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SIGI.OQ - Q4 2020 Selective Insurance Group Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone. Welcome to Selective Insurance Group's Fourth Quarter 2020 Earnings Call. At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Rohan Pai. You may begin.

Rohan Pai - *Selective Insurance Group, Inc. - Senior VP of IR & Treasurer*

Good morning, everyone, and welcome. We're simulcasting this call on our website, selective.com, and the replay will be available until February 28, 2021. Our supplemental investor package, which provides GAAP reconciliations of any non-GAAP financial measures referenced today also is available on the Investor's page of our website.

Today, we will discuss our results and business operations using GAAP financial metrics that are also included in our annual, quarterly and current reports filed with the U.S. Securities and Exchange Commission. Non-GAAP operating income, which we use to analyze trends in operations and believe makes it easier for investors to evaluate our insurance business. Non-GAAP operating income is net income available to common stockholders excluding the after-tax impact of net realized gains or losses on investments and unrealized gains or losses on equity securities and statements and projections about our future performance. These forward-looking statements, under the Private Securities Litigation Reform Act of 1995, are not guarantees of future performance and are subject to risks and uncertainties. For a detailed discussion of these risks and uncertainties, please refer to our annual and quarterly reports filed with the U.S. Securities and Exchange Commission, which includes supplemental disclosures related to the COVID-19 pandemic.

You should be aware that Selective undertakes no obligation to update or revise any forward-looking statements. On today's call are the following members of Selective's executive management team: John Marchioni, President and Chief Executive Officer; and Mark Wilcox, Chief Financial Officer.

Now I'll turn the call over to John.

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John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Thank you, Rohan, and good morning. I'll make some opening remarks and then turn it over to Mark to provide the details on our results for the fourth quarter and the year. I'll then return with a few closing comments before opening the call up to questions.

We generated excellent financial results in the fourth quarter with an 18% annualized non-GAAP operating ROE. For the full year, our 10.5% non-GAAP operating ROE was strong in the context of the myriad of challenges for the industry, including from COVID-19, record low interest rates and significantly elevated catastrophe losses. In addition, the decline in interest rates has resulted in $5.09 of after-tax unrealized appreciation in book value per share, which lowered our non-GAAP operating ROE by 1.2 points.

2020 was our seventh consecutive year of double-digit operating ROEs. And while our 2020 operating ROE fell just shy of our 11% target, this long-term track record puts us in an elite group of top-performing property and casualty insurance companies. We are extremely proud of this accomplishment.

Before discussing our results further, however, I wanted to highlight what I believe are some of our major accomplishments, which often do not get mentioned. 2020 was in many ways one of the biggest challenges faced by our industry from both an operational and financial standpoint. I'm extremely proud of how we came together as a company to help our customers, distribution partners and communities navigate the challenges of COVID-19 and help put lives and businesses back together after the severe catastrophic events that affected many parts of our country.

Times like these help reinforce our value proposition as an insurance carrier. We also took steps to play our part in a national conversation around race relations, continuing to build a culture that celebrates diversity, equity and inclusion. These are key elements to developing a highly engaged team of employees and driving innovation and creativity. I firmly believe that by working towards the benefit of all of our stakeholders, we will reward our shareholders with sustained financial and operating performance over time.

Our fourth quarter results reflected strong underwriting and investment performance. Our solid premium growth was driven by overall renewal pure price increases averaging 4.8%, strong standard lines retention rates and an increase in new business. Our ability to generate solid profitable growth in a challenging economic backdrop is truly a testament to our excellent franchise distribution partner relationships and sophisticated pricing and underwriting tools.

Our 88.1% combined ratio for the quarter benefited from 5 points of favorable prior year casualty reserve development and 1.4 points of lower current year accident losses. Our fourth quarter underlying combined ratio of 90.3% illustrates the strength of our positioning for continued profitable growth. I'd like to highlight a few key themes.

First, we are extremely proud of our ability to consistently balance our growth and profitability objectives. Our Commercial Lines renewal pure price increased 5.1% in the fourth quarter, which was up from earlier this year. We're able to simultaneously achieve a Commercial Lines renewal retention of 86%, 200 basis points higher than last year. For smaller accounts with policy premiums of less than $10,000, renewal pure price increased 4.2% in the quarter, while larger accounts in excess of $100,000 of premium generated renewal pure price increases of 6.2%.

Across all sized cohorts for the year, our highest quality accounts based on future profitability expectations produced 2.9% pure rate and point of renewal retention of 92%, while our lowest quality accounts generated 10.4% pure rate and point of renewal retention of 84%. Our sophisticated pricing and underwriting tools allow us to administer our strategies at an extremely granular level and obtain the appropriate price for the risk we are assuming. It is this ability that has allowed us to consistently generate price increases in line with or above expected loss trend for over a decade without sacrificing our renewal retention or new business goals. This approach also positions us to achieve loss ratio improvement from mix of business changes.

Second, the prolonged record low interest rate environment will continue to put downward pressure on industry-wide Investment portfolio returns and, consequently, ROEs in the coming year. We will remain disciplined and conservative in how we manage our Investment portfolio. We recognize that we will need to increase underwriting margins to offset challenges, including the impacts of lower investment returns and higher reinsurance costs. Every one of our competitors face these same issues. Our track record of delivering strong underwriting results position us to thrive in this type of environment.

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Third, the pandemic and resulting economic impacts reduced claim frequencies in most lines of business, although much uncertainty remains around the ultimate severities for many of those same lines. At the start of 2020, the Commercial Lines pricing environment was reflective of emerging loss trends and our assumption is that those trends will reemerge as the economy normalizes throughout 2021. We view 2020 as an anomaly in terms of loss frequency and severity and our guidance for '21 needs to be viewed in that context.

Fourth, while fourth quarter catastrophe losses were moderate, the year experienced a significantly elevated frequency of catastrophic events. These included a record number of land falling hurricanes as well as convective storms, hailstorms, wildfires and civil unrest. This serves as a reminder of the catastrophic potential of not just a large single event, but the accumulation of many smaller events.

