Fourth Quarter and Year End 2020 Conference Call
February 24, 2021

Company Participants
Jeff Miller – Chief Financial Officer
Kevin Burke – President and Chief Executive Officer

Q&A Participants
Bob Farnam – Boenning & Scattergood
Doug Eden – Eden Capital Management
James Bach – KBW

Operator
Ladies and gentlemen, thank you for standing by and welcome to the Donegal Group Incorporated Fourth Quarter 2020 Earnings Conference Call.

It's now my pleasure to hand the conference over to Chief Financial Officer, Jeff Miller. Mr. Miller, I hand it to you.

Jeff Miller

Thank you very much. Good morning and welcome to the Donegal Group conference call for the fourth quarter and year ended December 31, 2020.

On behalf of everyone at Donegal Group I want to thank you all for your interest in our company. Yesterday afternoon, we issued a news release outlining our financial results. For a copy of that release, please visit the Investor Relations section of our website at donegalgroup.com. In addition, we have made available a supplemental investor presentation on our website.

In today's call, Kevin Burke, President and Chief Executive Officer, will provide a business update. I'll follow Kevin's comments with highlights of our quarterly and full year financial results. Kevin and I look forward to answering any questions you might have following our prepared remarks.

Before we get started, you should be aware that our commentary today includes forward-looking statements that involve a number of risks and uncertainties. We described forward-looking statements in our news release and we provided further information about risk factors that could cause actual results to differ materially from those we project in the forward-looking statements and the report on Form 10-K that we submitted to the SEC. You expect to file our Form 10-K for 2020 on around March 5th. You can access our Form 10-K through the Investors section of our website. We use certain non-GAAP financial measures to analyze our business results and refer you to the reconciliation of non-GAAP information included in the news release we issued yesterday.

With that, I'll turn it over to Kevin.

Kevin Burke

Thanks, Jeff, and welcome everyone.

Yesterday we reported favorable fourth quarter results that contributed to excellent results for the full year of 2020. We are grateful for the financial success we achieved despite the events and challenges we all faced in 2020. As I stated in past earnings calls and other forums, our goal has been to build upon the foundational changes we implemented throughout our organization over the past several years. And our improved underwriting performance demonstrates that these changes are having an impact. We feel that Donegal is positioned perfectly to take advantage of the hardening commercial insurance market conditions in our operating regions. We are also continuing to stabilize our Personal Lines segment. We've been emphasizing profitability overgrowth in recent years.

We reported net income of $14.6 million or $0.49 per diluted Class A share for the fourth quarter of 2020, a $52.8 million or $1.83 per diluted Class A share for the full year. We achieved solid level of underwriting profitability with combined ratios of approximately 96% for both the quarter and year. And we've achieved favorable loss reserve development in each of the past few years. We are particularly pleased with our full year 2020 results in light of the significant uncertainty surrounding the pandemic and its effect on economic and business conditions, as well as the record setting severe weather activity throughout the U.S.

Our net premiums earned decreased just under 2% for the year, while we continue to achieve solid commercial lines growth during 2020. The modest net reduction in our premium revenue largely reflects the impact of corrective measures we implemented beginning back in 2018 to restore profits of our personal lines business.

During 2020, we shifted our focus from corrective efforts to maintaining our core book of personalized business as we prepare to launch new personalized products later in 2021. As we roll out those new products throughout the 11 States in which we write personal lines, we expect to return modest levels of personal lines growth in 2022 and beyond.

In commercial lines, we expect renewal premium increased to increase from the modest levels we implemented in 2020, and we expect policy count growth to continue as our expanding relationship with our key agents provide a steady stream of new commercial accounts. We have excellent momentum as we move into 2021. In 2021, our commercial lines growth will inclusion of premiums from four Southwestern states. As we announced previously, Donegal Group's 2021 results will include 80% of the pooled underwriting results of the Mountain States Insurance Group, which Donegal Mutual Insurance Company acquired in 2017. We currently expect that the Mountain States Insurance Group will generate approximately $48 million to $50 million in net premiums written in 2021, of which 80% will be included in our consolidated net premiums written throughout the year.

