S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

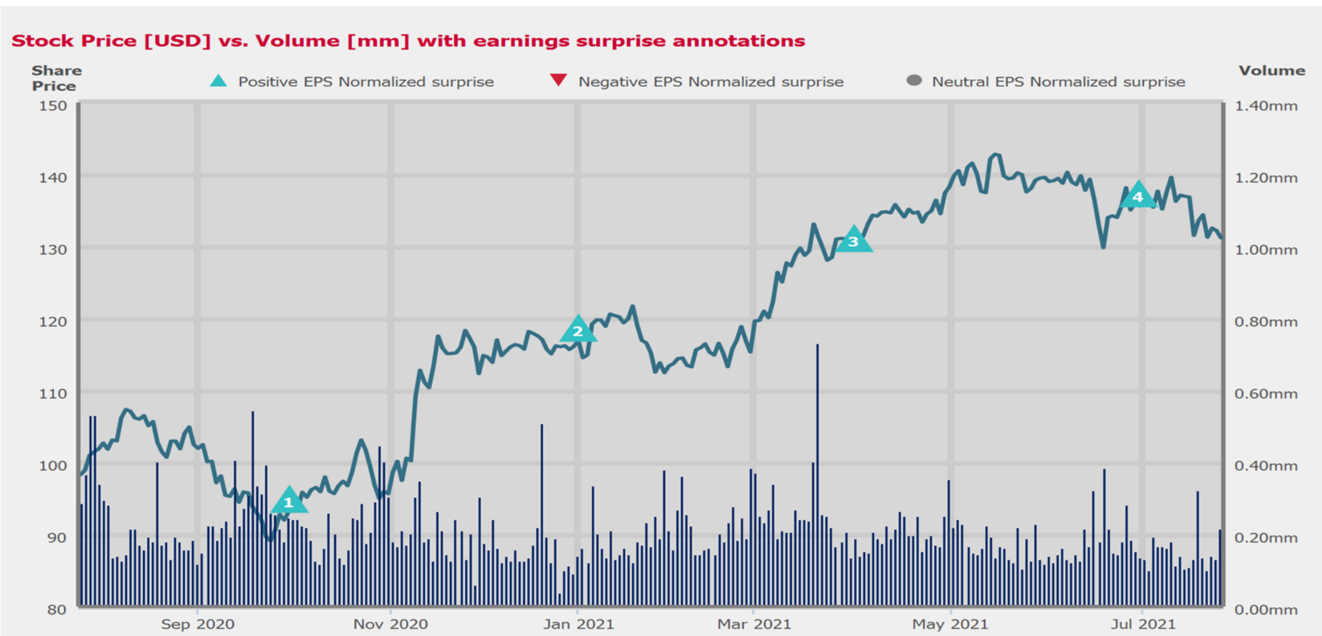
FQ2 2021 Earnings Call Transcripts

Wednesday, July 28, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.31	2.85	▲23.38	2.82	10.18	NA
Revenue (mm)	1154.63	1207.20	▲4.55	1324.27	4839.83	NA

Currency: USD
Consensus as of Jul-28-2021 6:37 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	2.22	2.46	▲1 10.81 %
FQ4 2020	2.37	3.02	▲2 27.43 %
FQ1 2021	0.78	1.66	▲3 112.82 %
FQ2 2021	2.31	2.85	▲4 23.38 %

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Call Participants

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Executive VP & President of Specialty

Jeffrey Mark Farber
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Presentation

Operator

Good day, and welcome to the Hanover Insurance Group's Second Quarter Earnings Conference Call. My name is Gary, and I'll be your operator for today's call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Thank you, operator. Good morning, and thank you for joining us for our quarterly conference call. We will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and Jeff Farber, our Chief Financial Officer. Available to answer your questions after our prepared remarks are Bryan Salvatore, President of Specialty Lines; and Dick Lavey, President of Agency Markets. Before I turn the call over to Jack, 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 in responses to your questions today, other than statements of historical fact, include forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995 regarding, among other things, our outlook and guidance for 2021, the ongoing impacts of the COVID-19 pandemic, economic conditions and other risks and uncertainties that could affect company's performance and/or cause actual results to differ materially from those anticipated.

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, the presentation deck and our filings with the SEC.

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

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you for joining us. I will begin by discussing our second quarter financial highlights in the context of the current business and economic environment. I'll then provide a strategic review of each of the segments during the quarter. Jeff will review our financial results in more detail and provide some thoughts on the quarters ahead. And then Bryan, Dick, Jeff and I will be happy to take your questions.

We are very pleased to report outstanding second quarter results, highlighted by strong growth with net written premium increases of 11.7% or 8.6% on an adjusted basis, excluding the impact of 2020 premium returns, driven by gains across all segments. Operating income of $104 million or $2.85 per share, operating return on equity of 14.7% and a combined ratio of 94.4%. Our strong underwriting results are a reflection of our ability to capitalize on evolving market opportunities while navigating the complexities of this dynamic underwriting environment. From my perspective, there are 2 key takeaways for the second quarter results. First, our growth has accelerated and exceeded pre-COVID-19 levels in all segments. And second, we continue to achieve broad-based profitability with strong underlying underwriting results in each of our businesses. I would like to briefly discuss each of these points in turn.

