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SIGI.OQ - Q4 2023 Selective Insurance Group Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to Selective Insurance Group's Fourth Quarter 2023 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, Brad Wilson.

Brad Bryant Wilson - *Selective Insurance Group, Inc. - Senior VP of IR & Treasurer*

Good morning, and thank you for joining us for Selective's Fourth Quarter and Full Year 2023 Earnings Conference Call. Yesterday, we posted our earnings press release and financial supplement on selective.com, under the Investors section. A replay of this webcast will be available there shortly after the end of this call. Today, we will discuss our financial performance, market conditions, and our expectations for 2024. Joining us on the call are John Marchioni, our Chairman of the Board, President and Chief Executive Officer; and Tony Harnett, our Senior Vice President, Chief Accounting Officer, and Interim Chief Financial Officer. They will make remarks before we move to our Q&A session. We're excited to welcome Tony to his first conference call since becoming Interim CFO. He's been with Selective since 1999 and has held several senior finance positions.

Our commentary today includes references to non-GAAP measures, which we believe make it easier for investors to evaluate our insurance business. These non-GAAP measures include operating income, operating return on common equity, and adjusted book value per common share. We include GAAP reconciliations to any referenced non-GAAP financial measures in the financial supplement on our website. Also, we will make 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. They are subject to risks and uncertainties that we disclose in our annual, quarterly, and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements. With those introductory remarks, I'll now turn the call to John.

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

Thanks, Brad, and good morning. 2023 was another excellent year for Selective. We grew net premiums written by 16%, produced a 96.5% combined ratio, increased after-tax net investment income by 33% to $310 million, and produced an operating ROE of 14.4%. Catastrophe losses ended the year approximately 2 points above our initial expectations, offset by a better-than-expected non-cat property loss ratio, improved expense ratio, and favorable prior year casualty reserve development.

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We achieved 2 significant milestones in 2023 -exceeding $4 billion in net premiums written for the first time and delivering our 10th consecutive year of double-digit non-GAAP operating return on equity. Over the last decade, we have more than doubled net premiums written and book value per share and almost tripled operating income. Average operating ROE of 12.2% over the past decade exceeded our target. When we set an ROE target, it's not aspirational. We expect to achieve it consistently.

Our consistent and disciplined profitable growth and approach to enterprise risk management have served our shareholders well. Over the past 10 years, tangible book value per share plus accumulated dividends grew at a compound annual rate of 10%. We believe this is our industry's best long-term indicator of value creation. Over the same period, annualized total shareholder return was 15.6%, exceeding the S&P Property Casualty Index by 2.2 points per year and the S&P 500 by 3.6 points per year. We are proud of this track record of strong operating performance, growth, and excellent shareholder returns that few in our industry can match.

Although we reported our 18th consecutive year of net favorable prior-year casualty reserve development, we recorded net adverse casualty development of $10 million in the fourth quarter. Included in this development was an increase of $55 million in general liability. We believe this is attributable to the social inflation discussed in previous earnings calls that also is impacting the rest of the industry. Over recent years, we have increased our loss trend assumptions and have seen severities follow suit, partially offset by favorable frequencies. We believe our prudent planning and reserving approach has served us well. While favorable frequency trends continue, general liability severities have emerged somewhat higher than expected. The development was mostly on accident years 2015 through 2020 with an average impact of about 1 loss ratio point to general liability for these years. In the fourth quarter, the adverse general liability development was largely offset by $50 million of favorable workers' compensation development.

For accident year 2023, we increased casualty loss costs by $14 million, primarily due to elevated frequencies and severities in personal auto and to a lesser extent, commercial auto. Our 2023 accident year loss ratios for general liability remained unchanged. With these adjustments, we remain confident about our overall booked reserves. However, we will continue to monitor these trends and their impact.

Our competitive and crowded market makes it critical that we clearly demonstrate our value proposition to customers, distribution partners, employees, and investors. Our success is based on a unique combination of competitive advantages. Taken together, these competitive advantages create a winning formula for Selective. They are a unique field model, placing empowered underwriting staff in close proximity to our distribution partners and customers; our ability to develop sophisticated risk selection, pricing, and claims management tools and embed them in the workflows of our frontline employees, a franchise value distribution model defined by meaningful and close business relationships with a group of top-notch independent agents and brokers, a commitment to delivering a superior omnichannel customer experience enhanced by digital platforms and value-added services and a highly engaged and aligned team of extremely talented employees.