As a result of the continued organic growth and the addition of Mountain States premiums, we expect commercial growth will exceed the modest declines in personal lines net premiums written throughout 2021. During 2020, our commercial lines business continued to grow as a proportion of our overall product mix reaching 57% of our total net premiums written for the full year of 2020. Our current mix reflects a diversified blend of products and geographical spread of risk. We're continuing to gain market share throughout our operating regions and maintained an 86% premium retention level across our commercial accounts, which are great indicators over strong agency relationships and favorable market conditions.

Considering the low interest rate environment, higher frequency of severe weather events and the uncertain future impacts social inflation will have on loss costs, we expect the market conditions will remain favorable for additional premium rate increases in 2021. Our commercial lines generated a statutory combined ratio of a 97.8% for the full year of 2020, despite a modest increase in the impact of weather related losses and the continuing lack of profitability in commercial auto. We have seen incremental improvement in our commercial auto results over the past few years, and we expect additional premium rate increases in underwriting refinement in select regions to have a favorable impact on the performance of that line of business in 2021 and beyond.

In our personal lines business segment, we benefited from lower claims frequency throughout 2020 due to reduced driving activity and traffic density. Our 2020 personalized statutory combined ratio was a 92.4%, which compares very favorably to the 102.6% for 2019. We expect claim frequency to continue to revert back to historical norms, and we will continue to monitor our claims statistics and take appropriate rating actions in response.

As I mentioned earlier, we look forward to the phased rollout of our new personal lines products beginning in the second half of 2021. And continuing into the first half of 2022, we have received regulatory approvals for our new rates and forms in several of the States that will be included in the initial rollout. While the new products will include various coverage enhancements, the primary advantages that we anticipate relate to modernize rating methodology that includes enhanced pricing segmentation and application of predictive analytical pricing models.

As we deliver the enhanced products through a brand new agency web portal that aims to provide our independent agents with the best-in-class user experience. We look forward to competing more effectively for new quality personal lines accounts. While we are pleased with the bottom line profitability, Donegal Group was able to achieve in 2020, we are making progress on a number of initiatives that we expect will lead to greater returns in future periods.

For example, it's difficult to quantify the future value we will gain from this significant progress we've made on our systems monitorization project. The replacement of our remaining legacy systems will enhance our ability to make significant advancements in underwriting, data analytics and operational capabilities over the next few years, as a quick project update, we have made great strides and have significantly enhanced our project management resources and abilities. Since the first foundational release was implemented last February, we have converted the vast majority of our workers' compensation policies to the new platform.

The scope of the next software release has been expanded to meet compelling business demands and numerous technical and business teams are actively coordinating their efforts to ensure a successful implementation. The new personal lines products I described earlier are the primary deliverable of the current software release, which we refer to as Release 2A. We will also implement new reporting systems that will enable further enhancements in data analytics and business intelligence.

Design and development work on the next software release, which we refer to as Release 2B will accelerate in the second quarter of 2021, running concurrently with Release 2A testing and deployment activities. The scope of Release 2B includes three additional commercial lines of business that will compliment the worker's compensation line, which is already in production. In preparation for Release 2B, we have performed a comprehensive review of our current workflows and developed a detailed roadmap for our future state end-to-end commercial underwriting process. This preparation will greatly streamline Release 2B development efforts as we look forward to beginning to migrate those commercial lines to the new platform in 2022.

Shifting to our broader strategic priorities, we refreshed our three-year strategic plan during 2020. The plan emphasizes several primary strategies, which include a focus on achieving sustained excellent financial performance, strategically modernizing our operations and processes to transform our business, capitalizing on opportunities to grow profitably and deliver exceptional service to our agents and customers. As we execute these strategies, we expect to continue to build and enhance the book value of Donegal Group for the benefit of all our stockholders.

Our book value per share at December 31, 2020 increased 9.3% to $17.13 compared to $15.67 at year end 2019, which was achieved during pandemic conditions and was primarily attributable to solid operating performance. We were also pleased to declare a quarterly cash dividend of $0.15 per share of our Class A common stock and $0.1325 per share of our Class B common stock, which was paid on February 16, 2021 to stockholders of record as of the close of business on February 2, 2021.

