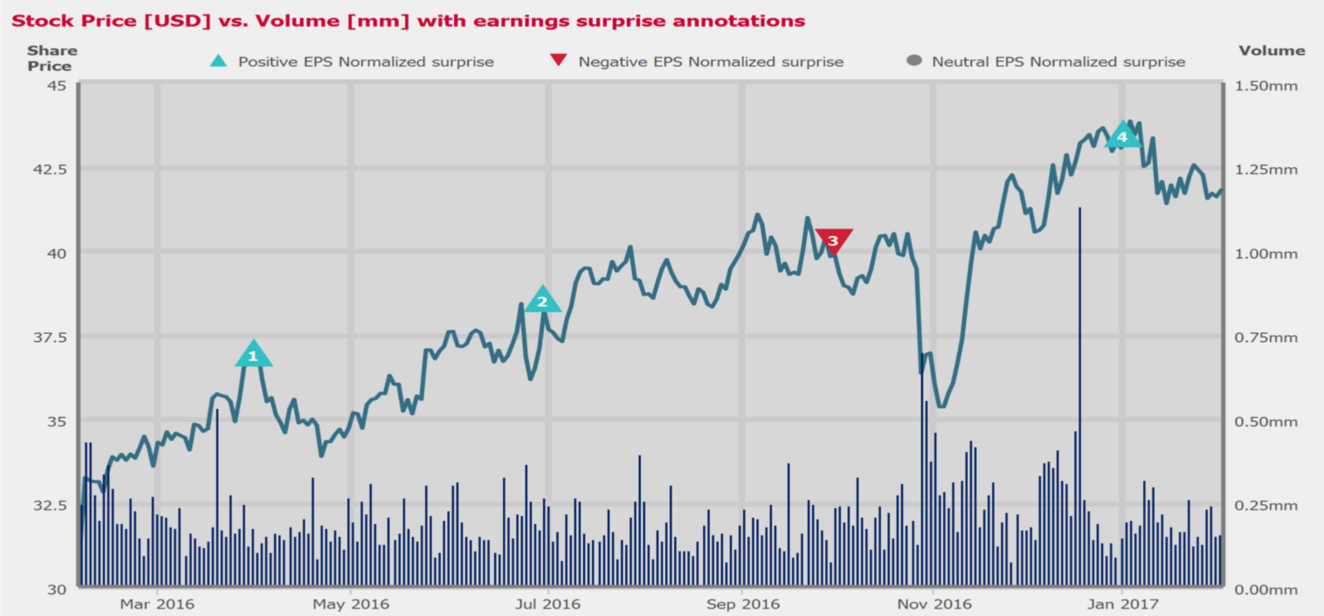
FQ1 2017 Earnings Call Transcripts

Thursday, April 27, 2017 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	0.86	▲26.47	0.72	3.04	3.02
Revenue (mm)	608.40	600.50	▼(1.30 %)	615.10	2473.90	2601.72

Currency: USD
Consensus as of Apr-27-2017 12:44 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	0.58	0.66	▲1 13.79 %
FQ2 2016	0.61	0.72	▲2 18.03 %
FQ3 2016	0.71	0.62	▼3 (12.68 %)
FQ4 2016	0.68	0.75	▲4 10.29 %

Call Participants

EXECUTIVES

Gregory E. Murphy
Chairman and Chief Executive Officer

John J. Marchioni
President and Chief Operating Officer

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Rohan Pai

ANALYSTS

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Presentation

Operator

Good day, everyone. Welcome to Selective Insurance Group's First Quarter 2017 Earnings Call. [Operator Instructions]

For opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Rohan Pai. You may begin.

Rohan Pai

Good morning, everyone, and welcome to Selective Insurance Group's First Quarter 2017 Conference Call. My name is Rohan Pai, Senior Vice President, Investor Relations and Treasurer.

This call is being simulcast on our website and the replay will be available through May 30, 2017. 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, www.selective.com.

Certain GAAP financial measures will be stated during the prepared remarks that are also included in our previously filed annual report on Form 10-K and quarterly Form 10-Q reports. To analyze trends in our operations, we use operating income, which is a non-GAAP measure. 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 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 today on the call are the following members of Selective's executive management team: Greg Murphy, Chief Executive Officer; John Marchioni, President and Chief Operating Officer; Mark Wilcox, Chief Financial Officer; and Ron Zaleski, Chief Actuary.

With that, I'll turn the call over to Greg.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thank you, and good morning, Rohan.

So I'd like to begin with introductory remarks and focus on some high-level themes for the first quarter. Mark will then discuss our financial results and John will review our Insurance Operations in more detail and provide additional color on key underwriting and claims initiatives.