We continue to align the interest of our employees and our shareholders. While our combined ratio performance was profitable, it was higher than our 95% target. Our variable compensation incentive plan, which includes all employees, reflects this. We are focused on delivering improved underwriting results, even though our 2023 operating ROE exceeded our target.

Our Standard Commercial Lines and excess and surplus lines segments represent approximately 90% of our business. They are delivering underwriting profitability that is in line with or better than our 95% combined ratio target. Maintaining underwriting discipline and price adequacy in these segments remains a top priority. In Standard Commercial Lines, the marketplace continues to be constructive. Our pricing is holding up and our retention metrics remain historically high. This segment's strong underwriting performance and growth allow us to focus our more significant actions on the underperforming portions of the portfolio. Sophisticated tools with granular pricing and retention data allow us to manage our renewal inventory by profitability cohort. This includes nonpricing actions such as in property, where we are increasing wind and hail deductibles in the most catastrophe-prone areas and pushing the use of hail cosmetic damage exclusions. We are also increasing all other peril deductibles. Our unique operating model resonates with our distribution partners, providing opportunities to grow our business organically. We are a stable market and the trust we build with our distribution partners supports our renewal goals and helps feed our new business pipeline with quality opportunities. While submission activity has been elevated given marketplace disruptions, we remain disciplined as our teams focus on recognizing quality business and walking away from opportunities that do not align with our appetite, pricing, or terms and conditions.

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Net premiums written growth has been excellent, mainly coming from rate and exposure with policy counts in Standard Commercial Lines up 3% for the year. Within property, we achieved renewal pure rate of 12.1% and 4.9% of exposure increases for the year, producing a 17.6% increase in total renewal premium. In commercial auto, renewal pure rate was 9.8%, with increased exposure of 4.4% for the year, resulting in a 14.6% total renewal premium increase.

At the line of business, strategic business unit, and regional levels, we have detailed plans to continue refining our portfolio and build on our flagship segment's success. We are also seeing high levels of excitement from our distribution partners as we prepare to launch 5 new states for Standard Commercial Lines in 2024.

By every important measure, our excess and surplus lines segment had a record year. Net premiums written grew 24% with an 86% combined ratio. E&S results are benefiting from both the portfolio repositioning we performed in past years and attractive market dynamics. Our contract binding and brokerage operations delivered strong top and bottom-line performance. Contract binding is similar to our standard lines small business and benefited from improved ease of doing business from our technology investments.

Brokerage is akin to our standard lines middle market business. We see significant growth opportunities within our current appetite, which is mainly unchanged. Growth in brokerage, along with rate and exposure increases has increased the average E&S account size from approximately $3,800 at the end of 2022 to approximately $4,600 at year-end 2023. As with general liability in standard lines, we are very comfortable with our underwriting discipline, business mix, pricing, and terms and conditions.

Personal lines represent approximately 10% of our business. Its combined ratio is well above our target. However, renewal pure price increased 8.9% during the quarter, and we expect rate to further accelerate in 2024 into a range of 20% to 25%, subject to regulatory approvals.

We continue transitioning the personal lines book to our mass affluent target market. For the quarter, over 80% of new business and homeowners have coverage A values in excess of $500,000. While new business premiums increased 16% in the quarter, new policy counts declined 8% from deliberate curtailed production. Higher average premium sizes driven by both rate and exposure increases drove the premium increase.

In addition to rate actions, we seek to improve homeowners' performance through the continuing transition to the target market and improved terms and conditions. We stated last quarter that we are introducing depreciation schedules similar to actual cash value on older roofs and implementing mandatory wind and hail deductibles in states most exposed to severe convective storms.

We strive to have all 3 insurance segments meet our profitability goals throughout the market cycles. Diversification across and within these segments position us to provide maximum value to our distribution partners, enhancing our revenue and income streams while providing the operational flexibility needed to succeed in today's market. I'll now turn the call over to Tony to discuss our fourth-quarter and full-year results, and I'll be back with color on our 2024 guidance. Tony?

Anthony David Harnett - *Selective Insurance Group, Inc. - Senior VP & CAO and Interim CFO*

Thanks, John, and good morning. We reported $2.01 of fully diluted EPS in the fourth quarter, up 46% from a year ago. Non-GAAP operating EPS was $1.94, up 33%. Consequently, we had a very strong 18.9% return on equity with an 18.2% operating return on equity for the quarter.

