Donegal Group Inc.

Q3 2021 Earnings Conference Call

October 28, 2021 11:00 AM ET

Company Participants

Kevin Burke - President and Chief Executive Officer

Jeffrey Miller - Chief Financial Officer

Conference Call Participants

Derek Han, KBW

Robert Farnam - Boenning and Scattergood

Douglas Eden - Eden Capital Management

Operator

Good day and thank you for standing by. Welcome to the Donegal Group Inc. Third Quarter 2021 Earnings Conference Call.

Please be advised that today's conference is being recorded I would now like to hand the conference over to Mr. Jeff Miller, Chief Financial Officer. Thank you. Please go ahead.

Jeff Miller

Thank you very much. Good morning, and welcome to the Donegal Group conference call for the third quarter ended September 30, 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 the quarterly results, and then Kevin will return with closing comments before we open the line for any questions you may have.

With that, I will turn it over to Kevin.

Kevin Burke

Thanks, Jeff, and welcome, everyone. Donegal Group's results for the third quarter of 2021 were impacted by a number of factors that prevented us from achieving our underwriting profit expectations during the third quarter. A combination of higher than normal weather related losses, large fire and large workers' compensation losses, led to an increase in the combined ratio to a 107.7% and a quarterly net loss of $6.7 million or $0.22 per share of our Class A common stock. Jeff will provide greater detail about the elevated loss activity later in the call.

On a positive note, net premiums written increased 9% due to a continuation of strong commercial lines premium growth and smaller decline in personal lines premiums than we had experienced in the first half of the year. For the third quarter, commercial lines represented approximately 59% of the total premiums and personal lines represented approximately 41%, generally consistent with prior periods and in line with our 2021 objectives. Commercial lines net premiums written grew by 17.6% for the third quarter. As we discussed in the first half of the year, that growth reflects, in large part, the impact of the additional commercial premiums from four Southwestern states that we began to include in the Donegal mutual underwriting pool in 2021. Atlantic States Insurance Company, our largest insurance subsidiary, now receives an 80% allocation of the underwriting results of the Mountain States Insurance Group, which Donegal Mutual acquired back in 2017.

For the third quarter, Mountain States premiums accounted for approximately $10.4 million or 60% of our overall commercial growth. For the first nine months of 2021 Mountain States premiums added approximately $34.5 million to our net premiums written. The remaining 40% of the commercial growth in the third quarter came from a continuation of new business opportunities and solid premium retention at 91%. That was bolstered by premium rate increases that averaged 5.6% across our commercial lines book of business. Excluding workers' compensation, where rates remain under regulatory pressure, the commercial premium rate increases averaged 7.4%.

Moving to personal lines. Our net premiums written declined by 1.3% during the period, which was an improvement over recent quarterly declines. While new business writings increased modestly and rate increases averaged 4.6%, the main driver of the improvement was related to an anomaly that affected the prior year quarter. Personal auto net premiums written in the third quarter of 2020 reflected premium reductions related to Michigan's No-Fault Auto Insurance Reform Legislation that was effective on July 1, 2020. A substantial number of Michigan policyholders requested a rewrite of their auto policies at lower premiums during the third quarter of 2020.

Although the impact of that legislation distorted the comparability of personal auto premium production in the second half of 2020 and continuing through the first half of 2021, that impact is now fully behind us, and we expect further stabilization of our personal auto premium levels from this point forward. As an update to our technology modernization project, we are pleased to report the successful deployment of the second major release of our new software systems in late August. This release will primarily facilitate the introduction of new personal lines products in the 10 states we believe represent compelling opportunities for profitable personal lines growth.

The new products will provide diversified coverage as well as pricing segmentation based on enhanced analytical models and the utilization of external data that will allow us to better

compete for personal lines customers, especially those customers who appreciate the advice of a trusted independent agent and recognize the value of excellent service from their insurance carrier. We began the new product rollout with the State of Indiana effective October 1. We have received a manageable volume of quoting activity that has allowed us to ensure that all of our systems and integrations are working as designed.

