S&P Capital IQ

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Selective Insurance Group, Inc. NasdaqGS:SIGI

FQ1 2009 Earnings Call Transcripts

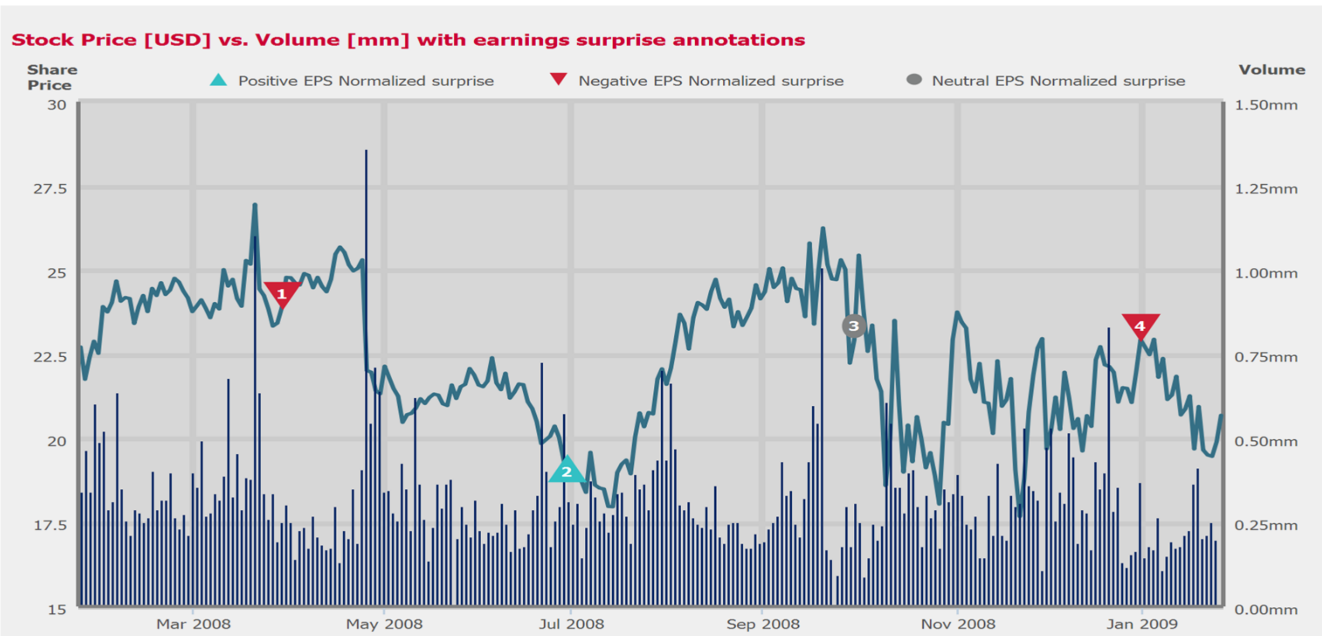
Thursday, April 30, 2009 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2009-			-FQ2 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.01	0.05	▲400.00	0.26	0.89	1.32
Revenue (mm)	426.36	393.59	▼(7.69 %)	433.57	1717.82	1733.52

Currency: USD

Consensus as of Apr-30-2009 1:02 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2008	0.50	0.43	▼1 (14.00 %)
FQ2 2008	0.51	0.52	▲2 1.96 %
FQ3 2008	0.45	0.45	●3 0.00 %
FQ4 2008	0.48	0.10	▼4 (79.17 %)

Call Participants

EXECUTIVES

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Gregory E. Murphy
Chairman and Chief Executive Officer

Jennifer DiBerardino

John J. Marchioni
President and Chief Operating Officer

ANALYSTS

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

David O. Lewis
Raymond James & Associates, Inc., Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Robert Paun
Sidoti & Company, LLC

Presentation

Operator

Good day, everyone. Welcome to the Selective Insurance Group's First Quarter 2009 Earnings Release Conference Call. At this time, for opening remarks and introduction, I would like to turn the call over to Vice President Investor Relations, Ms. Jennifer DiBerardino.

Jennifer DiBerardino

Good morning, and welcome to Selective Insurance Group's First Quarter 2009 Conference Call. The call is being simulcast on our website and a replay will be available through May 29, 2009. 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 at www.selective.com.