With respect to growth, we delivered a meaningful step-up in premium increases in each of our business segments compared to the first quarter of this year. All of our major segments now are exceeding pre-COVID-19 growth levels as a result of our disciplined and consistent pricing strategy, strong retention and robust new business production metrics. Strong relationships with our agent partners provide an opportunity for solid growth potential going forward, as we capitalize on our most profitable market sectors and leverage our state-of-the-art technology platforms.

Additionally, we continue to enhance the level of sophistication within our claims data and analytics, including our real-time driving pattern and inflation monitoring tools. I've never been more confident in our ability to grow profitably. In Personal Lines, we delivered growth of 11.6% in the quarter or 5% excluding the effect of premium returns in the prior year period. Our continued strong growth momentum in this business is a reflection of sustained agent and customer interest in our attractive account offerings, targeted pricing actions, the strength of our market position and our ability to successfully adapt and navigate a competitive marketplace.

We grew our Commercial Lines business by 11.7%, driven by the strong performance of our specialty portfolio as well as our small commercial business, which benefited from the economic recovery and is beginning to see the impact of the rollout of our new quote-and-issue platform, TAP sales. Overall, we are well positioned to continue driving growth in all segments, and we now expect to deliver mid- to high single-digit growth for the remainder of the year.

Regarding loss trends, we are still experiencing some remaining lower auto loss frequency in the quarter, reflecting the fact that a meaningful portion of our customer base likely has the opportunity to utilize more flexible working arrangements. Additionally, in many areas of the country, our data indicates reduced traffic and less congested rush hours as potentially lingering consequences of the pandemic. We expect frequency will reach its new normal over the course of 2021, which may provide some persistent lower accident frequency in certain geographies, given our mix and customer profile. We believe this benefit will be partially offset by near-term increased severity from materials inflation and more severe accidents, including elevated fatalities.

We delivered strong Commercial Lines profitability in the quarter, although we experienced some elevated property losses, including in other commercial, which we do not believe are necessarily recurring or indicative of a trend. We've been watching the overall property large loss activity for several quarters, and we believe it is consistent with that of the market. Thus, we think that there is room for additional rate increases in the property lines moving ahead. And as always, we remain very prudent on our loss selections. We are mindful about the potential for increased social inflation, medical information and treatment delays and other inflationary trends. We are watching the economic recovery and the acceleration of business activity closely, as well as the full reopening and catch-up of the court system in many jurisdictions.

While the impact and duration of inflation on our book of business is yet to be determined, we believe our comparatively short reserve duration positions us well to manage through that potential exposure. With that as background, I would now like to share some recent highlights by business beginning with Personal Lines. Our efforts to selectively apply rate adjustments where warranted have been very successful, as demonstrated by our sequential PIF growth of 1.8% in auto and 1.7% in home during the quarter. New business growth came in ahead of expectations, and we are seeing significant sequential improvement and retention. Our preferred customer focus and our value-based approach represents significant competitive advantages, particularly as agents become even more strategic with their Personal Lines operating models and carrier placement decisions. Account business represents over 85% of our overall book, leading to a high level of retention and business stability. Our Personal Lines retention improved by over 2 points in the second quarter compared to the first quarter, demonstrating the agility of our approach and the success of our business strategy even in this very dynamic environment.

In Personal Auto, we expect our claims auto frequency to gradually approach new normal levels as the year progresses. Though the pricing environment remains competitive, we are seeing clear indications that the rate deceleration has bottomed out and the industry is looking to increase rates. This is to be expected given the nature of the Personal Lines pricing cycle, as historically, Personal Auto rates adjust to loss trends rather quickly. We believe we are more favorably positioned for the future given our prudent pricing strategy throughout the pandemic. As a result, we have much less of a need to significantly increase rates and create customer disruption in the near future.

We continue to gain momentum with Hanover Prestige, our full account offering for customers with higher value homes and autos and more complex insurance needs. These customers represent a growing segment of the Personal Lines market, which further positions us as a strategic partner with agents. The contribution of this offering to our overall growth is increasing every quarter with the second quarter benefiting new business growth by 3 points.

Turning to Commercial Lines. We executed extremely well on our strategic priorities, posting growth of 12% in Specialty and 11% in Core Commercial, driven by a pickup in new business, rate increases and exposure growth. Strong topline growth in our Core Commercial business is expected to continue through the year, driven by the reopening of the economy, continued rate increases and a successful launch of TAP Sales, our small commercial quoting platform, which is proving to be a great addition to our already strong small commercial offering. In the second quarter, we launched this new platform in an additional 9 states, bringing the total to 20 states, and we complete the implementation countrywide for our first product business owners advantage by year-end. As a reminder, this multiyear significant investment delivers a comprehensive set of capabilities to the marketplace. It includes a new user front end for our agents, new products and endorsements, new states, new sophisticated pricing algorithms, a new policy administration system and new self-service capabilities. In those states where TAP sales was deployed in the first quarter of this year, submissions significantly increased and our hit ratio also improved. The response to this offering has been incredibly positive with agents praising the product's ease of use and simplified quoting process, calling it best in market. The efficiency gains are substantial, enabling the quoting and an issuance of a single location risk in 50% of the time it required before.