We recently added the availability of new products in Ohio for policies effective in December, and we'll begin to offer new products in our lead state of Pennsylvania for policies effective in January. After achieving successful product launches in these three states, we will continue the phased rollout in the remaining seven states. Upon full completion of the rollout, which will occur later in 2022, we expect to be in a position to achieve modest growth and sustained profitability in our personal line segment. With that, I'll turn the call over to Jeff to provide more details related to our quarterly underwriting results.

Jeff Miller

Thank you, Kevin. As Kevin mentioned, we reported a net loss of $6.7 million or $0.22 per Class A share compared to net income of $11.8 million or $0.41 per diluted Class A share for the third quarter of 2020. Kevin already covered our top line growth metrics, so I'll focus on the factors that impacted our underwriting and operating performance. Please keep in mind that the comparative results for the third quarter and first nine months of 2020 were impacted by the pandemic and related shutdowns throughout our operating regions. The combined ratio for the third quarter of 2021 was 107.7% compared to 98.3% for the prior year quarter.

The increase was due primarily to a higher-than-expected loss ratio of 75.5%, which increased over 10 points compared to 65.4% for the prior year quarter. Contributing factors include severe weather, large fires and workers' compensation claim severity. Weather-related losses were approximately $18 million or 9.2 percentage points of the loss ratio for the third quarter 2021, which was largely in line with the weather-related loss impact of $16.9 million or 9.1 percentage points of the loss ratio for the third quarter of 2020. Losses from tropical storm Ida were manageable at $2.2 million, with the remainder of the weather impact, primarily attributable to localized summer storm activity.

Although elevated compared to the first half of 2021, the weather impact of the loss ratio for the third quarter of 2021 was generally in line with our previous five-year third quarter average of nine percentage points. Large fire losses, which we define as over $50,000 in damages, increased substantially to $12.7 million, which included $6 million from three individual commercial losses that exceeded our $2 million per risk reinsurance retention. Overall, large fire losses contributed 6.5 percentage points to the loss ratio for the third quarter of 2021 compared to 2.1 percentage points for the prior year period.

We continue to closely review the details of the large fire losses that for the past three quarters have exceeded our historical averages. While we surmise that factors contributing to the increased fire activity include the resumption of economic activity following widespread business shutdowns in 2020 and deferred property maintenance activities due to ongoing labor shortages, those factors are difficult to prove. We have not identified any commonality among the causes of severe losses, nor have we been able to definitively pinpoint a specific underlying reason for the increase in fire activity.

We also experienced a higher volume of severe injury claims in our workers compensation line of business with the statutory combined ratio in that line of business increasing to 109% during

the third quarter of 2021 compared to 86.8% in the prior year quarter. We incurred a handful of severe claims resulting from workplace accidents that were unrelated to COVID and that were not attributable to inexperienced or lack of safety training. Four of those losses totaled $3.1 million or 11 points of the workers' compensation loss ratio. While a few severe injury claims can be impactful to our quarterly results as they were in the third quarter of 2021, we did not identify any underwriting concerns or trends with respect to the severe losses. The personal lines statutory combined ratio of 105.2% during the quarter, as auto automobile claims frequency returned closer to pre-pandemic levels and claims severity increased due to rising medical costs as well as accelerating costs to repair and replace vehicles due to shortages of new and unused -- new and used vehicles and replacement parts.

The increase in the homeowners' loss ratio relative to the prior year quarter reflected the higher impact of both weather-related and large fire losses as well as inflationary pressures on the cost of labor and materials. We reported $4.3 million of net favorable development of reserves for losses incurred in prior accident years, which reduced our loss ratio for the third quarter by 2.2 percentage points and was primarily related to lower-than-expected loss emergence in our personal and commercial auto lines of business for the 2020 accident year.

One other point with respect to loss reserves is that we continue to add to our actuarially determined reserves with IBNR loss and loss expense reserves at September 30, increasing by $20.6 million compared to year-end 2020. The increases were primarily in commercial lines of business where we have added exposures and also where we see the potential for the impact of social inflation and other inflationary pressures. Our expense ratio for the third quarter 2021 decreased slightly to 31.5% compared to 31.9% in the prior year period. The decrease reflects lower underwriting-based incentives for our agents and employees as a result of the elevated loss activity in the third quarter, partially offset by an increased allocation of technology systems related expenses associated with our multiyear systems modernization project.