For the year, fully diluted EPS was $5.84, up 65% from 2022. Non-GAAP operating EPS was $5.89, up 17%. We produced return on equity of 14.3% for the year, with operating return on equity of 14.4%. As John noted, this marks our 10th consecutive year of double-digit operating return on equity. Over those 10 years, our operating return on equity averaged 12.2%, exceeding our target, which is set approximately 300 to 400 basis points above our weighted average cost of capital.

Our GAAP combined ratio for the quarter was 93.7%, a 1-point improvement from 94.7% a year ago. The combined ratio included 2.5 points of catastrophe losses and 1 point of unfavorable prior-year casualty reserve development.

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As John mentioned at the top of the call, 2023's combined ratio was 96.5%, consistent with our original guidance. Modest favorable development, which we do not plan for reduced the combined ratio by 0.2 points. Better-than-expected non-cat property losses and a lower expense ratio were offset by elevated catastrophe losses of 6.4 points, which was 1.9 points above our expected 4.5 points.

Our expense ratio for the year was 31.4%, better than the 32% long-term target we established in 2019. We maintain expense discipline while making investments that support our strategic objectives. Consequently, we expect our 2024 expense ratio to be relatively stable, and this assumption is embedded in our combined ratio guidance.

In the quarter, net unfavorable prior year casualty reserve development of $10 million added 1 point to the combined ratio. At the line level, $50 million of favorable prior year development in workers' compensation was more than offset by $55 million of adverse development in general liability and $5 million in personal auto. The favorable prior year workers' compensation development was primarily driven by better-than-expected severity in older accident years, impacting our tail development factors. While the factor changes were relatively small, these factors are applied to all accident years. Frequency in the line continues to be favorable in more recent accident years. While we are starting to see medical CPI increase, wage growth, which directly impacts premiums, is providing a meaningful offset. Adverse prior-year general liability reserve development was severity-driven and spread across prior accident years, predominantly 2015 through 2020. We attribute this largely to the continued elevated impacts of social inflation. We see this as an industry dynamic with higher propensity for attorney representation and litigation, longer settlement times, and higher settlement values. Nonetheless, the composition of our general liability book has remained relatively consistent over time as we focus on our business within our appetite. Putting this reserve increase in context, it represents about 3% of our general liability net reserves. We remain comfortable with our current accident year loss pick for this line while acknowledging the inherent risks.

For the current accident year, we took action in personal auto in the quarter, increasing loss cost by $9.2 million, which added 9.1 points to the personal lines combined ratio. The adjustment was driven by increased claim frequency. We also increased loss costs in commercial auto by $4.9 million, impacting the quarterly standard Commercial Lines combined ratio by 0.6 points. The commercial auto adjustment responded to higher paid loss expenses driven by elevated litigation rates.

Consistent with recent quarters, our overall underlying combined ratio continues to be very strong. The underlying combined ratio for the year was 90.3%, 3 points better than 2022. The fourth quarter's 90.2% underlying combined ratio was 3.7 points better than last year. After-tax net investment income was $78 million in the fourth quarter, up 20% from the prior year period. For the year, after-tax net investment income was $310 million, above our original 2023 guidance of $300 million and up 33% from 2022. Over the last 2 years, we focused on building the portfolio's book yield as interest rates rose. During the quarter, we invested $429 million of new money at an average pretax yield of 6.7%. As a result, average pretax book yield increased 11 basis points to the -- to end the year at 4.7%. We expect this higher embedded book yield will provide a persistent source of elevated investment income going forward. For 2023, investments generated 12.4 points of return on equity, up 3 points from 9.4% in 2022. The portfolio remains conservatively positioned with total fixed income and short-term investments representing 92% of the portfolio at year-end, an average credit quality of AA- and a duration of 4 years. Alternative investments, which report on a 1-quarter lag, generated $0.9 million of after-tax income in the quarter and $21.2 million for the year, up 16% from full year 2022.