As stated in our quarterly release, we have revised our SEC reporting segment by reclassifying the Diversified Insurance Services segment which contains Flood and Selective HR solutions. As Flood is managed by insurance operations and included in insurance results by our competitors, it would now reside in that segment. Selective HR solutions will be reported in its own segment and the Investment segment remains the same. All financial information disclosed by the company will reflect this change. Selective uses operating income, a non-GAAP measure, to analyze trends in operations. Operating income is net income excluding the after-tax impact of net realized investment gains and losses. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our Insurance business.

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

Joining me today on the call are the following members of Selective's Executive Management Team: Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, Chief Underwriting and Field Operations Officer; Mary Porter, Chief Claims Officer; Ron Zaleski, Chief Actuary; and Kerry Guthrie, Chief Investment Officer. Now I'll turn the call over to Dale to review the quarter results.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Thanks, Jen. Good morning. We reported solid insurance results in the quarter with the statutory combined ratio just over 100% and within overall expectations despite incurring $15 million in property losses over our budget. Results benefited from an overall $4 million in favorable reserve development as well as additional expense savings. Commercial lines new business was up 12% in the quarter to $71 million and we are very encouraged by the direction of our commercial lines' pure pricing.

For the first quarter, we reported operating income per diluted share of $0.05. The year-over-year decline was mainly due to the following after-tax items: Other investment income decline of $14.5 million driven by our alternative portfolio, an underwriting loss of $1.9 million driven by a property volatility, and $4 million less in tax benefit due to taxes booked in the first quarter based on the full year expected tax rate. This anomaly occurs when there is a quarter early in the year that is out of line with the profitability expected for the full year. This effect is expected to reverse in future quarters.

As expected in the first quarter, our alternative investments generated a loss of $13.4 million after-tax, compared to a slight gain of $1.2 million after-tax in the same period in 2008. The losses reflect the general decline in all asset classes and the adoption of FAS 157 by many general partners. Given that the bulk of these investments report on a one-quarter lag, evaluations reflect the tumultuous financial markets of fourth quarter 2008.

Global real estate valuations were hit especially hard in 2008, particularly affecting three of our alternative investments. Although our alternative investment portfolio had a significant impact on our net investment income in the quarter, it only underperformed the S&P 500 index by 1%.

Property losses mainly due to severe non-catastrophe winter weather were $15 million pretax higher than expected in the quarter, including $6 million of prior-year development related to late-reported property claims. This is lower than our initial estimate of $17 million that we reported in March. The excess property losses reduced operating income after tax by $0.18 per share.

Invested assets were up 3% at March 31, 2009 compared to December 31, 2008, reflecting fair value increases on our available-for-sale portfolio, coupled with increased short-term investment balances. These increases were partially offset by the sale of equity investments. In the quarter, we transferred $1.9 billion of fixed maturity securities into a held-to-maturity portfolio from an available-for-sale classification. In total, these transfers resulted in the preservation of stockholders' equity during the quarter of $34.6 million after-tax as the fair value of these securities decreased approximately $53.3 million.

Unrealized losses on our available-for-sale securities improved $35.5 million after-tax, driven by a $43.1 million after-tax improvement and fixed-maturity securities, partially offset by a $7.4 million after-tax decline in our equity portfolio. The net impact of these fluctuations amounted to $0.67 per outstanding share. This was the primary driver in the increase in our book value per share to $17.23 at March 31, partially offset by a net loss of $0.24 and dividends of $0.13.

The markets continue to post challenges regarding other-than-temporary impairments. We recorded a $27.1 million pretax charge in the quarter, reflecting write-downs on six fixed-maturity securities, predominantly 2006 vintage Alt-A securities, representing $26.3 million pretax; and three equity securities, representing $0.8 million pretax. We are also currently analyzing the impacts of the accounting guidance that was issued April 9, regarding fair value measurements in the impact of a distressed marketplace, we will adopt in the second quarter of 2009.

We have taken a number of actions in the quarter to reduce risk in our investment portfolio including the following: A reduction in CMBS [commercial mortgage-backed securities] exposure by $56 million or 25%, while increasing our agency back component from 32% to 53% thorough new purchases, significantly improving the credit characteristics of our CMBS portfolio. These are predominantly Ginnie Mae, with the full faith and credit of the U.S. government; a $91 million increase to government and agencies raising our allocation from 7% to 9% of investment assets; in the aforementioned movement of $1.9 billion, or approximately 60% of the fixed-income portfolio into the held-to-maturity category to protect stockholders' equity; a $73 million increase in our short-term portfolio to $271 million or 7% of invested assets; and a $78 million reduction in our net equity exposure to $57 million, bringing our exposure to a conservative 6% of stockholders' equity.

