22-Oct-2024

Selective Insurance Group, Inc. (SIGI)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Selective Insurance Group Incorporated Third Quarter 2024 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would like now to turn the conference over to Brad Wilson, Senior Vice President, Investor Relations and Treasurer. Please go ahead.

Brad Wilson
Senior Vice President, Investor Relations & Treasurer, Selective Insurance Group, Inc.

Good morning. Thank you for joining Selective's third quarter 2024 earnings conference call. Yesterday we posted our earnings press release, financial supplement and investor presentation on the Investors section of our website, selective.com. A replay of the webcast will be posted there shortly after this call.

John Marchioni, our Chairman of the Board, President and Chief Executive Officer; and Tony Harnett, our Senior Vice President and Chief Accounting officer, will make remarks and address your questions. We're also pleased to have Patrick Brennan, our new Executive Vice President and Chief Financial Officer, join us.

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Our commentary today references non-GAAP measures we, and the investment community, use to make it easier to evaluate our insurance business. These non-GAAP measures include operating income, operating return on common equity, adjusted book value per common share. We include GAAP reconciliations to any reference non-GAAP financial measures in the financial supplement posted on our website.

We will also make statements and projections about our future performance. These are forward-looking statements under the private Securities Litigation Reform Act of 1995, not guarantees of future performance.

These statements are subject to risks and uncertainties that we disclosed in our annual, quarterly and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements.

Now I'll turn the call to John.

John J. Marchioni

Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

Thanks, Brad, and good morning. Before we discuss the quarter's results, I'm pleased to introduce our new Executive Vice President and Chief Financial Officer, Patrick Brennan. Many of you are familiar with Patrick from his prior company. He has significant insurance experience and a deep background in corporate finance. We believe he is ideally suited to lead our finance and investment operations. I'll ask Patrick to make a few introductory remarks before we discuss the quarter's results. Patrick?

Patrick S. Brennan

Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

Thanks, John. I'm really excited to be here. I've known of Selective for a long time, dating back to 2006 when I sat next to Greg Murphy at an investor conference and left not only impressed with him, but also the company he led.

Selective is an industry leader with a differentiated operating model and track record and runway for profitable growth. The company's competitive advantages, strong foundation and excellent market reputation are why I joined the team. I'm very excited to partner with John, the other executives on his management team and our finance team to help lead Selective into the future.

I want to thank my new colleagues for their warm welcome and their eagerness to help. I especially would like to thank Tony for his steady leadership as interim CFO and for his generosity in helping me quickly onboard and get acquainted with Selective. I know many of you from when I sat in Brad's role at my prior company many years ago. And I look forward to meeting those of you I haven't yet met. Over the coming months, I'll be speaking with you about how we're allocating and investing your capital and focusing on long-term value creation.

Thanks, John, for this opportunity. It's great to be here.

John J. Marchioni

Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

Thanks, Patrick. I'd like to acknowledge Tony Harnett for his work as interim CFO. He's done an excellent job running our finance team and preparing for this transition. Tony will continue to serve as our Chief Accounting Officer and remain a key executive leadership team member reporting to Patrick.

Let me now turn to results. For the quarter, we generated operating earnings per share of $1.40 and an operating ROE of 12.1%. Given the very elevated catastrophe losses, that added 13.4 points to our combined ratio. These

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results highlight our underlying profitability and strong contribution from investment income. Year-to-date operating ROE is 4.8%. Our full year guidance implies we will deliver an operating ROE in the high-single digit range. This is below our 12% target, primarily due to our reserving actions in the first and second quarters, along with catastrophe losses above our expectations in the first nine months of the year.

Before discussing segment results, I want to reinforce where our team is focused on creating value. Priority one is delivering combined ratios in line with or better than our 95% target in each insurance segment. Our tactics vary due to market dynamics and our competitive position in each segment, but we always strive to be a stable market for our distribution partners and customers, generate long-term returns for our shareholders and invest in our business employees and communities.

In recent quarters, we've discussed social inflation and its impact on severity trends. We believe these dynamics are impacting both Selective and the industry. The prudent reserve actions we've taken in recent quarters strengthened our balance sheet and we experienced no further prior accident year development this quarter on our total casualty portfolio and general liability in particular. Despite this result, loss trends remain elevated and social inflationary pressures persist demanding our continued underwriting and claims discipline, prudence and execution.

We continue to leverage our disciplined and detailed planning process based on our latest quarterly reserve review and incorporate future pricing and loss trend assumptions to set realistic and achievable prospective combined ratios. We update our model monthly with actual premiums written and rate changes, allowing us to quickly establish appropriate underwriting and pricing actions. The output from our planning process is also used to calibrate our risk selection, pricing and claims management tools that provide risk level guidance to our underwriting claims staff. The actions we are taking to achieve renewal pure price increases and refine our book of business position us for the future success.