2023 was an important year for us as a reinsurance buyer. During the fourth quarter, we entered into our first catastrophe bond transaction through High Point Re Limited. The transaction received strong support providing a new and valuable source of fully collateralized reinsurance capital from a broad panel of investors. The transaction was upsized by 62.5% to $325 million from the initial $200 million target. Pricing was within the initial guided range. The coverage sits within the top layer of our program at $500 million in excess of $700 million and provides 65% of that layer's limit. We also successfully renewed our property catastrophe reinsurance program effective January 1, going to market with a $1.1 billion limit in excess of a $100 million retention. This compared to our expiring $915 million limit in excess of a $60 million retention. While the expiring program had various co-participations, we fully placed all layers in the new treaty. The increase in retention is largely comparable with the growth in our property portfolio and reflects our ability to retain more losses. A 1 in 250-year net probable maximum loss is now only 4% of GAAP equity for our peak peril of U.S. hurricane. This is well within our risk tolerance and 3 percentage points lower than last year's 7%. The increased limit we purchased reflects our business' strong growth and expected future growth. We had modest risk-adjusted pricing increases consistent with the overall market. We also achieved our marketed key terms and conditions. Our reinsurance program includes casualty excess and property-per-risk treaties that renew on July 1. The retentions on these treaties are currently $2 million per occurrence for casualty and $5 million per risk for property.

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Our capital position remains extremely strong with $3 billion of GAAP equity and $2.7 billion of statutory surplus at year-end. Book value per share increased 13% in the fourth quarter due to our profitability and the interest rate rally that reduced after-tax unrealized losses for fixed-income securities. For the year, book value per share increased 18%. Adjusted book value per share was up 10% for the year. Year-end premium to surplus was 1.51x, up from 1.44 in 2022. The ratio increased due to strong insurance operations growth. Our internal operating target for premium to surplus is 1.35 to 1.55x, although we are comfortable moving above that range. Our debt-to-capital ratio of 14.6% and strong operating cash flow provide ample financial flexibility to support organic growth plans and execute our strategic initiatives. We did not repurchase any shares during the quarter or year and have $84.2 million in remaining capacity under our share repurchase authorization. We view organic growth within our insurance operations as the most attractive opportunity to deploy capital.

Turning to 2024 guidance. We expect our GAAP combined ratio to be 95.5%, including 5 points of catastrophe losses. As always, we assume no prior accident year reserve development. After-tax net investment income is expected to be $360 million. This represents a 16% increase over 2023, primarily reflecting our fixed-income securities portfolio's meaningful increase in book yield. After-tax net investment income guidance includes $32 million from alternative investments. Our guidance includes an overall effective tax rate of approximately 21%, with a 20.5% effective tax rate on investments and 21% on all other items. Weighted average shares are estimated to be 61.5 million on a fully diluted basis. This does not reflect any assumption for share repurchases we may make under our existing authorization. Now I'll turn the call back to John.

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

Thanks, Tony. On this call, we have highlighted the industry's elevated and uncertain loss trends that are influenced by economic inflation, social inflation, increased catastrophe loss frequency, and the unusual frequency and severity patterns in recent years. These dynamic industry-wide factors have pressured loss costs, necessitating our continued focus on adequate pricing.

In 2023, we entered the year with an expected loss trend of 6.5%. Our overall renewal pure price, excluding exposure change, was 6.8%. We remain confident in our ability to execute our renewal strategy and achieve renewal pure price commensurate with expected loss trends. We have demonstrated this throughout market cycles, and it continues to be the cornerstone of our consistently profitable combined ratio performance.

Our 2024 combined ratio guidance reflects an overall expected loss trend of approximately 7%, up from 6.5% a year ago. This consists of 4% for property and 8% for casualty, reflecting our updated views of both economic and social inflation and expected frequency trends. In light of recent experience, particularly related to secondary apparels, we've also increased our catastrophe load to 5%. These trends are all embedded in our 2024 loss picks and reflected in our guidance. Our guidance implies a healthy ROE outlook for 2024 that exceeds our 12% target with ample runway to continue our trajectory of profitable growth.

We have the team, sophisticated tools, and disciplined execution to effectively manage through these market dynamics, and believe we are operating from a position of strength. I'll now turn the call over to the operator to begin our question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is coming from the line of Michael Phillips of Oppenheimer.

Michael Phillips - *Oppenheimer - Managing Director and Senior Analyst*

My first question is on the GL stuff, John. And Tony, the $55 million. You talked a lot about the severity piece, which we get hear a lot of that from other people, too. But have you seen anything in terms of just a different reporting pattern that's been lengthened because of that as well?

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

Yes, Mike, I appreciate the question. This is John. So as you highlighted, severity is really the driver of what we've been seeing. Frequencies, and we're talking GL in particular, frequency trends have continued to be, I'll call them, favorable. But there's no question there has been an extension of reporting patterns, but we've seen that for a couple of years now. And I would say that's incorporated into how we evaluate the more recent accident years in terms of expected claim counts versus actual claim counts. But I think that started in the kind of latter part of the pandemic and has persisted. And I would say that was factored into how we evaluate the more recent accident years.