Our insurance operations continue to perform well. We are satisfied to report a 100.2% statutory combined ratio for the quarter. Our statutory combined ratio increased 1.9 points versus a year ago, driven by the previously mentioned property losses. Catastrophe losses were $1.3 million or 0.4 points compared to cap losses a year ago of $4.7 million or 1.2 points.

Overall, prior-year statutory loss and LAE favorable reserve development on a pretax basis for the quarter was approximately $4 million or one point on the combined ratio, compared to favorable development of $3 million or 0.8 points in the first quarter of 2008. This quarter's favorable development was primarily driven by workers' compensation for accident years 2006 and prior, and one large personal injury claim and personal auto, partially offset by unfavorable property development.

As a result of the various expense savings initiatives we implemented in 2008 and 2009, the GAAP-expense ratio for the quarter was down two points from a year ago to 31.4%. Our 2008 expense initiatives continue to benefit expenses in 2009, including ongoing commission savings. Additionally, in the first quarter, we made several changes that we expect to further reduce 2009 expenses by about $9 million pretax. The largest savings came from the elimination of retiree life insurance benefits for active employees, saving $4 million which was a one-time benefit in the first quarter. Other savings initiatives included 10% reduction in travel budgets and controlled hiring for the balance of the year as we continue to proactively manage expenses.

Commercial lines reported a profitable 99.1% statutory-combined ratio for the quarter. As mentioned, unanticipated property losses in the quarter added 3.4 points for the commercial lines' combined ratio. Workers' compensation and commercial auto were both profitable with 92.5% and 96.1% for statutory-combined ratios, respectively.

Commercial lines statutory net premium written declined 5% in the quarter; however, commercial lines' new business increased a strong 12%. The decline in premium was mainly result of the economic downturn on audit and endorsement premium, primarily in workers' compensation which required returns of $17 million, compared to $3 million in the first quarter of 2008.

Reflecting our superior agency relationships, pure price was down just 0.8% in the quarter. More importantly, March held steady at 0%, our first month without negative pure price since April of 2005. We believe this positive momentum is fueled by our excellent regional underwriting teams deploying business intelligence tools and leveraging our agency relationships. The results demonstrate discipline in a competitive marketplace.

Personal lines, which as Jennifer noted earlier about our segment changes, now includes flood operations. They posted a 107% statutory-combined ratio for the first quarter versus 107.8% a year ago. Personal lines premiums grew for the seventh consecutive quarter with $50 million in the first quarter, a 1% increase compared to 2008. New Jersey continues to put downward pressure on premium growth in our Personal Line segment. Our decline in underpriced Urban Enterprise Zone business is outpacing our overall decline, which will improve profitability long-term.

In addition, the "Take-All-Comers" law has expired, allowing for true new business underwriting to take place for personal auto in the state. Homeowner's profitability was negatively impacted by the severe weather in the first quarter, but as pricing moved into positive territory in 2008, we increased rate 7.4% overall on our personal lines book, adding about $15 million in potential annualized premium. Now I'll turn the call over to Greg.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thank you, Dale and good morning. For the quarter, our insurance operations were strong in what is still a very competitive commercial lines marketplace. Our statutory combined ratio was slightly over a hundred, our commercial lines new business was up 12% to $71 million. Commercial lines pure pricing for the quarter was down only 0.8%, far better than any pricing surveys in the marketplace. A key statistic is that our renewal pure pricing for April through the 24th was a positive 0.4%, a significant achievement in this market and economic conditions.

Our Investor Day that was held on March 24, was very successful and highlighted these five keys to our success: Best-in-class underwriting and claim field models; sophisticated cycle management tools and profitable organic growth opportunities; a personal lines improvement plan; improving our cost of goods sold through various claims initiatives; and the benefits of Selective's high-franchise value, with 950 Ivy League independent agents through excellent company-wide relationships.

We hosted an agency panel that provided a deeper insight into how agencies are managed and how they view their markets, in particular, their relationship with strong regional carriers like Selective. Takeaways from the panel included the field underwriting or AMS model, coupled with strong technology, is why agents write new business with Selective. Franchise value is huge with agents. While they acknowledge our broad underwriting appetite, agents want even more product depth and breadth from Selective. Carrier financial strength is important to agents and most importantly, agents can sell services like safety management and claims and do not necessarily have to provide the cheapest price.

