Third Quarter 2020 – October 29, 2020

Company
Jeffrey Miller, Executive VP & CFO
Kevin Burke, President, CEO & Chairman

Q&A Participants
Douglas Eden, Money Manager
Robert Farnam, Analyst
Sean Reitenbach, Analyst

Operator
Ladies and gentlemen, thank you for standing by.

Welcome to the Donegal Group Inc. Q3 2020 Earnings Conference Call.

I would now like to hand the conference over to our speaker today, Jeff Miller, Chief Financial Officer. Thank you. Please go ahead.

Jeffrey Miller
Thank you, very much. Good morning. Welcome to the Donegal Group conference call for the Third Quarter ended September 30, 2020.

Yesterday afternoon we issued a news release outlining our quarterly 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.

On 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 financial results. At the conclusion of our prepared comments, we will open the line for any questions you might 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 and the report on Form 10-K that we submitted to the SEC.

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. Welcome everyone. We are pleased with our underwriting results during the Third Quarter in light of the severe weather activity throughout the country.

If you look at the quarter, in total the continued improvement in our results reflect the broad and comprehensive approach we have taken to enhance shareholder value. Even as we have encountered challenges such as elevated storm activity and the ongoing effects of COVID-19 pandemic.

In our call last quarter, I talked about our efforts to improve profit margins. The ongoing strategic shift towards a higher concentration of commercial lines and our product mix and our focus on stabilizing our personal lines after taking aggressive steps to improve performance in that segment over the past two years. The impact of those actions is clearly benefiting our bottom line results. Starting with underwriting profitability, the Third Quarter of 2020 combined ratio improved to a 98.3% compared to 100.6 in the prior year Third Quarter.

We also benefited from after-tax net investment gains of $2.6 million or $0.09 per diluted Class A share, as the market value of our equity security holdings continue to rebound during the quarter. As of September 30, we recouped all the unrealized losses that resulted from substantial market decline at March 31. Those factors contribute to net income of $11.8 million or $0.41 per diluted Class A share for the Third Quarter, which we view as a solid achievement. Again, considering the severe weather events and slowly recovering economic conditions throughout many of our operating regions.

Moving to operations, we benefit from a diverse book of business that includes both commercial lines and personal lines of business. Over the past several years, we have gradually shifted our mix of business to a larger percentage of commercial lines, while also taking decisive actions to improve our personal lines results. Presently, our book of business consists of 60% commercial lines including multi-peril, automobile, and workers' compensation products. While we write our fair share of medium-size and larger accounts, which we define as $100,000 to $1 million in total premium. We specifically target smaller businesses like local artists and contractors and main street business owners, who play critical roles in serving their local communities. We've continued to enjoy relative stability across our customer base despite the economic disruption caused by the pandemic with favorable trends of strong new business growth and steady commercial premium increases as the market appears to be showing some signs of hardening. We expect commercial pricing trends to move upward as our industry deals with social inflation and other factors driving higher loss trends as well as facing the reality of lower for longer interest rates that will likely increase pressure on our investment income for the next few years. We did not receive a significant number of mid-term endorsement request, which indicates a level of resilience among the businesses we insured and while we anticipate some level of reduced exposure based premiums as we complete workers' compensation premium audits following the end of the policy terms during which the shelter in place orders were in effect. We've not seen any evidence to suggest that those premium reductions will have a material impact on us.

We currently expect that any impact will be delayed until sometime in the first half of 2021 when we will be completing audits for policy during terms which the pandemic had a broader impact. As a reminder, we ensure businesses across 20 states in the economic disruption in those states has varied considerably.

Moving to personal lines, we did see an increase in personal auto claims frequency in the Third Quarter as compared to the Second Quarter when there was widespread shelter in place orders that limited travel. While there was clearly more driving activity as many of the restrictions were lifted, we experienced lower auto claims frequency than the prior year Third Quarter. We along with some of our peer companies and other industry observers attribute the lower frequency to lower traffic density, although miles driven has returned closer to pre COVID levels, the driving activity appears to be less compressed into those rush hour time frames as many people continue to work from their homes.