Our combined ratio in 2020 included 8 points of catastrophe losses, which was close to our highest level in over 20 years. We manage our catastrophe risk through underwriting discipline and a conservative reinsurance program that attaches at $40 million per occurrence within our primary footprint states. Over the last 15 years, catastrophe losses have averaged a manageable 3.5 points on our combined ratio. That said, we recognize that 2017, '18 and '20 were all close to record years of catastrophe losses for the industry and, as such, we believe it's prudent to expect higher frequency and severity of events going forward. We've increased our own catastrophe loss assumption slightly to 4 points for 2021 and continue to view property as a line in need of additional rate level.

Finally, we took steps during the quarter to continue to build capital flexibility while optimizing our capital structure. In early December, we issued $200 million of 4.6% perpetual preferred stock, which is an extremely efficient form of capital for us. In conjunction with this issuance, our Board authorized a $100 million share repurchase program, which we intend to deploy opportunistically, allowing us to buy back our shares when attractive for our shareholders.

I'll come back and provide a bit more commentary on some of our strategic initiatives for 2021, but now I'll turn the call over to Mark to review the results for the quarter.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Thank you, John, and good morning. I'll review our consolidated results, discuss our segment operating performance and finish with an update on our capital position and guidance for 2021. For the quarter, we reported net income per diluted share of $2.10 and non-GAAP operating earnings per share of $1.84. We reported an annualized ROE of 20.6% and a non-GAAP operating ROE of 18% with a strong finish to the year, driven by both our insurance and investment operations.

For the full year, we generated a 10.5% non-GAAP operating ROE and increased book value per share by 15% or 17% adjusted for dividends. Each year, we establish an operating ROE target based on at least a 300 basis point spread over our weighted average cost of capital as well as other factors, including market conditions.

For 2021, we have established a non-GAAP operating ROE target of 11%, which is close to 400 basis points over our current estimated weighted average cost of capital. Our target sets a high bar for our financial performance, challenges us to perform at our best and aligns our incentive compensation structure with shareholder interest.

We entered 2021 in its strongest financial position in our company's long history, including a record level of GAAP equity, statutory capital and surplus and holding company cash and invested assets. We believe we are extremely well positioned to continue delivering strong growth and superior operating performance.

On a consolidated basis, it was a solid growth quarter, with net premiums written up 8% compared with a year ago driven by higher retention in Standard Commercial Lines, overall renewal pure price increases averaging 4.8% and new business growth of 7%. For the year, consolidated net premiums written growth was 3%, but included about a 4-point negative impact related to COVID-19. This impact reflects our $75 million first quarter audit premium accrual and the $19.7 million of second quarter premium credits. We reported an extremely strong consolidated combined ratio of 88.1% for the quarter, which included 2.8 points of catastrophe losses. Favorable net prior year casualty reserve development totaled $35 million and benefited the combined ratio by 5 points.

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Secondly, we recorded a $10 million or 1.4 point benefit from a reduction in current accident year casualty loss ratio selections in the Commercial and Personal Auto Lines driven by lower frequencies. Additionally, we reduced our COVID-19 ultimate property loss estimate, which relates to board of health mandated cleanup costs of $5 million from $10 million. There was no change in our bad debt provision in the quarter.

On an underlying basis or excluding catastrophes and prior year casualty reserve development, the combined ratio was 90.3% in the quarter compared to 93.8% in the prior year period. For the full year, our 94.9% combined ratio reflects the elevated level of catastrophe losses we experienced in 2020, which added 8 points to the combined ratio or 4.5 points higher than our expectations for the year. On an underlying basis, our combined ratio was a profitable 90.1%. However, there are several onetime items that provide a net benefit to our 2020 underlying combined ratio that I will cover shortly.

Turning to the impact of COVID-19. For the full year, COVID-19 specific pretax underwriting charges totaled $33.8 million and increased our combined ratio by 1.1 percentage points, mainly impacting our expense ratio. These challenges reduced our 2020 EPS by $0.44 and decreased our ROE by 1.1 percentage points. Offsetting these COVID-19 specific underwriting charges has been a lower level of reported claim frequencies in 2020 due to the drop-off in economic activity. This resulted in a lower level of non-GAAP property losses, which, for the full year, were 1.2 points better than expected.

In addition, we reduced our 2020 commercial and personal auto casualty loss picks in the fourth quarter to partially reflect lower frequencies for the shorter tail liability lines of business, which benefited the full year combined ratio by 40 basis points. Despite the low frequencies in 2020, our casualty loss ratio selection essentially remained on plan reflecting the ongoing inherent uncertainty presented by COVID-19, including the potential for late reported claims and higher severities. We will continue to monitor these trends as we progress through 2021.

Moving to expenses. Our expense ratio was 33.4% for the quarter and 33.8% for the year. The full year expense ratio includes 1.1 points of COVID-19 specific items, including a $13.5 million addition to our allowance of bad debt and lower net earned premiums for the auto premium -- the audit premium accrual and premium credits. Excluding these COVID-19 specific items, our underlying expense ratio of 32.7% reflect ongoing expense management initiatives. Due to the unique COVID-19 operating environment in 2020, we feel that 70 basis points of these reductions is temporary. We do, however, expect expense ratio improvement in 2021 as well as over the next couple of years.

Corporate expenses, which are principally comprised of holding company costs and long-term stock compensation, totaled $6.1 million in the quarter, which was up $2.6 million from a year ago due to higher stock-based compensation expense, driven by the 30% increase in our share price in the fourth quarter of 2020.

Turning to our segments. For the fourth quarter, Standard Commercial Lines reported an impressive 10% growth in net premiums written. New business increased 2% relative to a year ago. Retention increased 200 basis points over the prior year to a very healthy 86%, and renewal pure price increased to 5.1%. Renewal pure pricing has been trending up through the year.

