S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

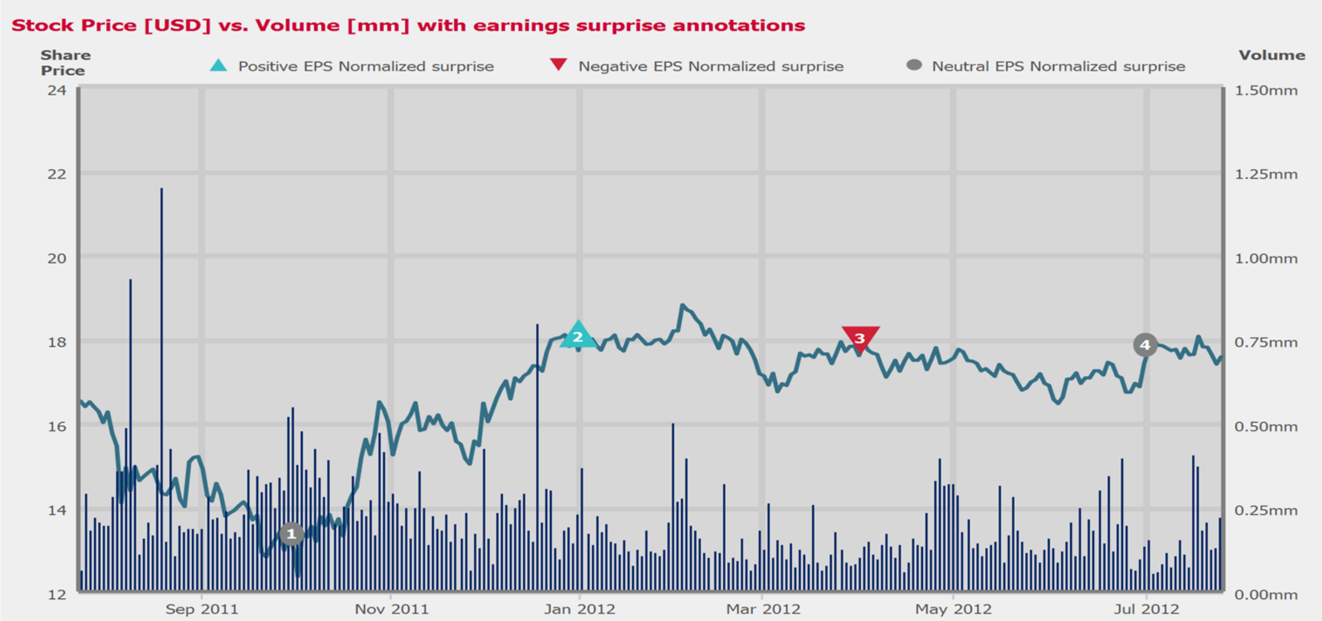
FQ3 2012 Earnings Call Transcripts

Thursday, October 25, 2012 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.34	0.34	▲0.00	0.36	0.97	1.57
Revenue (mm)	438.55	436.87	▲(0.38 %)	449.51	1734.20	1879.06

Currency: USD
Consensus as of Oct-25-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	(0.45)	(0.34)	NM
FQ4 2011	0.31	0.33	▲1 6.45 %
FQ1 2012	0.37	0.28	▼2 (24.32 %)
FQ2 2012	0.01	0.01	●3 0.00 %

Table of Contents

Call Participants

EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

John Joseph Marchioni
President & COO

ANALYSTS

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Raymond Iardella
Macquarie Research

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good day everyone. Welcome to the Selective Insurance Group's third quarter 2012 earnings release conference call. At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer Miss Jennifer DiBerardino. Ma'am, you may begin.

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

Thank you. Good morning and welcome to Selective Insurance Group's third quarter 2012 conference call. This call is being simulcast on our website and the replay will be available through November 23, 2012. 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.

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

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties.

We refer you to Selective's Annual Reports on Form 10-K and any subsequent Form 10-Qs filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

Joining me today on the call are the following members of Selective's executive management team: Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP, insurance operations; and Ron Zalesky, chief actuary. Now I'll turn the call over to Dale to review the third quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks, Jen. Good morning. We're very pleased with our third quarter results. Commercial and personal lines pricing continues to be favorable. Catastrophe losses were within expectations, and we experienced continued improvement in underwriting and claims.