Michael Phillips - *Oppenheimer - Managing Director and Senior Analyst*

Okay. I mean, I asked because it was interesting that you included in that 55 comment that part of that included accident year 2020. So I guess that means that the higher severity you talked about offsetting any kind of frequency benefit that I think was there in that accident year. So I guess I want to make sure that's the case. And then if so, does that mean any risk of the more recent accident years also being affected, which is kind of what you just alluded to as well.

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

Yes. I appreciate the follow-up point and just a couple of additional points there. First of all, with regard to 2020, the comment relative to GL is accurate, and that was included in our updated view and the $55 million that we booked - that was included in those accident years. But I do want to kind of reinforce the other point, which is that accident year in total has emerged favorably across all lines. And even within casualty has emerged favorably. But we've got movements in between individual lines, and that's what you saw us report with regard to the GL emergence. With regard to the more recent accident years, in addition to the point we just talked about with regard to recognizing that slight extension and reporting patterns I think the other important point to consider is if you look back at our disclosures and our guidance, we've been moving expected loss trends higher on a pretty consistent basis. So if you look back to 2020, 2021, our forward trend assumption for casualty was around 4%. And then in '22, we moved that up to 5.5%. In '23, it was 6%, and now we're at 8%, and actually, on an ex-workers' comp basis it is a little bit higher than that. And those are fully embedded in our loss ratios that were in our guidance and we're in our booking. And I think that's probably one of the more important pieces to understand in terms of how companies are reacting to this. The other thing I'll say is, and this has been the case not just for the '24 trend, but for the last -- the most recent accident years as well, is despite what was a consistent pattern of better-than-expected frequencies, we have not assumed that in our forward loss trends, either for '24 or for the last 3 accident years. That was really a severity move and assumed claim counts or frequencies to remain relatively stable. And I think that's also the right way for us to be thinking about it and approaching it.

Michael Phillips - *Oppenheimer - Managing Director and Senior Analyst*

No, that's perfect. I guess second question is just kind of related to all this is you're not seeing any of the spillover into your commercial auto book, it sounds like. And I want to make sure that's the case. I think recently, you've talked pretty positively about your views and the outlook of commercial auto. So nothing's gone over there right now is the question and just kind of your outlook for that segment, commercial auto.

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

We've made a very minor adjustment in commercial auto. But if you look back over the last several quarters, I would say that commercial auto has been pretty stable. I think what happened in commercial auto is the severity impacts hit a little bit quicker and probably more so in 2021 and that then got incorporated into forward expectations and a lot stronger pricing. And I think not just for us but for the industry, commercial auto pricing has been a lot firmer for a lot longer than we've seen in GL. So I would say that you've seen some moderation in the commercial auto loss trends in recent quarters. And I think that in the context of continued strong rate, which for us was 10% in the quarter and just a hair under 10% on a full-year basis, I think, sets up well. Again, there's uncertainty just because of the environment we're in. But I think when you look at those factors in commercial auto, I think we do have a better outlook on that line.

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Operator

We will move now to the next question coming from the line of Mike Zaremski of BMO.

Michael Zaremski - *BMO - Senior Equity Research Analyst and Managing Director*

Could you walk us through -- you did a good walk through kind of how you've been increasing your loss trend on casualty over the years. The same holds true on the catastrophe loss ratio. Maybe you can kind of help us understand what caused the increase? Are you picking to a higher -- is it picking to -- yes, if you can help us think through that and if there's any business mix impact there, too? Or is it just been trends been worse and you're trying to get ahead of it.

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

Yes. I appreciate the question. It's really a combination of our updated modeling and our more recent experience. So if you were to look at -- so the 5 points that we have in our guidance for 2024 is kind of right in between the 5- and 10-year averages. So if you were to just look at the 10-year average, it's about 4.7%. And if you look at the 5-year average, it's about 5.4%. So we think just based purely on our more recent experience plus modeling update, that's a pretty solid assumption for us. And now there's always going to be a little bit of business mix in there and the growth by segment will influence that. But that's really how we landed at a 5-point assumption.