Selective has long demonstrated these capabilities and I'm confident that we have the tools and team to execute in this environment. As mentioned, achieving our target profitability remains our top priority in standard commercial lines we have pushed pricing higher, responding to the loss emergence and elevated severity in recent quarters. While new business has moderated, we are willing to trade growth for profitability in the current loss trend environment. For renewal business, we delivered a meaningful increase in general liability pricing from 7.6% in the second quarter to 10.2% in the third quarter. At the same time, renewal pure pricing in commercial property was 12% and commercial auto was 10.9%, holding steady with levels reported in recent quarters.

Our regional teams achieved this renewal pricing while maintaining retention of 86% in Standard Commercial Lines, as we look to protect a high-quality renewal portfolio and increase our pricing targets. Standard Commercial Lines renewal pure price accelerated this quarter to 9.1%, up 120 basis points from the second quarter's 7.9% and 200 basis points higher than a year ago.

Commercial Lines pricing, excluding workers' compensation increased 10.2%. Exposure growth added 3.9 points, contributing to our total renewal premium change of 13.4%. Adding new states and growing in states with lower market share should further diversify our property book and provide ample market opportunities within our existing appetite. We added Washington, Oregon and Nevada as Standard Commercial Lines states in early October, bringing the total number of states we have entered since 2017 to 13. We now offer Standard Commercial Lines in 35 states. Kansas, Montana and Wyoming are the next three states we expect to enter over the next two years. After that, our pace of geographic expansion will moderate as we move closer to our goal of operating across the country in our flagship Standard Commercial Lines business.

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Across our entire footprint Standard Commercial Lines net premiums written grew 8% in the quarter, driven by 13.4 points of renewal premium change. Our combined ratio of 99.2% was above our 95% target due to elevated catastrophe losses. While no single event was above our net reinsurance retention, Hurricane Helene represented a significant portion of total catastrophe losses. Despite the variability quarter-to-quarter, we remain comfortable with our net catastrophe exposure, which we manage through strict coastal guidelines, appropriate risk-based pricing, property aggregation management and our conservative reinsurance program. While we price and manage our business based on the all-in performance, we note the underlying combined ratio which excludes these catastrophes was an excellent 87.7%, 2.7 points lower than a year ago.

Excess Lines and Surplus Lines, now representing 12% of net premiums written, continued its strong performance. Net premiums written increased 28% in the quarter, with an 83.2% combined ratio. Despite the higher commissions paid in the E&S segment, our expense ratio of 30.7% in the quarter reflects our investments in building scale. Our focus in E&S is on maintaining very favorable levels of underwriting profitability and taking advantage of attractive growth opportunities.

Personal Lines net premiums written decreased by 2% in the quarter, reflecting our actions to improve profitability. We continue to take significant rate actions and promote growth in areas with rate adequacy. Simultaneously, we're limiting new business and non-renewing underperforming business in states needing additional rate approvals. Renewal pure pricing was strong at 22.8% and our average policy size increased by 19% as we shifted towards our target mass affluent segment. Declining new and renewal policy counts offset those increases. Retention in the quarter was 75%, down 13 points from the third quarter of 2023.

Across homeowners, we are growing in a subset of our book where Coverage A values are over $500,000. We are progressing towards Personal Lines profitability as the quarter's underlying combined ratio improved by 15.3 points or 12 points, excluding the impact of NFIP claims handling fees compared to the third quarter of 2023.

Nonetheless, we have more work to do and remain highly focused on achieving rate adequacy and transitioning our book toward the mass affluent segment. So far, 2024 has been a challenging year. I am proud of our team's focus and commitment to executing our strategy. Our strong capital position gives us flexibility to manage through these market dynamics. Despite the quarter's elevated catastrophe losses, we delivered an operating ROE of 12.1% in line with our target. We are confident in our ability to create value as we move forward. Let me now turn the call to Tony, who will discuss our quarterly financial results in more detail.

Anthony D. Harnett

Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

Thank you, John, and good morning, everyone.

We reported fully diluted net income of $1.47 per share in the third quarter and non-GAAP operating income of $1.40 per share. As a result, our year-to-date return on equity is 5% and operating return on equity is 4.8%. Our GAAP combined ratio was 99.5% in the quarter, including 13.4 points of catastrophe losses. Catastrophes were widespread with 19 events impacting results. Hurricane Helene was the most significant, causing an estimated $85 million pre-tax loss.