Our net investment income increased 4.9% to $7.8 million for the third quarter of 2021 compared to $7.4 million for the third quarter of 2020. The increase was primarily related to an increase in average invested assets relative to the prior year quarter. At September 30, 2021, we had $1.3 billion in total investments with an average tax equivalent investment yield of 2.6% and duration of 4.9 years. While the average investment yield has remained fairly constant throughout the first nine months of 2021, we do expect the average yield will decline modestly in future periods as currently available reinvestment rates continue to lag those for maturing investments. With that, let me turn it back to Kevin for closing comments.

Kevin Burke

Thanks, Jeff. Because we expect a certain level of volatility due to large losses from time to time, we are taking a measured but deliberate approach in responding to the increased loss activity Jeff just highlighted. We are reinforcing the need for underwriters to exercise due diligence as they review policy renewals and new business opportunities, particularly encouraging a heightened sense of awareness to current economic factors that could lead to property maintenance issues or other changes in risk profiles.

We have tightened underwriting guidelines with respect to certain classes of property risk, where we've seen an increase in loss activity, and we are also closely monitoring property concentrations using automated tools that track accumulation of risk and return risk scores for individual properties to our underwriters. We're continuing to execute on our strategic plan and

making solid progress in many of the operational initiatives that we expect will benefit us in the future. As we develop strategies and tactics that will help us prioritize our efforts, we will seek to capitalize on opportunities to grow profitably and to deliver superior experience to our agents and policyholders. We believe Donegal's commitment to the independent agency system and our ability to remain accessible and responsive to our agents is critical to our long-term success as a regional insurance group. For both commercial and personal lines, we will continue to seek premium increases to maintain rate adequacy.

We believe current economic and market conditions, including the ongoing impact of supply chain disruption, labor shortages, low interest rate and social inflation trends will continue to support reasonable pricing increases in the near term. We are also investing heavily in technology and analytics. Our goal is to develop a culture where data and analytics are integrated into strategy and decision-making at all levels of the organization. Our book value per share at September 30, 2021, increased to $17.21 from $17.13 at December 31, 2020. Since the end of 2018, our book value has grown by over 22% even after our return of dividends to our stockholders that represents one of the highest dividend yields within our industry.

Our Board of Directors declared regular quarterly cash dividends of $0.16 per share of our Class A common stock and $0.1425 per share of our Class B common stock. The quarterly dividends are payable on November 15, 2021, to stockholders of record as of the close of business on November 1, 2021. In conclusion, we have made a great deal of progress over the past several years, and Donegal's senior leadership team is fully aligned on the strategies we believe will position our business for profitable growth and success in the years ahead. At this time, we'll ask the operator to open lines for any questions that you may have.

Question-and-Answer Session

Operator

Your first question comes from the line of Derek Han with KBW.

Derek Han

Good morning. Thanks. I had a question on personal auto. In the past, you've talked about pushing for rate increases in personal auto, although kind of modestly. Are you seeing any additional pushback from regulators? There's been a lot of industry chatter about Florida and Connecticut denying personal auto rate increases, even as the profitability is taking a hit.

Kevin Burke

This is Kevin, and I'll respond to that. Jeff, jump in if you have any additional comments on it. I think that was really more of an issue in 2020, the latter part of that 2020, when we were taking aggressive rate actions, particularly in private passenger auto, as we were moving that book to profitability. With COVID occurring in 2020, some of the regulators did take a more conservative approach for filings that were added or submitted. For us, we have since moderated the rate increases that we have submitted, whether it's for the new product that we rolled out or the existing legacy book of business. And a lot of those rates are in the kind of low to mid single-digit range for private passenger auto. So we have not received a lot of pushback from individual state insurance departments on the filings that we've made in the last year.

Jeff Miller

Yes. The only thing that I would add to that is that we have received approvals for all of the filings for our new products in the 10 states that we are rolling about. I believe we have all of those approvals back now.

Kevin Burke

We do.

Jeff Miller

We have not had any difficulty with those filings.

Derek Han

Got it. That's really helpful. And then secondly, a numbers question. You had expense ratio improvement in the quarter, and you attributed some of that incentive comp, would you be able to quantify how much that was?