The Commercial Lines combined ratio was an extremely profitable 86.8% for the quarter. The combined ratio includes 1.3 points of catastrophe losses and 6.2 points of net favorable prior year casualty reserve development. The favorable reserve development includes $20 million from our Workers' Compensation line of business and $15 million from General Liability, driven by favorable claims emergence in the quarter. The underlying combined ratio was also profitable at 91.7% and includes a 90 basis point benefit from a reduction in our commercial auto 2020 accident year loss ratio selection due to the lower frequencies.

In our Personal Lines segment, we reported a 2% decline in net premiums written for the quarter reflecting continued competitive market conditions. Renewal pure price increases averaged 1.1%. Retention held relatively steady to 84% and new business volume was up 13%. The combined ratio was a profitable 93.6% for the quarter. On an underlying basis, the combined ratio was 78.8%. The underlying combined ratio includes a 6.6 percentage point benefit from a reduction in our personal auto 2020 accident year loss ratio selection due to the lower frequencies. There was no prior accident year reserve development.

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In our E&S segment, we reported 6% net premiums written growth for the quarter relative to a year ago. Renewal pure price increases averaged 7.4%, and new business was up a strong 23%. The combined ratio was a profitable 93.4% for the quarter. Catastrophe losses added 1.9 points to the combined ratio, and there was no net prior year reserve development. The underlying combined ratio was a solid 91.5%.

Moving to Investments. Our Investment portfolio remains well positioned. As of year-end, 92% of our portfolio was invested in fixed income securities and short-term investments with an average credit rating of AA- and an effective duration of 3.8 years, offering a high degree of liquidity. Risk assets, which include a high-yield allocation contained within fixed income, public equities and limited partnership investments in private equity, private credit and real asset strategies represent 10.4% of our Investment portfolio. This is up from an 8.1% allocation of year-end 2019 as we found attractive opportunities during the year to increase our allocation to risk assets given market conditions.

After-tax net investment income of $55.5 million was up 18% from the comparative prior year quarter, with the growth driven primarily by $18 million of pretax alternative investment gains, which we record on a 1 quarter lag. The strong capital markets performance in the second half of the year results in $27 million of pretax gains from alternative investments in 2020, and we finished the year with $185 million of after-tax net investment income. The after-tax yield on the total portfolio is 3% for the quarter and 2.6% for the year. The total return of the portfolio was 1.8% for the quarter and 6% for the year.

The Investment portfolio delivered a very strong 9 points of ROE contribution this quarter and 7.8 points for the year. Despite the strong performance, the average after-tax new money yield on fixed income purchases during the quarter continued to decline, that was 2.1%, down from 2.2% in the third quarter and 2.4% a year ago. Treasury rates remained low and credit spreads continued to tighten in the fourth quarter.

As I mentioned last quarter, we continue to reinvest proceeds from non-sale disposal activity related primarily to AAA-rated agency RMBS into other high-quality but non-AAA-rated fixed income sectors as we find the risk-adjusted returns more attractive. This will result in our average credit rating notching down modestly to A+ from AA- over the coming quarters. But we do not anticipate a material shift in the overall risk/return characteristics of the portfolio.

Turning to capital. Our capital position remains extremely strong with $2.7 billion of GAAP equity, up $544 million from a year ago. Our net premiums written to surplus ratio is at the low end of our target range of 1.3x. Operating cash flow was strong in 2020 at $554 million or 20% net premiums written. And we have built significant financial flexibility with $490 million of cash and investments at our holding company.

During the fourth quarter, we repaid the remaining $167 million of our short-term federal home loan bank debt that we borrowed earlier in 2020. Our debt-to-capital ratio now stands at 16.7%, providing us flexibility to raise additional debt if deemed appropriate. Overall, our strong balance sheet and holding company cash and liquidity provides us with the financial resources and flexibility to continue to invest in our business and grow on insurance operations.

With regards to our reinsurance program, we successfully renewed our catastrophe program on January 1. We've retained our existing structure that maintained a 1 in 100 or 1% net probable maximum loss or PML from a major catastrophe risk, a U.S. hurricane at a very manageable 1% of GAAP equity and a 1 in 250 net PML or 0.4% probability, at 4% of GAAP equity. We also renewed our non-footprint catastrophe program with a $5 million retention for our 5 expansion states and our E&S states outside of our previous 22-state Standard Commercial Lines footprint. Pricing on the cap program increased due to market conditions, but was in line with that of loss-free accounts in the U.S.

As a reminder, our reinsurance program also includes our excess of loss agreements, which limits the impact to us of individual large losses to $2 million for both property and casualty losses. When factoring in actual and expected risk-adjusted price increases, we are forecasting about a 50 basis point headwind to our 2021 combined ratio from higher reinsurance costs.

I'll finish with some commentary on our initial guidance for 2021. First, we expect the GAAP combined ratio, excluding catastrophe losses, of 91%. This assumes no prior accident year casualty reserve development, while the 91% is higher than our 90.1% reported underlying combined ratio in 2020. As I highlighted, there were several onetime items that had a net positive benefit of over a point to our 2020 underlying combined ratio. I would point you to our initial expectations of a 91.5% underlying combined ratio in 2020 as a better starting point for comparison.

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Catastrophe losses of 4 points on the combined ratio. This is higher than the 3.5 points in the past and reflects expectations for increased frequencies and severities from severe weather events. After-tax net investment income of $182 million, including $16 million in after-tax gains from our alternative investments. While we expect continued downward pressure on our fixed income book yield due to a very low new money rate environment in 2021, we continue to generate strong cash flow that provides some offset.

An overall effective tax rate of approximately 20.5%, which includes an effective tax rate of 19% for net investment income and 21% for all other items. This assumes the current federal corporate tax -- income tax rate of 21% remains throughout 2021. And weighted average shares of 60.5 million on a diluted basis. For simplicity, this does not factor in any share repurchases we may make under our authorization.

With that, I'll turn the call back over to John for a review of our strategic initiatives.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Thanks, Mark. I'm going to highlight some of our major areas of strategic focus as we move through 2021. We're well positioned with a high-quality book of business that continues to generate strong profitability. With the tailwinds of rising Commercial Lines pricing, we will be focused on identifying opportunities for profitable growth, including maximizing market share with our distribution partners, strategically appointing new partners and identifying new states to expand our footprint. We continue to invest in tools and technologies that enhance our market position with our distribution partners.

