2021 First Quarter Conference Call
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Company Participants
Jeffrey D. Miller, Executive Vice President and Chief Financial Officer
Kevin Burke, President and Chief Executive Officer

Q&A Participants
Bob Farnam, Boenning and Scattergood
Douglas Eden, Eden Capital
James Bach, KBW
Jamie Inglis, Philo Smith

Operator
Good day. Thank you for standing by and welcome to the Donegal Group Inc Q1 2021 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)
I would now like to hand the conference over to your speaker for today, Mr. Jeff Miller, Chief Financial Officer. Thank you, sir. Please go ahead.

Jeff Miller
Thank you very much. Good morning and welcome to the Donegal Group conference call for the first quarter ended March 31, 2021. 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 and overview. I will follow Kevin's comments with highlights of our quarterly results, and then Kevin will return with closing remarks before we open the line for any questions you may have.

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 in the report on Form 10-K that we submitted to the SEC. We expect to file our Form 10-Q for the first quarter on or around May 7. You can access our SEC filings through the Investors section of our website.

Also, we use certain non-GAAP financial measures to analyze our business results and we 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. Our results for the first quarter of 2021 demonstrated a continuation of solid progress we are making in a number of areas. We believe we are in an excellent position to benefit from the economic recovery in our regional markets throughout 2021 as the businesses we insure continue to recover from the pandemic conditions over the past 12 months.

Many of the strategic initiatives and operational changes we implemented at Donegal over the past three years are contributing to our improved financial results. We've made significant investments in technology and analytical capabilities. We are preparing for the deployment of our new personal lines products, and we continue to have strong growth in our commercial lines business segment.

In the first quarter of 2021, we reported net income of $10.5 million or $0.35 per diluted share of our Class A common stock. The net income compares favorably to the $3.7 million or $0.13 per diluted share of our Class A common stock for the first quarter of 2020. The increase was driven by several factors including a net market-to-market gain on equity securities we held on March 31, 2021, that compared favorably to a substantial net market-to-market loss for the prior-year quarter.

We reported net operating income of $8.6 million with a combined ratio of 98.5%. We achieved this level of underwriting profitability, despite unusually severe weather conditions across the country, and in the case of Donegal, higher-than-anticipated large fire losses for the period.

Donegal achieved net premiums written growth of 8.9% during the first quarter of 2021 with 18.7% growth in our commercial lines compared to the prior-year quarter. The largest contributor to this growth was the inclusion of commercial premium from our four Southwestern states in our consolidated revenues for 2021.

As we announced previously, Atlantic States Insurance Company, our largest insurance subsidiary, began to receive an 80% allocation of the underwriting results of Mountain States Insurance Group, which became part of Donegal Insurance Group through a Donegal Mutual Insurance Company acquisition back in 2017. We expect that 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.

We also achieved market share gains and premium rate increases that contributed to growth in all of our commercial lines and expect to capitalize on opportunities to obtain additional rate increases due to favorable market conditions. We've been implementing substantial renewal premium increases in our commercial auto over the past few years and believe we are nearing rate adequacy in that line of business.

In our commercial multi-peril line of business, we are closely monitoring pricing and growth metrics as our agents continues to provide us opportunities to write new accounts and where we believe the market will continue to allow higher levels of renewal rate increases.

We've been working to continue to build upon our well-established agency network, despite the challenges inherent with remote working environments and decentralized office arrangements.

We continue to view our strong agency relationships as a principal driver of commercial growth and expect to continue to cultivate these relationships further as additional opportunities to interact personally with our agents present themselves in the coming weeks and months ahead.

Overall, we feel very confident that our forward-looking strategy fits perfectly with our commitment to the independent agency distribution channel and the market trends we are observing particularly for commercial lines. We've expanded our capabilities to serve a broader segment of the commercial market within the classes of business we have historically served.

We believe Donegal's product and geographic diversity, along with our expanding agency relationships, will help provide us with ample opportunities to profitably grow commercial lines in the foreseeable future.