The investments we have made to modernize our infrastructure and enhance our capabilities across our business are being realized at a time when agents are consolidating and buying more agencies that have substantial small commercial books of business. This is forcing them to become more strategic about the carriers with whom they do business. Our account focus, easy-to-use tools and product breadth are driving increased efficiencies for our agents and increasing our value proposition to them. We are confident that our robust offering will provide further growth and agency penetration opportunities for us in the quarters ahead.

In Specialty, we also delivered significant growth. During the quarter, we achieved double digit growth in our Marine, E&S and management liability lines, which are among our most profitable businesses. We continue to leverage our expanded products and capabilities in the financial institutions and retail E&S spaces as well. And we also advanced our total Hanover strategy, deepening the use of our specialty capabilities across our Commercial Lines customer base. As agents continue to offer specialized products to more customers, we are confident that our Specialty business will continue to generate critical growth for us going forward.

We are pleased with the commercial rate environment and the exposure dynamics in our markets. We achieved rate increases of 6.5% in Core Commercial and sustained strong retention at 84.9%. We continued to implement double digit rate increases in Commercial Auto and upper single digits in property with granular pricing segmentation and a strong differentiation in price and retention by risk type. Exposure growth exceeded historical levels in the quarter, which bodes well for our growth prospects going forward.

We achieved rate increases of 8.5% in Specialty, up from 7.5% in the first quarter. In general, Specialty rates can fluctuate from quarter-to-quarter as a result of large account renewals and other unique items. But overall, pricing in our Specialty markets has been very strong with price increases continuing to outpace loss trends. There continue to be meaningful drivers that support the strength of the rate environment in Commercial Lines, including the potential of an increase in social inflation, property loss pressures from materials costs, increased reinsurance costs and low interest rates. We believe our focus on smaller accounts and differentiated offerings will help to shield us from meaningful pricing deceleration, which can occur in larger-sized brokered accounts.

In summary, the exceptional growth we delivered during the quarter reflects the significant positive momentum we have established across our business and sets the stage for continued profitable growth. We are performing exceedingly well in an uncertain environment, leveraging our unique distribution capability, distinctive agency and customer-centric strategies; disciplined approach to underwriting and pricing; and broad and specialized product offerings. As we begin the second half of the year, we are encouraged by our performance year-to-date and confident in our ability to advance our strategy and capitalize on opportunities for profitable growth going forward.

Before I turn the call over to Jeff, I'd like to update you on our efforts to reimagine the future of our business and our workplace. As I have said many times, we are extraordinarily proud of the work our team has done over the course of this public health crisis, delivering on our promises, maintaining and even enhancing the levels of service we provide to those who depend on us. As we continue to drive our business forward, positioning our company to deliver sustained profitable growth, we are being very thoughtful and opportunistic determined to emerge from this ordeal as a better insurance company, employer and corporate citizen. We are closely monitoring the rapidly changing employment trends and practices as well as employee preferences, intent on strengthening a culture that for us has been an important competitive advantage, enabling us to attract and retain outstanding talent. We have begun to invite employees back to work on a largely voluntary basis and expect to fully reopen our offices sometime during the fall, assuming the public health environment is conducive to do so. We are planning to embrace a progressive hybrid model, one that will enable us to provide agents and customers the products and services they expect and deserve and to provide our employees a flexible engaging work environment where they can build rewarding careers. These are truly exciting times for those that are up for the challenge. With that, I will turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone. For the second quarter, we reported net income of $128.5 million or $3.52 per diluted share compared with net income of $115.2 million or $3.01 per diluted share in the second quarter of 2020. After-tax operating income was $104 million or $2.85 per share compared with $62.7 million or $1.63 per share in the prior year quarter. The difference between net and operating income is due to the increase in the fair value of equity securities.

Book value per share increased 4.8% in the quarter driven by earnings and to a lesser extent, an increase in unrealized gains in our fixed income portfolio. Before I review our quarterly performance in more detail, I would like to acknowledge that some of the comparisons to the prior year quarter need to be put in context with the very unusual nature of the second quarter of 2020.

With the economy largely closed in most of the country placed under stay-at-home orders, many lines of business experienced historically low frequency of claims last year. In response to the fewer miles driven, we returned some premiums to our auto policyholders which impacted our reported net written premiums and underwriting ratios. In addition, business exposures, payrolls and receipts were exceptionally low in 2020.

As the economy continues to open up and individuals return to the roadways, we believe our more recent growth trajectory and loss experience, as well as our original expectations for 2021 are better barometers by which to assess our performance. We are pleased with our overall combined ratio of 94.4% in the second quarter of 2021 compared to 96.2% in the prior year quarter, which, a year ago, reflected several large catastrophe events, including losses from social unrest.