Our MarketMax tool provides our distribution partners with insights into their overall portfolio and positions them to expand their relationship with us. We've rolled out the tool to 250 of our distribution partners and are already seeing substantial success and believe we are only in the initial stages of recognizing its full potential. The rollout of our new agency interface for small business remains on track and should continue to enhance our opportunities in this space by significantly streamlining the quoting and issuance process.

We ended 2020 with 1,400 distribution partners and average Commercial Lines premium volume per agency of $1.6 million. We added approximately 90 new relationships, net of terminations, a trend we expect to continue in the next few years. We also anticipate restarting our geographic expansion strategy.

The 5 states we opened during the 2017 to 2018 time frame, including a new Southwest region, are all performing ahead of expectations. Over the next 2 years, we plan to open 3 additional states with others planned for subsequent years. Our long-term goal is to have national capabilities, although we will follow a measured and disciplined approach to identifying and opening new markets.

In Personal Lines, we have begun shifting our focus towards the affluent market, a customer base that is less price-sensitive and drives greater value from coverage and service.

For E&S, our enhanced automation platform was rolled out for new business in late 2020, enhancing our competitive position in this important market.

Second, we remain focused on delivering a superior omnichannel customer experience, which has been a true differentiator in the current environment. We were able to generate significant values for our customers through proactive and targeted communications based on their preferences. Enhancements to our digital self-service offerings have resulted in utilization growing to over 40% of our customer base. Our claims and safety management teams continue to enhance the customer experience and increase operational efficiency through deployment of virtual servicing technologies.

Finally, one of our biggest priorities remains building a culture that fosters innovation and idea generation as we seek to develop a deep bench of leaders to take the company into the future. Building a highly engaged team of employees and leaders is one of our core strategic imperatives. I'm a firm believer that creating a culture centered on the values of diversity, equity and inclusion is essential in keeping employees engaged and contributing at their highest levels. We've already taken a number of steps during 2020 to raise awareness around this issue within the company as well as increase the level of diversity at all levels within the organization. This will remain a major priority for us in the coming years.

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As we look out to 2021 and beyond, I am extremely confident in our competitive position in the marketplace and the tools, talent and relationships on which we have built our platform. Over the past 7 years, we have demonstrated our ability to generate consistent industry-leading financial returns for our shareholders, and I'm optimistic in our ability to continue to do so in the coming years.

With that, we'll open the call up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Mike Zaremski of Crédit Suisse.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Research Analyst*

Maybe first question, if you can maybe try to parse apart kind of what's causing the top line growth to accelerate nicely? And maybe you can talk about exposure changes versus the competitive environment versus, I know, it's probably tough to quantify, but maybe some of the digital improvement processes you've been speaking to with your agencies?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes, sure. I'd be happy to answer the question, and appreciate the question. I think -- let me just start with exposure change, which was one of the topics you were looking for a little bit more insight in. And remember, with the action we took in Q1 by recording a $75 million accrual for expected negative audit and midterm endorsement premiums, we got a lot of that out in front of us and that was for the 331 in-force policies for the balance of their lives, the unearned premium on those policies.

So that we took that noise out of our subsequent quarters, and we don't have that drag because that estimate has largely held up. And as you heard earlier, we've got about $25 million remaining of that accrual. So if you include that and look at exposure overall, and again, exposure is sometimes hard to measure, but I would characterize our exposure on our renewal portfolio for the year of about 1% positive. And you think about a normal year for us would be in the 2% to 3% range. And I think a lot of that does have to do with our mix of business and our mix is skewed towards contractor classes, which is about 40% of our premium. And actually in the auditable lines of GL and comp, it's a higher percentage, probably closer to 50%.

So I think that's helped the exposure base on our customers hold up a little bit better than average. Certainly, rate has contributed to our growth rate. We've seen a little bit of acceleration there. And as I mentioned in my prepared comments, at 86%, our retention was about 200 basis points over prior year. And we think that also speaks to the approach we continue to take and the granularity with which we administer our pricing philosophy.

Now the other benefit clearly is even in this environment and with a lower average exposure industry-wide, we saw Commercial Lines new business up a little over 2% for the full year. And that's something we're very proud of. I think we always talk about the strength of our agency relationships and our franchise value model. And I think in a time like this, you really saw the true evidence of the strength of those relationships because of the significant role we play for our partners. I think they were inclined to find ways to continue to grow with us and that certainly helped as well.

The mix of business we're seeing from new business, I would say, is relatively stable with what we've seen in prior years. I think small commercial -- noncontracting small commercial is the area of most significant pressure. For us, we saw a little bit of an improvement in large account new business, which, for us, is over $250,000 in premium. But the primary driver for us continues to be our strong middle market presence, which we would define, generally speaking, as accounts between $25,000 and $250,000 in premium. So I hit most of the topics you were looking for, but I would say those are the primary drivers of growth for us.

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And the other point I do want to reinforce, I think is an important one, is the same discipline we have and the same granularity we use on managing our renewal portfolio is also deployed on new business. So we are a very responsible writer of new business. We measure underwriting quality and new business pricing at a fairly granular level and feel very confident about where the growth is coming from.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Research Analyst*

That's helpful. Would you say that talking to your agency partners that Selective is maybe asking for a little less rate increase than the industry average or certain peers, which seem to be kind of pushing potentially maybe some corrective actions more so than Selective?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Well, yes, I won't comment on individual competitors. I think one important point, though, to make is, when you look at where the headline price number is coming from, in many cases, it's coming from the large -- the higher exposure areas, the more specialty lines of business like D&O and EPL and Excess, significant Excess layers. There's not a lot of that in our portfolio. If you focus more on the sort of main lines of business, property, GL, Workers' Comp and commercial auto and focus on the small to middle market end of the business, I think our pricing might be a little bit lower than average. But I think in the context of our profitability is where it should be. And I think that's put us in a good position.