In any quarter, there are certain unusual items that impact earnings, and for us this quarter they essentially offset each other. As a result, the operating income of $0.34 per diluted share provides a good view of ongoing operations.

The improvement from a loss of $0.30 per share a year ago was largely driven by the lack of significant catastrophe activity compared to 2011 third quarter results. The increase this quarter in other expense is related to our long term compensation program that is based on stock price and performance relative to peers, both of which improved.

The third quarter statutory combined ratio improved 18 points from a year ago to 98.4%. Catastrophe losses in the quarter were $9.6 million pretax or 2.4 points, substantially less than the 18.8 points a year ago. We also had favorable prior year casualty development in the quarter of $7 million, or 1.7 points.

Total statutory net premium written was up 14% in the quarter with commercial lines up 15%. The increase was driven by standard commercial lines and personal lines, renewal price increases, strong retention in both personal and commercial lines, and audit and endorsement additional premium of $6 million.

Our recently acquired E&S contract binding authority business contributed an additional $30 million. Standard commercial lines pure price was up 6.6% and retention improved to 83% from 82% a year ago. For the quarter, the commercial lines statutory combined ratio was 100.5%, including 2.3 points of catastrophe losses.

Commercial property reported a statutory combined ratio of 81.3%. Commercial auto also turned in another good quarter, with a 95.7% combined ratio. Personal lines net premium written grew 9% in the quarter to $79 million, including renewal pure price increases of 6.9%. The statutory combined ratio was a profitable 88.8%, including only 2.6 points of catastrophe losses.

The homeowners combined ratio was 70.5% in the quarter, including 7 points of favorable development and 1.2 points of catastrophe losses compared to a 207.4% combined ratio which included 96 points of catastrophe losses a year ago. Beyond the reduced catastrophe losses, the remaining improvement is due to the significant rate increases we have obtained in our homeowners book.

Investment income continues to show the effect of a low interest rate environment, coupled with the decline in alternative investment income. Third quarter after-tax net investment income declined 13% from a year ago to $23 million. The decline was largely driven by alternative investments, which produced after-tax income of $600,000 in the quarter versus $2.9 million last year.

The alternative portfolio is lagging expectations, largely due to underperformance in the energy strategy, continued lack of traction in real estate, and inconsistency in venture capital returns. As the portfolio matures, alternative investment income could remain under pressure.

Investment assets increased 7% from a year ago to $4.3 billion. We maintained an overall credit quality of AA- in the fixed income portfolio and increased duration slightly to 3.4 years, including short-term investments. We continue to invest in high-quality corporates and selectively in the municipal sector.

The after-tax yield on fixed maturity securities was 2.5% for the quarter, down 24 basis points from the year ago period. As a rule, each 25 basis points of after-tax yield equates to 1 point of ROE. The low yield environment is also reducing our weighted average cost of capital, which was calculated at 8.1% at September 30.

Our unrealized gain position at September 30 improved to $211 million pre-tax, from $118 million a year ago. Also of note is the quarter end unrecognized gain in the fixed income, held to maturity portfolio of $45 million pre-tax or $0.54 per share after tax.

Surplus and stockholders' equity at September 30 remains strong at $1.1 billion. Book value per share increased 7% to $20.44 from $19.07 a year ago and 5% from year end 2011. All book values have been restated to reflect the adoption of the deferred policy acquisition cost accounting change on January 1, 2012.

In order to maximize commercial lines pricing flexibility, we recently formed two New Jersey domiciled insurance subsidiaries and redomesticated a subsidiary from Maine to New Jersey. In the third quarter, we received regulatory approval for an extraordinary dividend from our lead insurance subsidiary to provide the capitalization for these new companies that won't begin writing new business until January 1, 2013. All insurance subsidiaries are included in the reinsurance pooling agreement and rated A by A.M. Best.

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

John Joseph Marchioni
President & COO

Thanks, Dale. Good morning. Through our commercial lines, underwriting, and pricing sophistication, we achieved our fourteenth consecutive quarter of price increases, with 6.6% in the third quarter. Year to date price increases totaled 6%, and overall retention in the quarter was a strong 83%.

Our ability to push price while maintaining strong retention levels is a testament to both our granular pricing strategy and superior agency relationships. We provide our underwriters with the business intelligence they require to price by line, by account quality, and by class of business to actuarially sound rates.