Selective's first quarter results reflect continued momentum from the record levels of profitability we reported for 2016. Our statutory -- our consolidated statutory combined ratio was an excellent 89.7. For the first quarter, we continued to grow new business while successfully balancing, at a very granular level, rate versus retention.

Our Standard Commercial Lines segment produced excellent overall results and was complemented with profitable results in our Standard Personal Lines and E&S segments. The improved operating performance in our E&S segment is also a positive given the aggressive measures that we have taken to address margins through price increases and shifting the mix of business.

Our operating return on equity was a solid 13% from the first quarter on an annualized basis, benefiting from favorable reserve development, relatively mild weather in the Northeast and strong core underwriting margins. We exceeded our long-term goal of achieving returns that are 300 basis points above our weighted average cost of capital.

Selective's financial results reflect our strong commitment to maintaining underwriting discipline, obtaining targeted renewal price increases, investing in sophisticated underwriting tools and capabilities as well as efficiently managing our capital.

I'd like to highlight 3 fundamental strengths of our organization, which I believe are key differentiators to our high-tech, high-touch operating model and help drive our financial performance. First, we operate a franchise distribution model, which means that we seek to do business with a select number of the best agents whom we refer to as Ivy League distribution partners. We believe our relationships with our distribution partners are among the best in the industry. Second, we provide our field-based new and renewal underwriters with sophisticated underwriting tools and technology and empower them with local decision-making authority. Finally, we continue to heavily invest in enhancing the overall customer experience and delivering seamless omni-channel capabilities so that a customer can engage with us at a time and in a manner of their choosing. We believe that investing in each of these areas will position us well for the future.

As we've often stated on our conference calls, we believe that the prolonged low interest rate environment makes it difficult for carriers to compete aggressively on price. This is especially the case with the industry's 2007 expected breakeven profitability for personal and commercial lines based on forecast by A.M. Best, which translates to an overall return on equity of approximately 5%. While competition for new commercial and personal lines business remains aggressive, we are encouraged that the industry is generally acting in a somewhat more rational manner and pursuing rate increases where warranted.

This trend is most apparent in troubled lines such as commercial and personal auto where the industry is seeking to repair significant profitability issues. However, with more competitive renewal rates offered for certain other lines such as homeowners, general liability or workers' compensation, the industry is generally left treading water or even drowning, in some cases, in the ocean of underwriting results.

In Selective's case, we've obtained targeted renewal pure price increases on our Standard Commercial Lines business averaging 3% for the first quarter. We have obtained price increases that have exceeded the industry average as measured by the Willis Tilling and (sic) [Towers] Watson commercial lines or CLIPS survey for the past 7-year period. Our ability to get price increases in the current competitive landscape reflects the portfolio approach whereby our inside renewal underwriters work with our distribution partners 60 to 90 days in advance of the renewal date as well as sophisticated tools which allow us to price the business on a granular basis and implement rate increases where warranted. These price increases, along with higher retention rates and strong new business volume, drove our overall solid 6% net premium written growth in the first quarter. Other underwriting improvements, including enhanced claim processes, as well as a shift in the mix of business towards higher quality accounts. These changes, along with renewal pure price increases and improvements to our expense ratio, should help sustain strong margins relative to the industry in the coming years.

Looking back on Selective's 90-year history and our evolution over this period, I'm very pleased with where we stand today. Selective's financial results remain extremely strong and we continue to execute on our strategy of disciplined growth while working with our Ivy League distribution partners and best-in-class employees to generate a customer experience that's superior in the industry.

After one quarter of better than expected financial results, we are maintaining our 2017 guidance for a statutory combined ratio, excluding catastrophe losses of 90.5, which assumes no additional prior year reserve development, catastrophe losses of 3.5 points and an overall statutory combined ratio of 94 for the year. We are also maintaining our forecast for after-tax investment income of $110 million and weighted average shares of 59.2 million on a diluted basis.

Before turning the call over to Mark, I wanted to take a moment to mention that Ron Zaleski, our Chief Actuary, recently announced his decision to retire from Selective. Ron joined Selective as the Chief Actuary in 1999 as a valued member of our senior leadership team. Ron has made significant contributions to our success. Among his many achievements was the development of pricing and claims models, excellent -- and an excellent actuarial team with a strong record on the reserving front.

I'm pleased to announce that Vince Senia will take over as Chief Actuary from Ron. Vin joined Selective in 2010 as the company's Senior Vice President and Chief Reserving Actuary and has been an integral member of the team.

Now, I'll turn the call over to Mark to review the results for the quarter.

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Thank you, Greg, and good morning. I'll discuss our financial results again with some key metrics and trends for the company as a whole and then will also touch in on segments.