In the second quarter 2021, we incurred catastrophe losses of $76.8 million or 6.5% of net earned premium, 40 basis points above our quarterly expectation, primarily reflecting severe wind, torrential rain and hail events throughout the Midwest in June on the heels of a very light April and May. Michigan, our largest Personal Lines state, was severely impacted by the rain and flooding events in mid- to late June, particularly in the homeowners line. Michigan is a very profitable state for us and historically runs at a low 90s combined ratio. However, when adverse weather events occur, as expected, we do see losses.

We also experienced some favorable catastrophe development in the quarter from prior years, which is a testament to our prudent reserving approach. Prior year reserve development, excluding catastrophes, was favorable in the quarter, adding $12.6 million to the bottom line, primarily reflecting continued favorability in workers' compensation, Personal Auto and several Specialty lines. We continue to be prudent in our reserving in Commercial Auto, where extension of loss patterns and prior bodily injury development warrant a cautious approach. Additionally, in light of the pandemics effect on loss patterns in 2020, we remain vigilant as we assess ultimate loss costs.

With the economy regaining momentum, we are also mindful of the potential for reserving uncertainties related to social and economic inflation, delayed medical procedures and information as well as ongoing court delays. Over the past several years, we have placed a considerable amount of emphasis on strengthening our balance sheet. It is stronger than it has been in many years coming out of the second quarter, and we believe such prudence will serve us well. Claims activity related to COVID-19 exposures continues to be very manageable, and we are holding substantial IBNR in that area. Our expense ratio for the second quarter of 2021 was 31.2%. This was in line with our expectations, consistent with the second quarter of 2020, an improvement from the first quarter of this year.

We are confident that we can deliver a 30 basis point expense ratio improvement for full year 2021. Overall, current accident year combined ratio ex-CAT was 89% in the quarter. This very strong underwriting result is a reflection of our diversified book of business, our earning [in] of rate increases and some lingering frequency benefit in Auto Lines.

Looking at our underlying underwriting results by segment. Our Commercial Lines combined ratio, excluding catastrophes, was 89.5%, up 2.7 points from the second quarter of last year, primarily reflecting a comparison to an extraordinarily low level of losses in the second quarter of last year. Our CMP current accident year loss ratio, excluding catastrophes, was 57.6%, in line with most recent trends but slightly elevated compared to our expectations, driven by a higher incidence of property large losses. We believe that our experience is relatively consistent with that of the industry, adding to our continued expectation that there is room for additional property rate increases in the marketplace. We achieved substantial CMP property rate increases in the second quarter, and we believe this trend will continue.

In other Commercial Lines, the current accident year loss ratio, excluding catastrophes, was 55.3%. This result reflected the impact of a large loss and reinstatement premium triggered thereon in our highly profitable Hanover Specialty

Industrial business. In fact, this particular loss was offset by the overall favorability in our specialty business within the quarter to bring overall loss amounts generally in line with our expectations. Our specialty industrial business runs at a long-term combined ratio in the sub 80s. We are confident in our underwriting capabilities and future strong performance in this business.

Our Commercial Auto current accident year loss ratio, excluding catastrophes, remains relatively consistent with the recent quarter's results. We are continuing to take substantial rate increases to address the industry-wide multiyear liability issues affecting this line. Turning to workers' comp. Current accident year loss ratio was 61.5%, which was generally in line with recent historical results. Our second quarter 2020 ratio was unusually low due to stay-at-home mandates for much of the country. While the underlying trends in this line remained largely favorable, we continue to be very prudent with our loss picks in light of the rate environment and the potential for new risks posed by office reopenings for certain businesses.

Commercial Lines net written premiums grew exceptionally well at 11.7% in the second quarter, powered by our small commercial and Specialty businesses. We achieved strong operating metrics, including improved rate, meaningful increases in exposures, return to strong new business growth and a solid core commercial retention of 84.9%. Overall, despite some minor and expected variability in losses, we are very satisfied with Commercial Lines trends and underwriting returns in the quarter. Turning to Personal Lines. Our combined ratio, excluding catastrophes, was quite low at 85.3%, but up from 76.8% in the same period last year reflecting the benefit of COVID-19 related auto claims frequency declines. Our Personal Lines auto current accident year loss ratio, excluding catastrophes, was 62.2% below historical trends, but up slightly from 60% in the first quarter.

While frequency trends industry-wide are quickly moving towards historical norms, our business is still benefiting slightly from lower frequency. We believe there may be a modest longer-term frequency benefit due to changing driving patterns from work from home flexibility of our customer base. So we are observing these trends carefully, and we continue to do an excellent job managing the balance between growth, rate and profitability.

Current accident year loss ratio in our homeowners line remained relatively consistent with prior results, but was slightly above our expectations. Elevated property loss activity and higher material costs indicate the need for future rate increases. We are seeing a significant push for rate in homeowners in the independent agency space. Personal Lines net written premiums grew 11.6% in the quarter or 5% adjusted for last year's premium returns. This strong result was driven by meaningful acceleration in new business. We also reestablished momentum in our renewal premiums as a result of lower rate increases in certain areas and improve retention. The strength of our data and analytics team and swift communication of market trends across our businesses positions us to opportunistically grow when market conditions allow and make well-informed adjustments when necessary.