We have been successful with commercial lines pricing by targeting rate where we need it the most. Our inside underwriters have the dynamic portfolio manager, a tool that allows them to evaluate their entire book of business and the impact their individual underwriting decisions have on their books' overall profitability.

In the third quarter, we obtained 13% pure rate on our lowest-quality accounts, and held point of renewal retention at 77%. We obtained a 5% pure rate increase on our highest-quality accounts while they retained at 91%. We measure retention at point of renewal because by removing midterm cancellations, it best illustrates the impact of our pricing strategies.

The granularity of our pricing decisions will lead to mix improvement as we continue to earn overall rate increases in excess of loss trend. While retention and renewal pricing is strong, we continue to see a very competitive environment for new business, with inconsistent competitor pricing.

Our hit ratios on new business are down again this quarter. While our field underwriters continue to exercise discipline, we still see inadequate pricing levels offered by some competitors. Despite these pressures, we are using our sophisticated underwriting and pricing tools to identify and write the highest quality new business accounts at adequate pricing levels. As a result, commercial new business in the third quarter totaled $56 million, which was down sequentially from $59 million in the second quarter.

By market size, new business year to date compared to a year ago was as follows. Small business was up 10% to $57 million, and middle-market and large account business was up 18% to $128 million. Workers comp results continue to run in the 115% combined ratio range. We are an account underwriter, and generally lead with the non-workers comp lines.

We continue to aggressively manage rate to improve this line of business. In fact, the workers comp lines saw the largest rate increase in the quarter at 8.5%. We are focused on changing the mix of business by writing more small, low-hazard classes. We have also implemented a number of claims initiatives such as specialized handling of complex claims and proactive medical management to further address profitability.

Workers comp is an industry-wide challenge, and in 2013 we expect states to approve more rate increases to address their profitability challenge, as we continue to execute on our underwriting and claims initiatives.

Personal lines net premium written grew 9% in the quarter and new business was up 2% from the year ago period. Profitability returned to the line as catastrophe losses were relatively modest in the quarter. Overall personalized renewal rate increases averaged 6.9% in the quarter while retention held steady at 87%.

To achieve profitability in the homeowners line, while offsetting weather-related losses, we have driven rate across the book and made underwriting changes including raising deductibles to increase cost sharing.

We are pleased with the improvement we experienced this quarter, and will refine our underwriting initiatives to generate further profitability improvements in this line to a target range of a high-80s combined ratio in the normalized catastrophe year.

Pricing in the E&S binding authority market is beginning to firm, and we expect that to continue into 2013. While not as dramatic as prior market turns, we are starting to see more business move from the standard market to the E&S market.

As we've previously stated, in the short term E&S results will be negatively impacted by the fact that earned premium will take some time to catch up to expenses. However, things are definitely moving in the right direction. We are focused on targeted underwriting and pricing strategies to achieve consistent levels of profitability in our E&S book.

Now I'll turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thanks, John, and good morning. Our overall results continue to improve and demonstrate our focused strategies to increase profitability. The initiatives we have deployed to achieve a 95 combined ratio by year end 2014 remain on track. Two key elements of our 95 combined ratio goal are, one, our ability to get commercial and personal lines price increases, and two, loss trends remain stable.

In commercial lines, for the first nine months of 2012 earned rate increases were 4% versus a 3% loss trend. For the full year 2012, we expect written renewal price increases of 6.25%. As we progress it to 2013, we anticipate achieving price increases in the 7-8% range.

Our strong retention, in conjunction with our granular underwriting capabilities to write the best business, gives us the confidence to be able to achieve these rate levels next year. The claims initiatives we've deployed have already delivered over 1 point of loss cost savings, and are on track to achieve our 3-point goal.

Underwriting improvements, although masked by catastrophe losses, are having the positive impact we expected. At our May 2012 investor day, we articulated a 12% ROE target to correspond with our 95% combined ratio. Obviously, the Fed action for QE3 is expected to keep interest rates low through 2015, which will even make investment returns even more challenging.

This is an industry-wide issue. The benefit that Selective has in this environment is leverage, both from an underwriting and an investment standpoint. Our investment leverage is currently $3.85 per dollar of stockholders equity. With an after-tax yield on the portfolio of 2.3, our current ROE generated from investments is approximately 9%. At December 31, 2011, the industry investment leverage was $2.37 per dollar of stockholder's equity and a 2.8% after-tax yield, resulting in a 7% ROE.