There was no net prior-year casualty reserve development in the quarter. Modest favorable development of $10 million, $5 million in both workers' compensation and bonds was offset by $10 million of reserve strengthening in commercial auto. The favorable development in workers' compensation and bonds was related to accident years 2021 and prior. The commercial auto action was severity driven-related to accident year 2023. As a result, we also booked an additional $5 million of current year loss costs in commercial auto.

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As we noted last quarter, our updated full-year guidance reflected our decision to increase the current year loss ratio by approximately 1.5 points, reflecting the severity emergence we observed in the 2020 through 2023 accident years. This informed our loss ratio selection for the 2024 accident year. To that end, we recorded a $16 million increase to current year loss costs as we earned the corresponding general liability premiums over the course of the third quarter.

This run rate adjustment drove the total current year loss cost of $21 million or 1.9% combined ratio points in the quarter. Nonetheless, our underlying combined ratio was excellent and improved 4.1 points from a year ago, mainly due to a 4.4-point reduction in non-catastrophe property losses. Property results are benefiting from renewal pure price increases and modifying coverage terms and conditions. Anecdotally, we are seeing lower loss outcomes from implementing cosmetic damage exclusions, higher wind and hail deductibles, and roof depreciation schedules. Even with these positive changes, non-catastrophe property losses are inherently volatile. We assume they will return to a more normal level in the fourth quarter and have embedded that expectation in our full-year guidance.

National Flood Insurance Program Write Your Own claims handling fees primarily related to Hurricane Helene benefited the underlying combined ratio. These fees were $4.7 million, reducing the overall loss and LE ratio by 0.4 points and the Personal Lines and LE ratio by 4.3 points in the quarter.

Our expense ratio in the third quarter was 30.6%, 30 basis points better than a year ago. The expense ratio improvement was due to reductions in expected profit-based employee compensation from our updated view of 2024 underwriting performance. Our investment portfolio remains conservatively positioned. Fixed income and short-term investments with an average credit quality of AA minus and a duration of 3.9 years, represented 92% of the portfolio on September 30.

After tax net investment income was $93 million in the third quarter, up 16% from last year and contributed 13.1 points of ROE. Alternative investments, which report on a one quarter lag, generated $7.1 million of after-tax income, up from $5.1 million a year ago. In the third quarter, we invested nearly $800 million of new money at an average pre-tax yield of 5.8%. This increased the fixed income portfolio's overall pre-tax book yield modestly, ending the quarter at approximately 4.9%.

The higher book yield embedded in our fixed income portfolio should provide a durable income source moving forward, even with the 50 basis point reduction in the federal funds rate during the quarter. Our capital position remains strong with a GAAP equity of $3.2 billion and statutory surplus of $2.8 billion. Book value per share increased 7% from year-end and adjusted book value per share increased 2%. At the end of the quarter, our debt to capital ratio was 13.8%, well below our internal threshold of 25%.

Given our operating cash flows and borrowing capacity, we have the financial flexibility to support organic growth and execute our strategic initiatives. During the quarter, we repurchased approximately 103,000 shares of common stock at an average price of $84.34 for a total of $8.7 million. That left $75.5 million remaining under our share repurchase authorization at quarter-end. We expect to continue to use this opportunistically.

With our outlook for continued profitable growth, our Board of Directors declared a quarterly dividend per common share of $0.38, an increase of $0.03 or 9%. For 2024, we now expect our GAAP combined ratio to be 102.5%, up from our previous guidance of 101.5%. The 1-point increase reflects our higher catastrophe loss assumption, which is now 7.5 points.

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Better than expected, non-catastrophe property losses in the third quarter partially offset this, leading us to reduce the full year underlying combined ratio by 1-point to 90%. It is too early to provide a specific estimate of Hurricane Milton, but based on its path, our minimal exposure in Florida and very early claims reporting, we expect our losses from the event will be immaterial. Consistent with our typical process, we assume no additional prior casualty reserve development.

Our after-tax net investment income estimate of $360 million, including $32 million from alternative investments, remains unchanged. Our guidance includes an overall effective tax rate of 21%, with a 20.5% effective tax rate on investments and 21% on all other items. Fully diluted weighted average shares are estimated to be $61.5 million, and we make no assumptions for share repurchases under our existing authorization.

Before we get to questions-and-answers, I would like to take this opportunity to thank John, the rest of the executive leadership team and the Board of Directors for their unwavering support over the past year. After 25 years of service, it was an honor and a privilege to serve as the company's interim CFO. It has also been a pleasure telling the Selective story and getting to know so many of you in the investor community. As I turn my focus back to being the Chief Accounting Officer, I would like to take this opportunity to officially welcome Patrick to the Selective team.

With that, I'll ask the operator to please start our question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question comes from Michael Phillips with Oppenheimer. Your line is now open.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks, everybody. I guess – I was going to ask this question, and then, I definitely want to ask after Tony's comments on some commercial auto stuff. So it's – I guess for clarification, it sounds like you added $10 million to the current year. Just want to confirm that, right Tony?