We are pleased to see Personal Lines largely rebound to its pre-COVID-19 growth levels. We have full confidence in Personal Lines strong growth and profitability prospects. Moving to investment performance. Our net investment income was $75.6 million for the quarter, up $17.9 million or 31% from the prior year period. This is largely due to an unusual fluctuation in partnership income from period to period. Net investment income in the second quarter of 2020 was adversely affected by a $4.6 million loss on limited partnerships, while partnership income in the second quarter of 2021 was $16 million, exceeding our expectations by $9 million. Our partnership results through the first half of 2021 do not change our outlook for investment partnerships or overall net investment income for the balance of the year.

New money yields continue to put pressure on our overall net investment income. Although so far, we've been able to meaningfully offset it with robust cash flows from operations. We expect cash generation from our underwriting operations to remain strong. Cash and invested assets at the end of the second quarter were $9.1 billion, with fixed income securities and cash representing 85% of the total. Our fixed maturity investment portfolio has a duration of 5 years and is 96% investment grade. We have a high-quality portfolio with a weighted average of A plus.

Net unrealized gains on the fixed maturity portfolio at the end of the second quarter 2021 were $357.8 million before taxes. Moving on to our equity and capital position. Our book value per share of $88.23 reflects an increase of 4.8% in the quarter. We continue to be thoughtful stewards of our shareholders' capital and deliver on our capital allocation strategy. Through July 26, 2021, we repurchased approximately $10 million of stock, leaving about $395 million of capacity under our stock repurchase authorization that the Board expanded in May. In addition, during the quarter, we paid a regular cash dividend of approximately $25 million.

Our capital priorities remain unchanged. First, we strive to maintain our strong capitalization and liquidity; second, we continue to prioritize organic growth for which we generate plenty of capital; and third, we continue to maintain our policy of returning excess capital to shareholders through cash dividends and share repurchases. We will continue to remain nimble and actively manage our capital with the best interest of shareholders in mind.

Looking ahead, we now expect net written premium growth in the mid- to high single digits in the second half of the year. Based on our strong results in the first half of the year, we believe upper mid-single-digit growth for the full year is possible. With 2 quarters of better-than-expected ex-CAT combined ratio performance, we are improving our full year 2021 ex-CAT combined ratio outlook from 90% to 91% to 89% to 90%. As noted earlier, we remain on track to reduce our expense ratio by at least 30 basis points in 2021 to 31.3% and we expect our third quarter cat load to be 5.2%.
We are very pleased with our underlying performance and our ability to continue our positive momentum in the quarter. We are well positioned to sustain our robust growth momentum and top quartile profitability, delivering value to our agents, customers and shareholders. In addition, we are pleased to announce that we will be hosting a Virtual Investor Day on September 23, in which we will discuss the key aspects of our differentiated strategy, go-forward growth drivers and long-range financial targets. We will be providing additional details in the coming weeks and look forward to seeing you there. With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] The first question is from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Jack, I got your comments on some of the areas of growth within Specialty. And I was hoping that you or Bryan could expand on that a little bit. And specifically, one question I have is, as you look at kind of the type of client or the relationship where growth in some of those lines are coming from, to what extent is it cross-sell? You talked in the past about kind of existing Hanover relationships where they buy a specialty product somewhere else and the opportunity to consolidate that relationship. Is that a big piece of the growth? Or is that something more yet to come?

John Conner Roche
President, CEO & Director

Yes. Thanks, Matt, for the question. And it's a good one. One, we're excited to update you on. I'll start with overall Specialty growth. I think that's a direct result of how well the performance of each of these businesses is in terms of the bottom line, where that broad-based profitability within the Specialty business is really at its best. And that is allowing, I think, Bryan and his team to lean into the opportunities that are presenting themselves in the marketplace. So as we said in our prepared remarks, there's several businesses that are generating double digit growth. There's others that are very much in the upper single-digit growth. All of our businesses are well positioned. Specific to your point around cross-sell versus kind of individual business growth, it's still very much driven by the individual businesses on lines of business. Although we are definitely seeing an increase in the cross-sell or what we would consider to be coordinated lines of business sales to total accounts and we've mobilized around that, particularly in the small commercial space all the way into our service centers, where we're, I think, the only service center that can bring that together for an agent on the smaller accounts. So I think right now, what you can see is that the majority of our Specialty growth is coming from kind of specialized products into specialized agents, very much from our franchise agents, as well as some specialized agents. But increasingly, we are anticipating that more and more of that will come from kind of cross-sell or coordinated business. Bryan, do you want to just maybe add one or two pieces of color there?