For the quarter, we reported $0.85 of fully diluted earnings per share and $0.86 of operating earnings per share. We generated an annualized return on equity of 12.9% and an operating ROE of 13.1%, an impressive result, especially in the context of the current prolonged low interest rate environment and a relatively soft commercial insurance market. Our ROE was in excess of our long-term financial target of 300 basis points above our weighted average cost of capital.

For the quarter, both underwriting income and net investment income were ahead of the first quarter of 2016 with GAAP underwriting income totaling $32 million after tax, up 20%, and contributing 8.2 percentage points of the operating ROE. The investment portfolio generated after-tax net investment income of $27 million, up 17% from a year ago, and contributed 7 percentage points to the operating ROE.

Our results for the quarter reflect our focus on disciplined profitable growth with consolidated net premiums written up 6% and the GAAP combined ratio coming in at a profitable 91.2%, reflecting 100 basis points of improvement from the first quarter of 2016. Catastrophe losses were relatively low at $12 million and accounted for 2.2 points on the combined ratio. For the quarter, we experienced $14 million of favorable reserve development, which equates to 2.6 points on the combined ratio.

Excluding the impact of catastrophe losses and prior period casualty reserve development, the underlying GAAP combined ratio was 91.6%, which compared to 92.7% in the year-ago period. On a statutory basis, the combined ratio was 89.7% on a reported basis or 90.1% on an underlying basis, with both metrics showing improvement compared to the first quarter of 2016. These metrics all compare favorably to our 2017 forecast for statutory combined ratio of 94% or 90.5% excluding catastrophe losses and reflect our initiatives around claims handling and underwriting mix improvement as well as expense management.

Moving on to the segments. In our Standard Commercial Lines segment, net premiums written were up 6% for the first quarter. While the growth rate is down from the prior year, it remains solid in the context of the competitive environment for new business. The first quarter GAAP combined ratio for Commercial Lines was 90.3%. Results benefited from $16.4 million or 3.7 points of net favorable prior period casualty reserve development and were offset, in part, by $7 million of CAT losses, or an addition of 1.6 points for the combined ratio. Net favorable reserve development included $22.4 million of reserve releases for the general liability line of business. And this was offset, in part, by $6 million of development in the commercial auto line of business.

In our Standard Personal Lines segment, net premiums written were up 4% for the first quarter and the GAAP combined ratio was 92.8%. This segment continued to benefit from overall favorable loss experienced in the homeowner's line and from aggressive underwriting actions we have taken to address margins in recent years. First quarter results have been challenging across the sector, but we are encouraged by the actions taken by a number of competitors to raise rates and address margins. Flood price payment fees related to our participation in the National Flood Insurance Program totaled $600,000 in the first quarter. Results included $2 million or 2.8 points of unfavorable prior period casualty reserve development related to the personal auto line and $4 million of catastrophe losses or an addition of 5.5 points to the combined ratio.

In our E&S segment, net premiums written increased 4% for the first quarter and the GAAP combined ratio was a profitable 96.9%. Results included $1.4 million or 2.7 points of catastrophe losses. While the premium growth rate has declined in this segment relative to early last year, we're encouraged by the trends in underlying margins.

Moving on to our expenses. Our overall GAAP expense ratio was 34.6% in the first quarter, which was down 40 basis points from the comparative quarter or 60 basis points on a statutory basis. In policy to our increased profitability, our expense ratio has been under some pressure due to accrued supplemental commission expense paid to our agents and that's as well as the higher level of incentive compensation paid to employees. Driving the expense ratio lower is a focus for us in the upcoming periods, but we will continue to invest in our employee base, developing sophisticated underwriting tools and enhancing the customer experience. We expect to raise some benefits of scale as we continue to grow the business.

Also, during the first quarter, we recognized an income tax benefit of $2.9 million related to share grants that generally vest in the first quarter. The tax benefit is related to our adoption of the FASB's new guidance on employee share-based payment accounting which now requires the tax benefit from vested shares to be recorded through the income statement rather than through equity.

Turning to investments. For the quarter, after-tax net investment income was up 17% from a year ago. Fixed income, which represents 90% of our portfolio, experienced an increase in after-tax net investment income resulting mostly from higher asset base or higher asset based on a higher book yield. The yield on the fixed income portfolio averaged 2.2% on an after-tax basis during the quarter compared to 2% a year ago. The due money yield on the fixed income portfolio during the first quarter was 2.1% on an after-tax basis, which reflects 2 consecutive quarters of increases. [indiscernible] investments, which report on a one quarter lag recorded a pretax gain of $1.6 million, up from a loss of $1.1 million in the first quarter of 2016. Our fixed income portfolio is highly rated with an average credit quality of AA- and a 3.6-year effective duration, including short-term investments.