Moving to personal lines, our net premiums written declined 6.7% as we continue to emphasize sustainable profitability over growth in anticipation of the launch of our new personal lines products later this year. We are nearing our targeted level of overall stability in our personal lines segment and expect to return to a modest level of growth as we begin to roll out new products in 11 states beginning later this year and continuing into 2022.

We feel that we can grow our book of business and deliver profitable results by serving a targeted segment of the personal lines market focusing on customers who recognize the value of the advice of a trusted independent agent and desire protection from a highly responsive regional carrier who is partnering with that agent to serve and support their local communities.

While our new products will include various coverage enhancements that will appeal to our targeted customers, the primary advantages we expect relate to the modernized rating methodology including enhanced pricing segmentation and application of predictive analytical pricing models that leverage external data to a much greater extent than our current product offerings.

As we introduce these new products and pricing capabilities, we look forward to competing more effectively for new quality personal lines accounts through our independent agents.

In summary, we remain committed to sound underwriting and pricing discipline and working closely with our independent agents to deliver best-in-class customer service, which we believe is key to achieving further market share gains in our geographic regions. We are executing on our business strategies with priorities of achieving sustained excellent financial performance, strategically modernizing operations and processes to transform our business, capitalizing on opportunities to grow profitably, and delivering a superior experience to our agents and customers. As we successfully execute these strategies, we expect to continue to grow the book value of Donegal Group for the benefit of all of our stockholders.

To that end, our book value per share at March 31, 2021 increased to $17.29 from $17.13 at December 31, 2020. The increase reflected our net income for the quarter, which was partially offset by unrealized losses within our available for sale fixed maturity portfolio due to an increase in market interest rates during the period.

We're also pleased to raise our regular quarterly cash dividend by 6.7% to $0.16 per share of our Class A common stock and we increased our Class B common stock quarterly cash dividend to $0.1425 per share.

The next quarterly dividends are payable on May 17, 2021 to stockholders of record as of the close of business on May 3, 2021.

Based on yesterday's closing price of $16.06 per share, our current dividend rate represents a 4% yield for 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 move quickly through a review of the financial highlights for the first quarter of 2021. Beginning with net premiums written, we reported an 8.9% increase to $215.9 million with commercial lines representing approximately 67% of the total and personal lines representing approximately 33%.

The shift in mix for the quarter reflected the inclusion of Mountain States business that Kevin mentioned, but also reflected some seasonality as a large number of our commercial policies renewed on January 1.

Commercial lines grew by 18.7% to $144.4 million led by commercial multi-peril growth of 28.1%. Overall commercial growth included $13.4 million of premiums the Donegal Mutual and its subsidiaries wrote in four Southwestern states and that were added to the pool business allocated to Atlantic States Insurance Company.

Commercial auto premiums increased by 23% including Mountain States premiums as well as premium rate increases of 9.9% excluding the impact of No-Fault Reform in Michigan. That level of rate increase for commercial auto was consistent with the rate increases we've achieved over the last several quarters. And while there are several states where our commercial auto increases have moderated to mid-single digits, we continue to push larger double-digit rate increases and actively reduce exposures in several regions where auto profitability challenges remain.

As Kevin noted, we experienced a 6.7% decline in our personal lines premiums, which was a lower rate of decline that we experienced in recent quarters as retention remains strong and new business activity increased modestly.

Moving from the top-line growth to an analysis of underwriting results, our loss ratio increased slightly to 63.7% from 62.6% in the prior-year quarter. This increase was largely due to a higher incidence of large fire losses during the period with losses over $50,000 totaling $10.3 million or 5.5% of the loss ratio, compared to $6.3 million or 3.4% of the loss ratio in the prior year. The increase was largely due to commercial fires as we received eight fire claims in excess of $500,000, which was far above normal for a quarterly period.

While we increased our writings of larger properties during 2020, we attribute the increased fire loss activity, primarily to additional stress placed on heating and electrical systems during unusually cold weather conditions during the quarter.