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. So Matt, yes, thanks for the question. I very much agree with what Jack said. What I would add is that what we've been really working towards for the last couple of years is a strategy that we refer to as total Hanover. And I view that as a really sort of consistent process where we connect at the local level with our agents across businesses. And so what Jack said is point on, right? We're just in a very good place in our ability to grow across our lines of business. We are seeing some of that from the benefit of working very closely in that coordinated way, in a process-driven coordinated way. And so that yields better production generation from our agents that have great relationships with our core commercial [indiscernible]. And a piece of that is cross-sell as well. So we're getting a lift from a number of things, including that.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then if I can just -- one other question, kind of shifting gears a little bit, Jeff, you made a few comments on Commercial Auto. And I heard everything you said about cautious reserving and cautious accident year picks and all that. What I'm hoping to ask is if you could just peel the onion back a little bit and like you said, it's been a good accident year loss pick stable for the first half of the year. Could you help us understand what, if any, impact there might be from kind of continued frequency favorability or loss cost favorability from the pandemic versus maybe how much of that is just, obviously, you've been hitting this line with rate for a very long time and just settling into somewhat of a new norm of kind of where the line of business should hopefully run?

Jeffrey Mark Farber
Executive VP & CFO

Matt, we've been going after Commercial Auto for at least 3 years now with double-digit rates. And I think it's hard for anyone in the industry to say when we're there yet, right because we've all been focused on it for nearly a decade now in terms of getting it right. 2020 provided an opportunity to be very, very prudent and comfortable with that particular year. And then in 2021, in the first 2 quarters, we've seen some continuing frequency benefit, not quite as much as Personal Auto, and it's been waning throughout the period. You noticed the unfavorable development in that particular line. And I would point out, we show about 7 different lines. So occasionally, you'll see one with some unfavorable development. It was not related to the 20 year and it was clearly related to the earlier years. And there was nothing that particularly showed itself, but we just want to make sure that we're conservative and have appropriate loss picks for all the years, and it was a good opportunity to do that.

Operator

The next question is from Derek Han with KBW.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Just going back to your mid to high single-digit growth guide for the second half. Can you just talk about how much of that is exposure growth versus rates? The reason why I'm asking is because I saw that the commercial rate increases accelerated sequentially while retention dropped, which I assume is partly due to nonrenewals.

Jeffrey Mark Farber
Executive VP & CFO

So overall, obviously, you can see our rate increase in the second quarter was relatively consistent with the first quarter and even slightly up. We're seeing exposures bounce back sequentially. And our assumption is retention will be relatively flat, where we like it to be, about 85%. I know it looks like it has come down a little bit from the 87% or so. It was really over the last year. But a lot of that is a bit wind-aided so to speak, in that you had moratoriums and you had agents that weren't able to remarket and some other unusual things. I think if you look at the retention for the first 6 months of the year, you'll see a better barometer for that. So I think all factors will contribute. It will be strong retention, good new business, a fair bit of rate and continuing bounce back on exposures.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And then just a second question, a numbers question. Can you describe the size of the large property losses that you saw in the Commercial segment?

Jeffrey Mark Farber
Executive VP & CFO

So in the Commercial segment, there were a few extra property losses, which were not terribly large losses in Core Commercial, but they showed themselves largely fires. And it's essentially been a continuation for a number of quarters across the Commercial segment. We did mention that there was one meaningfully larger loss in Hanover Specialty Industrial. And fortunately, we have reinsurance, and we dealt with the reinstatement premium. But importantly, if you look across other Commercial Lines, which is essentially our Specialty business, there were other businesses, such as Marine and even other areas, earlier period performance along Hanover Specialty Industrial, which offset that loss. So I would call it just a couple of fire losses that seem to be elevated, and that was really it.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. Would you be able to quantify the number [by the lost] millions of dollars or loss points?

Jeffrey Mark Farber
Executive VP & CFO

It's hard to say because if you always do exactly what to expect, then you could look at the delta. There's lots of things going on. But certainly, less than a handful type of meaningful losses. And they weren't -- other than the Hanover Specialty Industrial, they weren't particularly outsized or routine losses, just a couple extra.

Operator

The next question is from Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the quarter. I was looking at your guide and apologies if my math is not the best, but it would suggest, I think, that the core combined ratio for the second half would be higher than the first half. Is there any reason for that in particular? I actually think of your seasonality being a little bit more of a second quarter heavy weather kind of quarter issue. But maybe we can talk to that.

Jeffrey Mark Farber
Executive VP & CFO

Yes. I'll have to look at that, Paul. I don't believe that's the case. There's nothing that we see going on in the second half that would cause the Core Commercial ratio to increase. If I were to get underneath it for you a bit, over time, I expect Commercial Auto to go up a little bit as the remaining frequency benefit abated or disappeared. And then some of the larger loss activity, both in Core Commercial as well as, to some degree, that one large loss in Specialty and reinstatement premium will be lower. So I -- we'd have to go back and check that. Maybe we're being conservative.

Paul Newsome
Piper Sandler & Co., Research Division

It wouldn't be the first time I [indiscernible]. And my second question, I was hoping to get your further thoughts on how you folks think about sort of the underlying inflationary trend for commercial sort of excluding workers' comp. I think the concern of the day is that companies like [Chubb] are talking about essentially 1 point or 2 of uptick in inflation. And given -- I mean, 6.5% is a great number for commercial price increases, but if the inflationary levels are the 5.5% that [Chubb] was talking about this morning, then that margin expansion is looking smaller than it was before. So maybe you could talk to sort of just broadly those kind of concerns.