Risk assets, which principally include high yield fixed income securities, equities on our alternative portfolio, remain consistent with year-end at 7% of total investment assets. We've been gradually diversifying our investment portfolio and will likely modestly increase our risk asset allocation over time.

Our balance sheet remains strong with $1.6 billion of GAAP equity. Book value per share increased 3.5% during the fourth -- first quarter, benefiting from strong earnings and $17 million of net unrealized investment gains. We're adequately capitalized to support our growth and continue to target a premium to surplus ratio of approximately 1.4x, which is about twice the industry average. We continue to adopt the conservative stance with respect to managing our underwriting appetite, investment portfolio, reserving processes and catastrophe risk. This allows us to maintain higher operating leverage than the industry as a whole with each combined ratio point equating to about a point of operating ROE.

With that, I'll turn the call over to John to discuss our Insurance Operations.

John J. Marchioni
President and Chief Operating Officer

Thank you, Mark.

We're excited about the various initiatives we have in place to help drive our strategy of balancing strong profitability with our objectives around growing the business. We continue to invest in technology to enhance the ease of doing business for our agents, enhance the overall customer experience and build out our data and analytics platforms. The rollout of our geographic expansion plans also remains a key strategic priority for the coming years.

In an effort to continually refine our sophisticated underwriting and pricing capabilities, we recently rolled out our newest tool, underwriting insights. In addition to the predictive model-driven guidance that our new business underwriters have long had, we now provide them with real-time insights into how each prospective account compares to similar accounts already in the portfolio. This new tool better positions us to acquire high-quality new business at adequate pricing levels regardless of overall market dynamics.

On the customer experience front, we continue to build towards an omni-channel experience, providing multiple service options 24 hours a day, 365 days a year. At the same time, we continue to build out the technology platforms necessary to position our employees and agents to deliver an exceptional experience during every interaction. We strive to develop a 360-degree view of our customers to provide them with the most effective insurance solutions. We believe that these investments will position us well as we look to the future in an evolving landscape.

Moving on to our operations. Our Standard Commercial Lines segment results were extremely strong for the quarter. Solid net premiums written growth was driven by stable retention of 85%, new business growth of 2% and renewal pure price increases averaging 3% for the quarter. We closely monitor our pricing based on profitability expectations using our dynamic portfolio manager underwriting tool.

For the highest-quality Standard Commercial Lines accounts, which represented 45% of our premium in the quarter, we achieved renewal pure rate of 1.1% and point of renewal retention of 92%. On the lower-quality accounts, which represented 13% of our premium, we achieved pure rate of 6.2% and point of renewal retention of 82%. This granular approach to administering our renewal pricing strategy allows us to achieve additional loss ratio improvement through mix of business changes.

Drilling down to the byline results for Commercial Lines, our largest line of business, general liability, reported $22 million of favorable prior year casualty reserve development, which related primarily to lower than anticipated claim frequencies and severities for accident years 2014 and prior. Commercial auto, on the other hand, remains a trouble spot and is an area that we are focused on to improve the overall financial results.

For the first quarter, commercial auto experienced a $6 million unfavorable prior year casualty reserve development with higher claim frequencies, with the 2016 accident year as the primary driver. We continue to push for and achieve rate increases in this class. In fact, renewal pure price across the commercial auto line averaged 6.6% for the quarter. Frequency trends remain elevated and support the need for additional rate in this line of business going forward.

Switching to Personal Lines. The overall underlying results continue to demonstrate the underwriting actions we took in recent years to address homeowner's profitability. The homeowner's line reported strong profitability, benefiting from relatively mild wet weather during the quarter. We continue to target a 90% combined ratio in a normal catastrophe year or one that includes approximately 14 points of catastrophe losses for this line. We are very close to achieving our margin goals. Renewal pure price increases across our homeowner's book averaged 2.2% in the first quarter, reflecting the improved profitability in this line.

In personal auto, we have seen higher than expected frequencies in the most recent accident years. As the industry also moves to address increased lost cost inflation in this line, it should provide us with opportunities to grow the book while improving margins. Renewal pure price increases on our book averaged 2.6% for personal auto liability and 3.6% for personal auto physical damage during the quarter. Our plans for 2017 incorporate rate filings averaging approximately 6% for personal auto.

Moving on to our E&S segment. We are pleased with the results in the quarter. We have been deliberate in maintaining underwriting discipline and walking away from business that does not meet our profit expectations. Price increases averaged 7.1% in the first quarter, with significantly higher rate increases in the general liability line of business. We've achieved these results by targeting certain states and classes that have underperformed. In addition to underwriting and pricing actions, we have also centralized the claims handling for this segment and implemented changes to our claims processes that we believe should help improve outcomes.