We have continued to closely monitor our underlying claims experience and we will file rate adjustments that reflect our loss experience, including the COVID-19 impact through the normal course of our annual rating process. We are pleased to report that we continue to make progress on the development of our new auto and homeowners products that are on track for deployment in the July 2021 timeframe.

The new products will give us the ability to segment our pricing with greater precision through the expanded use of external data and predictive analytical models, which will improve our ability to effectively compete in our personal lines markets. We will deploy the new products in few states at a time to ensure our product launch that is smooth and we look forward to completing the full roll out within all 11 states as we offer these new personal lines products.

On a related note, we were pleased with our progress during the quarter on the next release of our ongoing systems modernization project that is primarily focused on the new personal lines products as well as numerous operational modernization initiatives that are progressing in parallel with the larger systems initiatives.

Despite the remote working environment, we are well positioned as we complete the year and as we move into 2021. Before I turn the call over to Jeff for a detailed review of our quarterly results. I want to highlight the fact that our book value has reached a record high of $16.96 at September 30, 2020. The Third Quarter of 2020 represented our 7th straight quarter of book value appreciation, as we were able to increase book value per share by 21% since year end 2018. That increase included 8% growth during the 2020 year to date, which is notable considering the events of the unprecedented challenges we are all facing.

We were also pleased to declare regularly 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, payable on November 16, 2020 to stockholders of record as of the close of business on November 2, 2020. As a reminder, we have gradually increased our cash dividend each year for the past 18 years. With that, I'll turn it over to Jeff to go over more details about our Third Quarter operating results.

Jeffrey Miller
Thanks, Kevin. As usual, I'll highlight a few of the operational and financial metrics for the Third Quarter and we'll be glad to address any questions later in the call. I'll start with top-line premium revenues, which declined modestly during the quarter. We continued to achieve solid commercial lines growth through new business and moderate premium pricing increases. The commercial growth was more than offset by a decline in personal lines premiums and that decline reflects a continuation of pricing discipline that led to natural attrition in premiums that exceeded our relatively limited new business writings in personal lines.

In total, net premiums written decreased 1.7% to $180.8 million and net premiums earned decreased 2.6% to $184.9 million for the Third Quarter of 2020 compared to the prior year Third Quarter. Commercial premiums grew by 4.3% during the quarter and accounted for approximately 54.5% of our net premiums written during the Third Quarter of 2020 compared to 51.4% for the Third Quarter 2019.

Premium rate increases accounted for 3.4% growth during the quarter or approximately 5% excluding workers' compensation. On a line by line basis for the Third Quarter of 2020 compared to the Third Quarter of 2019, commercial auto premiums increased by the largest percentage at 8.6%, which was entirely attributable to premium rate increases as new business was offset by planned attrition during the period. We continue to expand substantial efforts to improve the performance of our commercial auto line of business implementing double-digit rate increases and actively reducing exposures in underperforming regions, commercial multi-peril grew by 4.6% during the Third Quarter including one single digit premium rate increases due to ongoing competitiveness for small business accounts across our regions. Workers' compensation premiums decreased by 1.6% with solid new business submissions offset by premium rates that declined 2.9% on average. That rate decline was the smallest we have experienced since 2018, as we saw a moderation of rate decrease impact in several regions during the quarter.

From an underwriting performance perspective, commercial lines generated a statutory combined ratio of 102.4% for the Third Quarter of 2020 which was elevated compared to the 97.9% combined ratio for the prior year Third Quarter.

The impact of several unusually severe weather events in August including tornado damage during tropical stormy phase and damages from 100+ mile an hour winds during a devastating (inaudible) event in the Midwest states accounted for the bulk of the 2.3% percentage point increase in the weather related loss ratio for the commercial lines segment in total and six percentage points of the increase in the loss ratio for the commercial multi-peril lines of business when compared to the prior year Third Quarter loss ratios.

Moving to personal lines, we have intentionally slowed new business growth as we await introduction of our new personal auto and home products that as Kevin mentioned, will provide greater pricing precision when they are deployed beginning in the second half of next year.