Overall, relationships are critical and the evidence of our best-in-class agency relationships is demonstrated in the improving first quarter commercial lines pricing and the positive pure price generated in April. From a new business standpoint, we are one of the few carriers providing agents with high-quality new business leads as well as strong producer, and sales management development programs that provide the success -- that improves the success rate of producers in this difficult market.

In the first quarter, commercial lines new business was up 12% and pricing and quality of the book also improved. Pricing on new business improved with the month of March at a positive 0.5%, the diamond score distribution improved as intended, with a percentage of four and five Diamond business increasing from 58% to 64% and in the one and two Diamond business, down to 10%. New business growth by segment for the quarter was as follows: One & Done automated small business, 18 million, up 5%; AMS, our middle-market business, 48 million, up 13%; Selective Risk Managers, our large account business, 5 million, up 32%. We had our best quarter ever in small business One & Done premium production, averaging $295,000 per business day. We set a new small business record of $316,000 per day in March.

We continue to increase our small business market share by expanding the One & Done pipeline, leveraging strong agency relationships and focusing the attention of our field technology representatives on writing small business. We've also gained traction in small business by widening the non-contracting pipeline with the inclusion of the garage and auto service, small manufacturing workers' compensation, lessor's risk, only package policies, a competitive BOP program and civic organizations. Non-contracting new business was up 17% in the quarter to $163,000 per business day.

In the middle market, we're particularly pleased about the success we're having in new business written outside of our contracting strategic business unit. Overall, non-contracting, commercial lines new business was up about 26%, much of which fell into the AMS or middle-market sector, and particularly, our lead program is starting to generate success in the marketplace. Overall in the quarter, middle markets wrote $5 million in new business above our expectations.

The large account unit increased new business 32% to 5.4 million, and was basically on plan for the quarter. Submissions increased, and our hit ratio was approximately 20%. Renewal pure pricing was down 2.1%, while retention on a client basis was a strong 91%.

The two-key initiatives that will drive underwriting improvement throughout our personal lines book are as follows: One, price increases, which on our in force book amounted to 15 million or 7.4% in 2008, and we expect another 9 million or 4.3% in 2009; two, our matrix models for both homeowners and automobile, which create organic-growth opportunities with precision-pricing capabilities.

From an insurance score standpoint, we are seeing a significant improvement in the quality of both Homeowners and Automobile business into the higher scored sectors that had better claim experience. In particular, our new homeowner matrix product, includes by peril rating capability, and allows us to more granulate price, weather, wind, water, fire, theft and liability, among other factors. Although we anticipate our personal lines results to continue to be somewhat lumpy, as we earn the $24 million of filed-rate increases over the next two-year period, we are expecting significant improvement on our $214 million personal lines book of business.

We have a number of initiatives underway to lower our claim costs that are focused around: One, litigation management; two, ongoing vendor consolidation; and three, more effective integrated outcomes and the resolution of claims in workers compensation and other casualty lines. In casualty, we're looking to reduce cycle time through focused litigation avoidance, file review initiatives and settlement efforts. In workers compensation, changes in case management utilization, centralized bill review, increased PPO [Preferred Provider Organization] penetration and return-to-work initiatives should produce better outcomes.

In a very competitive market, cycle-management tools are critical. We are successfully deploying our initiatives to write the highest quality new business while at the same time, granularly driving price increases on our Renewal business.

Since we've changed our SEC reporting segments this quarter, we are modifying financial guidance for 2009 to match the new segmentation. By moving flood into the insurance operations, there will be less of a difference between the GAAP and statutory-combined ratios. Otherwise, guidance remains the same as follows: A GAAP combined ratio below 103, a statutory combined ratio below 102.5 and catastrophe losses of 1.4 points.

Now I'll turn the call back to the operator for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from David Lewis. [Raymond James]

David O. Lewis
Raymond James & Associates, Inc., Research Division

Dale, let me clarify the 4 million of favorable development is net of the 6 million of unfavorable, correct?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

That is correct.