And again, I know we've been a bit of a broken record on this. You could look back at our disclosures and our guidance over 10 years. And what you'll see is a very strong discipline, not just around rate level and getting rate level, but also having an explicit assumption for trend year-over-year and recognizing that our expectation for trend was always our hurdle rate for pricing in terms of driving that loss ratio improvement. That has put us in a good position and has allowed us to have to go out to market with significant price increases that do cause disruption for our agency partners.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Research Analyst*

Understood. If I could switch gears to, John, your comments about increasing diversity within the organization, are there -- I'm curious, do you think Selective, and I think others too, it's tough for us to really measure whether diversity levels are increasing or not? Do you expect to put out some metrics over time to help investors and others track the performance of these goals?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

We do. And I appreciate the question, and I appreciate your follow-up to the points I raised in the prepared comments because this is a very important issue for us, and we think should be for all companies across the country. We have taken specific actions, and I think you probably saw our most recent corporate responsibility report or ESG report, which was the first iteration from this past March.

And with our next iteration, our full intent is to provide more data relative to where we stand from a diversity perspective. And I think we are more than willing to acknowledge that we have work to do on this front, and the work for us has really come in a couple of areas. Number one is making sure we have not just the right practices for hiring -- new hiring, but more importantly, we do have a lot of diverse employees in our organization that we have made sure have full access to the training opportunities and development opportunities and mentoring opportunities that we make available to our employees and ensure that our next-generation leadership programs are appropriately balanced in terms of the diverse makeup of those groups. And I think that's been a big part of our focus of late.

But I'll also say the other part of this that has always been one of our core values as a company is inclusion and that's more of a leadership approach. And you could do a lot to build a more diverse organization in terms of your employee population. But I think it's equally important to make sure that you lead in a very inclusive manner so that people of different backgrounds can actually feel like they can have an impact on the organization. And I would say the inclusive aspect of this has been as much of a focus for us as has been the diversity.

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And then a final point I'll make there, and I think this has always been a topic for us, but I think you saw in the last year, a real positive move here is making sure we have diverse backgrounds and experiences on our Board of Directors. And we added 4 additional Board members this year, which was a little higher than we would normally do. But found 4 people with excellent backgrounds and also very diverse individuals to our Board, which we've already seen improved the level of discourse on our Board because of the different perspectives they bring.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Great. And look forward to seeing the next corporate responsibility report. My last question, probably for Mark, and it's probably in your prepared remarks and it will go over the transcript. But I think you mentioned some of the reserve releases were from General Liability or maybe it was current accident year benefits as well. Maybe you can kind of -- I think most of the industry hasn't been releasing that much in the GL line. Maybe you can talk about what you're seeing there?

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Sure, Mike. So you're right, we had some reserve releases in the current quarter. On the prior accident year, it was $35 million. And as I mentioned in the prepared commentary, $20 million of that came from Workers' Compensation, $15 million from General Liability.

We also took a hard look at the 2020 accident year as we closed out the year and clearly with the year, characterized by lower frequency for the shorter tail liability lines within commercial auto and personal auto, we did respond to a portion of the lower frequency. That was to the tune of $5 million in commercial auto and $5 million in personal auto that had a net benefit of 1.4 percentage points on the combined ratio in the current quarter or 40 basis points for the full year.

And then when you look at the reserve releases for the full year, it was $85 million, $60 million from Workers' Comp, $35 million from General Liability. And then you might recall, in the third quarter, we did take some action in commercial auto in the prior year and increased the reserves by $10 million, but that net was $85 million in total for the 2020 year.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

And I would just add to that. If you look back over the long term, our General Liability line has significantly outperformed the industry on a very consistent basis. So you could strip out the prior year development this year and each of the last several prior years. And on an accident year basis, that line has run right around 90% for us, which -- whether on a straight or risk-adjusted basis is a very strong performance.

And again, I think reflective of -- we do have a bigger portion of contractors. We write that extremely well. Our limits profile tends to be lower. We write a fair amount of manufacturing and wholesaling, but it's not the real heavy products exposure that creates some of that volatility. So that's just a line that we have really outperformed on and feel like we're in a really good position relative to the underlying performance. And I think you've seen that over the long term.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Research Analyst*

And the -- just to be more specific, the GL prior year reserve positive development, was that sprinkled across a lot of previous accident years? Or any color on the accident years?

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

When you look at GL, and we'll be -- if everything goes according to plan, filing the 10-K in the next 2 weeks, so we'll have quite a bit of reserve information in there as well as obviously the statutory yellow books at the end of February. So you have all the specificity, but GL is sprinkled across multiple accident years going back. There's no particular accident year that jumps out.

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On the Workers' Compensation side, we typically do an annual tail factor review in the fourth quarter. So that impacts the older accident years, pre-2010. And that was the bigger driver of the fourth quarter's $20 million reserve release that came through, but we've also seen already some favorable emergence in the '16, '17 and '18 years of Workers' Compensation as well. But no specific years really stand out in General Liability.

Operator

The next question is from Matt Carletti of JMP.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

John, I was hoping I caught in your comments about Personal Lines. I think you said kind of shifting towards -- more towards the mass affluent market. I was hoping you could just dive in a little deeper there and kind of fill us in on how the product might be changing, whether it be service levels, coverage levels, things like that? And then how we should expect to see that, whether you're kind of going state-by-state or what the timetable is?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. Sure. Thanks again for the follow-up question on that. So you do have it correct. Our move in the Personal Line space is into a segment of the market, we think, is a much better fit for how we do business, and it's the mass affluent market. So you're generally talking about income levels between that $200,000 to $1 million and net worth in the $1 million to $5 million. It's not the high net worth or ultra-high net worth. It's certainly at that middle slice in that tier. I would actually say, from a product and service perspective, we have the majority of what we need to serve that market.