For our insurance operations, each one point of combined ratio generates about one point of ROE. For the industry, it takes two points of combined ratio to generate one point of ROE. As a result of the low interest rate environment, the industry needs a combined ratio of approximately 87 to produce a 12% ROE. The weight of the math mandates a significant sub-100 industry-wide combined ratio, which in turn requires tremendous pricing power to lower loss and loss adjustment expense ratios.

In summary, Selective has two specific advantages given the leverage we deploy. First, one point of combined ratio equals one point of ROE. Second, we don't need to drive as much rate as the industry requires to generate a 12% ROE. We only need a 95 combined ratio, whereas the industry needs an 87.

We have the capabilities of a national carrier with the nimbleness of a regional. Our unique business model, which places empowered decision makers in the field, working alongside with our excellent agency force, is a competitive advantage.

We believe we have the right underwriting, claims, and pricing tools, as well as the most talented, dedicated employees to execute our strategies for long term success. Based on our nine-month performance, we return to our original 2012 combined ratio guidance of a statutory combined ratio of approximately 101.5 and a GAAP combined ratio of approximately 102.5, neither of which includes any further development, either favorable or unfavorable.

Additionally, we anticipate catastrophe losses of approximately 3.5 points for the full year. Investment income will be approximately $100 million after tax, given the alternative investment portfolio performance and the low interest rate environment. Weighted average shares outstanding of approximately 55.6 million.
Now I'll turn the call to the operator for your questions.

Question and Answer

Operator

[Operator instructions] Your first question comes from Bob Farnam, KBW.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

You talked about some of the things you're doing in the workers comp line to try to improve the profitability there. I noticed personal auto still up above 112 combined ratio as well. Can you just go over your ultimate goals for those lines, and how long you think it will take to get there?

Gregory Edward Murphy
Chairman & CEO

Let's start with the auto first. And I would say the auto is more of a leg in story. I'd say it's a combination of factors to get that profitability down. First, I think as we continue to build out scale, we'll be able to lower our expense ratio, which generally in that line runs about 30. We look at that, should be more in the 28 range as we move through and build up our operation.

The second is, as we've always stated before, given the newness of our book, particularly outside the state of New Jersey, it's about a 7-point new business penalty, or maturity penalty, on that book for the non-New Jersey aspect, which in total is about 3.5 points on the overall book. And that's something that we have to kind of grade down over time, or leg into. As the book matures, the book will improve.

And then the other thing is that we're pretty consistently getting rate increases. I'd say in the five, five-plus range, with trend running just around three, that will also drive down. So that's a story of more ongoing improvement year-after-year versus the homeowner story that we've basically been telling you for a while now, that it's a lot more aggressive.

On the comp side, I'm going to let John address that one, but it starts with the comp as part of our package account business that we write. So let me move that over to John.

John Joseph Marchioni
President & COO

Thanks Greg. And just to reiterate what Greg said on the personal auto line, we look at our mix of business, and our pricing levels relative to mix of business and relative to risk characteristics. We feel very good about the quality of the business we're writing, which is why we're comfortable saying that once that maturity impact starts to make its way out of the book, we will consistently run at profitable levels. Otherwise we wouldn't continue to maintain the strategy we have, which is to grow that line of business along with our growth in the homeowners line. So that's a strong commitment on our part, and a high degree of confidence in our path on personal auto.

With regard to workers comp, we certainly don't have any desire to run that line as a loss leader. We've made some changes, clearly, in terms of appetite, and we have made a concerted push to write smaller, lower hazard classes of business, which is a place we think there are margins to be had in that business.

In addition to the overall pricing levels that continue to run through that line of business, we have seen a drop in our new business writings relative to the overall premium that comp makes up. So there's been a concerted effort on our part to manage that line down. In certain places, in certain states, depending on the health of the mono-line carriers in that particular market. It's easier to write package business on a mono-line business. In some cases, that's not the case.

But when you look at the price increases, the mix of business changes that we're starting to see, and the improvements, which we think are significant on the claims side, through better case management, better specialization on both the med-only and the indemnity side, we are certainly on a path to getting that line down towards that 100 combined ratio sort of number, and feel confident that we'll be able to get there.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

And I'm thinking, all right, for both of these lines, are we talking a year out? Two years out? Three years out? Is there any estimate that you might give us saying how quickly these things, these changes may occur?