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

Yes, that's correct, $10 million for the commercial...

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay.

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

...auto to the current accident year.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

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Okay. So my question would be, I guess, given the nature of comments over the last few quarters, I mean, not just from you guys, of course, but from everybody else on the impacts of social inflation. I mean, I guess maybe help us to get comfortable with the extent to which that could spread more to commercial auto. You took $10 million last quarter, $10 million this quarter. I think you took $10 million last quarter, pretty sure, and then $10 million this quarter. So just help us get comfortable on the commercial auto reserves and to the extent to which what we saw for GL may not spread over because that – still $20 million is pretty small for the size of your commercial auto book, and what you took for GL has been pretty, pretty extensive. So just help us get comfortable with the commercial auto reserves, I guess, is the crux of the question. Thanks.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. Mike, thanks for the question. This is John, I can start on that. I guess a couple of things, and I believe we've highlighted this before, I think the trends we've seen in commercial auto have been have persisted for longer. We saw them start earlier and we've seen them persist. And to your point, the actions we've taken on prior year are relatively small and largely focused on the 2023 accident year, driven by severities. And much like we did in GL last quarter when we saw some small movement in the most recent prior year, we opted to make a small adjustment to the current year.

But the difference here is these trends that we've pointed out with regard to commercial auto have remained relatively stable, albeit elevated, and that's been for an extended period of time. But if you look at the pricing in commercial auto and this is a Selective comment as much as it is an industry comment, commercial auto pricing has been a lot stronger for a lot longer.

Our commercial auto pricing, even in the current year, is 10.9% in the quarter, 10.7% on a year-to-date basis. And if you strip out the prior year emergence and look back over the last couple of years on an accident year basis, up and through this year, that line is running for us right around at 98% and you've got strong run rate coming through there. So I view it very differently than I view GL, which is the emergence in GL from a severity perspective, has been more recent and evidenced more recently, whereas you had a longer term track record in auto that's been responded to from a pricing perspective on a more consistent basis.

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

And Mike, it's Tony, just one point of clarification. On the commercial auto, the prior year development was $10 million, and it was $10 million last quarter for prior development. The current year actions was actually $5 million.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Yeah. Right. Thank you. And then thanks for the comment, that's helpful, and makes sense. I guess let's take that maybe just more broadly on social inflation. John, you're not unlike others who have talked about it for a while. And I think the difference is that you've taken some pretty significant charges. Good, that you've got – I think, to your track record of what I know about Selective is you see you take early, we hear that from other companies we haven't really – to me we haven't seen the extent to which you've taken GL.

And so the question then becomes, do you think that or how confident are you that what you've seen isn't just a microcosm of what you write and more specific to your book of business and maybe won't be widespread through the industry, or if it is, then it's just a matter of time until everything else happens for everybody else. Thanks.

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John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
A

Yeah. Yeah. So, again, appreciate the question. First thing I'll say is, when your book is as stable as ours is and you look at our portfolio over a long period of time, it's incredibly stable from an industry classification perspective, from a limits profile perspective, and even from a geographic perspective. And while we've expanded our footprint, the portfolio distribution from a GL perspective it remains relatively stable.

And then you look at the pricing diagnostics on a new and renewal basis and you see a lot of stability there. It's something external that's pushing those average severities higher. And I know I've pointed to this in the past, while there are some jurisdictional challenges in our footprint that I pointed out, in particular states like Georgia and like New York and certain parts of Illinois, there are a number of jurisdictions not in our footprint like California, Texas and Florida that have been driving a lot of the nuclear verdicts and a lot of the active attorney engagement that are also sort of industry wide trends. This is not a class specific environmental shift. Any time you have a bodily injury claim, whether that bodily injury claim is in a construction class or is in a retail class or a manufacturing class, a bodily injury claim is what puts you us in this environment where you have social inflation, higher litigation rates, you've got jury pools that are more willing to give out higher awards. And that's why I think we're pretty confident that this is, in fact, an industry wide trend.

Now, with regard to the reserving actions, if you look back over the last several years, the GL line for the entire industry has emerged extremely unfavorably, primarily for the years – accident years, 2020 and prior. And I think on a full industry basis, over the last three years or four years, that adverse emergence has totaled somewhere in the neighborhood of $18 billion. And it's been pretty consistent. What you haven't yet seen is those more recent years emerge unfavorably and every company is going to be different.

Every company has a different portfolio, and every company has a different planning and reserving process.