As a reminder, we have gradually increased our cash dividend for each of the past 18 years. Based on yesterday's closing price at $13.90 per share, our current dividend rate represents a 4.3% yield on our Class A common stock.

With that, I’ll turn the call over to Jeff for a review of our financial results. And then I'll return with a few closing remarks. Thank you.

Jeff Miller

Thanks, Kevin. I'll highlight a few of the operational and financial metrics for the fourth quarter of 2020, and I'll also comment on notable metrics for the full year, and we'll be glad to address any questions later in the call.

We entered 2020 with strong momentum, anticipating favorable impacts from the many actions we implemented over the past several years to improve our financial results. As Kevin noted, we understood that some of those actions would slow premium growth in the short-term, but we also knew they would benefit profitability over the longer term. We believe the majority of the negative growth impact is now behind us, and that we are nearing an inflection point from which measured organic growth will resume at profitability levels that we deem acceptable.

In commercial lines, we continue to achieve solid growth through increased new business writings and moderate pricing increases. Commercial net premiums written grew by 5.2% to $98.1 million for the quarter and $426 million for the year. Excluding workers' compensation, commercial premium rate increases accounted for approximately 2% growth for the fourth quarter. And we expect to achieve a higher average rate increase in 2021.

Quickly moving through our main commercial lines of business; for the fourth quarter commercial auto premiums increased by 11.9%. As discussed in prior calls the increase in commercial auto premiums primarily reflected premium rate increases as we are taking various actions to reduce exposures in certain regions. Average commercial auto rate increases were 6.8% in the fourth quarter and 9.7% for the full year 2020. Our commercial multiparity book of business grew by 8.5% during the fourth quarter, primarily as a result of an increase in new business writings.

Finally premiums in our workers' compensation line declined by 6.9% during the fourth quarter, primarily as a result of bureau mandated rate reductions. We've been monitoring the impact of premium audits that we performed following the expiration of workers' compensation policy terms. As we stated in last quarter's call, we do anticipate some level of reductions in exposure based premiums as we complete workers' compensation premium audits in 2021. We are pleased that audit activity had virtually no impact on the fourth quarter workers' compensation premiums, and we have not seen any evidence to date that suggests audit activity will have a material negative impact going forward.

The commercial growth in 2020 was more than offset by a decline in personal lines premiums, which decreased by 8.3% during the quarter $71.3 million and 9.1% for the year to $316 million. The decline largely reflected the impact of corrective measures we implemented beginning in 2018 to restore the profitability of the personal lines business segment. In total, net premiums written decreased 0.9% to $169.4 million for the quarter, and 1.4% to $742.1 million for the year.

Moving from the top line to an analysis of underwriting results, while we expected improved results in the auto lines during 2020, as a result of rate increases and underwriting adjustments we made in 2019. Reduced driving activity and lower traffic density due to the pandemic also contributed to reductions in auto claim frequency levels throughout the year. Government mandates and restrictions on businesses and individuals varied greatly across our operating regions, making it challenging to measure the incremental impact of recent corrective actions versus pandemic related factors.

We welcome improvement in the auto lines and a continuation of favorable workers' compensation performance, key drivers of improved underwriting results in 2020 compared to 2019. Our commercial lines generated a statutory combined ratio of 99.5% for the fourth quarter of 2020, which was higher than the 92.7% combined ratio for the prior year quarter. This increase was partially due to the impact of weather related losses in the Southern States during the fourth quarter of 2020, compared to less active weather patterns in our operating regions during the fourth quarter of 2019.

For the full year 2020, we were pleased to achieve a commercial lines statutory combined ratio of 97.8% despite the occurrence of record – of a record number of severe weather events throughout the country. For the personal lines segment, we experienced greatly improved underwriting results as evidenced by the 95.1% statutory combined ratio for the fourth quarter of 2020, compared with 100.3% for the prior year quarter.