John Conner Roche
President, CEO & Director

Paul, this is Jack. Thanks for that question. I'll get started and if Jeff or others want to jump in. I think I would just start with the fact that net-net, we have a fair level of confidence in our ability to monitor the various aspects of inflation and the complexion of that inflation in terms of how it hits our business and react accordingly. As we said in our prepared remarks, our comparatively short duration reserve position and even our risk profile overall doesn't make us immune from inflation, but it certainly makes the impact on particularly the casualty lines more muted or less impactful than others that write very large limit business or have longer-tail casualty business that clearly not only affects their go-forward picks, but to some degree, the reserves, as you said.

So -- but there's also some natural offsets, including wages and receipts and the exposure basis by which we get to collect premium. So in addition to adjusting our rates to reflect that increased cost of goods sold, if you will, we will have some uptick on the Commercial Lines side naturally through the exposure basis, which will elevate. And then obviously, the interest rate environment over time should help improve our net investment income, but we have to let that play out. So listen, this is an important topic for our property casualty business, so it's the right question of the day. But I think for us, you should know that we've got our fingers on the dials. We've got great monitoring going on, and we feel on a relative basis well positioned to deal with any inflationary [indiscernible].

Paul Newsome
Piper Sandler & Co., Research Division

I'd like to squeeze in one more, if I can. So I'm breaking my 2 question rule. But is there much of a difference now that we've seen basically a year or so of the frequency pandemic benefits in private passenger auto between a company with your business mix versus the national writers. And just maybe you can talk to that maybe if there is any regional differences that ended up being meaningful for you versus maybe what the rest of the industry has seen.

John Conner Roche
President, CEO & Director

We're glad to take that third question, Paul, because it's an important one for us. And I think we've worked hard over the last really 8 or 9 years to really build a differentiated strategy in Personal Lines. We have migrated from trying to be the next carrier that was trying to win monoline auto, often low limits auto through a multivariate pricing, and we realized that was a losing strategy for us. So with our strategy to be an account writer to over time move up the coverage A curve to really be there with agents for the kind of customer that would value trusted advice. We repositioned our pricing models and our entire delivery system. And we think we're -- this is paying huge dividends.

We think the persistency in our pricing has proven out really over the last several quarters. I think at the end of last year, people were talking about how competitive it was and it was. But I think we were able to show that we didn't have to be as responsive with our pricing and our loss trends and the frequency are just more stable, frankly, because of the customer base we have and the geographies that we play in. So let me just ask Dick to kind of add a little color there because I think this is a really important part of our strategy, and we're pretty darn proud of where we are in that evolution.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Yes, absolutely. And we're watching these trends really closely, Paul. But to your specific question, we do think there are sustained advantages to having a frequency benefit based on the geographic profile and the customer mix profile. If you think about our book being Northern Hemisphere kind of oriented [Mass,] New York, Connecticut, Illinois, Michigan, those economies have come back more slowly than the southern states. So we see some persistency and frequency there. Of course, that likely goes away over time. But then you have the customer mix, as Jack said. We skew older, we skew multicar, we skew higher liability limits. These folks likely have a longer sustained work-from-home type pattern. And so we think that the community patterns will look differently. And that likely is a longer-term benefit for us.

Operator

Next question is from Grace Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

So I was wondering if we could talk a little bit more about workers' comp. The core loss ratio was a little bit higher than the past couple of quarters. So I was just wondering how loss costs are progressing as reopening progresses? And where you see loss cost going from here and also pricing?

John Conner Roche
President, CEO & Director

Yes. This is Jack, Grace. Thanks for that question. I'll get us started, and I'm sure my colleagues will jump in. Overall, we are definitely seeing some frequency move back to more normal levels as expected. And we're certainly also seeing pricing flatten off -- flatten, and we've been kind of in the black, if you will, on pricing. What's still moving through the loss cost, I think, at this time is kind of the change in types of losses. What you saw over the last 6 or 7 years is that we had a meaningful change in terms of the types of losses that we experienced and how much of that was really about work change and automation and new ways in which risk management was being applied. We think that's worked through the system, and it will start to move back in a more positive way. But the last thing I would say on this is that we still -- I think our -- we see this as more of an opportunity than a challenge given our relatively low percentage of workers' comp in our total portfolio. So if those trends start to become more normal, they'll impact us little less severely. But it will also drive, I think, a different pricing dynamic, which we look forward to. Because as we see some enhanced pricing come into the workers' comp line, we believe we can take advantage of that, grow that line of business that is very profitable for us and become even more total account or account centric, particularly in the middle market space. So we're kind of on our toes waiting for the pricing trends to catch up eventually to what the longer-term trends and the loss trends will be, and be we'll be ready to step up.

Jeffrey Mark Farber
Executive VP & CFO

Grace. I think if you're looking year-over-year, it's a very tough comparison because of all the shutdown orders. So it was an unusually low percentage, even though we were quite conservative in how we established our [picks] in the second quarter of last year for the longer-tail lines. It's up maybe 1 point sequentially, and I don't think there's anything particularly going on there with either trends or whatnot, the exposures are coming back nicely. The rate is starting to increase a little bit, and we're feeling good about it. And I would just remind you, overall, it's a pretty low percentage of our book and where we tend to write is the lower risk. We have a fairly tight risk appetite there.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Great. This is Dick. Just to put an exclamation point on what Jeff just said. Our book is about 60% small commercial work comp, which performs -- that are significantly better than in the middle market space, and it's the space where pricing comes back, when pricing does come back, it comes back more quickly. So we're positioned well as these -- as the loss cost return.

