S&P Capital IQ

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Selective Insurance Group, Inc. NasdaqGS:SIGI

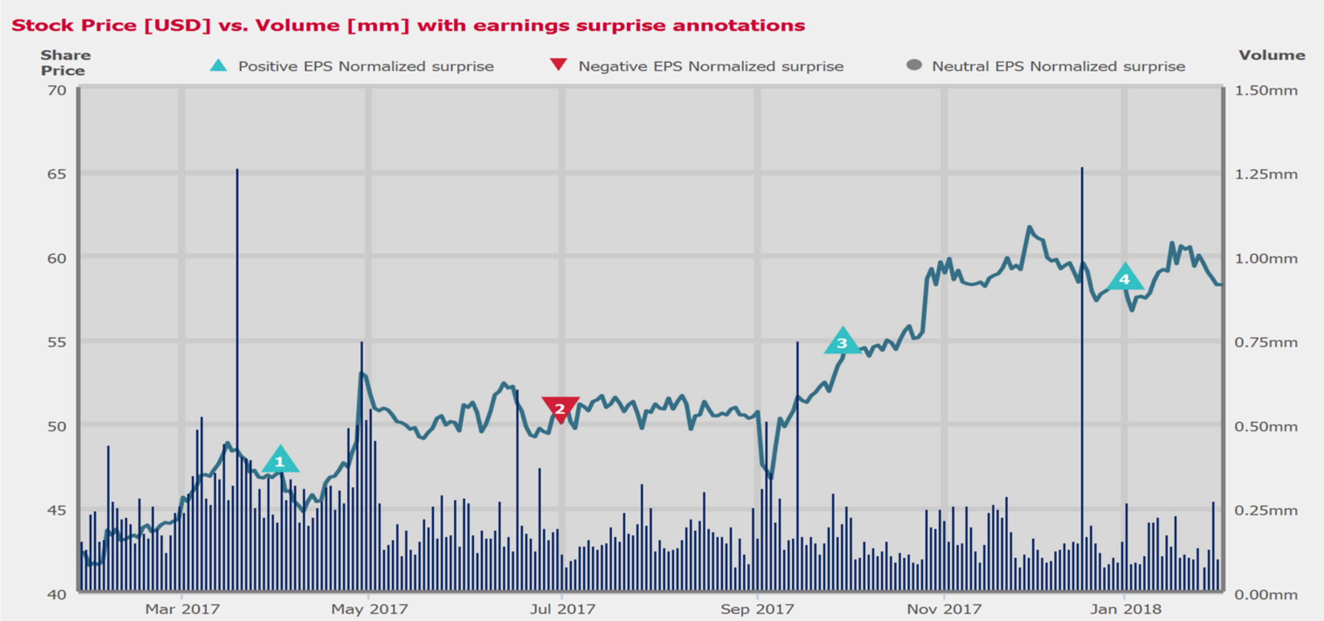
FQ1 2018 Earnings Call Transcripts

Thursday, May 03, 2018 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.48	0.46	▼(4.17 %)	0.85	3.31	4.09
Revenue	-	-	▼(2.44 %)	-	-	-
Revenue (mm)	642.35	626.70	-	652.63	2605.60	2762.11

Currency: USD
Consensus as of May-03-2018 1:07 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	0.68	0.86	▲26.47 %
FQ2 2017	0.73	0.68	▼(6.85 %)
FQ3 2017	0.65	0.72	▲10.77 %
FQ4 2017	0.80	0.86	▲7.50 %

Call Participants

EXECUTIVES

Gregory Edward Murphy
Chairman & CEO

John Joseph Marchioni
President & COO

Mark Alexander Wilcox
Executive VP & CFO

Rohan Pai
Senior VP of Investor Relations & Treasurer

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Presentation

Operator

Good day everyone, and welcome to Selective Insurance Group's First Quarter 2018 Earnings 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, Rohan Pai. Please, go ahead.

Rohan Pai
Senior VP of Investor Relations & Treasurer

Thanks, and good morning. This call is being simulcast on our website, and the replay will be available through June 3, 2018. 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 in the call 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 non-GAAP operating income, which is net income excluding the after-tax impact of net realized gains or losses on investments and unrealized gains or losses on equity securities. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections made during this call are forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's annual report on Form 10-K and any subsequent Form 10-Qs filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

Joining 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; and Mark Wilcox, Chief Financial Officer.

And now I'll turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thank you, Rohan, and good morning. I'll make some introductory remarks and then focus on some high-level themes that continue to drive our profitable growth and market position. Mark then will discuss our financial results, and John will review our insurance operations in more detail, providing additional color on key underwriting initiatives.

The significant improvements that we continue to drive in our underwriting results were obscured in the first quarter by noncatastrophe, or non-CAT weather-related losses, primarily due to severe winter weather and some large commercial property fire losses that we experienced.

Our results for the quarter included $106 million of total non-CAT property losses, which exceeded our expectation by $28 million. These additional losses added 4.8 points to our combined ratio as well as reduced our diluted earnings per share by $0.38. While disappointing from a financial perspective, events such as these often reinforce the value we bring to our distribution partners and customers through our prompt response and excellent customer service that rebuilds their lives and businesses.