For the full year 2020, the 92.4% statutory combined ratio reflects the lower personal automobile claim frequency, I mentioned earlier. The reduction in claims was more pronounced in the second quarter as incoming claim volumes increased from that level throughout the remainder of the year, but stabilized below historical norms due to lower traffic density. Our exit from the personal lines markets and several weather prone states in 2019 also served us well considering the magnitude of severe weather events in those markets in 2020.

In terms of weather impact to overall results, the 4.8 percentage point loss ratio impact of weather related loss activity for the fourth quarter of 2020 exceeded the previous five-year average of 4 percentage points for fourth quarter weather impact. The weather impact to the full year 2020 loss ratio was in line with the previous five-year average of 7 percentage points. Net favorable development of reserves for losses incurred in prior accident years of $2.6 million reduce the loss ratio for the fourth quarter of 2020 by 1.4 percentage points.

That impact was similar to the full year of 2020 impact of favorable reserve development, which reduced the loss ratio by 1.7 percentage points. We are pleased that reserve development has been consistently favorable over the past two years, and we continue to add to reserve levels during 2020 in light of commercial lines exposure growth, and in response to uncertainty related to changes to historical loss reporting patterns caused by the pandemic.

For our total operations, we achieved a 62.7% loss ratio for the fourth quarter of 2020, which compared favorably to the 63.9% loss ratio for the prior year quarter. The full year 2020 loss ratio of 62% improved 5 percentage points compared to 67% for the prior year. The expense ratio was 32.4% for the fourth quarter of 2020, compared to 31% for the fourth quarter of 2019. For the full year, the expense ratio increased from 31.3% in 2019 to 33% in 2020. We primarily attribute the expense ratio increased to a lower premium based, commercial lines growth incentives for our agents and increase in underwriting based incentives for our agents and employees and higher technology systems related expenses associated with our multi-year systems modernization project. Our combined ratio was 96.2% for the fourth quarter 2020 virtually unchanged from the 96.1% combined ratio for the prior year quarter. And for the full year, the combined ratio improved by 3.5 percentage points to 96% compared to 99.5% in 2019.

Moving briefly to investments, we continue to maintain a large percentage of high-quality fixed income securities in our portfolio representing 93.5% of the $1.2 billion invested at December 31, 2020. Net investment income of $7.6 million for the fourth quarter of 2020 was slightly lower compared to the prior year quarter as an increase in average invested – an increase in average invested assets largely offset a decrease in the average investment yield. We projected investment income will remain relatively constant in 2021 as we expect to invest additional funds from positive operating cash flows to offset modest increases in the average investment yield we expect to earn in 2021.

With that, let me turn it back to Kevin for closing comment.

Kevin Burke

Thanks, Jeff.

Last year, Donegal held its fourth quarter conference call on February 25th, which was shortly before the onset of pandemic conditions that dramatically altered the lives of our employees, our agents, and our customers. Within one-month of that call, life as we knew it had changed in ways we could not have imagined just weeks earlier. Despite what may seem at times is an underpinning barrage of challenging circumstances, Donegal's management team, our employees and network of independent agents pulled together like never before to overcome the obstacles that pandemic place before us.

Now let's fast forward one-year later. We have not missed a step. We are steadily moving forward to execute our strategic plan and fulfill our mission to be there when it matters most for our employees. As we execute these strategies, we expect to continue to build and enhance the book value of Donegal Group for the benefit of all of our stockholders.

Before we open the lines for questions, I want to take a moment to highlight the market valuation of Donegal Group in comparison to the industry as a whole. We recently spoke with a long-term star holder who encouraged us to emphasize to potential investors where Donegal is positioned within its peer group in terms of price to book value. As of yesterdays close Donegal Group traded at an 18% discount to our previously reported book value at September 30, 2020. If you compare that price to our December 31, 2020 book value of $17.13, the discount is now at 19%.

In our financial supplement, we include comparable multiples for many of our peer companies. As of February 22, 2021 the average price to book value multiple across the base of those companies was 1.3 to 1 or a 30% premium over book value. Donegal Group has now achieved 8 strong operating quarters in a row, is in arguably the strongest financial position in our history and has a long history of returning solid dividends to our stockholders. Ensure we will continue to be proactive in communicating our investment thesis to prospective investors over the course of 2021.