We moderated our rate increases during 2020 to stabilize our book of business and the decline in our personal lines premium writings therefore primarily reflects natural attrition in this segment. Overall, personal lines, net premiums written declined by approximately 8% during the quarter.

In terms of personal lines underwriting performance, our favorable Third Quarter of 2020 results reflect the benefits in various underwriting actions we implemented within the last two years, as well as lower personal auto claim frequency that again we attribute in part to lower traffic density during the period even as driving activity and claim frequency of return closer to pre COVID-19 levels.

Our exit from the personal lines markets in several weather prone states proved to be beneficial to our homeowners results as we avoided the potential for significant weather related losses from Third Quarter severe weather events in those states.

For the personal lines segment in total, we experienced greatly improved underwriting results as evidenced by the 91.9% statutory combined ratio for the Third Quarter of 2020 compared with 103.9%

for the prior year Third Quarter. Combining our commercial lines and personal lines segments, we achieved a 65.4% loss ratio for the Third Quarter of 2020 which compared favorably to the 68.9% loss ratio for the Third Quarter of 2019. The $16.9 million of weather-related losses impacted the Third Quarter of 2020 to an elevated basis compared with a lower than average impact for the prior year Third Quarter. The weather impact of 9.1percentage points to the quarterly loss ratio was in line with our previous 5-year average loss ratio weather impact for the Third Quarter. Large fire losses, which we define as individual fire losses in excess of $50,000 decreased to $3.9 million or 2.1percentage points of the loss ratio for the Third Quarter of 2020, down from $7.8 million or 4.1percentage points of the loss ratio for the Third Quarter of 2019. The decrease was primarily in the homeowners line of business. Net development of reserves for losses incurred in prior accident years did not have a material impact on the loss ratios for either the Third Quarter of 2020 or 2019. Our insurance subsidiaries experienced favorable development in their workers' compensation and personal auto lines of business for the Third Quarter of 2020, offset by unfavorable development in their commercial multi-peril line of business that resulted from reserve increases for a handful of unusual liability claims that exceeded our actuarial expectations for quarterly loss emergence. For the first nine months of 2020, our insurance subsidiaries experienced favorable development of $10.3 million, primarily in workers' compensation and personal auto. There was virtually no reserve development in the commercial multi-peril line of business for the first nine months of 2020. The expense ratio was 31.9% for the Third Quarter of 2020, compared to 30.5% for the prior year of Third Quarter. But it was down sequentially from the 34.3% in the Second Quarter of 2020. Relative to the prior year quarter, the increase in the expense ratio reflected higher technology systems related expenses as we began to implement new systems earlier this year as part of our multiyear systems modernization project that also was impacted by higher commercial growth incentive costs for our agents and increased underwriting based incentive costs for our agents and employees. Overall, our combined ratio was 98.3% for the Third Quarter of 2020, comparing favorably to the 100.6% combined ratio for the prior year quarter. Moving briefly to investments, we continue to maintain a large percentage of quality fixed income investments in our portfolio, representing 93.7% of our $1.2 billion in invested assets at September 30th, 2020. Net investment income of $7.4 million for the Third Quarter 2020 was comparable to the net investment income for the Third Quarter of 2019 as an increase in average invested assets offset a modest decrease in the average investment yield. We project that our investment income will remain relatively constant as we expect to invest additional funds from positive operating cash flows, but also expect offsetting gradual reductions in the average investment yield we will earn over the next year. Kevin highlighted our net investment gains, which were $3.3 million on a pretax basis for the Third Quarter 2020. They were primarily related to unrealized gains in the fair value of equity securities held at September 30th, 2020. That amount compared to net investment losses of approximately $369,000 for the Third Quarter of 2019. And finally, net income for the Third Quarter of 2020 increased 128% to $11.8 million or $0.41 per diluted Class A share compared to $5.2 million or $0.18 per diluted Class A share for the Third Quarter of 2019. With the increase primarily due to improvement in the loss ratio and net investment gains. With that, let me turn it back to Kevin for closing comments.