Consolidated net premium written growth of 4% in the first quarter was driven by increases in our standard commercial and personalized segments, partially offset by a decline in our E&S operations.

In an overall competitive landscape, we're proud of our inside underwriters' ability to generate renewal pure price increases that were in excess of expected overall claim inflation. Adequate pricing is the only way to maintain and improve overall profitability.

After reading many of our competitors' conference calls, I'm pleased that the focus is around underwriting discipline and renewal pure price increases and related commercial lines pricing power. As I've said many times before, if you're not getting overall rate, then you're not getting any rate. For the first quarter, we achieved Commercial Lines renewal pure price increases that averaged 3.2%, which was up from the full year level 2017 of 2.9%.

In terms of Commercial Lines pricing trajectory, we anticipate more uplift throughout the year, particularly in light of the ongoing pressures in our property and commercial automobile results that both underperformed our expectations.

Our overall profitable growth initiatives will continue to focus on: one, achieving standard Commercial Lines written pure price increases in excess of expected clause inflation; two, balancing our objectives around underwriting quality while maintaining strong and stable retention; three, improving profitability in our Excess and Surplus Lines as well as our commercial automobile line of insurance; pursuing growth and diversification through geographic expansion. Our success reflects our strong agency relationships with our Ivy League distribution partners through our unique field-based underwriting model that empowers local decision-making and our sophisticated tools and technology that allow our underwriters to make better decisions faster.

Our geographic expansion efforts remain on track, with Arizona and New Hampshire, the 2 Commercial Lines states that we opened in 2017, both operating ahead of our expectations so far. Earlier this year, we entered Colorado, and we expect to add New Mexico and Utah later this year. This will bring a number of total Commercial Lines states to 27 by year-end 2018. For the quarter, the 3 states generated $7 million of new premiums written.

We're also aggressively working on our profitability issues within our E&S segment through targeted range increases, business mix shifts and enhanced claim processes that improve outcomes. As we've said before, our strategy in this segment is to strive towards targeted profit margins while allowing the top line to flow up or down based on market conditions.

Excellent results in our investment segment drove after-tax net investment income up 30% to $36 million. Active management, coupled with higher interest rates and lower federal income tax rates, were the main factors.

Our investment portfolio at $3.42 per dollar of stockholders' equity, coupled with an after-tax yield of 2.5%, generates an annual expected return on equity of 8.5 points.

Our annualized non-GAAP operating return on equity was 6.5 points for the first quarter, underperforming the 12% ROE target that we've set for the year. Our GAAP combined ratio was 99.2% and our underlying combined ratio or after adjusting for catastrophe losses and prior year casualty reserved development was 96.2%.

To sum it up, solid after-tax investment income growth; all 3 insurance segments producing renewal price increases that exceed our expected 3% claim inflation; ongoing mix of business improvements. We're looking towards implementing value-added products that will increase switching costs for our customers; enhancements to our overall customer experience; and finally, targeted smart profitable growth.

After taking into account the higher weather-related non-CAT loss experience that we had in the first quarter, we are revising our full year 2018 guidance as follows: One, we're increasing our expectation for our combined ratio, excluding catastrophes to 92% or 1 point increase. Two, we're maintaining our assumption for the impact of catastrophe losses on our combined ratio at 3.5 points. And three, we're increasing our after-tax net investment income estimate to $150 million with alternative assets contributing $8 million.

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

Mark Alexander Wilcox
Executive VP & CFO

Thank you, Greg, and good morning. For the quarter, we reported $0.32 of fully diluted earnings per share and $0.46 of non-GAAP operating earnings per share. After-tax underwriting income totaled $3.7 million and generated 90 basis points of ROE, and our investment portfolio generated after-tax net investment income of $35.8 million or 8.5 percentage points of ROE. Overall, our 6.5% annualized non-GAAP operating ROE in the quarter was well below our target as our results were meaningfully impacted by property losses in our footprint as we previewed in our Form 10-K and our pre-release a few weeks ago.

Catastrophe losses totaled $26 million in the quarter and impacted the first quarter combined ratio by 4.4 points, which is slightly higher than our full year expectation for 3.5 points of CAT losses.

The bigger story for us, though, in the quarter was the elevated level of non-CAT property losses, which totaled $106 million and accounted for 17.9 points on our combined ratio or approximately 5 points higher than our annual expectations for non-CAT losses of approximately 13 points. A substantial amount of the total non-CAT property losses related to the decrease in early January, which resulted in a higher frequency of frozen pipes and fire losses. In addition to the weather-related property events, we also experienced a higher frequency of fire losses in January.

In total, non-CAT property losses exceeded our expectations in the quarter by approximately $28 million, with $22 million related to January.

Our internal analysis of the nonweather-related fire losses suggests these are largely idiosyncratic events that tend to aggregate from time to time.