With that, we'll ask the operator to open the lines for any questions that you may have.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question will come from the line of Bob Farnam with Boenning & Scattergood.

Bob Farnam

Good morning. It sounds like you're going to – for personal lines you'll be in a holding pattern this year. The profitabilities where you wanted to be, so are we going to say that the growth expectations this year is going to be basically flattish for personal lines?

Kevin Burke

Good morning, Bob. Thanks for the question.

Yes, we anticipate right now that the first half of the year, I think that that's appropriately said that we are in a bit of a holding pattern. We've made a lot of improvement in sustaining and maintaining the existing personal lines book of business. All the rate action that we had to take in late 2017, 2018, we believe that the impact of that disruption to the book of business is behind us. Each month for the last several months, we've seen an increase in additional quoting activity in personal lines.

The rate increases if any that we've taken have been very modest. So we think the first half of the year, there's really no disruption to that book of business. And we do see some very incremental improvement. As you've categorized it correctly, the second half of the year, when we roll out the initial wave of the personal lines products, obviously we're very anxious to do that. We think that from a pricing standpoint, we have it dialed inappropriately. But the reality is we're really not going to see any real lift from the new product – new personalized products until 2022.

But we are anxious to launch those products the second half of the year, and we will see some uptick, but I think that we're looking at very modest increases if any it's more about making sure that we've got a price product that is going to make sure that from a profitability standpoint, we can grow that line with confidence. So we're anxious to launch that product second half of the year.

Bob Farnam

All right. Okay. Thanks for that. And it looks like, all right, so now you're going to be taking premium from the Mountain States operations. You had winter storm losses in Texas in the past week or so. Any impact on that, on this book that, you're going to be taking some of the exposure?

Jeff Miller

Yes. Bob thanks. This is Jeff. First of all, our thoughts go out to all those that are affected by that recent weather event particularly in Texas. It's still early, but we have not received a significant number of reported claims from that event so far and specific to the Texas exposures Mountain States rights only commercial business, and has a relatively small amount of premium writings in that state.

From a stockholder perspective, there is an important point that I should make in relation to Mountain States and the potential first quarter financial impact to Donegal Group. Any losses that relate to policies written prior to 2021 will be fully recognized by Donegal Mutual. So Donegal Group will only begin participating in losses for policies that renew or are newly written in 2021. The only Mountain States losses that will be included in the pooling agreement then would be related to those policies that were either written new or renewed in the last seven weeks. So as of this morning, we checked on that and Mountain States has only received a handful of claims on 2021 effective date policies.

Bob Farnam

Okay, great. And last question for me is for commercial auto, it sounds like obviously the rates have been going up for quite a while. Can you just give us an idea of the things you've been doing in terms of the exposure sides or the re-underwriting side that should benefit that book going forward?

Kevin Burke

Sure. Let's talk a little bit about some baseline results, and then we can talk about where we're going, and what we anticipate. From a statutory combined ratio we have made improvement in the line. So last year was it a 117.4% or now to 112.7%, still unacceptable, but we've made almost a 5 point swing. We do have a commercial auto profit improvement team that meets frequently and they make adjustments as needed every month. Rate increases for 2021 is going to vary greatly by state, and we started to look at a state-by-state basis. I will give you an example of Wisconsin is at the low end of that scale. And we're probably looking at a 5% to 7% rate increase for commercial auto in Wisconsin. At the other end of the spectrum is Georgia, which you've heard us report about on numerous quarters, and Georgia continues to be a challenge for us.

In addition to rate increases that we're taking and those rate increases, Bob are upwards of 30%. Also in accounts that we define is heavy exposure. Now those are accounts with 10 vehicles or more, in the past year in 2020 we have reduced our total vehicle count in Georgia by 22%. So by reducing the exposure and continuing to do that in the first half of this year aggressively taking rate action were warranted. We believe that this line is going to come into rate adequacy here, maybe by the end of the year, first quarter, next year. We do have a number of States that are already very close to that, and it's been, as you know, it's been a long-term process for us.