Our analysis is continuing, but we did not identify any concerning trends with respect to the properties we insured. Also, we did not incur a significant amount of claims from weather events or conditions during the quarter. Weather-related losses were consistent with the prior-year quarter and below our five-year average for the first quarter weather impact.

Commercial lines generated a statutory combined ratio of 99.3% compared to 99.5% for the fourth quarter of 2020 and 96% for the prior-year first quarter.

The personal lines statutory combined ratio improved to 92.6% from 94.7% in the prior-year quarter and 95.1% in the fourth quarter 2020.

Overall, we were pleased with our personal lines results considering that we escaped any measurable impact of several unusual weather events that made headlines during the first quarter. Our exit from the personal lines markets in several weather prone states in 2019 served us well considering the magnitude of severe weather events in those markets in 2020 and into 2021.

With respect to winter storm Uri, Donegal Group's results did not reflect any material impact as the claims Donegal Mutual incurred from that event were primarily related to commercial properties in New Mexico and Texas that were insured under policies effective in 2020 and thus were not included in the pooling agreement.

Net development of reserves for losses incurred in prior accident years of $8.2 million reduced the loss ratio for the first quarter of 2021 by 4.4 percentage points, compared to $4.3 million that reduced the loss ratio for the first quarter of 2020 by 2.3 percentage points.

Our insurance subsidiaries experienced favorable development in all lines of business in the first quarter of 2021, in addition to favorable emergence within our personal auto line of business, we were especially pleased that we experienced modest favorable development in our commercial auto line of business during the quarter.

The expense ratio was 34.1% for the first quarter of 2021 compared to 33.4% for the first quarter of 2020. We primarily attribute the expense ratio increased to commercial lines growth incentives for our agents, an increase in underwriting-based incentives for our agents and employees, and technology systems related expenses associated with our multi-year systems modernization project.

Overall, our combined ratio was 98.5% for the first quarter 2021 compared to 97% for the prior-year quarter.

Before I turn it back to Kevin for closing remarks, I do want to highlight a couple of items. With respect to our investments. We continue to maintain a large percentage of high quality fixed income securities in our portfolio, representing 92.5% of the $1.2 billion invested -- vested assets at March 31, 2021.

You may remember that in March of 2020, our largest insurance subsidiary, Atlantic States Insurance Company, obtained a $50 million loan from the Federal Home Loan Bank of Pittsburgh to provide ample contingent liquidity in light of the COVID uncertainty. We did not require those funds and repaid those borrowings in March of 2021, using proceeds from the maturity of fixed income investments.

Net investment income of $7.5 million for the first quarter of 2021 increased 1.8% compared to $7.4 million for the first quarter of 2020. The increase in net investment income primarily reflected an increase in average invested assets relative to the prior-year first quarter.

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

Kevin Burke
Thanks, Jeff. I will close by noting that we were pleased that AM Best recently affirmed our A excellent financial strength rating and revise the outlook on the rating from negative to stable. I include this in my comments largely because AM Best cited in their rating rationale Donegal Group's improved operating performance in the past two years, primarily driven by initiatives implemented to help improve underwriting performance as well as investments in new technology improved loss reserving trends. We were pleased that AM Best recognized the efforts we put forth into those areas and the resulting favorable impact on our financial results.

Looking forward, we will excel as a high-performing regional carrier by developing appropriate product diversification, strong agency distribution partners with growing quality relationships, prudent capital allocation and a focus on shareholder value that rewards our various stakeholders over time. We have an exceptional team at Donegal, I'm looking forward to what we can accomplish as we move forward.

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

Questions And Answers

Operator
(Operator Instructions) Your first question comes from the line of Jamie Inglis with Philo Smith.