Jeff Miller

I don't have a specific number there for you, but the differential from the -- if you looked at the first half expense ratio to the third quarter, that differential reduction reflects basically our adjustment to the annualized expectation of the payouts for those programs. There's a modest increase in our expense ratio related to the technology costs. I can quantify that for you. That

was about $1.2 million in the third quarter and $3.2 million year-to-date. So I would say outside of those technology cost increases, the majority of the impact and the change between both the quarters and the nine months would reflect the decrease in compensation costs.

Operator

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

Bob Farnam

Hey, there, good morning. A few questions here. One is, reserve developments, so another quarter of favorable reserve development. Sounds, Jeff, like you mentioned it was mostly from auto lines. But can you just kind of spell out maybe what the other lines, how the other lines developed as well?

Jeff Miller

Sure. You're correct, Bob. It's primarily auto lines. It was $2.4 million in personal auto, $1.8 million in commercial auto and about $400,000 in workers' comp. And the other lines were basically immaterial. The workers' comp development is much lower than what we experienced in the second quarter. As you recall, we talked about our hypothesis that courts were reopening and the cases were moving through, and we were able to settle. We did not see a recurrence of that in the third quarter.

Bob Farnam

Yes. And talking about the workers' comp losses, this quarter's workers' comp losses, so it sounds like, in your commentary, you're saying it's not really -- it's not COVID-related, it's not the economy opening up. First off, is that correct? And second, maybe just provide some broad color and what types of claims these were?

Jeff Miller

Yes, sure. This is Jeff. I'll be happy to do that. I would say there's probably some impact of the increased economic activity. But the most impactful factor in the increase in our loss ratio was just a handful of severe losses or severe injuries. I can give you some examples. We had a 55-year-old HVAC contractor who fell off of the ladder, so there's a guy has been doing that routinely over many years and had an unfortunate accident; we had a brick mason who fell off of roof, and again, a man who was known as a safety advocate for his company, so definitely not an inexperienced worker; we had an accident in a car wash; and we had an explosion in a warehouse where a worker was injured. A very unusual kind of one-off injuries that was very unfortunate but impactful to our results.

Bob Farnam

Right. Okay. And in terms of the fire losses, large fire losses. I know the last few quarters, you've had higher-than-expected fire losses and you've been trying to address that via kind of re-underwriting and making sure that the underwriters are looking at the right classes or whatnot. But at what point do you actually include higher loss expectancy in rates? So in your filed rates for CMP, for example, have you started to increase because of the potential for increased permit increase in fire losses?

Kevin Burke

Bob, this is Kevin. We have. We've included -- we're looking at overall, especially the last two quarters, the uptick in large fire losses. So we have to answer your question yes. We've included that in terms of our scheduled rate increases going forward. We've also looked at inflationary impact as well. Those are baked into the rates. One of the challenges that we're having, and it's similar to what Jeff just went through with those large workers' comp losses, all four of those losses were in excess of $0.25 million. When we look at these large fire losses, there's a very similar story.

The largest, I've been with the organization for 21 years, and we experienced the largest single property loss this quarter, a business in Pennsylvania that we had insured for years. It was profitable. We would write that business every day of the week. Unfortunately, it appears as though it may have been an electrical issue that caused the fire. Another small manufacturer down in Georgia was a $5 million-plus loss. We had a restaurant in the Midwest, which was over $3 million. We're very familiar with that restaurant chain. I personally have been to those restaurants when traveling in the Midwest, again, accounts we would write every day of the week.

And so when we look at the number of fires, the impact that it's having on a company our size, which has been significant, we are taking into account overall rate, but we're trying to step back and see, do we have a trend? Do we have anything developing? And we're unable to point to anything in particular. Underwriting integrity is where it needs to be. So one of the items, Bob, that we've talked about is the impact of COVID, meaning that you see that organizations are struggling to be staffed. Sometimes I question whether or not the maintenance and upkeep on a facility is where it was pre-COVID.