From a premium perspective, consolidated net premiums written increased 4% for the first quarter, with 5% growth in our Standard Commercial and Personal Lines segment, partially offset by a 6% premium decline for the E&S segment. The growth in Standard Lines was driven by excellent pure renewal price increases, a higher retention ratio, a good new business opportunities including those within our 3 new Standard Commercial Lines states, which is providing us additional runway for growth.

The consolidated combined ratio was 99.2% in the quarter. On an underlying basis, our product catastrophe losses and prior year casualty reserve development, our combined ratio was elevated at 96.2% compared to 91.6% in the comparative quarter. The difference was largely due to the 5.2 points of higher non-CAT property losses, offset in part by lower expense ratio.

During the first quarter, we experienced $8 million of net favorable prior year casualty reserve development, which lowered the quarter's combined ratio by 1.4 percentage points.

Better-than-expected claims emergence in our workers' compensation line totaling $16 million was partially offset by $8 million of adverse development in our commercial auto line of business.

Our GAAP expense ratio was 33.8% for the first quarter, which is down 80 basis points from the comparative quarter, mainly due to ongoing expense reductions we've highlighted in the past, coupled with a modest decline in profit-based incentives driven by the higher combined ratio.

Overall, we're seeking out areas of efficiency in cost savings while investing in our employees and in key initiatives around geographic expansion, enhancing our underwriting tools and the overall customer experience. We are pleased with the overall trajectory of the expense ratio but recognize there's still more work to be done.

Corporate expenses, which are principally comprised of holding company cost of long-term stock compensation, were down $600,000 on a pretax basis relative to the comparative quarter.

Turning to investments. For the quarter, after-tax net investment income totaled $35.8 million and was up 30% from a year ago. The year-over-year increase primarily reflects the lower tax rate on investments following the implementation of tax reform as well as the higher book yield for our fixed maturity investment portfolio. We continue to actively manage the investment portfolio, seeking opportunities to increase the after-tax book yield while maintaining high credit quality and managing duration risks.

Our average credit rating remains AA-, and the effective duration of our fixed income and short-term investments portfolio is relatively unchanged at 3.8 years.

Early in the quarter, we sold a number of tax-advantaged securities and reinvested in corporates and structured products due to the relative value on an after-tax basis and post-tax reform. This resulted in an increased after-tax book yield in the core fixed income portfolio while maintaining the same credit quality duration.

In addition, with 17% of the portfolio in floating rate notes, we continue to benefit from a relatively rapid rise in 90-day LIBOR, which was up 62 basis points in the quarter.

Finally, with a significant increase in overall interest rates in the first quarter, we took advantage of the buying opportunities that were available and increased our after-tax book yield.

Overall, the after-tax yield on the fixed income portfolio was 2.68% during the quarter compared with 2.18% a year ago. The pretax yield was up 18 basis points on a sequential basis to 3.24%. The new money yield on the fixed income portfolio during the quarter was 2.58% after-tax or 3.27% pretax.

Risk assets, which principally include high-yield fixed income securities, public equities and alternative portfolio, accounted for 8% of the total invested assets at the end of the first quarter.

We've been gradually diversifying our portfolio of risk assets and we'll likely modestly increase our allocation over time depending on market conditions and opportunities.

Alternative investments, which primarily represent limited partnerships and private equity investments and report on a 1 quarter lag, generated a pretax gain of $1.6 million for the quarter.

Overall, despite strong growth in net investment income, the increase in interest rates in the quarter reduced the unrealized gains in our fixed income portfolio and resulted in a total return of negative 80 basis points for the quarter, which drove the 3.5% decrease in book value per share.

Turning to capital. Our balance sheet remains strong, with $1.7 billion of GAAP equity. We adequately capitalize to support our expected growth and are targeting a premium-to-surplus ratio of approximately 1.4x.

We continue to adopt a conservative stance with respect to managing our underwriting risk appetite, investment portfolio, reserving processes, reinsurance buying and catastrophe risk management. This allows us to maintain higher operating leverage than the industry as a whole, with each combined ratio point equating to about 110 basis points of ROE and each basis point of pretax book yield on our investment portfolio contributing 2.75 basis points of ROE.

This model positions us well to generate superior returns in today's low interest rate environment as well as allowing us to relatively quickly increase our investment ROE contribution if interest rates continue to rise.

Our debt-to-capital ratio of 22.9% at the end of the first quarter is currently below our longer-term target of approximately 25% and allows us to opportunistically increase financial leverage if market conditions were attractive.

We have $185 million of 5.875% senior notes through 2043 that are callable at par, and we may elect to exercise the option to refinance these if market conditions are attractive. If we were to do so, we would be required to expense the unamortized debt issuance costs of $4.5 million related to these notes.

With that, I'll turn the call over to John to discuss our insurance operations.

John Joseph Marchioni
President & COO

Thanks, Mark. I'll begin with an overview of some of our strategic initiatives and then focus on the results of our operations by segment.