Bob Farnam

Have the customer is been accepting those rate increases like how is your retention fared – premium retention fared as you've been trying to put through those rate increases?

Kevin Burke

Yes. The retention is very good, and so obviously that's indicative of what's going on in the industry. And just as a reminder, it was 2011 from an industry standpoint was the last time that commercial auto was profitable other than industry level. So yes, the environment is right for those rate increases and our retention is good. And so we're going to continue to push those

Rate increases and do what we need to do to get this line back in check. And we are well on our way to doing that.

Bob Farnam

Great. Best of luck in 2021. That's it for me. Thanks.

Kevin Burke

Thank you.

Operator

And our next question will come from the line of Doug Eden with Eden Capital Management.

Doug Eden

Good morning, Kevin and Jeff morning.

Kevin Burke

Good morning, Doug.

Doug Eden

Congratulations on another strong quarter and especially the eight consecutive quarters now of the stable and favorable loss reserves. Very well done by you and all the employees, especially during this challenging and unusual past year we've had. Also Kevin, your comments at the end of your prepared remarks regarding the stock price discount, not only just to the company's new $17.13 book value, but also to the peer P&C companies premiums to their book value multiples was very well said. And I hope that message continues to get them imparted to the investment community.

I have a couple of questions. Number one maybe dovetailing a little bit on the weather question in Texas. We also had in the first quarter of this year already the nor'easter have come up through the mid-Atlantic, a few through the Southeast, and I believe a few up in New England as well. So I just wanted to know you mentioned Jeff the impact on Texas being minimal. I was just curious about the nor'easter and some of the other first quarter, weather what you're seeing there in the existing more populated states from a book of business standpoint?

And then secondly, several of the publicly traded reinsurers have mentioned they obtained one-one renewal rate increases in the 10% to 15% range. Did Donegal experience something similar in your January pricing and did you retain higher net levels as you did a few years ago to offset the additional expense?

Jeff Miller

Sure. Doug this is Jeff. Thank you for those questions and for your comments as well.

On the weather front to this point in the year we have not seen a significant impact from the nor'easters and the weather, the cold temperatures that we're in much of the country. It is still early but we started the year in January with a very mild month weather-wise and almost record low weather losses. So to the extent that we have a few losses from the nor'easters and the snow events, we don't expect that to be anywhere close to above average for the first quarter. So, so far so good and we're cautiously optimistic as the temperatures are rising here in our home area, in Pennsylvania. So hopefully the worst – the worst of the winter is behind us.

On the second question as to re-insurance increases, we did have a very successful renewal of our re-insurance program. And as I believe you are aware – our reinsurance program is now consolidated for the entire Donegal Insurance Group. And it all renews as of 1/1/2021 we renewed the entire program. We did have some pricing increases on our program because there were several of our contracts where we did have losses in 2020. We utilized the re-insurance that we purchased both from a weather perspective as well as some casually losses that we incurred.

We actually expect to recover nearly half of the re-insurance premiums that we paid in reinsurance losses for 2020. But as a result of that loss activity, we did incur some premium price increases on the program that on average we're about 20%. So a little bit higher than the range that you quoted there, and that range is at the low end of the range for insurers who had loss activity on their reinsurance program.

So we were necessarily pleased with a 20% increase in reinsurance costs, but it was in line with what we expected. And we did not increase our retentions. We did not change any of the retentions on our program. But we did actually increased some of the coverage on a few of the casualty lines to reflect the fact that we are writing larger commercial accounts. So all in all, we were pleased with the renewal. It went very well. And we have a very solid panel of reinsurers on the program and that hopefully it gives you a good solid understanding of the impact.

Doug Eden

It does. And I know we consolidated amongst the different subsidiary companies from a purchasing standpoint a few years ago, which made a lot of sense. Do you expect much of an EPS hit then or impact in 2021 because of the re-insurance pricing or it's pretty well going to be covered and when you think of the rate increases spread out amongst the overall book that you're getting from a primary basis?