You have restaurants that have been shut down for a year and now they turn the lights on and they start to move forward. You've had a vacant building in place, was all the maintenance done? And so those are some of the issues that we're taking a hard look at and emphasizing to our underwriters is when we're looking particularly at a large property risk, are they fully staffed? Is the maintenance being done? Is there a record of it? What does our loss control reports look like? And do they, in fact, have the maintenance staff that was there pre-COVID in place? Because outside of that, Jeff and I and others are struggling with trying to find a trend. And so we're starting to take a deeper dive into those areas.

Bob Farnam

Yes. I think one of the key points to your commentary there is the fact that a company your size, I think a handful of claims for a much larger company with much larger premium base, probably just disappears in the blend of everything. But since your premium base is maybe not as large as others, it's kind of weird that these kind of stick out.

Kevin Burke

Well, it does highlight the fact that Donegal does need to continue to grow profitably and gain scale for the exact point that you're raising. As we look at a few of these losses in a given quarter, we really can't shoulder losses of that size without having a real significant impact on the quarter. It also highlights why we're not taking a knee-jerk reaction to it as well. We've had multiple quarters now of improved operating performance. We've had this quarter, which has been very challenging for us, but it highlights our scale.

Bob Farnam

Right. And I assume you're not -- at this point, you're not looking at changing reinsurance protection or whatnot just because these seem to be one-offs.

Kevin Burke

That's a great question, and no, that's for that exact reason. We're not looking to restructure at this point any of our reinsurance programs that we have in place. It served us well for the last couple of years. So we're not going to react to the one quarter, but good questions, Bob.

Operator

Your next question comes from the line of Doug Eden with ECM Capital.

Doug Eden

Good morning, Kevin and Jeff. Yes. I have a few questions on different topics. I'll just take them one at a time. First, I know it's a bit early since the personal lines product rollout in Indiana that was just at the beginning of October, but I know there was a lot of truck work for it, too. But what have you seen so far relative to the percentage increase in the quote activity from the agents in that state? And also from a price competitiveness standpoint, using the comparative raters, what have you seen so far on the hit ratio? In other words, the percentage of new business written to quoted?

Kevin Burke

Bob, this is Kevin. Thank you for the question. And we started with --

Doug Eden -- ECM Capital

This is Doug.

Kevin Burke

I'm sorry, Doug, this is Kevin. We started with the State of Indiana, and it was a perfect state to start with because we've been within the State for a couple of years. And we knew that we would be able to launch the product. And if there were any issues as it relates to a system standpoint, it would not have a dramatic effect on the overall book. The agents were very receptive and engaged. We had a very good quote activity. We did have about three weeks where we were working with a couple of glitches on the system that was having a negative impact on our rate that has since worked its way out, and that's why we start with a state like Indiana to work those bugs out.

And so engagement has been good. The hit ratio has been low. So on the quote standpoint; we've exceeded expectation on the actual policy issuance. We have some work to do there. Ohio was just launched last week, and Pennsylvania was launched on a pilot program where we identified 15 to 20 agents that we've got a long-standing relationship with that we launched that personal lines product with. Those won't be for policies effective until January 1. So from a system standpoint, integrations, launch of new agency portal, what we call Rate Pro 2.0 has gone exceptionally well. Engagement from the agents initially has been good in terms of quote

activity. But Doug, realistically, we're not going to really know what we have in terms of engagement from the agents and how it's being received probably until June or July of 2022.

Pennsylvania, for us, as you're well aware, is really the major lift that we see that we could potentially gain with this new product. We're very sensitive to where we fall and with the comparative rater. Our goal has always been to be in that top-three. And many of our agents, particularly in Pennsylvania, can sell a Donegal product because we're so well branded here against any national carrier if we're within $100, let's say, in terms of overall rate. So we feel good about where we are with it, but we're going to know a lot more mid-2022. The other piece, Doug, is just as a reminder, we do have a second rollout occurring with additional three states. One of those is a key State is Virginia. That is scheduled for early part of second quarter of 2022. And then the latter part of the year, probably around third quarter, we'll finish out the last batch of states. Again, Michigan plays a key role in how those products are being received and what it may do in terms of adding premium dollars in additional PIF count.