We continue to capitalize on opportunities for profitable growth while leveraging our competitive strengths, namely our franchise distribution partner relationships enabled by our unique field underwriting model, our sophisticated underwriting tools and the superior customer experience we and our agents provide our policyholders. But above all, we strive to maintain a disciplined underwriting culture that is focused on generating adequate returns for our shareholders on a risk-adjusted basis over time.

Our franchise model with Ivy League distribution partners is enabled by our empowered field-based underwriting model and is a true differentiator in the marketplace. We distribute Commercial Lines business to approximately 1,300 agency partners, averaging about 50 per state. These relationships are key to executing our strategy of getting to a 3% Commercial Lines market share over time.

In each of our Commercial Lines operating states, we seek to appoint agents that control 25% of available premiums and grow to a 12% share of wallet within these distribution partners. Our current agency market share stands at approximately 18% and our share of wallet is approximately 8% in our legacy states.

Second, we are building out sophisticated Commercial Lines underwriting tools and processes that allow our personnel to make better decisions faster. A very granular approach to underwriting and pricing enhances outcomes for our new and renewal books.

This is best demonstrated by our ability to consistently obtain renewal pure rate that exceeds market averages, while at the same time, maintaining strong retention and growth rates.

Third, we're making significant investments to deliver a superior omnichannel customer experience. Our goal is to allow customers to interact with us in a 24/7 environment in the manner of their choosing. We now offer customers multiple avenues for accessing information and initiating transactions and ensure that the level of experience is consistent across all of them. We are executing on this path in concert with our distribution partners who are critical to the success of this initiative.

Our geographic expansion plans remain well on track as we open new states by leveraging our uniquely successful operating model and strong reputation within the independent agent channel. Since mid-2017, we have opened 3 new states: Arizona, Colorado and New Hampshire. Collectively, these states have produced $16 million of new business since inception. We are extremely pleased and are ahead of our expectations at this early stage.

We remain on track to open New Mexico and Utah for Commercial Lines business by the end of this year and also plan to open Arizona and Utah for Personal Lines in early 2019.

Turning to our operations. Our Standard Commercial Lines segment generated net premiums written growth for the quarter of 5%, driven by stable retention of 85% and renewal pure price increases of 3.2%, net of exposure change. We are encouraged by the strong level of renewal rate we continue to obtain as we strive towards price adequacy in each of our lines of business.

The Commercial Lines segment generated a GAAP combined ratio of 98.5% or 95.9% on an underlying basis.

For the highest quality Standard Commercial Lines accounts based on future profitability expectations, we achieved renewal pure rate of 1.8% and quarter renewal retention of 91% This cohort represented 48% of our Commercial Lines premium in the quarter.

On the lower-quality accounts, which represented 11% of our premium, we achieved renewal pure rate of 7.2% while retaining just 77% at the point of renewal. This granular approach to administering our renewal pricing strategy allows us to achieve additional loss ratio improvement through mix of business changes while continuing to deliver pure rate increases that equal or exceed expected claims inflation.

Drilling down for the results pipeline for Commercial Lines, our largest line of business, General Liability, did not experience any net reserve development during the first quarter and generated a 90.7% combined ratio. We achieved renewal pure price increases of approximately 1% for this line.

Our workers' comp line experienced $16 million of favorable prior year reserve development for the quarter as a result of lower-than-expected severities for accident years 2016 and prior. The workers' comp line combined ratio in the first quarter was 79.2% and we achieved flat pricing. This is a line that bears close monitoring as industry pricing have come under sustained pressure and loss cost filings by NCCI and other individual state bureaus have been trending negative overall.

While reported profitability remained strong due to favorable emergence on prior year reserves, current accident year margins do not support significant rate decreases.

Commercial auto remains an area of focus for us as we continue to address profitability for this line. The first quarter combined ratio was 111.3%, including $8 million of unfavorable prior year casualty reserve development due to higher claims frequencies and severities in accident years 2015 through 2017. To address profitability in this line, we've been actively implementing price increases, which averaged approximately 7% in the first quarter. This was in line with the level of price increases implemented for the full year of 2017. Loss trends remained elevated and should support additional rate moving forward.

In addition to price increases, we've also been actively managing the new and renewal books in targeted industry segments, reducing exposures and increasing price on higher hazard classes.

Commercial property remains highly competitive despite elevated levels of catastrophe and noncatastrophe property losses in recent quarters. And our commercial property book has consistently generated profitable results in normal CAT environments. Margins have come under pressure due to increased market competition. Renewal pure price increases for our commercial property business averaged 3.1% in the first quarter compared with 1.7% for all of 2017.

While pricing is moving in a positive direction, we are also taking steps to ensure we are addressing the drivers of non-CAT loss activity in our portfolio on a very targeted basis.

Our Personal Lines segment, which represented 11% of first quarter premiums generated 5% growth. This segment produced a GAAP combined ratio of 102% or 92.8% on an underlying basis.

The homeowners line generated a GAAP combined ratio of 111.5%, including 19.5 points of catastrophe losses as the severe winter storms throughout our footprint impacted results. Our plans for 2018 incorporate rate filings averaging 3.7% for this line.