Michael Zaremski - *BMO - Senior Equity Research Analyst and Managing Director*

Got it. And I guess, just going -- thinking about just the trends on loss costs have been inching higher, not just for, I guess, overall for years now. And you guys are in a very good spot where you have very consistent returns. You've got good pricing power. But does this -- do you think that the marketplace, which also seems to be experiencing similar trends. This kind of bodes well for pricing power in '24 because I feel like the consensus amongst investors is more that pricing is more likely to fall than increase. If you have any comments there?

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

Yes. So my sense is pricing remains constructive in our business. And again, I think with different companies, you have to cut through their portfolio. And to the extent they're more weighted towards professional liability or cyber or D&O, you might see a different pattern. But for us, when you focus on core general liability, workers compensation, property, automobile and business owners, I would suggest that based on what we're seeing, and I think everybody else has seen from the social inflationary factors, the pricing environment that we've seen in the last couple of quarters will persist and there's even potential for a little bit of acceleration, at least on a line-by-line basis. And I think that's where you really have to take this in pieces. I think GL is the line that I would expect to firm a little bit more. And I know when you talk liability, it does include GL plus professional liability and D&O and cyber, I'm talking just standard general liability. I think that's where some more of the pressure has been. And that hasn't been as strong from a pricing perspective as auto and commercial property have been for the last couple of years. So while you might see auto come down a little bit, I think it will still be strong, and I think you might see some movement higher in GL. But we feel good. If we look at our retentions pretty closely and measure them in a number of different ways to understand the market reaction to our pricing and our retentions continue to run really strong on standard commercial lines, and I think that bodes well.

Michael Zaremski - *BMO - Senior Equity Research Analyst and Managing Director*

Got it. And if I could sneak one final one in. You've had some management changes in recent months. Is -- has a new set of eyes or different set of eyes or different people in charge of any processes recently. Does that any impetus for some of these changes that were made in terms of the loss assumptions and reserve changes?

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

Not at all. So it's actually the same eyes, and I want to reinforce that point. So obviously, Mark left at the end of Q3, but the rest of us who are always involved along side of Mark are the same group that -- and have the same philosophy and the same approach to evaluating our results and evaluating our reserves -- and that includes myself, and includes our Chief Actuary, who has been here for a long time and continues to be here, and it includes Tony, who as the Chief Accounting Officer, who he's been with the company 24-plus years, but the last 7 as the Chief Accounting Officer before becoming Interim CFO, was also deeply involved in all decisions not just related to reserves, but all accounting matters. So that -- it's a very consistent leadership group and a very consistent philosophy. But I appreciate the question because I think it's a great opportunity to kind of reinforce that point.

Operator

We will move now to the next question coming from the line of Paul Newsome of Piper Sandler.

Paul Newsome - *Piper Sandler - Managing Director and Senior Research Analyst*

Sorry about that. I was hoping we could switch to investment income and remarkably large expected improvement next year. That new money yield number that you mentioned seem pretty darn good. Is there anything under the hood there in terms of a shift in what you're investing in or anything else that would give you that sort of lift -- I mean everyone is seeing a lift, but it seems to be a bigger lift than a lot of folks are talking about for '24.

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

Yes, Paul. Great question. So I think a lot of this is really indicative of the hard work that was done over the last 2 years to really build the embedded book yields. So since the beginning of the interest rate cycle from year-end '21, we've picked up 173 basis points of embedded book yield. And that allows us to really have a solid view of our ability to continue to pick up net investment income on a go-forward basis and have that strong contribution to operating ROE. The overall profile of the portfolio remains relatively consistent. But when you have the opportunity to put money to work at an investment-grade fixed income at 5.5% or 6% on a pretax basis, it allows you to really lock in those yields for an extended period of time, and that's really allowed us to boost that return. And with an invested asset leverage a little over three times -- we don't have to take on a lot of additional risk to produce that kind of upside from an ROE perspective. So nothing significant in terms of shifting the strategy. In fact, I would say the overall bias would remain up in quality. When you think about those investment-grade fixed income returns that we're getting, it really raises the bar on investing in risk assets, which -- and we've been sitting at the lower end of our kind of target range from a risk asset perspective at just over 10%.

Paul Newsome - *Piper Sandler - Managing Director and Senior Research Analyst*

No shift in duration no shift within Credit quality...

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

Duration is right around 4 years. I think we finished that at 4 years, been around 4 years for the last 3 years. And we've been at AA- or A+ for the last 3 years.

Operator

We will move now to the next question from Grace Carter from Bank of America.