John Joseph Marchioni
President & COO

The maturity on the auto book is certainly to take more than a year to make its way through. We continue to write a fair amount of new business, especially outside of New Jersey. So that's going to work its way down over a few year period. And on the workers comp side, we've got a pretty good sense as to how the claims side of the savings are going to work their way into the book. The big contingency that we look at is what's going to happen with the individual state rating bureaus with regard to how they file rate changes.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

And Dale, you mentioned the two New Jersey companies. Maybe I missed the purpose of those was? Was it different tiered ratings and pricing tiers, or what?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Exactly. You got it. So you didn't miss it after all.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Well, that's what I figured it was. And last question for me, so you're more highly levered than most others, which, as you're pointing out, helps you with your returns. Do you think that will hamper your ability to grow relative to peers as the market hardens?

Gregory Edward Murphy
Chairman & CEO

Historically, that has not been an issue. The rating agencies have accepted the leverage creeping up as profitability increases. Certainly that's something that we'll have to manage with the rating agencies in mind, but we feel pretty comfortable about where we are and our ability to fund growth in a hardening market.

Operator

Your next question comes from Alison Jacobowitz, Bank of America Merrill Lynch.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Two questions. One, I was just wondering if there were any current year reserve actions in the quarter, or in the homeowners line? And then also, if you could talk just maybe a little bit about the total company expense ratio. It's been moving around. I know there's some pressure from the E&S line, but it seemed to improve this quarter. And just how you're looking at that going forward.

Gregory Edward Murphy
Chairman & CEO

The casualty development in the quarter was $7 million, or 1.7 points. The homeowners line had 7 points of favorable development in that particular line for the quarter. As far as the overall expense ratio for the quarter -- this is a statutory expense ratio, which I think gives you a little bit clearer sight as to what's going on currently -- is a 31.3% in the quarter and a 32% for year to date, which those numbers are reasonably in line with what we've been performing at for some time, and also is pretty much right in line with the peer group that we look at as being our benchmark.

Keep in mind too that we have 80% commercial lines and 20% personal lines, so if anything our expense ratio ought to be a little bit higher than the peer group, which tends to run at more of somewhere between 60-40 or 50-50 personal lines, commercial lines. So in that respect, I think we've been doing pretty well in terms of expense management.

John Joseph Marchioni
President & COO

The other thing I'd add to that, Alison, is that we do view the national companies as our competition when it comes to either technology or modeling capability, and we think we have best-in-class. So when we compare the granularity of our price changes, or even our expense ratio, to some very large carriers, they're really no different than where we are.

And I don't know where this started to manifest itself, this whole thing about our expense ratio, and that we were at some competitive disadvantage. I don't see that. You can look at some very large carriers and say our expense ratio is the same as theirs, yet we have a much smaller base to distribute over.

And when we turn it the other way and say our advantage when combined ratios become profitable, and we're getting one-plus point of ROE, relative to one point of combined ratio, that's going to be a big turn. That will be a big competitive advantage from our standpoint.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

And just on the reserves, were there any changes to you either the first quarter or the second quarter reserves in the current quarter? Any releases from there?

Gregory Edward Murphy
Chairman & CEO

There was a slight bump up in comp in the current year and the third quarter, but not all that material, and just normal movement you get from your actuaries.

Operator

Your next question comes from Ray Iardella from Macquarie.

Raymond Iardella
Macquarie Research

First question I guess in terms of pricing on new business, $185 million, I think, was the number year to date. Just curious, I know you had mentioned sort of year to date earned price on renewal business, but could you talk about the new business?

Gregory Edward Murphy
Chairman & CEO

The new business is a lot more difficult to understand the basket of pricing. There's a number of things that we do relative to looking at the quality of business, relative to looking at it, relative to manual. There's a whole bunch of indicators, but there's no way to actually take that and match it to what you're doing internally.

So I would tell you that we feel good about what we're doing in the marketplace. As John mentioned, our hit ratio on our middle market was down this quarter. We attribute that to the fact that things have been pretty competitive relative to the new business. So we feel we've been trying to do the right things on the market, but it's very hard to get very precise pricing numbers that we would be comfortable disclosing in a public forum.