Q - Jamie Inglis
I wonder if you guys could give me a sense of how you think your business is correlated to GDP and the reason I'm asking that is, your commercial lines growth was very nice, a big chunk of that was Mountain states, but I'm trying to think of how your business might react given the economic environment we're coming into sort of post-COVID stimulus world that we're in now, and is there anything particular about your book of business in terms of lines of business, geographies or whatever that could give us a sense of where -- about your relative growth rate to GDP.

A - Kevin Burke
First off, Jamie, welcome and thank you for the question, this is Kevin, and I'll respond to that. And Jeff, if you have any additional comments on it. It's going to vary by region, as we all know the impact of COVID and it was handled by state-by-state method. And so it varies by region, and so it's hard for me to pinpoint and say in overall in all of our operations, this is what we expect.

Do we think it's tied to the overall obviously economic recovery? Most certainly. That was one of the reasons why we put that in our comments that we do see that the economy is starting to recover. We think that we're going to benefit from that and all indications right now when we look at the businesses that we insure, and we look at how they have been able to sustain this past year, we're optimistic that we're going to be able to see the benefits of that recovery.

So I do think that it's aligned, but it is going to vary greatly between state like New Mexico, that was very, very conservative in their abilities to open up economically versus states in the Mid-Atlantic, which were different versus Michigan. They all have different places where they're at in the curve in terms of their recovery. But overall, we do think that we will see an economic rebound. And based on the accounts that we have that we write the market segment I think that will benefit from that as well.

Q - Jamie Inglis
So, there isn't any particular concentration in businesses that may or may not recover quickly like obviously you don't insure airlines and hotels or whatever, but, you know what I mean, there is -- is sort of a very broad base standard lines book of business at the end of the day.

A - Kevin Burke
Yeah, I mean it's a very diversified book of business. I mean, everything from obviously the restaurant industry and hospitality was impacted by that. Sure. But we've got from contractors all the way through to some very, very large accounts. And so one of the things that has us encouraged is when we started to look at basically the the commercial lines and paying their premiums and staying in business, we have not seen any major downturn.

Now, the second quarter is going to be interesting because that's when the impact of COVID really hit. So quarter-over-quarter for the second quarter, I am anxious to see how those numbers work out, but I will say it's really reflective of the diversified book of business that we have in commercial lines and also it's a testament to the quality of the underwriting that we do. A lot of these business have been able to survive this past year and part of that is the analysis that was done early on when we select to quote a business like that and they've been sustainable.

So for those reasons, again, I'm optimistic that the rest of the year is going to show some lift, and I think that we're aligned with th.at

Q - Jamie Inglis
Okay, great, thanks.

A - Kevin Burke
Thank you.

Operator
Our next question comes from the line of Bob Farnam with Boenning and Scattergood.

A - Kevin Burke
Good Morning, Bob.

Q – Bob Farnam
A couple of questions here probably more in terms of getting more details. So Mountain States, you had the $13 million or so of premium. Could you just give us maybe a breakdown of what lines of business make up that $13 million and how the business has performed. I know the mutual companies kind of been rehabbing that business over the past few years, is it pretty comparable to your core book at this point?

A - Jeff Miller
Sure, this is Jeff. I am glad to address that question. In terms of the overall mix of business in Mountain States, they're a little bit different than the mix of business in our other regions. CMP would have been $6.4 million of the total, commercial auto $4.8 million, other lines that primarily are the Umbrella Liability is $1.5 million and then workers' comp is $700,000. So the book of business in Mountain States is less concentrated on workers' comp than we would have -- the concentration we would have in our other regions, primarily because there are some monoline workers' comp writers that address that market.

In terms of the performance of Mountain States, obviously with just bringing in the premiums for policies effective in 2021, we did not have a large amount of earned premiums that have found their way into our results. The loss activity there, we're continuing to be fairly conservative in our loss picks in that region. So it did not have a material impact on our results, but at this point, it would have been a modestly adverse impact on the bottom line. Does that address your question?

Q - Bob Farnam
Yeah, I think we'll see over time how that performs relative to your core book, but at least gives us a start. In terms of the reserve -- that's probably the first time in quite a while you've been able to say all lines of developed favorably. Can you give us kind of a breakdown as to the what developed and from what accident years?