Now there are some items around the edges in terms of product. A little bit on the service side that we intend to start rolling out on a countrywide basis in mid-'21. And there's a couple of additional items that will roll out in the latter part of '21 into the early part of '22. So from a product and service perspective, I think there's really not more -- not a lot more we need to do. I think it's more of just clarifying our appetite and our message to agents in terms of our desired market segment. And I'll also say that our agency partners, our current distribution partnerships are well positioned. This tends to be a lot of what they focus on from a Personal Lines perspective. So this is really -- allows us to very quickly ramp this up, and we would expect to roll it out in all of our Personal Lines states on that same calendar starting in, call it, early third quarter of this year.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Okay. Great. Very helpful. Maybe just shifting real quick to Standard Commercial and circling back to one of the questions Mike had on kind of working through kind of top line growth trends, how should we think about Q1? And I'm not asking for guidance or anything like that. But just -- if my notes are right, if I recall right, you guys took about kind of a $75 million headwind in Q1 '20 from audit premium, midterm endorsements, kind of COVID-related stuff. Is the right way to think about it that, that was a onetime? And as we anniversary that, that kind of goes away, so kind of add $75 million back to Q1 '20 and that's kind of the starting renewal level, if you will, and then we can assume whatever macro trends we want to assume from there. How should we think about that as we get to Q1?

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Yes. Matt, this is Mark. You're absolutely right. I would add the $75 million back to the top line to get a better sense as to what the NPW number is, as a starting point for comparison for Q1. If you look back at Q1 2020 for Standard Commercial Lines, we were down 5%. But we had a pretty significant negative impact from that audit premium accrual that went through and the actual underlying growth rate was close to 8% to 9%, 8.5% was -- that was the growth rate. So I'd add that back.

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Now just as a reminder, the $75 million was an NPW number and that was earned over the remaining life of those policies, which go all the way through till March 31, 2021. Most of that was fully earned in the 2020 year. There's a little bit of a tail that trickles into Q1 '21. But on an earned basis, didn't have much of an impact in the fourth quarter because it really reflected 2 weeks of the earnings of that adjustment from when COVID-19 started. But I would just highlight the earned impact versus the net premiums written impact as well.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Okay. Great. And then my last question, sticking with Standard Commercial, or I guess, across the book, what I presume is mostly Standard Commercial. When you think about the accident year, ex-cat accident year guidance, 91% combined, how should we broad strokes think about the puts and takes? Is it -- you obviously have auto lines where there were some frequency benefits in '20 that we'll see whether they keep repeating or not, but probably a good presumption is to not assume they do. And then on the flip side of that, should we think about some of the other lines where you're getting rate ahead of trend and there might be a favorable guide slope to the accident year results?

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Yes. Why don't I start, Matt, and then John can jump in and provide some additional commentary. It's a good question because when you look at the guidance of 91%, the actual reported underlying is 90.1%. And in 2020, both John and I have provided to -- tried to provide a little bit of commentary in the prepared comments that really the best starting point is to kind of adjust out some of those one-timers.

Clearly, 2020 was an unusual year. But not to get into too much detail, and I provided most of these items in my comments. But there was the 1.1 points of COVID-19 negative impact that you would reduce that starting point. We had the non-cat property, which is favorable by 1.2 points. The current accident year development, which was favorable in the fourth quarter, you would have to back that out. That was 40 basis points.

The underlying expense ratio, ex-COVID-19, was favorable by about 70 basis points, and there's about 20 basis points of other. That kind of gets you back to the 91.5%, which was our initial expectations going into 2020 as a better starting point of comparison when you roll from '20 to '21.

Now when you roll from '20 to '21, we typically provide a pretty detailed waterfall chart at an investor conference in early February that we'll probably do again this year. But a couple of the puts and takes would be when you start with that 91.5% roll into 91%, you have about 50 basis points of headwind from reinsurance costs that I mentioned, reflecting the higher risk-adjusted pricing on all of our programs for 2021.

We then have rate and we have trend, and our expectation is that rate will continue in 2021, on an earned basis, to exceed trend. We have some underwriting and claim benefit that will drive some underlying margin improvement. And then we expect to drive the expense ratio down in 2021 as well. So when you put it all together, there's about net-net, about 50 basis points of margin improvement year-to-year. And a portion of that really is driven by the rate over trend expectations. That, of course, varies by line of business.

Operator

The next question is from Meyer Shields of KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

I wanted to go back to the Personal Lines plan again. John, I think I understand what you're saying, you have the capabilities to service this market adequately despite higher demand. Is there going to be any impact in the mix between loss and expense ratio on that book?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

I'm sorry, Meyer, you really broke up there. You're looking for the difference between loss and expense ratio on that book? Sorry.

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Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Yes. In other words, as you shift to higher net worth customers, is there a different allocation of combined ratio to expenses rather than for losses?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Actually, no. I wouldn't think there would be, honestly, a significant difference between loss and expense. A lot of the servicing expense, the commission loads, which is a driver major of expense ratio aren't going to be meaningfully different. I think this is more about a book that you would expect to have a higher persistency, which over time, would also generate a little bit of loss ratio benefit, but I wouldn't view this as necessarily a segment of the market that's going to command a higher expense ratio in terms of the performance.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

I think the other point on Personal Lines for the expense ratio is we have really worked hard to drive the expense ratio down. You can see some improvement in 2020 versus 2019. We believe we need to continue to drive that down a bit to be competitive in that space.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

And the other point is, to the extent there are additional coverage enhancements that are contained in a program for a certain customer base, we're going to assume that the incremental price that underlies that enhanced coverage is adequate and should be loss ratio neutral to the extent those coverage enhancements are added on a policy-by-policy basis.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. That's very helpful. If I can switch gears a little bit and I'm not even sure how this can be answered. But what would it take before there is like an official acknowledgment that some of the frequency benefit in Workers' Compensation, or other lines that are longer tailed, will this take before you'll have comfort, saying, okay, that's it?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Well, I'll start. And I would -- I appreciate your lead into the question because there is no clear answer to that question, and it's going to be very company-specific. I mean our philosophy around reserving continues to be the same, which we do a full reserve review for all major lines of business on a quarterly basis. And obviously, the longer tail lines that you're referencing, the severity on those lines, and including the claim reporting as well, certainly takes well beyond the end of the accident year to come into full view.