Doug Eden

Okay. So -- and I know that in terms of the premium list, mid-2022, and you've been very clear about that since even discussing the original strategy around this. But as this rolls out state to state, we are able to measure kind of the quotes. So the at-bats we're getting and then the hit ratio, how many of those at-bats were actually writing, as you mentioned, the top-three positioning on the comp raters. We should have that data before the second half of next year, right?

Kevin Burke

That is correct. And another nuance to this, it's just worth mentioning, is -- and again, we'll start with the State of Pennsylvania. We may be, let's say, in the top-three on a comparative rater. So rate is, as we've discussed is critically important as it relates to the personal lines area, particularly on auto. But what we're also finding is that depending on the state in which we launch this product is just because we may have the most competitive rate doesn't necessarily mean that that new potential customer is going to select Donegal, because of maybe the brand is not as strong and if there's a national carrier that is within that dollar range, sometimes that CSR and the agency may put it with the national carrier because that policyholder feels more comfortable.

In a State like Pennsylvania, Virginia, Michigan, for example, those issues, I don't want to say they don't exist, but to a much lesser extent. And so that's why I think when we get into Pennsylvania, as long as we're competitive on rate, our agents can sell a Donegal policy and the potential new customer knows Donegal from its brand and its reputation, particularly in those three states that I mentioned. So that's the other part of it aside from rate that we have to take into consideration.

Doug Eden

Okay. That's helpful. My second question is more of an observation, I guess, than a question. But given the weather-related losses, they were roughly at our historical average. But we talked about the large fire losses and work comp losses that were significantly higher than expected. And commercial auto, the combined ratio remains unprofitable. It would also appear that the underwriters need to be obtaining larger rate increases than they have been on renewals to improve profitability. And you mentioned it was seven-ish percentage ex work comp, even if this

means maybe a decrease in retention. Do you agree? Or are we providing instructions to the field force about this? It just seems like the rate levels may not be enough if the combines are this high, and there really is no commonality, as Jeff mentioned, among the claims?

Jeff Miller

Yes, Doug. This is Jeff. I'll start on that response, and Kevin can chime in if there's anything I miss. But definitely, we are increasing the rate guidance that we're giving to the underwriters for 2022, building into our business plan and expectation of higher rates than what we've been achieving in 2021. We have seen an increase in the CMP rate increases. For example, they were around 5.3% in the third quarter. We're targeting high single digits for 2022 for CMP on average. Commercial auto was still at 9% for the third quarter of 2021, and we expect that that will continue into '22, another 9% to 10% on average.

There are certain states where our commercial auto results have improved, and we won't be pushing as much rate in those states. But there are still states where we'll be well into double digits and one state that we've talked about is Georgia, and we'll be continuing to hit that state very hard with increased rates. So I would say, overall, we do expect the average commercial rate to go up in '22. We think the market will give us the opportunity to do that. We think all of the various factors that Kevin mentioned earlier in his prepared comments will allow us to continue to push for more rates.

On the personal lines side, we've -- as we've talked about stabilizing the legacy book, we don't expect to require a lot of additional rate there, but we will be keeping pace with loss costs. It's somewhere in the mid-single digits is what we're expecting 5% to 6% for auto. For homeowners, we're getting the inflation adjustments that are automatically applied through the coverage increases. And so in the third quarter, we saw an 8% increase in homeowners premiums primarily from those inflation adjustments, and we expect that to continue as well. So hopefully, that gives you a sense.

Doug Eden

Okay. That's a great answer, Jeff. And a lot of rate that's going to be earning through next year from this year. And I agree with you also, based on what I'm hearing from the other companies, your competitors that the ability to absorb it, I guess, by customers. People are feeling pretty confident that that can continue. I mean, our retention is so high. It seems like there's a little room there to give by taking more rate and especially to improve the profitability since it's not in just one line of business in particular, but it seems, at least in the third quarter, more broadly based.

Jeff Miller

We would agree.

Kevin Burke

Doug, we have taken, in addition to the rate, we have really taken some underwriting action in terms of reducing exposure. Jeff and I often talk about Georgia because it's been the Achilles' heel of all the states as it relates to commercial, particularly commercial auto. The fleet count has been reduced nearly 60% from August of 2020 to 2021. So very specific direct action that we've taken from an exposure standpoint. And we've also really taken a hard look at the fleet

size and limited in avoiding any heavy trucks in terms of the size. So rate, obviously, is the driver behind it. We're making sure that we reduce exposures anywhere we can.