David O. Lewis
Raymond James & Associates, Inc., Research Division

I guess I'm trying to figure out maybe what the kind of combined ratio run rate is. If I look at the 100.8% that you reported, the 15 million of higher storms penalized you by about 4.1 points. The 4 million of favorable development helped you by a point. So even if you kind of net those two out and I guess I should say then you had 4 million of kind of one-time favorable expenses, so you still ended up with about a 98.7% combined ratio if you net all that out?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Dave, I think the way that I would look at it in total is I would kind of focus on it. So if you just want to look at the property losses, $15 million property losses had $6 million of adverse development, so you're looking at about $9 million of property losses. Let's just look at it above expected. And then you would sit, if you net that down and you have to look at $4 million of favorable development just on a net basis as well, and that excludes the property aspect of it. And then when you -- 10 million, and then you look at the expense savings of another few million much of which gets amortized on a GAAP basis, you look at it, they almost semi-net out.

David O. Lewis
Raymond James & Associates, Inc., Research Division

If we kind of run through all the different variations, you're kind of running in that low 100% combined ratio for the quarter.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Yes. That's probably the right way to look at it.

David O. Lewis
Raymond James & Associates, Inc., Research Division

Just on the alternative investments, I know you don't have the details yet. But just from a general standpoint, I think you indicated that it only underperformed by 1% relative to the S&P 500. And I know historically, there hadn't been, I guess, a close correlation to the S&P 500. But just a general thought, if the S&P 500 was down 13% the first quarter of 2009, any guess? I mean, we're probably looking at another double-digit loss in the alternative investments for the first quarter?

Gregory E. Murphy
Chairman and Chief Executive Officer

Let me just say that our alternative investment portfolio significantly has outperformed the S&P 500. So, I mean, and let's just look at the full-year of 2008, the S&P was down around number somewhere in the 37% range, our alternative investment portfolio was down about 9.9, somewhere in that neighborhood. And so when you look at it in that light, it's consistently year after year, after year outperformed and – are actually, it's been added in having this suballocation to alternatives, if they added about $30 million to our overall position as a result of having this suballocation into the alternative. So, I just want to make sure that you get that point. I think in the first quarter, what you're experiencing when you look at our alternative portfolio, about a third of our loss in the quarter came from the real estate sector of the alternative, which represents approximately 13%. And I think what you're seeing there are some particularly hard hit evals at the end of the year as a result of 157 and other factors. So it's very difficult to handicap this relative to what will happen in quarter two and three and four, relative to what the S&P has done. But I just want to make sure it's clear that there has been consistent outperformance on this asset class relative to the S&P 500.

David O. Lewis
Raymond James & Associates, Inc., Research Division

And the alternative investment, remind me what the total dollar available was?

Gregory E. Murphy
Chairman and Chief Executive Officer

147 million at the end of March.

Operator

Your next question comes from Alison Jacobowitz with the Bank of America.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

On the expense ratio, so you had the one point of help then. Would you -- I didn't know if I heard you get it in there as 32 then sort of our new run rate before the new expense savings that you just mentioned. And then also in the other expenses, I don't think I heard it, was that stock bonuses in the quarter? And maybe could you split out what was sort of a normalized number and what was, maybe, just one time for the quarter?

Gregory E. Murphy
Chairman and Chief Executive Officer

Sure. Dale's getting that information for you right now, Alison. But with respect to the expense ratio, you're looking GAAP expense ratio now? I just want to make sure we're clear.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Yes.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

On the other expenses within the quarter, the one item that -- the big item that's in there actually is the effective tax rate adjustment that we talked about earlier for about $4 million out of the total of $7.3 million in there. The actual -- the long-term incentive compensation actually is down from last year just as a result of where the stock price has moved. Last year in the first quarter, you had a $5 million expense related to long-term compensation that's stock-based. This quarter you had only $1.5 million in long-term. But the tax piece brought it back up. So basically, you're comparing at $7.3 million number to an $8 million number last year to the full total expenses there.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Okay and the tax fee is not going to reoccur. That was a one-time?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Right, basically it's an old APB 28, not to turn you into an accounting geek, but basically it amounts to -- you have to estimate your tax rate, your marginal tax rate for the full year. And then you just booked to that estimated number as opposed to doing a regular cut-off tax calculation. So when you got a first quarter that is out of line in terms of the expected profitability for the full year, you end up having this kind of a situation where you end up booking a higher tax.