In personal auto, net premiums written increased 9.1%. Renewal pure price increases on our book averaged approximately 6% during the quarter. Profitability for the line should improve with the benefits of greater scale and efficiencies, along with generating earned rate in excess of expected claim inflation. Our plans for 2018 incorporate rate filings averaging approximately 7%.

Our E&S segment, which represents 7% of total net premiums written, generated a GAAP combined ratio of 101.1% for the quarter. We've been taking deliberate steps to attain price increases where appropriate and let go of business that does not meet our profit targets.

Overall, price increases averaged 4.4% in the first quarter. Net premiums written declined 6% in the quarter, resulting from a reduction in new business as we have pushed rate towards target pricing levels and improved underwriting standards in targeted classes.

Our strategy has been to drive profit improvement and allow the top line to flow down if the market does not support our pricing stance.

As we look to the remainder of 2018, we remain focused on executing our strategy of generating consistent profitable growth.

Our high-tech, high-touch operating model is a cornerstone of our strategy and will remain a differentiating factor in the coming years.
With that, we will open the call up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from Paul Newsome from Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I want to ask a little bit more detail on the commercial auto business. And I guess, what I'm trying to get at is whether it's just purely or rate and competitive issue in the industry and for you or if there's some sort of fundamental underwriting change that needs to happen. And I guess, the backdrop to the question is, as I ask other companies, there seems to be quite a bit of disagreement across different companies as to what the issue is. And that sort of makes me wonder if maybe the industry just doesn't understand what's going on yet and it's going to be a while before whatever fix really takes hold, if there's something more than just pure rate need. So what's your perspective?

Gregory Edward Murphy
Chairman & CEO

Yes. Paul, it's Greg. I'll start and then John and others can weigh in. I think our line of sight on the issue is pretty clear from our standpoint. It's principally a frequency issue. And I think that frequency issue has manifested itself through the factors, I'm sure you've already heard about, unemployment is down, tonnage is up, miles driven is up, gas prices are low, all the things that you hear about putting more units on the road is there and more units on the road is what's created a spike in frequency. And I would say that when you look at our adverse development, I mean, obviously some elements are tied to severity and you could argue that, that's the cost of repair and the ADAS that's in the vehicles today that's way more expensive. But I would say, the principal mix is more around the frequency aspect, and that is cured with rate. So that's how that problem's fixed overall.

John Joseph Marchioni
President & COO

Paul, this is John. I'm not sure I have a lot more to add in Gregory has offered. We've been running at a pretty significant rate level, as we reported, over the past several quarters and expect that to continue because frequency trends and, to a certain extent, severity trends continue to remain elevated. We do think, especially with our book, it's a rate challenge. And for us, we've also been making sure that when we measure change in weight per unit, we're ensuring that all vehicle pipes are priced adequately, specifically some of the heavier vehicle pipes that we have in our fleet. Now remember, we're a predominantly small and medium asset writer and tend to write lighter in class vehicles. But we do have some heavier vehicles in the fleet and that's where you are going to see a little bit more of the severity come from when you're in an elevated frequency environment. So bottom line for us, we need a little bit of fine-tuning on an underwriting basis, but this is an overall rate level story. And when you think about our combined ratio and the combined ratio for the industry, even if frequency trends were soon to normalize because you've got the economic drivers of frequency already in a constant run rate, you still need a lot of rate in excess of that trend in order to bring that combined ratio down to an acceptable risk-adjusted target.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

And maybe a little bit of a follow-on, if you could broaden into your thoughts about -- particularly competition in small commercial at the moment. There's just a lot of talk amongst companies, particularly big ones, about a desire to get into small commercial. And then we've seen other small commercial companies kind of have some profitability issues here and there, not a huge trend, but it's there. Is there -- is it just getting more difficult at the small end of the market in your opinion? Or is this just talk from what you see?

John Joseph Marchioni
President & COO

Yes. Paul, this is John. So clearly, what you're seeing, we're seeing as well. There are a lot of companies and some larger and bigger name companies that have certainly targeted a more aggressive stance or positioning in the small commercial market. And it's always been an intensely competitive market, so I think -- let me start there. And we've been successful in competing with some significant players in the small end of the market because our relationships still matter there. But it's equally important to have an excellent and easy-to-use technology platform, a broad underwriting appetite and very strong underwriting and pricing sophistication, so that you could produce -- or underwrite and price business in an automated environment. So there are companies that are coming into this space, which will intensify competition. We like our position, but we also anticipate that competition will continue to dial up. I would say that, certainly, workers' comp -- small workers' comp, as we've mentioned in prior quarters, has been probably the most aggressive battleground from a competitive perspective as companies have tried to capitalize on improving margins. And I think some companies have treated that as an opportunity to use it as a lead line, which I think bears watching because that line can turn in a hurry. So bottom line is yes, it is a more competitive environment for small commercial.

Operator

Our next question comes from Mike Zaremski from Crédit Suisse.

Michael Zaremski

First question just on the CAT load guidance. So what -- it implies that the 1Q levels were kind of somewhat normal-ish. I just wanted to make sure I'm understanding -- I'm getting the right takeaway on that.