Looking out through the remainder of 2017 and beyond, our strategy is focused on seeking out additional growth opportunities while balancing this goal with over -- our overall profit targets. We will maintain a strong focus on underwriting and pricing discipline. We have ample opportunities for growth with our current footprint without altering our underwriting appetite.

Our longer-term target is to achieve a 3% commercial lines market share in the states in which we operate. We are targeting a 12% agency share of wallet as we continue to leverage our franchise model and plan to increase our agency appointments over time to represent approximately 25% market share. Selective's relationships with our approximately 1,190 distribution partners are among the strongest in the industry and underpin our success.

Our plans are also well on track to begin writing new commercial lines business in the states of Arizona and New Hampshire in the latter half of 2017. We have appointed 16 agents in Arizona and are planning on appointing 10 agents initially in New Hampshire as we begin writing new business in these markets. All groups of agents control close to our 25% commercial lines market share in their states. Our new agent partners are excited to work with us and value our high-tech, high-touch approach to the business that is predicated on our field-based underwriting, franchise distribution model and excellent customer service. With that, we will open the call up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question is from Arash Soleimani from KBW.

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

I had a quick question. On the guidance, I know you reiterated it, but just given there was favorable development in the quarter, it almost implied that the core combined ratio would be 91.1% instead of 90.5%. Is that something to read into at all? Or is this one of the things...

Gregory E. Murphy
Chairman and Chief Executive Officer

Well, I mean, obviously -- this is Greg. That's all -- one quarter doesn't make a year. And we're generally a more conservative run organization, so I would say that we did not elect to lower our core, although there is nothing that John articulated in his comments about frequency, severity or pricing that really modify our expectations about where our core results are going to come in at for the year.

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

Okay. That's fair. And just -- I just wanted to double check. Within Standard Commercial Lines where, there, the core loss ratio was about 30 basis points higher, did you say that was mostly from commercial auto?

Gregory E. Murphy
Chairman and Chief Executive Officer

I'm sorry. Could you just repeat the question? What was 30?

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

It was the Standard Commercial Lines as a whole. The -- I think the core loss ratio was up 30 basis points there. I just wanted to know what line was driving that, if it was commercial auto or if it was a different of the line.

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Yes. On the Standard Commercial Lines, the core loss ratio was up a little bit. I think, in the grand scheme of things, 30 basis points is a pretty small amount. We did see the combined ratio come in, overall, better than expected compared -- or better than Q1 2016. And on an underlying basis, when you factor in expenses and policyholder dividends, we also saw margin improvement. I think, in terms -- there is a mix of business in there as well as the non-CAT property losses that have an impact on the underlying core loss ratio as well.

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

Okay. Is there...

Gregory E. Murphy
Chairman and Chief Executive Officer

I would say that probably one of the things that you may want to look at though, there was a fair amount that -- so comp did not have a reserve release in the first Q of 2017 and our combined ratio and the comp was 96 versus an 81.1 last year. So that's where most of it is. [indiscernible] it was above 5, above 5, GL was an 83 and that went down to a 70. So you've got a little bit trade-off between what's happening in general liability one way down and what's happening in comp, which is going up.

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

Okay. And then, has comp has been trending up for you guys, I guess generally or was it just this quarter?

Gregory E. Murphy
Chairman and Chief Executive Officer

I would just say comp last year reflected a more favorable position in terms of where we were at the end of the first quarter. I would say that 95, we are -- there's nothing that we see in comp yet. I mean, obviously, John could go in this. There was a fair amount of pressure on rates. There's a lot that we've done in the claims area to lower our loss cost. But right now, we're not seeing anything negative there.

John J. Marchioni
President and Chief Operating Officer

No. I think that's absolutely right. I think it's been a fairly stable environment and the frequency severity trends that we've seen over the last few years have continued. And I think we certainly look after the market. I've seen that line become fairly competitive. Broadly, especially on the smaller and lower hazard classes and when you look out from a rate perspective or pricing perspective across the country, whether it's an NCCI state or an individual state rating bureau, you're seeing a fair amount of negative hardwire rate changes coming through in addition to those frequency severity trends that have been favorable have reduced experience mods across the market, which also puts downward pressure on rating per exposure unit. So that, plus the fact that we've all benefited from lower medical inflation over the last few years, I mean, we've seen, for the longer-term history -- and not that we're seeing that reverse, but to the extent that starts to change going forward, I think the performance of that line for the entire industry could start to move in the other direction. So we feel good about our book. We feel good about the actions we've taken. But we need to remain diligent because the market could quickly turn that line unprofitable again.

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

Okay. And then, I had a numbers question. General corporate expenses, is that seasonal in nature? I know it was $11.9 million this quarter, which was pretty much in line with 1Q last year, but 4Q '16 was only about $6.8 million. So is there seasonality in that number? I just wanted to make sure I understand how it moved.