A - Jeff Miller
Sure. Yes. So as I've said in my prepared remarks, $8.2 million of favorable development for the quarter, which is the highest level, I think we've probably ever had in one single quarter. In terms of the lines of business, personal auto was $3.4 million, commercial auto $1.9 million, workers' comp $1.4 million, CMP was around $900,000. In terms of the swing from first quarter last year, we saw improvement in commercial auto from a $1 million adverse development to $1.9 million favorable, so almost a $3 million swing there. And then in homeowners, we also had -- went from a modest unfavorable development in first quarter last year to modest favorable development, about a $1 million swing in that line of business.

As we looked at the development and thought about what's driving that, it occurred to us that if you remember back in 2018, in the first quarter of 2018, we did some fairly significant reserve strengthening, we primarily increased reserves in the accident years of 2016 and 2017 and then from that point forward we have been reserving more conservatively in terms of our loss picks expecting later development, later information reporting. And so our reserves for basically the last five accident years have now been established at the stronger levels.

And so it makes sense to us that we would see an increase in the favorable development. It's important to note, we did not take down IBNR in the current quarter, we actually increased our loss IBNR by almost $4 million and we also increased our loss expense reserves. So we're continuing to add to our reserves and we feel very good about our current reserve position.

Q - Bob Farnam
The commercial auto favorable development, so that's -- you're basically saying that's of the more recent accident years because those have been more conservatively reserved?

A - Jeff Miller
Correct. And we -- Of course, the majority of that would have been in the last two accident years and 2020, of course, there was some uncertainty as to the impact of COVID on loss reporting and payment patterns, so that we do believe we were somewhat conservative in terms of what we're seeing and loss emergence, but yes, it was the last two accident years that were primarily impacting commercial auto

Q - Bob Farnam
Okay, thanks for that. And one last question I have is on the other underwriting expenses, so you noted in the text that you had increased incentive costs in there, some technology costs in there. Can you -- I am just trying to get a feel for how much of those costs, what proportion of your expense ratio are made up of those types of costs, and what -- are we going to expect those costs to continue going forward, in other words, you're going to be continuing to spend on technology for the year, you're going to continue to pay incentive costs for your agents or whatnot. I'm just trying to get a feel for how that expense ratio is going to move over time?

A - Jeff Miller
Sure, this is Jeff again and let's start with the technology expenses, then I'll transition to the incentive costs. On the technology front, the impact of the ongoing modernization initiatives was about $1 million, so about 0.5% on the expense ratio. We expect that that will be the run rate here for this first half of the year and then as we implement our next release of the software currently scheduled for the end of July, that will result in some increased allocations to Donegal Group subsidiaries and we expect

that the impact of the expense ratio will increase to about 1 point for the for the later part of the year and then that will be the run rate until we get to the next release which is sometime in 2022.

So that's according to plan that's within our expectations that at the peak that project would add 1 point to 1.5 points to our expense ratio. We are looking to address the expense ratio in other ways in reducing expenses in a number of areas, but we haven't yet seen much impact from that as we are -- we've reduced some staff, but of course, we're accruing for severance costs when we do that. So that benefit won't be achieved immediately.

On the incentive compensation last first quarter when we made our estimates, those ended up being somewhat light, so we had to catch up in the second quarter. As we established our accruals for the first quarter 2021, we used the 2020 payouts as a basis for our accruals. Those payouts were high, higher than normal and COVID could have had some impact on that as our losses were somewhat lighter in several business lines. So we may be on the conservative side, we do not expect 34% to be the run rate going forward. We're certainly targeting about a 33% expense ratio for the year because we had so much commercial lines premium that was written in the first part of the year here with, as I mentioned, January 1 renewals.