Is the frequency decline that we saw across all lines real? Yes, it is. And I think, as we mentioned previously, the question remains what is the offsetting severity impact? And how long will it take for that to emerge in a manner that we have confidence with? So the only way I can really answer the question is, to say, with each passing quarter, and with each associated reserve review with each passing quarter, our level of confidence on the accuracy of our views of ultimate frequency and ultimate severity by line will continue to grow in confidence. We did take a little bit of action, in commercial and personal automobile because that is a line that has a slightly faster reporting pattern and a slightly faster development pattern. And we felt that what we saw gave us the confidence to make those small adjustments for the 2020 year in the fourth quarter. But for GL and Comp, it's a much longer maturation process to really get a good insight into an accident year.

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Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. That's helpful. And then just a final question on that. Should we assume that the same conservative, I think the answer is yes. But the same conservatism underlies the pricing that you're putting in place for these lines of business?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. So we've got a very disciplined process. And the results of our reserve review feed all of our accident year planning. Our accident years are fully then baked into our pricing indications from our actuarial pricing team. Those pricing indications don't just drive our rate filings in Commercial Lines. They also file the pricing guidance that we provide to our accounts - to our underwriters on an account-by-account basis.

So what you see in terms of our view of the 2020 accident year is fully reflected in how we think about pricing on a go-forward basis. And as those numbers adjust, then your pricing indications adjust accordingly because you've got multiple accident years that are built into your pricing indication process.

Operator

The next question is from Bob Farnam of Boenning and Scattergood.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - MD and Senior Analyst for Property & Casualty Insurance*

So given your guidance in your commentary, it sounds like 2021 is set up pretty well for you guys. So -- but what are your biggest concerns as we move through the year? What are you worried about the most, particularly regarding your ability to reach your objectives for the year?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. So I think, obviously, we continue to be in a pandemic, and the pandemic is certainly having some economic impacts and some of those economic impacts, as we mentioned, are impacting our expectations for investment yield on a go-forward basis, which supports the need for additional margin improvement. And we're assuming that the pricing environment remains constructive and remains a tailwind. And we think that, that's going to be a support for us in terms of achieving our objectives.

As investment ROEs continue to drop, you need a corresponding drop in everybody's combined ratio to make up for that difference. To the extent we see competitors look at '21 -- 2020 and view it as something other than an anomaly and view it as some sort of a fundamental shift in frequency and severity trends, that could create a little bit more headwind in the market and will not knock us off of what we're focused on because I think we've demonstrated we could manage pricing regardless of the market environment overall, but I would say that continues to be a risk.

And then obviously, the longer we go with the economic pressures, it could ultimately start to impact exposures more significantly than it has to this point. So are those concerns? Yes. But I think your -- the way you open the question is, which is how we think about it, which is we're very well positioned. And with our higher operating leverage, it requires less underwriting combined ratio improvement to make up for that loss of investment yield. I think other companies that are operating at a 1:1 or even lower have a bigger gap to make up for that loss in investment ROE.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - MD and Senior Analyst for Property & Casualty Insurance*

Right. Good. And my last question is on share repurchases. So given your new authorization, kind of what goes into your decision to repurchase shares rather than use your excess capital some other way?

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Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Yes. Thanks. Good question, Bob. And I would start with the best use of our capital is to deploy it into our insurance operations and to grow our franchise. We're generating very strong and attractive returns in our business and that's what we want to continue to do. So we're looking to grow in a disciplined and profitable way. We're looking for ways to continue to accelerate the growth rate.

John talked about the strategies around retooling the Personal Lines strategy, the geo-expansion, the new technology within Excess and Surplus Lines. And that really is the #1 use of our capital is to put it back into the business. To the extent that we do have excess capital above what we need to run the business, above all our risk tests, and we're a conservative company, we like to have a little bit of a buffer and a little bit of headroom. And then when we get into a position where we have what we would call returnable capital or an excess above our excess, then we'll look at different ways to think about using them, which would include a variety of capital management objectives, including share repurchases.

So we look at a couple of different metrics. We look at an IRR calculation versus cost of capital. For share repurchases, we look at a book value accretion time period in terms of looking at share repurchases. So we look at a variety of different metrics. To date, we haven't executed under the share repurchase program. As we mentioned when we put that into place back in mid-December, we'd be opportunistic and disciplined in terms of share repurchases. But we view it as a nice tool to have in the toolkit today. It allows us to return capital to our shareholders over time, and part of being - delivering good growth in book value per share plus accumulated dividends over the long run - it's not only delivering the strong ROEs, and as John mentioned, 7 years, consecutive years of double-digit ROEs, but also make good stewards of the company's capital. And to the extent we do have a returnable amount, and it's a good return, then we'll look to execute under the share repurchase program.

Operator

The next question is from Ron Bobman of Capital Returns.

Ronald David Bobman - *Capital Returns Management, LLC - President*

I had 2 questions. One, just curiosity, sort of what percentage of your office staff, your -- maybe headquarters, are coming in on a regular basis? I was just sort of curious about a rough figure. And then I had a question about the wholesale business. What is the recent sort of trend of late, whether it be fourth quarter and maybe even early in January, generally speaking, as far as sort of application count, the level of competitiveness amongst other competing markets?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Sure. Thanks. Yes. With regards to percentage of our employees that are either in corporate headquarters or one of our physical locations, it's roughly 75 employees across all of our offices out of 2,400 employees. So a very small percentage. And again, we've said this previously, and part of this is our strong distributed employee model that we've always had and a lot of work-from-home employees, but all of our employees had the tools to work remote and it's really just some folks in our data center, which happens to also be here in Branchville, New Jersey, and some folks who need to come in and do some mail scanning to distribute mail electronically to folks that are ones that are considered essential and coming in on a regular basis.