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Yes, Arash. This is Mark again. It's a good question. There is some seasonality related to that number. As you might recall, on our last call, we talked about $10 million of expected corporate expense savings over the next 12 months mainly related to our mix of long-term incentive compensation. The way that our corporate expenses roll out throughout the year, there is some seasonality, more heavily related to the first quarter, and part of that is just the way the accounting works for long-term incentive compensation for both who have reached retirement eligibility. So there's a little bit of a heavier weight to Q1 and then we see that number come down throughout the rest of the year.

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

Okay. And then, on an expense basis, like, aside from general corporate, you did have expense ratio improve. So what was driving that expense ratio improvement there? Because I know you did mention the $10 million but does the $10 million go into the underwriting entities? Or is that, I mean, or that would be reflected in a different line?

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

The -- so a couple of questions there. Let me start with the last one first. The $10 million goes -- is fully a company expense. It does not go through the expense ratio, so that's in that sort of other or corporate expense line item.

As it relates to the underlying expense ratio, if you recall on the call last quarter, we talked about 170 basis points of margin improvement in 2017 versus 2016. Included in that was 2/3 sort of underwriting mix in claims improvement and about 1/3 or 60 basis points on a stat basis of expense improvement. And what you're really seeing there is our expectations of growth and disciplined expense management. So while our expenses continue to be a little bit higher as we invest in our business, as I mentioned, our underwriting tools, our customer experience and our employee base, we're growing the top line at a faster rate than we're growing our expense ratio. So the 60 basis points on a stat basis that we achieved this quarter versus the year ago is right in line with expectations. On a GAAP basis, because there's -- that metric is based on [indiscernible] premium rather than written premium, it takes a little bit longer to come through the results. So we saw 40 basis points of expense ratio improvement in the quarter versus the year ago.

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

And just, lastly, the premium growth you're seeing in Personal Lines seems to be improving. So is that just related to specific initiatives there with bundling policies? Or -- I just wanted to get more color on that, please.

John J. Marchioni
President and Chief Operating Officer

Yes. So this is John. We grew the overall segment at 4% for the quarter and that was driven by very strong new business growth, as you've noted. And I would say, for the most part, that's driven by -- with the pricing that's really started to move in the marketplace, our hit ratios have really started to ramp up and that's helping us grow the overall. We continue to rate predominantly multiline business with both the auto and the home, which is our most attractive segment. And as we talked about in the prepared comments, home profitability is very strong. So I would say it's largely driven by hit ratio improvement as the market has started to move and we have maintained our discipline relative to our pricing philosophy and continue to do that as we talked about our intent to file rate increases this year that will earn in, over the course of '17 and into '18, at about 6% for auto, and we feel that's very much in line with where the market is going to be.

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

Okay. And I just realized the fixed income yield. So that was -- is that improving because of a change in mix shift with higher-yielding securities?

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Yes. There are a couple of things going on there. First, you might recall, last quarter, we talked about a refocus on the investment portfolio, hiring some new fixed income managers and trying to get our portfolio to work a little bit harder for us without taking on additional credit risk or extending duration. We did benefit in the fourth quarter with rates ticking up a little bit. And as we were turning over the portfolio, we were able to put new securities on at a higher book yield and we saw that happen again in the first quarter. We also have a little bit more of the portfolio shift into floating rate securities. And we saw an uptick at the front end of the curve in the first quarter that had an impact on new money rates that increased the book yield as well. So it's really a combination of factors, but overall, I'd say we're trying to generate high yields for the fixed income portfolio, but not taking on additional risk.

Gregory E. Murphy
Chairman and Chief Executive Officer

So to give you an idea of that, so -- about 17% of our fixed income inventory is now floating rate. And you would look at LIBOR -- 90-day LIBOR movements to see changes in investment income as a result of interest rate changes.

Operator

Our next question is from Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I'll have to say, this is probably one of the best top to bottom quarters I've seen from Selective in all my 16 years covering it. So let's start by saying a good job. And you know I don't say that very often on these calls.

Gregory E. Murphy
Chairman and Chief Executive Officer

We really appreciate that coming from you, by the way.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I'll still find a couple of things to pick on though.

Gregory E. Murphy
Chairman and Chief Executive Officer

So does everybody else. It's always a scab out there somewhere that someone has to pick on, right?

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Let me start with the E&S business. A question that I have there. I mean, it was obviously a very good quarter. The question I have is, are you making any changes fundamentally to the underlying type of customer that you're pursuing there, maybe different size of limits, different classes of business, geography, what have you? I guess, what I'm getting at is, are you doing the same thing better or are you doing a slightly different thing and getting better results?