So I'm trying to answer that question carefully. I don't necessarily believe that the rhetoric about new business pricing and the strength of it, because what we see in the market day-to-day, what we hear from our agents day-to-day, just doesn't match up with that.

John Joseph Marchioni
President & COO

Just to add to that, I think we clearly exhibit that this discipline that we exercise on a renewal basis, and the manner in which we report pricing and retention by quality of account, I could assure you that same level of discipline exists on the new business side. As Greg said, we don't have an ability, nor does anybody else, to put out a pure new business pure rate number, but on a dashboard basis, our individual underwriters can see overall pricing levels relative to the renewal inventory, but you have to look at that relative to any change in mix on a class of business basis, on a line of business basis, and more importantly on a quality of business basis. And we certainly do that.

Raymond Iardella
Macquarie Research

The other question I just wanted to hit on, and I think you had touched on it before in terms of the personal auto business, just curious, in terms of retention, 87% retention. I know you guys want to build scale there and certainly the rate increases are pretty strong. But just maybe talk about how you manage getting rate on the renewal book versus growing and increasing the scale over time. How far do you have to get into the high 80s in terms of the line overall to reach that 95% combined ratio target?

Gregory Edward Murphy
Chairman & CEO

Yes, so I'll make sure I understand all of the component parts of the question there. So in terms of managing rate and retention, we're a little bit higher than historical run rates on a retentions basis, but if you look at our new business capacity on the personal line side, if we run at this kind of a retention rate, we'll be able to continue to grow the top line in the high single digits kind of rate that we've been running at.

In terms of how we manage price on that book of business, clearly it's very similar to what we talk about on the commercial line side. For the most part, especially on the auto line of business, we're not just taking rate up across the board. You're taking rate up, and you're driving it by certain variables, certain risk characteristics to make sure your mix of business is improving based on how you're changing rates.

And I would say the same thing as the case on the home line, although the home line also has, because of the inherent struggles and the increases in catastrophe losses that we all see in the industry, there is just some overall base rate increases. But that is certainly targeted based on risk characteristics.

So we feel like when you look at the trade between pure rate increases on the renewal book and retentions, that we're making the right choices. We're pushing that number as hard as we can without starting to lose quality business.

But at these retention rates, and our new business capacity for personal lines, we feel like we're growing at an appropriate pace. We're around $300 million of premium, and when you look at our scale on a state-by-state basis, very much comfortable with the kind of information scale we're building to be able to feed the models that we have.

John Joseph Marchioni
President & COO

The other side I would just add to that would be, the other part of the equation we continue to attack is the cost-sharing aspect of the home policy in the area of deductibles. And there's a number of things that have happened in that, that develop a better allocation of costs on a claim at the homeowner level. And I think that's something that you'll also see start to improve the overall performance of the book.

Raymond Iardella
Macquarie Research

And then just to clarify, those two insurance subsidiaries in New Jersey, that's more personal lines related, or is that all personal and commercial.

Gregory Edward Murphy
Chairman & CEO

It's commercial lines.

Raymond Iardella
Macquarie Research

And then one last quick one for Dale if I could. The tax rate in the quarter, just curious, anything sort of unusual, tax items, in the quarter?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

No, just ATB-28 forces you to move your estimates around, so basically you've got higher profitability this quarter. Some of the issues that you had with the high cat losses in the last quarter. Just moves that around a little bit. So it's just purely an accounting calculation, one that I point out irritates Greg every quarter.

Raymond Iardella
Macquarie Research

It irritates the analysts as well.

Gregory Edward Murphy
Chairman & CEO

And I agree with you on that one.

Operator

[Operator instructions] Your next question comes from Scott Hanold, RBC Capital Markets.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

Just wondering, last couple of quarters you've kind of mentioned loss cost trends, just sort of at the 3% range. And just wondering, has that run rate changed at all? Is that kind of similar to what it's been the past couple of quarters?

Gregory Edward Murphy
Chairman & CEO

It always bounces around a little bit, but it's been pretty stable.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

Is there any particular movement in any lines that's either lower or higher than that over the past three months?

Gregory Edward Murphy
Chairman & CEO

It just varies by line, by quarter, and you get some movement up in some lines and some quarters down. There's no consistent trends either way in those lines of business.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

And you guys seem a little bit more cautious about new business compared to some of the conference calls we've heard. I'm just wondering, where are you seeing it? Is that national carriers? Is that regional carriers? Is that some of the larger mutuals or smaller mutuals? I was hoping you could just give a little more color on that?