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Grace Carter - *Bank of America - Analyst*

I was hoping we could get maybe a little bit more color on the workers' comp reserve release. I think that you all had previously flagged, but just given the extended period of favorability in that line that going forward, it might slow a little bit. That seems has not been the case this quarter. So I was just curious if anything has changed in just kind of the drivers of the favorability there.

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

I think the biggest difference from what you had seen in previous quarters is as we do every year in Q4 is we update our tail factor study and the tail factor study is really designed to to understand the movement to ultimate for your accident years that are outside of your typical reserving triangle. So I think 20 years and older, and we update that based on our own experience, blended with industry experience in data, and that was a big driver of the overall movement in comp in the quarter.

Grace Carter - *Bank of America - Analyst*

And I guess thinking about the 95.5% combined ratio for next year, I mean, I think everyone is expecting some pretty strong improvement in personal lines over the course of the year, but E&S has been running quite favorable here lately. I guess just trying to think about the timing for a potential return to that longer-standing 95% combined ratio. And I guess just if we should consider E&S favorability to be kind of more enduring and maybe offset ongoing re-underwriting in the personal lines book that might take beyond next year to improve to the target?

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

Yes. So we pride ourselves in providing very detailed guidance, but we do stop short of guiding at the individual segment level. I think as you've pointed out, overall, the guidance is at 95.5%. And on an underlying basis, when you would take out that 5-point cats assumption, it's relatively stable year-over-year. I think the pieces you're pointing to are reasonable approaches, which is when you think about the run rate performance of E&S and the rate we've been achieving in that line and continue to earn in that line, we expect strong margins to continue. And I think from a commercial lines standpoint, which we're currently running right around that target just a little over 95%, strong rate, which is running 7.3% in the quarter, 7% for the full year, in line with where we had loss trends going into the year. So stability in commercial lines based on those major factors, I think would also be a good assumption. And then as we've talked about and reinforce, we expect to have rate level written in personal lines over the course of 20 -- of this year 2024 in that 20% to 25% range. And again, we don't break down our loss trend assumptions by segment, but we've got a pretty healthy loss trend assumption in personal lines, along with that rate level. This is not going to achieve our target margin in 2024. But we expect, as we continue to earn that rate increase over '24 into '25 on both a written and an earned basis and continue to transition that book and continue to refine our pricing models that we will put ourselves on a good glide path to that target.

Operator

We will now move to the next question coming from the line of Scott Heleniak of RBC Capital Markets.

Scott Heleniak - *RBC Capital Markets - Associate*

Yes. Just a quick question on the GL reserve development you had there. Is there any other detail you can provide on that just in terms of some of the risks or the classes where you have the development? And did you see any -- in particular, on the contractor side. Just curious if you can give more color on that.

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

Yes, I would say there's nothing unique from a segment or a class of business perspective. Now remember, we are heavier construction. We always have been -- but there's nothing that I would point to because the portfolio hasn't shifted, and I think that's also important to understand, we haven't had a big shift in our portfolio in terms of limits profile or industry classification that we have in that book of business, but it is more heavily weighted towards construction. But that's been the case throughout the last few decades. So there's nothing that's shifted there. But I would say what we've seen on the severity side is pretty broad-based. And again, I think as you would expect from a social inflationary perspective, they don't -- that trend doesn't differentiate between construction and other product type exposures.

Scott Heleniak - *RBC Capital Markets - Associate*

Yes. Okay. That's good. And then just on workers' comp, you made a comment in the script about just seeing some higher medical trends, which I think there's a lot of people in the industry that are talking about that now. But how are you feeling about the line just for yourselves and for the industry? And do you expect that rate increases will finally start happening for the industry this year in that book?

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

I don't think it will be this year. And I say that because we have a pretty good line of sight as is everybody else into what the filed loss costs were for the majority of states for the -- almost the entirety of 2024. Those loss cost filings are still negative on a blended basis, they're probably in the, call it, mid-single-digit negative range across the entirety of our footprint. Now our actual rate change has been well below that, running around 2% negative, 1.5% on a full-year basis. I do think as we look into 25 and maybe even the latter half of this year, you might see those temper back to flat -- but I do think there's going to be a lag in the recognition of any movement from a loss experience perspective by the time the bureaus start to react to that. But just another word on medical inflation. When you look at the component parts of the CPI inside of medical that impacts workers' comp, the most, it's hospital services, which actually have moved a fair amount from a CPI perspective, and then physician services, which is -- those 2 together are about 90% of the lost dollar and then add in Pharmaceuticals, which is the remaining roughly 10%. On a blended basis, it's still running in the 3.5% to high 3% range and wages are still around 4%. So you still have a slight favorable gap there. I think the bigger question is at what point does the improved frequency that's been happening year after year start to subside and level out. And I think that's more of the open question. We've -- as you know and you've seen in our performance, our growth in workers' comp has been quite low because we've been hesitant to get overly aggressive on pricing. And the market continues to be very actively competitive in that space, and that's really hurt our ability to grow. Margins are good, but we do think over time, you're going to see some pressure on those margins.