John J. Marchioni
President and Chief Operating Officer

So Mark, this is John. I'll start. I would say, for the most part, what you're seeing in that performance is we're doing the same thing, but we're doing it better. I'll come back and talk a little bit about -- a little bit of a modification to the business we're pursuing, but I would emphasize it's just really a slight shift in the type of accounts. Our limits profile continues to be very low. So 98% of our business continues to be $1 million dollar limits or lower. Our average premium size continues to be right in that $3,000 range, and that's really our core. It's what we do well in this segment and continue to improve upon, and that's been our focus. The improvements you're seeing are really driven by the fact that we're getting significant price increases now flowing through that book.

As we've talked about in prior quarters, new business has been coming on the books for the last several quarters at our desired rate levels, but the renewal inventory needed a little bit more focus. And you've seen that in the quarter. As I mentioned in the prepared comments, a little over 7% rate increase, which has, in fact, impacted the top line a little bit. You saw the 4% growth rate, which has been down from where it's been running. And as we've always said, this is a business we view as one in which we want to get to our target margins and stay there and allow the top line to float a little bit up and down depending on where the market conditions are. So I would say that's the major driver, along with what we're starting to see now in terms of our claims initiatives that we've talked about for the last several quarters starting to bear fruit.

The one area that we are starting to have a little bit more success in would be, outside of the binding authority space, which is -- are those small flow accounts that we really built this business on, but we also write some accounts that are just slightly outside of that underwriting block. Same classes of business, just tend to be slightly larger and are handled by one of our underwriters as opposed to being issued within those guidelines by our wholesale agencies on the binding authority space. We have seen a little bit more growth there, but again, the limits profile and the segments of business and the geographic distribution of the business we write is fairly similar and fairly stable on both the binding authority and the brokerage front.

And then, the final point I would make is we've written a fair amount of garage business in this company since we acquired it. And that's been a very good segment for us. And that's really driven by a handful of states where the market pushes most of that business into the E&S market, but we've seen some accelerated growth in that segment as well and we're very comfortable with our pricing and our margins in that segment.

Gregory E. Murphy
Chairman and Chief Executive Officer

Mark, this is Greg. So I think John covered it extremely well. So the only thing I would really add to that is, that also a part of that is significant tuning in how the rates are done relative to managing it in more -- in a more granular -- more in a class light plan. And I think that's where we're better matching our rate relative to the exposure, whether it's hazard type, whether it's certain types of property exposures in certain geo locations. I think we've also enhanced a lot of the technology, particularly on the quoting side. And I think we've got some things still yet to come on that side that will make further improvements.

And then, on the claims side, what you should really closely watch, too, is the loss adjustment expense side where we've made, in addition to changes in the claim process, a lot of changes on the panel council arrangements. We've instituted staff council in many areas. So you're going to see some real significant reduction in costs as a result of that. And I don't -- and we would expect better and quicker outcomes on our claims as a result of that.

So there's a lot in there, but we feel that this business is a business we want to grow based on margin. And when I say that, I'm meaning that if the market gets really tough, we are saying that we're willing to shrink it and when the -- when it's an opportunity to grow and get your margins, we're going to do that as well. So that's the one part of the business we always remind analysts that if you see our business start to shrink in there, if we're not getting our rate at that class plan kind of level, you're going to see that business shrink. So that could introduce a little bit more volatility relative to changes in NPW overall.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That's a very thorough answer. I mean, obviously good start to the year, so see how it unfolds.

The second question I have is really for you, Greg. I mean, your results have been very strong over the last several quarters. A lot of your nearest competitors have reported similarly good results. What's different? How has the tone of the market changed? Have you guys all collectively gotten smarter than the last cycles or better data? Or -- what are you seeing on the ground that's kind of accounting for generally better success across kind of the regional commercial standard insurance market?