Gregory Edward Murphy
Chairman & CEO

Let me start first, and to be honest with you, I don't think our commentary around pricing is all that different than last quarter. I think last quarter is when we were saying that when we looked at the business performance, and when we looked at our ability to drive rate, we felt that -- and I think we clearly stated that last quarter -- that some of that ability was more limited by what was happening from a competitive standpoint more so than it was an economic standpoint. And I don't think that where we stand today is all that different, our position overall relative to new business is really all that different.

We did not grow the company in 2010, 2009, and part of that is due to what competition was like. So we want to be careful with where we pick our spots and how we are growing the organization overall. And I would say that, that is a very choppy, and still two different style marketplaces.

People are starting to clamp down more on their renewal inventory, and we're seeing that by more and more of our competitors as we move through from the first quarter to second quarter, second quarter to third quarter of this year. New business is still very different, and it comes from across the board. And John, I'll let you in here.

John Joseph Marchioni
President & COO

I think it really does vary depending on what state you're looking at, and what segments you're looking at, as to who it is that winds up being the outlier relative to new business pricing. I think as you know, we're a pretty flat organization. Myself and the rest of my management team just went through a territory review with every one of our field underwriters to talk about the new business environment.

And it really does vary depending on where you're going. But I can tell you, these folks, none of them have pure growth goals. Every one of their goals is a combination of growth and profitability. They want to acquire as much quality business as they can, and they're looking for those opportunities.

But I can assure you, we are seeing still some very inconsistent, and in certain cases irrational, pricing on new business. It doesn't mean there's not opportunities out there, and we think we're very well-positioned to capture those opportunities as they present themselves, because as certain companies are still taking a pretty aggressive across-the-board stance on their renewal pricing, which is creating some quality business opportunities.

We think we're positioned well to take advantage of those, but if you look at our hit ratios as we've talked about before, while submissions continue to be very strong, hit ratios are down, which means people are exercising discipline, and that's a clear indication that pricing on new business has gotten a little bit more aggressive with some competitors. But it really is across the board, depending on the state and the segment we're talking about.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

You mentioned you expect rates to increase 7% to 8% next year, so that's a little bit of strengthening compared to where it is now. Is there any particular area? Are you just kind of expecting casualty to sort of firm up from where it is, which is kind of probably in the 1% to 2% to 3% range? Or is it E&S rates getting a little bit better? Where do you see the acceleration?

Gregory Edward Murphy
Chairman & CEO

You'll see rate on the E&S side, but I would tell you, from our standpoint, the core lines, like John kind of went through in terms of pricing, you would expect to continue, and that number-one line that you'd put on the list is workers compensation. That's where profitability needs to improve.

And like John mentioned, some of it is better safety management at the level to improve the performance of the accounts. It's driving your loss costs lower through the numerous initiatives that we have, particularly around PPO penetration and better fee discounts on that. But it's also some rate on that side. But the lead line for us when you talk about driving rate, our largest line, is general liability.

So for us to get an overall rate increase in that level, GL's a big part of it. So that's targeted at certain segments in the GL area. And we don't do anything across the board. When we look at our performance it's all segmented, and then we drive rate according to the segment. So I would say the two lead lines are comp first, GL second, and then prop is up there, but that performance has improved a lot recently.

And then I think you're going to see a little more property rate as another opportunity to drive a little bit more property rate. Wind patterns have been more severe. Weather patterns have been more severe, and that's cut across the entire segmentation and that's what you'll see on that front.

When you go on the personal line side, it will be heavier home, less on auto, but heavy on home and auto will be more in that mid single digit range. If I can kind of use that as a baseline, I think that will give you a little bit of flavor of where it needs to come from.

John Joseph Marchioni
President & COO

The other thing I'll point out, Scott, just to give you a little more color, is so the 6.6% that we achieved in the quarter, the low line was commercial auto at 5.6% and the high line was workers comp at 8.5%. So that gives you an idea that you've got a pretty tight dispersion by line around that 6.6%.

Operator

[Operator instructions] At this time, there are no further questions.

Gregory Edward Murphy
Chairman & CEO
Thank you operator. Well, if anyone has any follow up items, please contact Dale and/or Jennifer. Thank you very much.