With regard to the E&S business, if you look at our performance for the year, we saw some pretty strong new business growth. I think we had some mix pressures that have created a little bit more top line volatility in total. But our new business was up around -- on average around 20% for the full year, which is pretty strong. And that is driven by some higher application activity, higher submission activity. But there are pockets of competitiveness, and I think we did see a little bit more success in new business on the brokerage side than we saw in the small binding authority side. And for us, again, brokerage is not the higher hazard open brokerage business. It tends to be business that's just a little bit above our binding authority constraints that we offer to wholesalers.

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So I feel pretty good about the flow of new business opportunities. I don't -- I haven't seen any significant shift in the competitive environment, although there's certainly a lot more opportunity coming in for wind-exposed and coastal property, which is not part of our appetite for E&S. So I think a lot of what might appear to be significant uptick in opportunity as a lot of markets have tightened down on their capacity for coastal wind has just not really helped us based on the underwriting philosophy we have for that segment.

Ronald David Bobman - *Capital Returns Management, LLC - President*

Okay. And then as far as whether it's the fourth quarter compared to the third or even January compared to the fourth quarter, any change in the trend line, the trajectory as far as submission flow, again, the E&S business were not noticeable?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

I would say it's not noticeable. Now for us, we're pretty excited about the new automation platform we just rolled out and it rolled out in the latter part of the fourth quarter on the new business basis, which we really think helps improve our competitive positioning in this space. It makes us a lot easier to do business with in the small binding and the small brokerage side as well. And that's something we do expect regardless of what the overall market dynamic is in terms of opportunity. I think by improving our standing from an ease of doing business perspective, we expect to provide us lift moving into the first quarter and the balance of '21.

Operator

The next question is from Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

I was just curious that I don't know if you can share this or not or if you want to. But the geographic expansion, you mentioned the 3 states, I don't know if those are ones you want to share. If not, that's completely fine, too. And I was wondering if those would be in -- is that going to be in both Commercial Lines and Personal Lines or one or the other? Or is that still kind of being worked out?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. So yes, I'm happy to answer the question. And I think we've talked about some of the states we had on our list of targets. But I don't know if we specifically disclosed the 3, but the work has begun. So the next 3 that we have for expansion, which are going to be launched, call it, latter half of '22, but the work is starting in earnest as we speak would be Alabama, Vermont and Idaho. Those are really round out states and adjacent states to our existing footprint. They don't have the same opportunity in terms of market premiums in some of our more recent states. But as we restart, those are the 3 most obvious candidates, and we've got a number of others that we're evaluating for the next tranche where the work will start in earnest in '22 as these states are starting to roll out.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Okay. And is that -- so is that in Commercial Lines and Personal Lines?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes, in Commercial Lines only. Sorry, I know you asked that already.

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Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Commercial Lines only, Okay. Sounds good. Got you. Yes. Okay. And then I was just curious, too, on the agency plans. It sounds like those are still going to be kind of similar with what you've seen here for 2020, what you've seen in recent years. So I was wondering if -- so it sounds like COVID-19 didn't really have an impact on new appointments or Personal Lines, the high net worth Personal Lines initiative, that really hasn't influenced how you're kind of looking at that? Is that...

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

It hasn't, Scott. There was a bit of a lull in terms of new appointments coming on board in, call it, April to June time frame as agents were scrambling to get their legs under them in this remote environment. But we -- our prospecting process takes a long time. And we engage pretty actively before we make an appointment and go through a process to ensure that it's a good fit. So that pipeline is pretty robust and allowed us to continue to make appointments. I would say this year, we're probably a little bit more backloaded in terms of when the newer appointments came on. But a number of 90, net of a small average termination number is a run rate we would expect to continue for the next few years. And that doesn't anticipate new states, and new states will, obviously, be additive to that number.

But this is all within the context of our longer-term targets of achieving 3% market share pushing on 2 levers, the share of wallet, which we talk a lot about, and the agency control, the markets that we're in, being at least 25% across all of our states. We've got the headroom there. And it's -- we're about 22% on average across our footprint. So this is still within that strategic framework of franchise value as we push towards that 25%.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Okay. Understood. And then just last question was just on personal auto. You talked about decrease in loss picks and everyone's seeing the lower frequency. The rates are coming down pretty much from what we hear across the board, and you're seeing some competitors taking rate declines in certain states. So I'm just wondering how you're looking at the growth appetite versus rates kind of continuously coming down? And whether you see a big change in -- have you seen a big change in the competitive environment since March and COVID-19 and all the auto insurers are having favorable frequency? So just anything you can share there.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. There's no question, the competitive environment for stand-alone auto has definitely become more competitive. And this ties into the earlier discussion about how you view 2020 and how you modify your base pricing on a go-forward basis to incorporate the results of 2020, which is certainly what's happening in personal auto. Personal auto was also set up to more quickly pivot to the extent frequencies and severities normalized based on the annual policy cycle and the fact that base rate file changes actually immediately make their way into their full year book on an earned basis as you renew policies. Unlike in Commercial, where base rates are just one piece of the equation of managing your price on a year-over-year basis.

So yes, the competitive environment has tightened. But I think this has also sort of underlies our shift in strategy. And our expectation is -- and we've already been writing a fair amount of business on a multi-policy basis, where we're writing both the auto and the home. And as we sort of migrate to the affluent market, it's -- price still matters, but price isn't the deciding factor like it is in the mass market for personal auto. And I think that's just a -- that's a tough business to compete in, mass market personal auto, unless you've got significant scale and significant expense ratio advantages because it is much more of a price game, and we're migrating into a different marketplace.

Operator

That's our last question on queue. Speakers, you may proceed.

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John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

I'm sorry, operator. We're having a hard time hearing you.

Operator

That's our last question on queue. You may proceed.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Great. Well, thank you very much for attending, for your time this morning. I appreciate the questions. And as always, any follow-ups, please reach out to Rohan. Thank you.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Thank you.

Operator

Thank you. And that concludes today's conference call. Thank you all for joining. You may now disconnect.

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