Scott Heleniak - *RBC Capital Markets - Associate*

Okay. That's good. And yes, just the last one I had was just on the the property treaty, you took the retention up to $100 million from $60 million. Was that -- I mean, I understand you talked about it's kind of in line with the exposure now increased size of the book and everything. But was some of that rate driven as well, just what kind of drove the $100 million to $60 million? Was there anything else beyond that? And what did you see for kind of rate increases at 1/1 on reinsurance?

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

Yes. So just in response to the first question, I think generally speaking, the majority of reinsurers have established a threshold of 1- and 10-year attachment points, generally speaking, they wanted to get out of the earnings volatility business, and they generally didn't want to play below 1 in 10. Our current attachment point is right around 1 and 7, so it's still a little bit lower than where the majority of reinsurers like to play. But as we do every year, for us, we're evaluating expected ceded premium by layer versus expected ceded losses by layer, and that had been a good economic trade for us for a long time. And based on how pricing has moved, we decided to increase that retention last year. Now we also only placed about half of the first layer last year. So it was $60 million attachment, but we were taking half of the first 40 x of 60. So really, for all practical purposes, it went from an $80 million retention to $100 million retention. And that's really what drove it from our perspective was market capacity has started to get a little bit tighter at that attachment point and then the pricing from our perspective wasn't as favorable. But all in, and I think this is -- I know

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Tony reinforced this point in his prepared comments is we were able to eliminate all co-participations throughout the program in addition to increasing the limit and adding in that cat bond, our 1 in 250 impact to equity, 1 in 250 impact to equity is now down to 4%, and we feel good about that. The only thing I would say about pricing on the renewal is when you look ~~across~~ layers and even overall, I would say it was very much in line with where sort of industry prognostication was post 1/1 from an overall market perspective. So I think we felt good about where it landed from a pricing standpoint.

Operator

We have the last person to ask a question coming from the line of Meyer Shields of KBW.

Meyer Shields - *KBW - Managing Director*

I apologize if this has been covered already. But within Personal Auto, was there any true-up to prior quarters in 2023 in the loss pick if we take out the adverse development?

Anthony David Harnett - *Selective Insurance Group, Inc. - Senior VP & CAO and Interim CFO*

Current year movement? Yes. In Personal Auto, we had roughly speaking, a $9 million update to the current accident year. And then on a full year basis, that was about $16 million -- $17 million.

Meyer Shields - *KBW - Managing Director*

Does that relate at all to -- like are the development patterns for the mass affluent book any different than they were in sort of the standard book that you're moving away from?

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

No. We don't really attribute this to the shift in the book of business as much as just quick recognition of some elevated frequency and severity in the current year that we wanted to react to as quickly as possible.

Meyer Shields - *KBW - Managing Director*

And then, again, apologies if I missed this. I was hoping to get catastrophe losses by line of business in the quarter.

Anthony David Harnett - *Selective Insurance Group, Inc. - Senior VP & CAO and Interim CFO*

Net losses for commercial lines?

Meyer Shields - *KBW - Managing Director*

Commercial, I assume that the personal is all home.

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Anthony David Harnett - *Selective Insurance Group, Inc. - Senior VP & CAO and Interim CFO*

Yes. Personal, the home was $8.1 of the $9.1 million in Personal Lines. For the commercial lines, we had $13.8 million in commercial property. We had $0.9 million in commercial auto, and we had $1.5 million in business owners for a total of $16.1 million or 2 points on commercial lines.

Operator

At this time, speakers, we don't have any questions on queue. You may proceed.

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

Great. Well, thank you all for joining us this morning. We appreciate your time and your questions. And as always, feel free to reach out to Brad with any follow-up. Thank you.

Operator

And that concludes today's conference. Thank you so much, everyone, for joining. You may now disconnect, and have a great day.

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