Jeff Miller

Right, it's going to be part of the mix and we're going to have organic growth. We're going to see the Mountain States growth from bringing that into the pool. As Kevin mentioned, we'll likely see some continuing declines, modest declines in personal lines, but we expect the commercial lines to – we're projecting as high as perhaps an 18% net premium written growth in commercial lines. When you add in the organic growth and the Mountain States growth, which should translate to somewhere around 7% to 7.5% net premium written growth overall, when you include the decline in personal lines.

Doug Eden

Yes. That would be great. That would be back towards the historical averages. Finally, one final question, if I may. Regarding the work comp line I know in the fourth quarter premiums dropped a little bit at a – more of a rapid pace in comp than they did compared to the year-to-date and even some of the more historic quarterly trends. Are you seeing pricing, as you mentioned in the last few quarters stabilizing a bit in that line or rate level still going down? I was curious if the decreasing in premiums was more reflective of fewer item count, as opposed to just rate level decreases?

Jeff Miller

It was not necessarily item count decreases, it was primarily rate decreases. And it's unfortunately not – we're not necessarily seeing a bottom yet, but we are seeing a moderation of those decreases. We are attempting to offset the bureau rate decreases with our own changes to loss cost multipliers and other internal factors that we control over. We would like to see those the worker's comp rates kind of net out to roughly flat for 2020. We'll be working toward doing that. But it wouldn't surprise me if we're still in a slightly negative growth or negative reduction in workers' comp premiums going into 2021. It's just a matter of getting those rate bureaus to recognize that the loss costs are now increasing in certain areas, but yes, so far the profitability of that line continues to hold steady and we're expecting that to continue into 2021.

Doug Eden

Okay. Thanks, Jeff. Well, thanks to both of you and to the entire team. And again congratulations on another very strong and consistent quarter, a very strong close to 2020. Sounds like 2021 is going to continue that momentum and hopefully the stock price will start to narrow that gap to not only the curtain of the existing book value, but even more importantly, to get to where the peers are, because I think we certainly deserve it. But from an execution – from operational execution standpoint, I think you all, and the team are leading and hitting on all cylinders. So, on behalf of a lot of shareholders, thank you for doing everything you're doing. It's very well noted and appreciated.

Jeff Miller

Thank you, Doug.

Operator

And our next question is going to come from the line of James Bach with KBW.

James Bach

Hi. I had a question on the commercial auto rates. I saw a 6.8% for the quarter, which looks like it's climbing down a bit from the first three – first nine months of 2020. So I was just wondering if there's kind of a broader or more enduring trend towards decelerating rates in the commercial auto line.

Jeff Miller

This is Jeff, James. Following up on what Kevin said earlier, I would say that we are expecting the rates on average to be higher than that fourth quarter increase, likely closer to the high single digits. So based upon the mix of states and the activities that there are certain states where we're not pushing for as high of an increase, but they're still in the 5% range or higher. And then when you layer in the states where we are pushing for, 22% as high as 30% we think that should average out to close to a 10% rate increase for 2021. So yes, the fourth quarter we think was somewhat lower than what we expect to see going forward.

James Bach

All right. And kind of longer term, what are the plans for trying to get the commercial auto combined ratio to sort of a more acceptable level in your view?

Jeff Miller

Yes, as we earn the premium increases that we put through in 2020, and then as we – 2021 planned increases are earned. We expect to get a lot closer to having an underwriting profit. We're targeting a – like a 96% combined ratio, but we know it's going to take us probably at least two years to get there. So I would say by the end of 2022, we would expect to be at least to a breakeven if not starting to see some modest profitability in the line, assuming that lost cause continue on the current rate.

James Bach

Perfect. Thank you so much.

Jeff Miller

You're welcome. Any questions?

Kevin Burke

Thank you.

Operator

Thank you. And at this time we have no further questions. I'll turn the conference over to Mr. Miller for closing comments.

Jeff Miller

Thank you, Holly. And thanks to all of you for joining the call today. We appreciate the questions and the participation, and we look forward to speaking to you again after reporting first quarter results. Have a great day.

Kevin Burke

Thank you.

Operator

Once again we'd like to thank you for participating on today's Donegal conference call. You may now disconnect.