But I think it's instructive if you look company-by-company at where the 2019 and prior years are currently for GL and assume they're relatively mature and then project that forward by looking at what those companies have disclosed in terms of their forward loss trend assumption and what they've earned on a rate basis. And take up, exercise your own judgment as to whether or not you think that all hangs together. And I think from our perspective, with the actions we've taken in the more recent years and our updated view of loss trends, as well as how we're pricing on a go-forward basis is the right approach for us. And that continues to be our focus.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.
Q

Okay. No, thank you, John, for all that. It's very helpful. I guess congrats on to Patrick and thanks to Tony for all your help in the past year. Thanks, Guys.

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.
A

Thanks, Mike.

Patrick S. Brennan
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.
A

Thanks, Mike.

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Operator: And the next question comes from Michael Zaremski with BMO. Your line is open.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey, thanks. Good morning. Now, maybe first question is sticking to – or going back to commercial auto. I know I know Patrick Brennan – just congrats, by the way, you just started on October 1, but Progressive obviously has a – is one of the you know preeminent commercial auto writers in the US. I was just curious, did the work – the charges taken this quarter or the addition to reserves on commercial auto, is that due to a reserve study that Patrick was a part of or is Patrick going to be doing a deep dive in the coming months as he gets more acclimated to the company?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. So this is John, and I appreciate the question. I know there's been a lot of a lot of speculation and discussion around this. And I think it's important to restate our process. First of all, Patrick joined on October 1, and we're thrilled to have Patrick onboard. And Patrick certainly has a strong background and a set of experiences that are additive to the team and to the process. And while we're confident in our processes, we're always looking for opportunities to refine that.

But I think it's also important to restate the approach we've had for a long time. And when I say a long time, I'm talking decades that predate my role at the company, 26 years ago when I started, which is our reserving process. First and foremost, the Chief Actuary in our organization and the current Chief Actuary, Vince Senia, has been here for a long time and was prior the Lead Reserving Actuary. Chief Actuary reports to the CEO in our organizational structure and is a peer to the CFO, and is heavily involved in the management decision relative to reserves alongside of the CFO and the CEO.

Tony in his role prior as Chief Accounting Officer and then serving as the interim Chief Financial Officer has been heavily engaged and involved in that process over the long-term. And there's – I realize there's been speculation about the CFO change, but the way our process has worked – has always worked and will continue to work, there are multiple people, myself included, that have been involved and we'll continue to be involved in that process, that have a voice and weigh in on those decisions.

With regard to commercial auto in particular, I think Patrick's background is going to be beneficial. And as I said earlier, his voice and his experience will be instrumental in those decisions we make going forward. But the process has been very consistent at our organization.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Yeah. That's helpful. Thank you. Maybe going through the Standard Commercial Lines underlying loss ratio, one of the best underlying ratio in years, you called out. We can see your good disclosure on non-catastrophe property losses benefiting. So just kind of a – I just want to make sure we're thinking about the right way, should we be kind of averaging non-catastrophe property losses over longer periods of time, similar to the catastrophe load. Is there kind of an upwards bend to non-catastrophe property losses and total cat losses as we kind of think about the trend line there. I just want to build with the – your targets not to run rate the underlying this quarter.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

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Yeah. I guess a couple of things and Tony can certainly weigh in as well. I think your starting point and we give you a lot of disclosure around trends. And in more recent years, we've been breaking that trend assumption down in between property and casualty, and for 2024 our all-in trend assumption of 7% assumes a property trend that was closer to 4%. And we're earning rate in the commercial property line in particular at around 12%. If you look at last year 2023 and the current run rate this year of 2024 a little over 12% plus whatever portion of exposure pickup that you want to view as profit positive, margin positive. We generally don't. We just focus on the rate number, but there's a positive gap there that continues to earn its way through. So I think there's a clear benefit there on the commercial, and now we're starting to turn the corner on personal property that impacts that.

On the cat side, as you've seen from us, our expected cat loads have been going higher over the last several years and continue to move higher. And our assumption for 2024 so far that gets built into our forward pricing assumptions. If you look at it for us, I think we've seen more volatility in the quarterly and annual cat loads for the Personal Lines book than we have for commercial. While commercial has gone higher, the range around variability and cat loads for commercial has been a little bit tighter or a fair amount tighter than it has in Personal Lines. But there's a pricing dynamic to that as well.

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc. A

Yeah. The only thing I would have added, John, was just I agree that the pricing have a positive impact on the non-cat property, but obviously there's some normal variability there as well. So I think the way you described taking a look at multiple periods and averaging them would be prudent. In fact, when you look at overall guidance, we expect a more normalization of non-cat in the fourth quarter, which is embedded in the guidance we've put out there. So I think your approach sounds reasonable.