Gregory E. Murphy
Chairman and Chief Executive Officer

And then, Alison, with respect to your question relative to run rates, this reclassification is going to affect the run rate expense ratio on a GAAP basis. So you're going to need to narrow that down relative to -- because that has a tendency to widen out our GAAP expense ratio and that's going to narrow that down about 50, 60 basis point, somewhere in that neighborhood. And then some of this other expense savings would be on top of that and obviously, that assumes us starting to make sure we meet our overall top line revenue and we don't get compressure on the expenses relative to the top line misses. But I would tell you overall for the quarter, we were very pleased with the balance of the new business, the renewal activity for the quarter and if anything would hurt our top line for the quarter, is more economic in nature in the sense that our return premiums on audits and our endorsement premium were definitely above our expected levels.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Maybe I'll follow up offline, but just I missed the first, like five seconds literally. Re-class of the diversified line, is that going to be then completely gone going forward or will some of portion of it is still wind up there?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

You will have a separate segment that just indicates human resource administration outsourcing. So all of the other small components that were included within this are moved out. So the biggest other one was the flood, which we're putting in to our insurance operation, which really matches the way all of our competitors end up reporting. So that was that difference that Greg was talking about in terms of the expense ratio because the flood ends up netting down the expense ratio by about 5 to 6 tenths of a point. So it narrows the difference between the GAAP and the stat combined ratio, and particularly the expense ratio component.

Operator

Your next question comes from Mike Grasher with Piper Jaffray.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

With risk to capital 1.8, can you talk about capital levels relative to what maybe the agencies are thinking or saying and how high you could potentially go here?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Well, our discussions with the rating agencies for years has been that our target level was to write premium at a 1.8 to 1, premiums to surplus. We're currently at a 1.74. So we're right in that range. Obviously, everybody in the industry has had the depletion of capital as a result of what's happening in the financial markets. But at this point, we feel comfortable with our overall capitalization levels.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

And the agency then still holds to the one eight as far as the target level?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

We have not had any discussions with them that would indicate otherwise.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Just wanted to ask about few of the lines, in particular, the general liability and the BOP. Anything in particular in the quarter that occurred, which drove those combined ratios higher?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

When you look at the BOP in particular, they had about $3 million of water style damage claims that affected their performance. If you look at the three major casualty lines in the commercial lines sector, which would include general liability, comp and commercial auto, for the most part, when you look at those lines on an actual year basis, they're all pretty much running right in a hundred. I think what you're seeing in a differential there relative to the calendar year numbers for the most part are either favorable or unfavorable development numbers that were booked in the quarter. And then, the only other line that I could tell you really jumps out is the HO line and that had about $4 million, either large fire and/or water damage claims that occurred in the quarter, that kind of blue that number out a little bit.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

I wanted to ask about specifically the fire line and then, I guess, as it regards to homeowners as well. In terms of fraud or anything along those lines that maybe you are seeing or thinking?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

I'll let John talk to you about what we're doing relative to vacancy, fraud and all that. But just another side note to let you know where our tremendous gains and pricing have occurred, and I think this is important to know that when you look at our pricing for the pure pricing now, so we're not giving you renewal pricing, we've always provided you pure pricing, which is really telling you what's actually happening on exposure basis. Some of the big gains that we made in the first quarter were in the area of commercial auto liability and physical damage, where for the year we're running about minus five percent and for the quarter we were running at about an average of minus 0.5%. So tremendous gains in that line and then the other line that has started to improve but yet needs more improvement is in the commercial property line where that ran for the full year at about a -57 and now that's running at a -21. And then with respect to BOP, we've done so many movements in what we've done to try to write the right business there. It's hard to really focus on that line in terms of pricing on a quarter by quarter basis. And I'll let John focus on some of the underwriting and other things that we're doing with respect to fraud and vacancy.

John J. Marchioni
President and Chief Operating Officer

Good morning, this is John Marchioni. Just a little further color on the property lines, in particular to your questions about fraud. We haven't necessarily seen an uptick in fraud activity. And I'll tell you, I think we are as well-positioned as anybody could detect it with our field-based claims model. And we have CMSs [Constant Maturity Swap] out there across our footprint that are actually on sight with these large fire and frozen pipe water losses within 24 hours. So they are going to detect fraud and then hand it over to our very strong SIU unit. I think positions us very well to detect it and we really haven't seen that. I think what we have seen has been more of, as Greg indicated, economically driven factors and in particular, in two of our commercial segments being lessor's risk and hotels. And what's happening is with your increased vacancy rates in hotels -- on the hotel side your increased vacancy rates, what you see happening is the top floor is being left vacated as they manage their rooms and that's what causing some of these frozen pipe losses that happened in the first quarter. Because when look at the cold temperatures, we saw and how far south they drifted, that really drove that. And I think at the end of the day, it becomes a management issue that we are closely watching and underwriting for. And the same thing on the lessor's risk side with regard to vacancy percentages in those properties, we got some very strict underwriting guidelines around vacancies, which we certainly handle on new business and our renewal underwriters are also aggressively managing vacancy rates on those classes of business under renewal book as well. So more of a economic factors than it is a fraud factor that we can see.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

So then on the commercial side, with regard to the vacancies and that, you just simply not seeing anything to this point?