Kevin Burke
Thanks, Jeff. Before we open the lines for questions, I do want to take a minute to provide an update on the impact of the COVID-19 pandemic and our ongoing response. After a successful and relatively seamless transition to the vast majority of our employees working remotely in late March, we've worked diligently to maintain excellent service levels to our agents and our policy holders. We've maintained regular communication with our employees and independent agents to keep them apprised of our plans and progress on strategic initiatives while we have hope to return a larger percentage of our employees to the offices. We are placing the utmost importance on the safety of our employees, agents, customers

and their families. As a result, 90% of our employees continue to work remotely and we will likely do so until sometime in the 2021. Ultimately, we will emerge stronger having persevered through these times and we express our appreciation to our employees and agents for their ongoing dedication, commitment, and resilience as we move forward and accomplish our goals together. With that, we'll ask the operator to open the lines for any questions that you may have. Thank you.

Questions And Answers

Operator
(Operator Instructions) And your first question comes from Sean Reitenbach from KBW.

Q - Sean Reitenbach
Good morning. I was wondering how did auto frequency progress during the quarter? I know you mentioned it's almost back to the pre COVID levels, but does it seem like there might be kind of like a cap on how close that number is going to get for the, I guess considerable future.

A - **Jeffrey Miller**
I think that that's really contingent upon the virus in terms of the impact and peopleâ€™s ability to get out and travel and what not. I mean it's, it's a question that we continue to get asked that although frequency is up, claims are down and it really does highlight the fact that there is more mobility out there, but they're traveling at different times and so the question really is in six months and nine months, depending upon how the virus is handled, hopefully it starts to subside. You'll have more regular patterns of driving patterns that may start to show some increased claims activity. The other aspect to this as you got to think post COVID, there are a lot of companies including Donegal that is looking at things differently. You learn some things through this process that we may not need to have everyone back in the office and a lot of organizations are looking at how do we gain efficiencies. That will have an impact in terms of motor vehicle accidents, frequency of accidents, and so there is, I think that a lot of it hinges on the next three to six months. What we see in terms of the virus and the travel patterns of employees and what employers are looking to do in terms of restructuring how employees come to work or are they working more remotely.

Q - Sean Reitenbach
And kind of related on that point is the, the decrease in large fire losses. Is that normal volatility or is there any evidence that's from people like greater loss mitigation from people being in their homes, more people working from home able to stop those things before they become large fire losses?

A - **Jeffrey Miller**
Sean, this is Jeff. I'll take a shot at that. It's certainly an excellent question and when we've asked internally as you can imagine more difficult, but to determine wide losses do not occur and to determine why they do occur. So it's difficult to say that the stay -- the fact that more people are staying at home has reduced homeowners fire losses, but it certainly is a plausible explanation that many --many home fires occur when someone is not in the home. So that's certainly a plausible explanation for it, but it's difficult to determine. Certainly, it was a welcome decline in fire losses on the homeowner side for the quarter.

A - **Kevin Burke**
When Jeff and I receive updates on what we consider to be large, large buyers, anything over 50,000, the majority of those reports that Jeff and I get are homes that are vacant, started electrical fire or

something occurred when the policy holders were not at home. So, there is some speculation there that just having folks working from home has helped to reduce that.

Q - Sean Reitenbach
Okay, thank you. And then one final one. We're hearing more evidence about possible rate inflations in 2021 in workers' comp and obviously we certainly hope the economy recovers and maybe some upward exposure units. How do you see that all playing into the expected kind of growth in 2021 for workers' comp?

A - **Jeffrey Miller**
We've been successful in growing our workers' comp book throughout 2020, we expect that to continue into 2021. In terms of the rate environment outside of the reduced frequencies related to COVID because of business is not being as active, we are not having as many employees working during, at least during the time when the economies were largely shut down. It remains to be seen how that flows through the rating bureaus estimates and the potential rate impact on that in 2021.