Mark Alexander Wilcox
Executive VP & CFO

Mike, it's Mark Wilcox here. I'll start and others can jump in. As you know, the guidance for the full year is 3.5 points on the combined ratio from a CAT perspective. There is some volatilities and seasonalities to that number. Q1, for us, is generally our higher CAT load compared to the year as a whole. That said, we were still a little bit elevated for that, but not so much to the negative that we didn't think we could stick with the 3.5 points for the full year. So we've maintained the 3.5 points for the full year, and we'll update that guidance on a quarterly basis as the year progresses. As you know, there's a fair bit of volatility in that line item.

Gregory Edward Murphy
Chairman & CEO

And this is Greg. So just to -- again, just to add to that. I mean, just remember, so our point ratio was constant year-over-year at 3.5, which is right in line with our -- or actually maybe an edge slightly higher than our 10-year median and mean relative to that. But every year, we continue to grow our casualty book and get a fair amount way above industry rate level in our commercial auto book. So the absolute pot of dollars that are created for catastrophe losses is larger year-on-year. So some of the lumpiness, you could see. We have a tendency to get hit pretty hard on nor'easters. But there's just a certain amount of volatility that happens in the year. And overall, we're still comfortable at 3.5 on our CAT ratio.

Michael Zaremski

Okay, great. That makes sense. And so you guys have given good color on reserve development, and it's been decreasing for you guys. And you guys feel confident that you can continue to push increased rates. So I'm just trying to basically gauge -- I mean, do you feel that a lot of the -- you're pushing for rate because loss costs are clearly picking up? And in order to -- in the workers' comp as well, I wouldn't mind some more color if it's the frequency on workers' comp because I'm just trying to better gauge whether you guys are just trying to tread water. Or can we see margins expand?

John Joseph Marchioni

President & COO

This is John. I'll start and then Greg and Mark can certainly add on. First of all, on the rate side, if you look back to our performance since the second, third quarter of 2009, you're going to see very consistent positive rate increasing over time and then settling back in around the run rate that we currently stand at. And we've been fairly consistent in saying that our view of expected claim inflation runs in that 3% neighborhood. So in order to keep margins steady year-over-year, all else being equal, you need to be earning at least 3 points of rate. When you look at our performance and normalize it for CATs and non-CAT activity and look over the last several years, our Commercial Lines margins have been pretty close to our target run rate. So our goal there remains to manage pricing roughly equivalent to lost cost inflation expectations in order to keep that run rate profitability in line. Now you certainly see variations by line, and you're going to have ups and downs by line at any given point in time. Our desire is to have each one of our major lines of business achieve its risk-adjusted combined ratio target over time. And that's what you're seeing right now with elevated rate for auto. As we said last quarter, have started to achieve this quarter, property is a line that is now, in our view, for us and for the industry in need of rate. And then comp is a different story in that you have less control over comp pricing for a couple of reasons. But the most important one being that you're somewhat beholden to NCCI and individual state rating bureaus filing loss costs. And most companies don't have a lot of scheduled credit on their book of business that they can adjust off in order to offset the decreases, which is what's been coming through. We've managed that line to a 0. We continue to see favorable emergence coming through, but we also maintain a keen focus on our current accident year results to make sure we understand what kind of rate level we're trying to achieve there going forward. We continue to try to book to our best estimate relative to workers' comp and every other line for that matter. But when you run at 0 rate, your view is claim inflation going forward will turn positive -- although, yes, you certainly have seen, looking backwards, a consistent decline in frequency and severity trends.

Gregory Edward Murphy
Chairman & CEO

And this is Greg. So let me just add a little bit to that. And I agree, so let's first level set the platform. We're an account underwriter. We're not a comp-only market and we're not a monoline commercial auto writer. So we are an account underwriter. When we look at our pricing risk-adjusted returns, and I think John was very clear on this, we set that target and the 3 20 rate that we got was in excess of our expected claim inflation. Are we a little bit concerned about the property non-CAT that we experienced in the first quarter? Yes. Are we also a little bit where we are relative to commercial auto? I would say that's another area of focus for us. So this is why I think when you look at our commentary and you look at the fact that in the NCCI filings, they've got trends down in indemnity, they've got trends down in medical. And I do not believe that, that is what the industry will see in 2018. We're getting closer and closer to full employment. And you would expect wage levels to be under pressure and hourly earnings start to move higher. And we never really see an enormous amount of reduction in medical costs overall, you could -- as treatments continue to get more expensive and it seems to be more inflation in that. So again, I would tell you that, that's why my comments about the trajectory of rate, we need to increase our rate around, in part, our concerns around commercial and personal auto -- I mean, commercial auto and property, and properties really overall, so that's both personal and commercial. But that's part of us maintaining and improving our profitability. And that's just the rate aspect. And then you've got to go through everything else John mentioned about mix of business, all the other things that we're doing as well to improve profitability year-on-year. But I think when you look at our underlying combined ratio and you exclude the 5 points of non-CAT, that's a pretty much the explanation of the quarter. And that's really what knocked us off game for the quarter.