John J. Marchioni
President and Chief Operating Officer

From a fraud standpoint?

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Yes.

John J. Marchioni
President and Chief Operating Officer

No.

Operator

Your next question comes from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

You've gone through a kind of fairly lengthy litany of new business winds and different segments and so forth. By way of framing that up a little bit, who are you winning the business from? Are you beating other regionals? Are you beating mutuals? What's the source of the growth?

John J. Marchioni
President and Chief Operating Officer

This is John Marchioni. I'll answer that question. We talked about this in prior quarters as well, I think it really varies by state and by segment of business. The competitors set that we have, whether it's a contract or class or some of our retail and service classes or social service or golf course classes, there really is a different set of competitors. So I would say, generally speaking, we're winning across the board on a non-contractor classes. I think we continue to win there as well, but the economic impact on that class is really kept down opportunities. So really, it's across the board. Our new business growth in the small area driven by some new manufacturing classes and auto services classes that have been added there puts us in many cases against some of our national competitors. When you look at some of our other wins in the upper end of manufacturing and our specialty program classes of business, we tend to be messed up against some of the regional carriers. So I would have a fair amount of success in a number of different areas. And the only other comment I'll make on new business -- because I think you look at that number and realize how much progress we've made. We monitor very closely the distribution of that business from a quality standpoint. We used diamond scoring as we talked about in the past. So we understand where that business comes from, from a diamond distribution standpoint. And then as Greg indicated in his prepared comments, we measure new pure price very aggressively as well. We're very comfortable with the pricing levels and the quality of that business and it really is spread across a number of segments and up against a number of competitors.

Gregory E. Murphy
Chairman and Chief Executive Officer

And I would say that when you listen to the agency panel, those points resonated loudly in terms of -- they really want to have a relationship with the carrier that they put their best business to. And what gives us a significant advantage in the marketplace is our superior field model, coupled with excellent technology, are the drivers of why agents want to put more and more of their best business with companies like Selective.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Considering the new business growth and your early trends that some of the overall pure price is starting to tip a little bit positively. Is it plausible that if the economy ceases being a negative drag on-demand? Is it plausible that you could actually see some top line growth by later in the year or is that too optimistic?

Gregory E. Murphy
Chairman and Chief Executive Officer

I don't think that's necessarily too optimistic and obviously, there's a lot of moving parts in there. You're working still through some pretty good size amount of inventory where you have returned premiums as a result of lesser endorsement activity, less vehicles, less payroll. So those are some pretty big headwinds on the top line to overcome. But I think we are positioned well in terms of getting price increases. I think you heard me say that on an in-force basis, we generated about $24 million of rate level on the personal lines book, so that's quite a sizable increase. Those rate increase is compound so you're going to get that rate level on the personal lines starting to work through. And then on the commercial lines side, you get to remember, quarter after quarter we've had negative three, negative four, negative whatever in price that we had to overcome. So to the extent that the price starts to move more on to the positive territory, some of the negatives that has existed in prior quarters won't be there. Now, the other negative that's maybe a little bit louder in the drumbeat relative to that is obviously some of the economics of our customers that have less power units that may be sizing down payroll and obviously those are things that we will need to overcome. But however, some of these other factors that were negative in the past are now positive and I guess we're just going against the economic headwind.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A question for Dale related to the company classification of the investments that are held for sale. You commented that was a $36.4 million benefit?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Right.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

If I understand that correctly then, had you not done that? Book value growth in the quarter effectively would have been flatter or even slightly negative? It contributed to the rest of the portfolio producing an overall upside.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

That is correct. That $36 million would've been a negative in terms of our GAAP equity if we hadn't reclassified them as held-to-maturity.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And you have talked about...