Doug Eden

Yes. Terrific. And then finally, I guess, for Kevin, and you had mentioned this earlier to Bob's question, but I guess a bit more broadly. The company's profitability results for the quarter were obviously disappointing and a bit of an outlier to the regional competitors that have been reporting similar top line growth, high single digit, but have also had pretty strong earnings. I was just wondering if you could address a bit further the issue of scale, particularly in personal lines.

And at what level Donegal needs to be at to generate an acceptable ROE in that segment? And maybe also what the scale needs to look like for the company overall? My thought is based on Selective and Hanover's results yesterday that they experienced similar weather during the quarter in the Northeast and Southeast states, but they're able to absorb the larger losses, maybe better just due to their scale and still maintain profitability. So I just appreciate your perspective on that.

Kevin Burke

Yes. Doug, it's an excellent question, and it's one that I think about a lot because of the size of the organization and what we're trying to achieve. And so your comments on scale, it's appropriate. It's one that, again, this quarter highlights. It highlights the fact that we really can't endure any major losses in a quarter because of what it does. Let's talk a little bit briefly about personal lines. You brought that up. With our book of business, if we include Donegal Group, Donegal Mutual, if we put the entire Donegal Insurance Group together, the personal lines book of business represents over $400 million. And with a book of that size, it's not something that we can jettison. It's not something that a couple of years ago we were limiting our personal lines footprint and exposure in the Midwest.

There was about $22 million worth of personal lines business that we knew that we were not going to be able to make a profit at least in probably about five years. And so we try to take very specific actions to put this book into the best position possible to be profitable. That is why we've spent the time, money, energy to build this new product because considering it's a $400 million book of business, we have to do something with it, and that something is to get it stable and profitable. I've been very clear and transparent about what the expectations are for this new product in personal lines. Doug, we basically want to be able to write a new write enough new business through this product to offset attrition.

And so at the end of 2022, and we'd like to be able to report that we were at a leveling off spot. We're at 0. And maybe 2023, we start to grow at a modest 1%, 2% or 3%. The other item that's worth noting, personal lines takes a lot of hits because it is a commodity. It's turned into a commodity business. We all recognize it. But there is also a large segment out there that they've accumulated wealth. They have a house, several cars, and they don't necessarily want to do everything online. They want to be able to sit down with an independent agent, somebody in their community that they know and trust. And for us, as long as we can be competitive on a pricing standpoint and we work with that independent agent, that independent agent has been very successful in selling personal lines.

So we believe that there is an opportunity for us to grow that book of business profitably at a modest level and also recognize the fact that it still makes up 41% of our entire book of business. So it requires complete attention on our part, which is what we've done for the last 2.5 years. On a more macro question as it relates to scale, it's sort of being able to walk on both sides of the street where you're trying to be very profitable and at the same time, grow. Some of the accounts that we've brought on are larger premium volume accounts, you're not going to get to $1.5 billion or $2 billion by writing lots of small bops.

You've got to be able to use analytics and be able to write some larger accounts, while at the same time, remaining profitable. So we are in very much of a transition period in Donegal's history, where we're going from this organization where we know that we need scale, we're infusing analytics, we're modernizing our back office systems, and all at the same time, recognizing the fact that for Donegal to be relevant long-term is we have to grow profitably. And we also think that the nuance of agency consolidations that is happening in the marketplace, which we didn't talk about.

But there's also an opportunity for us I think to be relevant with some of those very large aggregators. And there is an opportunity, I think, for us to grow not only commercially, but also personal lines with some of those large groups. And I think that's a three to five-year plan that's developing in front of us now, and we're trying to position ourselves to take full advantage of that consolidation and making sure that we have a solid footprint in with those large national aggregators.

Operator

And there are no further questions in queue at this time. I'll turn the call back over to you for closing remarks.

Kevin Burke

All right. Well, thank you everyone for joining the call today. We look forward to speaking to you again after reporting our fourth quarter and full year results. Have a great day.

Jeff Miller

Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.