Mark Alexander Wilcox
Executive VP & CFO

And just to tie that back -- good commentary around the pricing, but to tie it back to the full year expectations, just as a reminder, last year, we had a combined ratio of 93.3%; on an underlying basis, 92.5%. And our expectations going into 2018 was for an underlying combined ratio of 91%, so about 150 basis points of margin improvement with the price -- expected pricing exceeding loss cost trends and the underwriting mix improvement and expense savings as well. Obviously, we've updated that to 92% for the full year given the high level of non-CAT property losses in the first quarter. But it does imply for the rest of the year underlying margins that are improved year-on-year right around that 91% or perhaps even a little bit less. So that rate -- that pure renewal price rate is a key to improving our profitability on a go-forward basis and is built into our full year expectations.

Operator

Our next question comes from Rowland Mayor, RBC Capital Markets.

Rowland Juran Mayor
RBC Capital Markets, LLC, Research Division

You talked quickly about the shift away from tax-advantaged fixed income in Q1. Is the portfolio we saw at the end of Q1 sort of how you want that balance now moving -- as we see the environment post-tax reform? Or is there a continued shift towards nontax-advantaged bonds still left?

Mark Alexander Wilcox
Executive VP & CFO

Yes, good question. I think the moves that we made in really early January, we jumped on it right after tax reform, right after being tried on tax reform, was really at the margin. We will continue to be a heavy investor in tax-advantaged municipal securities. They provided good credit and they provide us some duration in the portfolio. The trade that we did, and you would have seen on the breakout of the different asset classes, about a 5% reduction in municipal securities compared to year-end, that was really at the margin where on an after-tax basis with the reduction on the corporate tax rate, after-tax corporates with the same credit quality and duration were beneficial on an after-tax basis. So we've sold munis, reinvested in corporates and picked up additional book yield. So kind of a one-off tax equal trade early in January, but I'd expect us to continue to be active purchasers of munis on a go-forward basis.

Gregory Edward Murphy
Chairman & CEO

And I will just add to that. I mean, we've got 3 very good suppliers on our core fixed income product, and I'll tell you they're constantly bringing ideas to us. And we've got a very focused CIO and an investment partner that analyzes the shifts and make sure that we're good with where we are.

Rowland Juran Mayor
RBC Capital Markets, LLC, Research Division

Okay. Perfect. And then switching topics to E&S casualty. The losses there were a bit higher than they have been a year ago. Can you talk a bit about what you're seeing in sort of trends in losses in E&S casualty?

John Joseph Marchioni
President & COO

So the E&S casualty line for us is, as you look back over the last several quarters, a couple of years, we've seen some adverse development come through there. The one thing I would say is this is a small line of business for us. It's a line of business that continues to be fairly immature from a reserving perspective. We've been in this business since 2011, so we don't really have a lot of history in terms of developing patterns. So we're seeing a little bit of pressure on both frequency and severity for E&S, and that's continued to be the case, which has caused us to react a little bit to the 2018 expectations. Our focus here remains the same, which is it is a book that turns over faster than the standard book of business. So for the segments that are driving performance or the individual accounts that are driving performance, we're able to take more aggressive action on. And the other point I'll highlight is we quoted a rate number of 4.4% for the quarter. That's overall. In fact, casualty is significantly higher than that and closer to 8% in total for the quarter, which we also view as helping us bring that loss ratio down on a go-forward basis, and then couple that with our claims focus. So the book of business hasn't changed at a high level. It's the same style of business. It's still a low-limits profile. 90-plus percent of that book is $1 million of limits or less on the casualty side. But within that risk profile, we have moved away from certain segments and started to tilt the mix a little bit in the favorable direction.

Mark Alexander Wilcox
Executive VP & CFO

The only other thing I'd add to that is just if you look at the breakout of the components of the losses -- the non-CAT property losses, it's a small dollar amount but on a fairly small premium base. So the non-CAT property loss ratio in E&S was 7.5 for the entire year-on-year. And so the E&S book did see some of the high level of property losses that the rest of the book saw as well, which is -- I don't want to say it's one-off per se, but hopefully, it is a little bit related to the severe winter weather we experienced over the last few months.

Operator

Our next question comes from Arash Soleimani.

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

On the E&S side, just maybe continuing. I know you guys have some of those -- some underwriting actions you took in terms of making the new business down this quarter. Is that something we should continue to see throughout the year, lowering your business as you kind of, I guess, improve the profitability?

John Joseph Marchioni
President & COO

Yes. So we don't provide premium growth guidance overall or by segment. But as we've said pretty consistently, Arash, we view this segment, which we've said over time we want to keep at most in that 10% to 15% of the overall organization from a size perspective because we do anticipate top line volatility, so our performance is above our expectations. We're taking significant rate actions, which clearly impact our competitive positioning. We think it's appropriate for our book of business. So what we saw in the quarter was not unexpected. When you look at the underlying performance, you could see there's still more work to be done in terms of achieving rate level in excess of claims inflation. So without providing guidance on the top line, the continuation -- the continuing actions from what you've seeing from us so far are not going to end or did not end at the end of March.