We think some of that expense has been front-loaded. But it all depends on the profitability for the year and we'll continue to monitor that. We did put in into effect a new profit sharing plan for our agents for 2021 and that is designed to reward our agents if our results are very good and to not reward them as much if our results -- loss ratios increase. So hopefully the agents incentive compensation is more closely aligned with our performance as we go through 2021.

Q - Bob Farnam
Okay, very good. Thanks for the details. Jeff.

A - Jeff Miller
You're welcome.

Operator
Your next question comes from the line of James Bach with KBW.

Q - James Bach
Hello. Thanks for taking my question. I wanted to go back to reserve development and I wanted to just get a clear understanding of how much of it is tied to the 2018 underwriting actions versus kind of the COVID uncertainty impacts?

A - Jeff Miller
Sure. That's an excellent question. James. And the primary development is in the 2020 and 2019 years. So, most of it would be related to the more conservative reserving practices that we have had in place over the last several years, not so much from the accident years that were impacted by the reserve strengthening. We do still have about $1 million of favorable development from the accident years 2016 and 2017. But of the $8.2 million the vast majority is from the previous three accident years.

Q - James Bach
Do you have sort of a breakdown of that by year?

A - Jeff Miller
Sure. It's about $3.2 million in 2020, $2.8 million in 2019, $1.1 million in 2018, and then about $900,000 in 2017, and $170,000 in 2016.

Q - James Bach
Perfect, thank you. And just one more question on commercial lines. What's going to be fueling or what will fuel commercial lines growth, what's currently fueling, is there anything in the market beyond just the rate environment that's driving the small commercial growth?

A - Kevin Burke
This is Kevin. The small commercial growth continues to be an excellent spot for us, it's really our sweet spot in terms of where we continue to grow and gain market share. A lot of it has to do with our relationships with the agents, they like working with a regional carrier, they like working directly with an underwriter and working through an account and so that level of service and responsiveness and accessibility actually makes up part of the reason why we continue to grow and gain market share in that area, as we had noted that the market is also in very favorable for us to continue to look at renewal rate increases. We think that that is something that is going to continue at least for the remainder of the year, if not a little bit longer. And so those are all the reasons why we continue to see this positive uptick in commercial growth.

The other aspect is when you look at where we do business in the various states, our geographical locations, there is tremendous opportunity for us in terms of gaining additional market share. We have a lot of runway in all of the states and that includes Pennsylvania even where we are domiciled. There is plenty of opportunities to have good solid, profitable growth in the foreseeable future, AND we're going to continue to stick with what's working for us and it's proven to be a good methodology to get it done.

A - Jeff Miller
Yeah, I would just add to that the Mountain States impact for the remainder of this year, we're projecting that for the year, Mountain States will add10% to our commercial growth. And then all of the factors that Kevin just mentioned will add on top of that. So the rate increases, we expect to continue to have an impact in the first quarter, about half of the growth outside of Mountain States was related to rate increases and the other half related to exposure just market share gains.

Q - James Bach
Perfect. Thank you. That covers it all from me.

A - Kevin Burke
Thank you.

A - Jeff Miller
You're welcome.

Operator
Your last question comes from the line of Douglas Eden with ECM.

Q – Doug Eden
Good morning, Kevin and Jeff.

A - Jeff Miller
Good morning, Doug.

Q - Douglas Eden
I have two questions for you. First, with scale being so critical in personal lines obviously, and since we're competing against direct writers and direct response companies that have expense ratio advantages and can charge less for their products to grow their market share, my question is really around at what premium level do you believe Donegal ultimately needs to be in personal lines to maintain long-term growth and profitability? And when do you reasonably expect that we could get to that level?

And then secondly, I have a question around share buybacks. I know there are issues with a public company repurchasing shares at a premium and surplus, and RBC constraints. But with the stock continuing to trade at a discount to the book value, is there an opportunity perhaps for Donegal Mutual to utilize some of its unencumbered surplus to increase its ownership in the public company? My thought or rationale around this is that buying back shares at below book value would both increase EPS going forward and also reduce the cash expense that the public company is paying for dividends on the retired shares.