Gregory E. Murphy
Chairman and Chief Executive Officer

Well, I would say it's still a bit of a mixed grill. Not everybody is printing, in my mind, great numbers and exercising maybe the discipline in the market you would expect to see. But you and I have chatted about this in the past. I think the number one change relative to years ago is the fact that people, to the extent that they're reporting -- reported precisely as renewal price changes, so that's something that the analysts are very dialed in on now and that's the leading indicator of change, whether it's in the Commercial Lines area or it's in the Personal Lines area that John touched on or on the E&S segment. So that, now, is a leading indicator and that's an indicator that is a disclosure now that's become part of the core fabric of overall activity. Some report it with more specificity than others, which is a question left to you guys to mull over, but I would say that our success -- and I'd like to focus more on what we're doing, touches on the points that John made and I made in my commentary. Just think about how we're opening up Arizona and New Hampshire. So not many agencies -- 20 to 23 to 25 in Arizona, New Hampshire was a handful, maybe a dozen at the end of the day, maybe going to 15, but yet 25% market share. We're out there truly hitting those agents, protecting their franchise and then helping them grow their business, new, new business with what we're doing with our field underwriting, field claim, field safety management and the fact that we push agents to really think about the market differently relative to the omni-channel experience, the rest that's brought on by other larger carriers and maybe even regional carriers that are contemplating going direct on the small end of the market, and the level of connectivity that we're building to the end customer, whether that customer is small, medium or large, in my mind, is still critically important and part of what we're doing. So I know it's kind of a long answer, but it's the whole process and also the fact that agents say they just really like working with our people. And whether it's their field underwriter, their inside regional team, the overall corporate initiatives that we have and the people that they interact with, they feel that we're truly invested and have a path that is similar to our distribution channel.

Operator

[Operator Instructions] Our next question is from Bob Farnam from Boenning and Scattergood.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Just touching on the omni-channel capabilities. Can you just provide more color as to what you're looking to do there and how it might impact your agents?

John J. Marchioni
President and Chief Operating Officer

Sure. This is John. I'll start. So when we talk about omni-channel, what we're referring to is our commitment to providing customers with the ability to choose the manner in which they access information and the manner in which they engage with us and with their agencies and then ensure that regardless of what form of interaction that is, whether it's traditional face-to-face meeting with an agent, whether it's a call to our 800 number or to their agent, or whether it's the use of a self-service platform that the level of service experience they receive in every one of those communication vehicles is at the same very high level and that they can seamlessly navigate across any one of those communication channels should they get hung up. So that's sort of the vision for what we're building here.

And then, in terms of how it impacts our agents, we've said quite clearly, the investments we're making are designed to improve our performance relative to our customer experience and our agents' performance relative to the customer experience because it's a shared one. And our agents are interacting with both of us. We share the customer and we need to make sure that we're removing every friction point possible that exists between -- with the handoffs that take place between our agents and us with regard to our customers. So that's why the investment is in a self-service platform, which we've had for a number of years and continue to enhance for the customers that choose that route. It's a big part of our investment. That's why getting that 360-degree view of our customers across all transaction types that I referenced in the prepared comments, and then making that information available in real-time to our customer-facing employees and our agents will allow them to better engage the customers who choose to call them or call one of our call centers. So this is truly a joint effort and our view is this is an important part of the companies that are going to be winners in the future need to have the ability to do this and need to ensure that their agency partners have the ability to do this.

And then, the final point I'll make, and Greg has made this point over and over again in a number of different public forums, is that our ability to do this, we would say is much better than others. Not just because of the starting point we have and the investments we've already made, but because of our relationship with our agents and the fact that we have under -- just under 1,200 agency partners that we would consider to be the best in class than most of the independent agencies that are out there, our ability to do this with them and get them bought in and understanding that this is a relationship that we're trying to build together as opposed to building in order to market around them will make them more comfortable coming along in this journey with us.

Gregory E. Murphy
Chairman and Chief Executive Officer

And Bob, this is Greg. I would say also, in all of that, we sell a product that doesn't have an enormous amount of switching costs to it. And we want to be able to deliver things through this connectivity. We're looking at other things right now that provide our end customers that find a way to build this level of touch points and data and information and whatever it is that we're doing that when they try to shop the account, the competition would not be able to offer that same very high level of activities that we're doing. They want to go into all the activities that we're doing, but there are numerous things that we are working on right now to build that in -- that brand into the customer. So they sit there and they think about our agent, they think about Selective as part of the claim experience, as part of the safety management services and all the things that we're doing. When it comes time to possibly move that account, there's a lot more on the table for them to consider than what's currently being offered generally in the marketplace today by most of the competition.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

And is this directed more towards the small commercial? Or is this personal as well or even...

Gregory E. Murphy
Chairman and Chief Executive Officer

Mostly, it's everything. I would tell you that our ability to have what we call the golden record and tie every customer together in the organization and build that level of connectivity, it's into every segment of our business that we're going to do there.

John J. Marchioni
President and Chief Operating Officer

And I would say that also what we're seeing in terms of demand for the services that we're offering, especially on the self-service front, we're seeing strong demand in both Personal and Commercial Lines up and down the size spectrum in Commercial Lines as well.

Operator

At this time, we have no further questions.

Gregory E. Murphy
Chairman and Chief Executive Officer

Well, I want to thank everybody for participating on the call. As far as I know, there's a lot of busy activity. If you have any follow-up items, Mark and Rohan are here to help service whatever questions you've got. So thank you very much.

Operator
That concludes today's conference. Thank you for participating. You may now disconnect.