Grace Helen Carter
BofA Securities, Research Division

Okay. And then switching to Personal Auto. You had mentioned more consistent pricing over the past year relative to some competitors. So I was just wondering, as you look forward, where you see pricing going, trying to balance a potential longer-term frequency benefit versus industry-wide severity challenges. And to the extent that you are able to take lower pricing than peers, how -- to what extent do you think that, that might impact your growth rates in Personal Lines?

Jeffrey Mark Farber
Executive VP & CFO

Grace, we're feeling really good about Personal Auto and being in that business in Personal Lines in general. You heard Jack talk earlier about our position and Dick amplified that a little bit. Right now, what's happening, we're seeing some lingering benefit in terms of frequency. In the marketplace, the level of competition is starting to return to essentially a normal opportunity. Many of the major players have talked about needing to get rate. You're starting to see some rate filings there. So we're feeling really optimistic. And the last point, I guess I would make is we also were quite conservative in how we set loss picks throughout 2020 and into 2021. To the extent there is a temporary bit of margin pressure, I think the balance sheet has been prepared for -- prudently for sort of a worst-case scenario. So I'm feeling very good about our ability to grow, our retention, the actions that our team has made in the late third quarter and fourth quarter.

Operator

Our next question is from Bob Farnam with Boenning and Scattergood.

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

I've got a couple of questions on the TAP sales platform. And the first one is, I understand the benefits you're going to be getting from the top line as the agents direct more business your way. But I was curious whether there is an underwriting component to that as well, maybe more granular in terms of, are you expecting a bottom line improvement as well? And two is, I imagine you've got some tech savvy competitors that have similar products in the agencies. So how does the Hanover's product differentiate itself?

John Conner Roche
President, CEO & Director

Yes. Thanks, Bob. This is Jack. I'm just going to kind of really address the latter part of your question there and then ask Dick to talk to you about to really answer the first part of your question, which is in absolute, yes. But I would tell you that our small commercial offering, in addition to the overall enterprise approach that we use with agents is very distinctive, right? We are -- we have an underwriting risk appetite for BOP accounts, as well as package accounts. We are -- we have a kind of world-class service center. We have great proprietary pricing, but we've been able to make sure that it's not so volatile that the agency managers and CSRs are constantly happen to deal with pricing volatility coming out of the -- particularly the BOP business that they see from some other carriers. We're really one of the best prepared markets to help agents when they consolidate markets, which oftentimes they're doing in this day and age. So I think it's important to say that we are really excited about the new TAP sales platform and experience that we're creating that is multifaceted, but in the context of all the other things we do that we think make us distinctive in the small commercial space.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Right. So to your specific question about improved underwriting results, absolute yes, on multiple dimensions. One of the elements of this broad-based platform is the pricing efficacy that comes along with the new rollout, where we've moved to a much more refined pricing segmentation upwards of hundreds of [cells], in which we can slot customers. And that's informed by third-party data now. So the [chassis] that this is built upon can integrate the third-party data, which makes our pricing, again, more refined. Also, improved underwriting knockout rules on the way in and also on the renewal side. So when a piece of business renews, we pull in third-party data. We ask ourselves, how has that risk changed and we can make appropriate adjustments. So there's multiple dimensions at which we're -- we believe that going forward it's going to improve loss ratio.

Unknown Executive

Maybe a comment on how this fits with others in the industry and the reaction agents so far.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. We're getting fabulous reaction from the frontline account managers and CSRs that use this to price and issue policies. As Jack said in his commentary, we really are getting sort of best-in-class commentary. It's 50% more efficient than our prior system. And we believe that's sort of the fastest system that's out there in the marketplace today. So we're thrilled. This has been a multiyear and multimillion dollar investment, and we couldn't be happier with the way that's being received in the marketplace.

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

And you're still continuing to roll out products. I mean you're talking about your broad product capabilities, but not all of your products are on the system at this point. So what -- I know you just put the small business numbers, the platform out. So what's coming up next in terms of what you're trying to push out there?

Jeffrey Mark Farber
Executive VP & CFO

Well, this is Jeff. We'll throughout the rest of this year, we will get the business owners advantaged products in every office of every agency that we have. And then we'll work on the ancillary lines, which, frankly, are already very much a part of our account offering. They'll just be further refined. The product differentiation, Bob, lives in the core package. So that's why we led with it. At the end of the day, where we differentiate ourselves in terms of coverage and pricing sophistication is in the package and then it's supported by auto and workers' comp and umbrella. So I would tell you that we're really excited about the impact that this will make in the second half of this year and then heading into 2022.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Oksana Lukasheva for any closing remarks.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Thank you, everybody, for your participation today, and we are looking forward to talk to you at our Investor Day.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.