A - Kevin Burke
Doug, this is Kevin. I'll take the first part of the question on the personal lines piece of it. Excellent question, it's something that we spend a lot of time thinking about and obviously we're anxious for the new product to be rolled out later this year. A couple of things that I'm encouraged by what I think the prospects are for our ability to grow personal lines profitably. Most recently, we've spent a fair amount of time doing our agency reviews which is an annual process that we go through with the marketing representative coming in for the various territories and working through each of the agents. One of the things that that I saw through that process is that we have a number of very large agents that are writing personal lines. They're doing it well, they're doing it profitably. And they have existing books of business -- personal lines books of business with us. As you're aware, the last two years, we have backed off until we had our pricing dialed in. And those agents are anxious -- anxiously waiting for us to roll out this new product.

And so, one of my first concerns was being able to reengage this agency plan to be able to write personal lines with Donegal and those concerns were alleviated a little bit over the last couple of weeks based on what I'm seeing from the agency plan. So I'm encouraged by that.

The other piece that we have started to see in the last several months is as our rate increases -- we've taken very, very modest rate increases, example is in personal auto, it's less than 1%; homeowners, it's less than 4%, 3.9% actually; all of personal lines, 1.9%. We've taken a very modest rate increases, and most recently, we saw rate indications in certain states where it was actually flat or even negative. And so, number one, it tells us that we're at rate adequacy, hence the profitability that we're seeing. But we've also now started to see an uptick in the quoting of the existing product that we have, and also an uptick in new policies in force. So without even rolling out the new product yet, we're all -- we're starting to see some modest growth levels and that again gives me encouragement.

Your question is right on point. We are -- we play in the standard marketplace and we are going to end up going out there and going head to head with some of the large nationals direct writers. For us, there is still a market segment out there, Doug, that wants to meet with an independent agent, insure that their assets are appropriately covered and there is also a fair amount of policy holders and customers that may have gone direct over the years and maybe they were under-insured and did not have a good experience.

And so for us, you often hear me say that the new personal lines product for us is about some modest growth that we will see in 2022. More importantly, that it's going to be profitable and that we'll continue to make some headway in that area.

A - Jeff Miller
Yeah. Doug, this is Jeff. I would just add to that that. We have done some forecasting of what we expect in terms of our personal lines performance over the next five years to 10 years, based upon the expectations of the performance of the legacy book as well as the new products that are going to be coming on board.

And so from a scale perspective, our expectation is that we can write personal lines profitably. The new products, obviously writing new business, it takes a few years before there is adequate earned premiums for a new product to be profitable and our expectation is that the legacy book which will not have any new business written at it for the next several years or at all going forward, that that book would perform more favorably.

So when you put it all together, we expect to have combined ratios in the 95% range going forward. We will be looking very closely at the expense side of it, we do need to reduce the expense ratio, particularly as it relates to personal lines premiums and we're implementing a new expense allocation model this year that will allow us to be more granular in how we track those expenses to make sure that we are reducing that expense ratio.

In terms of your question on Donegal Mutual's purchase of Donegal Group's shares, it is something that we have done over the years, in fact, Donegal Mutual has purchased shares to support the market in recent years in purchasing some of the stock options from Executive Officers. Going to the market and purchasing shares in the open market is certainly an option for Donegal Mutual. But as you know, we have been working fairly diligently over the last year or so to increase the level of ownership by external shareholders and we would really like to to broaden our shareholder base and to make sure that we have effective outreach to outside shareholders to try to increase the level of interest in our stock and we really don't want to impact the liquidity of the shares that are on the open market.

So that's the other side of, could Donegal Mutual purchase shares in the open market to support the price of the stock? Perhaps, but we think longer term it's in everyone's best interest including Donegal Mutual and the independent shareholders that we try to get increased interest in the stock outside of our own holdings.