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Here's an after tax number, $36 million.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

You had talked about the tax unless I missed it. Did you actually give us a kind of run rate to use as far as the tax rate or you just sold that backwards from the back that you implied?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

We didn't give you a run rate and I don't have it right sitting here. But it's -- given the late APB 28 works it's pretty easy to calculate it. So we calculate the marginal tax rate this quarter and that's where our estimate is for the year because we have to book to that by accounting standards.

Operator

Your next question comes from Mike Grasher with Piper Jaffray.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Just want to follow-up with regard to capital and just looking over your debt to total capital ratio. What would be sort of the max that we could see you go to if need be, assuming capital remains flat?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

The conversations we've had again for years with the rating agencies has been about a 25% debt to cap. Currently, we're at a 23% on an unadjusted basis, but 17% adjusted for the equity credit with the rating agencies give us for the 60-year piece of hybrid that we put on, so 17%. Obviously, it could go up higher but the capital markets aren't open right now in any meaningful way. So it's not exactly a path that we would be pursuing in the near term, but obviously, there is room there on a debt to cap basis.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

And then just -- I guess, general comments around the dividend and the yield obviously, very nice here. If you did get into a situation where you needed to raise capital, would that be a source that you would look at or is that pretty safe?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

All I can say is that the Board looks at the dividend and assesses the dividend each and every quarter. I think there are many other capital management tools that we would look at first.

Operator

Your next question comes from Robert Paun with Sidoti & Company.

Robert Paun
Sidoti & Company, LLC

I have a question on the comp, the workers comp book. You've seen some improvement there in the underwriting. Can you provide some more color on what you're experiencing there, maybe you could comment on the frequency trends that you've seen?

Gregory E. Murphy
Chairman and Chief Executive Officer

What you're seeing there in some cases is some improvement and some of the pricing going on in the book of business. But overall in the comp, frequency has been down around on a fiscal year basis to fiscal year basis, down around 14% and loss cost-- surety [ph] has actually been up to our overall loss cost have actually been up around 2%. I think what you are starting to see in the comp overall, and I know we are showing a very low combined risk [ph], some of that is in total favorable development. But when you look at the line on an actual year basis, it's running right about a hundred or so. And that's the significant improvement that we were running two or three years ago. I think that just reflects the holistic efforts that we've done in terms of now starting to identify good business that we want to write as a result of our modeling, so we're starting to write some of that business that's more profitable. We've been very effectively managing the inventory. We've done a lot in the area of claims in terms of some of the initiatives we've taken to improve there. So I think that's a holistic effort reflecting underwriting, underwriting changes, looking at loss leakage in the comp area. For instance, on the contracting side, so we have a big focus on loss leakage issues and I think all of those things are what's starting to impact the book of business, and particularly now starting to grow it and writing profitable accounts in there.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

And just to give you a touch more detail, Robert. The workers comp recorded a 92.5 combined for the quarter. But that included the $7 million of favorable development that Greg indicated. So when you back that development out and put it on actual year basis, again as Greg indicated, it's right around at 101. So that's the more meaningful number to look at.

Robert Paun
Sidoti & Company, LLC

So there is about eight points of favorable development?

John J. Marchioni
President and Chief Operating Officer

Right.

Robert Paun
Sidoti & Company, LLC

Greg, in your prepared remarks, you commented that retention was slightly down. We assume that's mostly due to pricing, is that fair to say?

Gregory E. Murphy
Chairman and Chief Executive Officer

I think you're seeing some of that is economy driven, you're seeing some consolidation of our customers, you're seeing some customers that have had trouble making it in this tough economic times. And I think to some extent and it's hard for us really to fully put our finger up, but the retention differential is so small, not even worth overly analyzing it. Some of it could be the fact that we put higher price increases out on what we perceive to be not as performing business as we'd like to see it, and maybe that business is finding other markets that is willing to write it, maybe we are expiring premium once or even less than that. But none of that, in my opinion, is really that significant to you and really dwell on at this point.

Operator

[Operator Instructions] There are no questions at this time.

Gregory E. Murphy
Chairman and Chief Executive Officer
Thank you, operator. Our first quarter results demonstrate discipline in a competitive marketplace. We believe the quarter's positive momentum is fueled by our excellent field underwriters, deploying industry-leading business intelligence tools and leveraging our excellent agency relationships. We are competitively postured for a hardening market. Thank you for participating in the call this morning, and please give Jennifer or Dale a call with any follow-up questions that you may have. So thank you very much.