Mike Zaremski
Analyst, BMO Capital Markets Corp. Q

Okay. That's very helpful. And just lastly, quickly on the Personal Lines, the flood claim handling fees, should those continue to trickle into the Q4 and or next year?

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc. A

Yeah. I mean, I think all in all, most of them, I think we have them estimated and contained to the current quarter. So I believe the number we put out for the current quarter is accurate and there won't be much if any real bleed into the fourth quarter. And with regards to Milton, like we said, it's pretty immaterial. So we don't expect there to be much with regards to that particular storm and flood piece either.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc. A

And there's a normal claim flood volume that is in our results yearly. But when you have these bigger events, you get a little bit of a higher impact on the claims revenue portion of that operation.

Mike Zaremski
Analyst, BMO Capital Markets Corp. Q

Thank you.

Operator: And the next question comes from Paul Newsome with Piper Sandler. Your line is open.

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Paul Newsome
Analyst, Piper Sandler & Co.
Q

Squarely in the category, I'm curious. The Hurricane Helene losses, if you pull those out would the cat load be sort of roughly the normal zone. And the...

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
A

Yeah.

Paul Newsome
Analyst, Piper Sandler & Co.
Q

...other question is, I was just curious if you – if you could get any thoughts about the mix of Hurricane Helene and whether from your perspective, it was typically a fairly typical for those storms that are fairly new?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
A

Yeah. So just with regard to the impact and I think we had some of this in the prepared comments, the overall impact on the quarterly cat load or combined ratio was 7.6 points. So if you back that out, it's a slightly above average quarter, call it 6 points or 5.8 points...

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.
A

5.8 points. Yeah.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
A

Yeah. So it's a relatively in line quarter absent Helene. I think and you've seen it already that the industry loss estimates for Helene have been going higher as the storm has aged. And I think what was underappreciated with that storm is while there was all the focus on the landfall in the Big Bend region, the size of that wind field and as far into the Southeast as that wind field had penetrated by the time the eye made landfall, I think has generated a lot more wind driven losses and devastation to a number of areas in Georgia, South Carolina and North Carolina.

And from that perspective, it wasn't a coastal event. A lot of those impacts were felt pretty, pretty far inland. So I think that's where maybe a little bit of the misses in terms of the overall expectation for the size of that loss.

And when you have a loss at the end of the quarter, our focus is on getting the estimate right and getting the cat loss in the right quarter. And we've got a pretty disciplined process around that. So we feel good about the estimate we have of $85 million for the Helene in total.

Paul Newsome
Analyst, Piper Sandler & Co.
Q

And then maybe just one question in addition, if we think about sort of what you're doing from a pricing and competitive perspective and the change in your business, that you mentioned, are we going to see or do you think you expect to see more of a shift in the business mix towards property within Selective? Or do you think that at the end of day will kind of end up being fairly similar mix of what you're doing today perspectively?

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John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. I think you're likely to see a shift towards home, but I don't think the magnitude is going to be all that significant. First thing is your average home premium continues to be much higher than we've seen historically. Just because the replacement costs are meaningfully higher. And I think when you look at the competitor set and the market we're targeting, I think there's fewer competitors with the product offering for the mass affluent market like work like we have.

And there are certainly some, but there are fewer competitors there, whereas the auto space continues to be much more competitive and serve by a broader competitor set. So I think both of those combined impacts will likely lead towards a little bit of a shift towards home as a percentage of the overall mix.

Paul Newsome
Analyst, Piper Sandler & Co.

Q

I appreciate the help, as always. Thank you, guys.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Thank you, Paul.

Operator: And the next question comes from Scott Heleniak with RBC Capital Markets. Your line is open.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Yes, good morning. I was just curious, you guys used to give out the rate differential between your best performing accounts and kind of your lowest performing accounts. I wondering if you had that data available now, you're able to share or just curious how that how that's kind of changed over the past year, that kind of spread, if you have that, if not, that's fine, too.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. And that – and I don't know if we posted the updated investor presentation, we have the investor presentation it's in there every quarter on an updated basis. We've had that in there for probably at least a decade now. And I would say overall you see a pretty consistent path with regard -- or you see a pattern with regard to average rate by retention bucket and then retentions by those same tranches. And you see a path that shows as the rate has gone higher while the entire curve has gone higher with regard to cohort, it's certainly you see a higher rate level and therefore a lower retention for that worst 10%. When I say worse based on expected forward loss ratios. So you've seen a little bit more tilt in that direction, but that is available on the investor presentation...

[indiscernible] (00:44:11)

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

Page 15 of the investor package if you're looking for it.