Q - Douglas Eden
Yeah, yeah, I really understand it's a balancing act, because we want to get other shareholders involved and I know you all are actively involved with that. I think it'd be nice also to take advantage of the immediate opportunities too, I mean, if others don't take advantage of it and that we avail ourselves of the opportunity, now that the Mutual has some of that unencumbered surplus since more Mountain States for example is now being with the public company. I think it's just -- it's something to look at on an ongoing basis because hopefully the stock won't be trading below book. I noted the updated investor presentation, which by the way, I think is excellently prepared. That one slide which talks about the

price to book and I know Donegal is one of only the two companies left trading below book. So, and hopefully, this won't be occurring for much longer, but while it is, I just think it would be an opportunity to take advantage of that even if others don't see that opportunity.

A - Kevin Burke
Absolutely. We understand your perspective on it and it's something we can certainly take under consideration.

Q - Douglas Eden
Yeah. And just, just going back. Thank you for the thorough response on personal lines. Just for clarification, I know we exited the seven states or so in the last couple of years. The -- is it 16 states, is that the number of states that we're doing, personal lines in at this point?

A - Jeff Miller
It's 11 states.

Q - Douglas Eden
Okay 11 states.

A - Kevin Burke
11 states, yeah.

Q - Douglas Eden
Okay. And the new product, Kevin, that you mentioned, in how many -- in how many states will that of the 11, will the new product be rolled out in 3Q and 4Q?

A - Kevin Burke
Sure. What we're doing is we're going to roll it out in Indiana, Pennsylvania and Ohio first. So that's the first what we're calling batch states that really starts at the end of July. But it's for new business starting September 1 and that's why when I talk about the new personal lines product, obviously, we're excited about deploying it, but the reality of it is, we're really not going to see any meaningful lift until 2022, but that's the first group of states, Doug, that will be issued.

Q - Douglas Eden
Okay. And then throughout 2022, by the end of the year next year, all the states would have the new product, is that, is the goal?

A - Kevin Burke
That is correct.

Q - Douglas Eden
Okay.

A - Jeff Miller
Right, we'll be rolling out some additional states in the November timeframe, according to the current schedule November 2021 and then the remainder will be in early 2022.

Q - Douglas Eden
Okay. So from a topline standpoint in the personal lines segment, maybe we should see a stabilization next year, but really the growth trajectory more significantly, the following year -- 2020 --. Right. It depends on the engagement of the agents and how well those products are received. That would be our expectation. Okay, terrific. Okay, thank you both and by the way, I didn't mention it before, but congratulations on the ninth straight quarter of favorable reserve development. That's a good testimony to the actuarial and finance team and a big improvement from a couple of years ago. So that was -- I think that was one of the positives for the quarter and it's duly noted.

A - Jeff Miller
Thanks, Doug.

A - Kevin Burke
Thanks Doug.

Operator
And there are no further questions at this time.

A - Jeff Miller
All right. Before we close the call, I just want to make one last comment. I know several of the analysts in our discussions with them and in their reports mentioned the core loss ratio increased in the quarter and as we dug into that, there is one element that we thought we should bring to everyone's attention, and that is that we established loss expense reserves in bulk and those loss expense reserves are allocated to lines of business based upon the existence of case reserves and IBNR loss reserves. And as a result, we don't allocate those bulk loss expense reserves to fire losses or weather losses for example until they're paid and as a result, the core loss ratio for the current year -- current quarter in CMP looks a little bit higher than what we would have expected and as we dug into those details, it is because of those bulk loss expense reserves were not included in the fire loss category.

So if you pull that out, our core loss ratio would have been much similar -- much more similar to the first quarter 2020. It's something we will look into a little closer as we go forward in our reporting methodology, but just wanted to make that distinction for the Group.

And with that, thanks to all of you for joining the call today. We look forward to speaking to you again after we report our second quarter results. Have a great day.

A - Kevin Burke
Thank you.

Operator
Ladies and gentlemen, this concludes today's conference call. We thank you for your participation, you may now disconnect.