Gregory Edward Murphy
Chairman & CEO

This is Greg. I would tell you, the renewal inventory is moving very closely to our target levels. And I think that's -- in part what's created a lot of noise with our distribution partners is the renewal price changes. And we haven't had an issue with where we're writing new, new's actually been written in the price targets that we want to see it. So I think John is actually spot on. So once we get through and get our renewal inventory closer to where it needs to be, I think some of that noise will dampen. We're also adding new suppliers, some new distribution partners into the network. We're seeing good solid growth from them. And we like to get our growth back on track. But this business is a little bit more price sensitive than I would have ever imagined for an average account of $3,000. It's an awful lot of teeth gnashing over a $3,000 GL account. But we're dealing with a little bit of that as well.

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

And is that still a line of business that you think in the long term you would still expect to be more profitable than Standard commercial?

Gregory Edward Murphy
Chairman & CEO

Well, yes. Here's how I view that. We kind of treat it more as a class plan or we're working more into that class plan environment. And I would say that, yes, we would expect that the discipline on that and what we price new is where we need to have the rate level on it. And so there is where your stability comes in because you're not discounting rate new to bring in a new account in the hope, and hope is not a strategy, to build it on the renewal side. So this is a book -- as John indicated, it's got a high turnover renewal. It's 50%. So when you bring in a stick of business, you have to make sure that it's priced properly to make a profit. And that's how we feel that we're building our profit base level of rates.

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

And I guess, my last question is just on the general corporate expenses. I know you guys have been doing some stuff there to drive improvement in that line. Would you expect 2019 to be a bigger year of improvement than 2018 in terms of the actions you've taken? I just want to get a sense of the timing of the improvements.

Mark Alexander Wilcox
Executive VP & CFO

Arash, it's Mark. Good question. As you know, there's a little bit of seasonality, and corporate expenses were down on a comparative quarter basis about $600,000. But Q1 does tend to be a heavy load from a corporate expense perspective with the stock and long-term incentives, award, grants and those that are retirement-eligible gets expensed all in Q1. We have taken significant action over the last couple of years to reduce the volatility in that line item and reduce it overall. We haven't seen that benefit necessarily come through yet. But our expectation is we'll -- I don't want to put a number out there, but we'd expect to see a continued reduction in corporate expenses in 2018. And that would continue through into 2019 and then probably trail off. But we're expecting some additional savings in that line item through the rest of the year. And that's obviously on a pretax basis. These days because it's an expense item with a lot of tax rate on an after-tax basis, the numbers actually look a little bit higher.

Operator

[Operator Instructions] And next question comes from Samir Khare from Capital Returns Management.

Samir Khare
Capital Returns Management, LLC

Quick questions on commercial auto. Can you tell us how much cumulative rate increases you have taken, say, since 2016?

Gregory Edward Murphy
Chairman & CEO

Yes. We can get that for you. Hold on. While John is searching that -- 7% pretty much this year. It was around 7% last year. '16 was 5%.

John Joseph Marchioni
President & COO

So 5% in '16, 6.6% in '17. And then we gave -- you saw the '18 number we just gave you. So it's been 3 consecutive years of 5% or more, 5% to 7%.

Samir Khare
Capital Returns Management, LLC

And perhaps a harder question in conjunction with your underwriting actions and considering loss trends. How much more rate increase do you think you need to get to adequacy in commercial auto?

Gregory Edward Murphy
Chairman & CEO

This year -- obviously, John, we're 7 3. And as I indicated that's a rate that we're going to push higher than that. And I'll tell you some of it is a matter of where frequency trends look -- level out at. And if we see that our pick relative to frequency in the year is good, we have to look at where our rate level is on that. So it's a typical question to assess in a line where our cost of goods sold is moving at fairly substantial rate. As John mentioned, we had a huge amount of rate, but that all got consumed in trend. And so the question is, how -- where does frequency level out at? And do we see kind of -- it's funny when you look at the personal auto numbers or the industry overall, it seems like the frequency is kind of stable, which is interesting because you would think that the trends in commercial auto would be fairly similar to the trends of personal auto. But in the personal auto segment, it seems to be a severity issue. So once that -- once we sit there and say, hey, our selections match what we actually experience, then we'll have to reassess where our rate level is.

Samir Khare
Capital Returns Management, LLC

Okay. Maybe looking at it another way. What loss ratio do you ultimate -- are you ultimately aiming for to achieve your -- an adequate risk-adjusted return?

John Joseph Marchioni
President & COO

So our risk-adjusted return target.For commercial auto is approximately 96% -- 96%, 97%.

Operator

And as of the moment, speakers, we show no questions in queue.

Gregory Edward Murphy
Chairman & CEO

All right. Well, I appreciate the amount of questions that we got this morning. And if any of you have another matter or something else that you want to follow up with, please get back to Rohan and Mark. So thank you very much for your participation this morning.

Operator
And that concludes the conference for today. Thank you for your participation. You may now disconnect.