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Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Got it. Okay. And then just curious on the rate trajectory in Personal Lines, that's been on the rise. Some of the others have talked about that not potentially decelerating a little bit from here. So I'm just – I'm curious what you're expecting in your book for 2025, based on your filed rate increases and how you're kind of balancing that with retention, how you're just thinking about that overall as you build out the high-net worth business.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. So we on a state-by-state basis, we're updating our pricing indications on a very regular basis and filing accordingly. I think as you look, you'll see the blended rate number of 22.8% for the quarter. And obviously there are some significant variance state-by-state. And certainly a few states that are still had some regulatory hurdles to getting approvals on the adequate rate level.

But as we update those indications and update our forward view of loss trends, that'll drive our rate indications and we're going to continue to file our indications until we achieve that target combined ratio on a run rate basis. So I'm not going to give you at this point a 2025 rate expectation number, but certainly getting to rate adequacy on a state-by-state basis is the objective. And based on what we've filed, we have a number of states that are at rate adequate at this point. And we expect that's where the new business growth will be coming from going forward in the states that aren't rate adequate, we've taken actions to slow or completely curtail the flow of new business in those states. So I guess that's how I would describe it in terms of where we are. And then obviously you've seen the strong improvement in the underlying combined ratio. There's more work to be done there and a lot of that work will be done by the earning of the rate that you're currently seeing on a written basis through the balance of 2025.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Okay. That's helpful detail. And then just the last one I have was just on the loss trend and GL, was there any change on that? I think it was 9% in the second quarter is that still running around that same rate? Any change there?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah, I would say there's no change in our trends assumptions and based on what you see and we took through last quarter both historical trend for the more recent accident years and our view of forward loss trends are stable from last quarter.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Got it. Thanks.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Thank you.

Operator: Thank you. And our next question comes from Grace Carter with Bank of America. Your line is open.

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Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Hi, everyone. Looking at...

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Good morning, Grace.

Grace H. Carter
Analyst, BofA Securities, Inc.

Q

...retention in the – yeah good morning. I'm looking at retention in the Standard Commercial book this quarter. It hung in there very well, even with the pretty material step-up in overall renewal rate increases. So I guess I'm just kind of wondering if you could update us on sort of your distribution partners reactions to the rate increases you've been taking.

And if you expect retention to continue to be able to stay at these levels over the next few quarters, as you continue to go through these rate actions, I mean, it sounds like, all of your peers are kind of reacting and share some concerns on social inflation and so forth. But I just kind of wanted your updated views on that.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. Thanks, Grace. So I guess it's important to recognize that our – the rate that we're talking about here is not a dramatic shift from where we've been running. Yes, the movement in GL has been pretty substantial and we think appropriate getting up to 10%. But on an overall basis, we're at a little over 9% in the quarter for commercial, and a little over 8% on a year-to-date basis. And yes, it's a move, but it's not a move that creates so much disruption that it should have a substantial impact on retentions.

Now, that's purely speculation at this point. There's a market dynamic that will come into play here, and I think that's something that will evolve over time. I will say that from a new business perspective, the GL pricing environment for new is not necessarily as conservative, as maybe some of the rhetoric would suggest in the marketplace.

So the talk of social inflation is pretty consistent. The view of elevated loss trends is pretty consistent across the market, but I think there are still pockets of pretty significant competition on GL by a number of market participants. I don't know how that plays out in coming quarters, but the comment I made earlier about being at a point where our pricing objectives and our profitability targets are objective 1, and if that creates a little bit of a growth trade for us, we're comfortable with that. And I think that's an important point.

Now, that said, when you look at the investments we've made in adding production outlets through geographic expansion, through new agency appointments, deploying of additional resources, even if hit ratios come under pressure, because our pricing stance might be more conservative than the rest of the market at this point. The addition of production outlets, I think, gives us continued path for growth and opportunity for growth on a go-forward basis. So a complicated answer to a pretty direct question. I apologize for that. But it's a dynamic environment.

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Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Thank you. And then I guess on premium to Surplus, it's still a little bit above kind of the long-term target range, I guess, is there a particular kind of trajectory that you'll see that or particular timeline that you'll see that kind of naturally returning to the target range? And how much of a priority is getting that back to sort of that 1.35 to 1.55 times, or is this just one metric out of many that you all look at, and it doesn't really matter?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. So it's certainly, it's a metric that we measure and we talk about, so it matters. But your point is spot on Grace, which is – it's one of several metrics relative to capital adequacy that obviously the biggest drawback in premiums-to-surplus ratio is the fact that it doesn't account for holding company capital. And obviously when you put that into the mix, I think that's why the other capital metrics are as strong as they are.

So again, our expectation is to be in that range or desired range over time and we see a path to getting back into that range. But that could be cured relatively immediately or essentially immediately based on incorporating holding company capital. So it is a metric that matters, but it is always viewed in the context of forward earnings potential and how other capital metrics stand.

Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Thank you .

Operator: And the next question comes from Meyer Shields with Keefe, Bruyette & Woods. Your line is open.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks. And good morning. Two, I guess, questions on property losses and I know you talked about this a little bit but I was wondering if there's any way of – or talk about how you determine that the lower-than-expected non-cat weather, that's not a function of the fact that there were a lot of cat losses maybe pushing losses above the threshold.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. So this is – let me just be clear, this is not non-cat weather only. This is non-cat property losses in total. That includes commercial property, personal property, it includes auto physical damage. And generally speaking, there shouldn't be – we have a consistent definition of what are cats, which we do and it's PCS designation for us, they should be relatively independent of each other.

And there's a frequency and a severity component to your non-cat property losses, which is what creates the variability that we've talked about historically. But there shouldn't be a favorable impact on non-cat property when you have a higher cat loss quarter or year.

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

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And to that point, I would just say that the two biggest loss types are auto, as John referred to, and the other would be fire losses. And the two of those generally make up, if you look at year-to-date, about 70% of the non-cat property.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. That's very helpful. Thank you. The second question, when you've got a quarter like this with elevated catastrophe losses, is there any way of quantifying maybe the impact on incentive compensation either to employees or to agents?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. So I guess the first thing is our incentive compensation program for employees is driven by combined ratio all-in, so we don't exclude cat losses. So a high cat year will put downward pressure on the 50% of the incentive comp pool that's driven by financial performance in the current year. So we don't strip that out.

And I would say the same thing applies with regard to agency compensation. Our profit sharing plan for agents includes a one year and a multiyear profit component. Now there's always a lag and a lot of the heavy cat losses in a given quarter are going to be in IBNR, especially when it happens when the event happens at the end of a quarter, but ultimately, as those payments come through. There is an individual catastrophe event cap for individual agents that mitigates some of that, but it certainly does impact profit sharing payouts when you have large events.

Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

Yeah. And just to tie it together, the 30 basis point improvement in the expense ratio in the quarter and the almost 1 point for the year-to-date is heavily driven by the employee compensation and the variability of that, as John mentioned.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Perfect. That's what I need. Thank you so much.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Thank you.

Operator: [Operator Instructions] The next question comes from Matt Carletti with Citizens JMP. Your line is open.

Matthew J. Carletti
Analyst, Citizens JMP Securities LLC

Q

Hey, thanks. Good morning. First question, in past quarters, you've given cats by line within standard commercial. Do you have that handy for the $100 million or so of cats for this quarter?

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Anthony D. Harnett
Senior Vice President & Chief Accounting Officer, Selective Insurance Group, Inc.

A

Yeah. The property is $93.7 million. The BOP was $4.4 million. And the commercial auto was $2.3 million for the total Commercial Lines of $100.4 million.

Matthew J. Carletti
Analyst, Citizens JMP Securities LLC

Q

All right. Great. Thank you. And then my next question, little more of kind of longer term specific to Standard Personal Lines. Once you get past the profit improvement actions, can you just – what do you see over the next several years in terms of where you'd like to take that business?

It's a roughly 10% of the pie today with a relatively small state footprint. Is that basically kind of the size and scale, the business that you hope to kind of just maintain a good profitability longer term? Or is this something that you hope to grow a little more, maybe that includes expanded footprint. Maybe that's just more penetration in states you already have.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. No, thanks, Matt. It's a great question. And again, I characterize this just as you asked the question, which is sort of a longer term view. So near-term, our objective is to prove that we can, in fact, compete successfully in this target market. And I think we're showing the signs of doing that. But when you think about having a business that targets a smaller addressable market, which is what we're doing.

I think you want to make sure that you're tapping into that smaller addressable market as maximum away as possible, which means state expansion. And I think there would clearly be opportunities for us to address that market better by expanding our footprint. But again, it's – that's the second step. The first step is the execution in our existing states. And I think we're on a pretty good path here to prove that we can be a strong competitor there.

And then we'll start to invest in potentially expanding the footprint of that business again in a disciplined way, because we also are always going to be mindful of the overall cat profile – cat exposure profile of the of the entity in total. So I think we would look to expand that while creating a more diversified book from a cat exposure perspective as well.

Matthew J. Carletti
Analyst, Citizens JMP Securities LLC

Q

Okay. Great. That's very helpful. Thanks for the color.

Operator: I show no further questions at this time. I would now like to turn the call back over to John for closing remarks.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

Well, thank you all again for joining us. We appreciate your time, appreciate your interest and your questions. And as always, if you have any follow-ups, please feel free to reach out to Brad. Have a nice day.

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Operator: This does conclude today's conference call. Thank you for participating. You may now disconnect.

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