After that, we would expect to see the rates start to bottom out and hopefully even start to increase in certain regions. We started to see some signs of that in the Third Quarter, it's too early to make a call from our experiences to where that may be headed. But certainly, we've heard others talking about the rates potentially bottoming out in 2021 and we would welcome that.

Q - Sean Reitenbach
All right, thank you. That's all I have.

A - **Jeffrey Miller**
Thanks Sean.

Q - Sean Reitenbach
Thank you.

Operator
Your next question comes from Doug Eden from ECM.

Q - Douglas Eden
Good morning, Kevin and Jeff.

A - **Kevin Burke**
Morning Doug.

Q - Douglas Eden
I want to compliment you and the team on two issues. First, in addition to the seven straight quarters of book value increases that Kevin and you had mentioned, it also hasn't gone unnoticed that the Third Quarter represented the 7th consecutive quarter a stable loss reserves. So, very well done by you and the team. Second, the investor presentation that was filed in the 8-K yesterday, I just want to look at and it was very helpful and comprehensive and really drives home the point on how undervalued the company is relative to its P&C peers. And this leads to my first question. How can the company get the word out more broadly so that investors take notice of the successes that you are having. The gap between Donegal trading at, I think 0.85 times book value while the (inaudible) the peers are trading at

an average of about 1.1 borders on, in my opinion inaudible considering the strong execution that company has had for quite some time now and then my second question is around mountain states inaudible the loss ratio is still trending favorably and how much premium we can expect will move into the public company domain in 2021?

A - **Kevin Burke**
Doug, this is Kevin, and I'll start and also ask for Jeff's comments as well as particularly as we start looking at the Investor Relations piece. We, number one, we appreciate the compliment. We are working diligently to provide shareholder value and we're very focused on that. Your question is very timely as it relates to how do we get the word out because we obviously think that there is a real good investment opportunity and Jeff and I have embarked upon 2021, we are looking at an approach that, Doug, very similar to your organization is being able to go out and really pinpoint specific potential institutional investors that would be able to look at Donegal and understand the positive aspects of having a mid-sized regional company and the real opportunities that are there as we are tied to that independent agency system in the commercial marketplace, we think that we are positioned perfectly to move forward and really take advantage of that marketplace.

It is candidly at times a little frustrating because we continue to, we think achieved good solid consistent results, we are foregoing top end growth to ensure that we've got profitability in a very stable platform in which to move from and we've spent the better part of two years doing that and I think that we are in that position now as we move forward to start to look for some additional top end growth keeping our eye on a very conservative underwriting approach that we've had and the reserve aspect, again reflect back in 2018, that was a tough year, but it was a year that we knew we needed to make some very aggressive changes and that has turned out to be the right decision. So, you can look forward to some targeted approach on the Investor relations side for 2021 that Jeff Miller or myself Tony Viozzi, who is the head of our investments here. There is going to be a collaborative effort to approach that. Jeff any additional comments on that?

A - **Jeffrey Miller**
No, I think you've covered it well. I think you'll see more visibility on our part. For example, in a few weeks, we will be presenting at the CFA New York Conference and so we're going to be taking advantage of opportunities to tell the story and hopefully get some broader exposure. Moving to your Mountain States question, I can address that when we are planning to bring the Mountain States business into the pooling agreement beginning with policies effective in January of 2021. We expect that Mountain States will generate about $50 million in premiums next year and by bringing that into the pool, 80% of those premiums will become part of the Donegal Group revenue stream throughout the year. So about $40 million plus impact to the top line revenues of Donegal Group Inc. Because we're going to do it on the effective date basis, it will, it will happen gradually throughout the year and the earned premium impact will pick up towards the end of the year and then into 2022.

But the book continues to perform relatively well and we continue to write quality small to mid-sized commercial accounts in the four states where Mountain States is active; New Mexico, Colorado, Utah and Texas. We have a solid agency distribution group there in those four states. They are motivated to grow with us. As you may or may not know, Mountain States before our acquisition had a sizable book of oil and gas related accounts that were in various classes, that were really deemed to be the more profitable classes related to oil and gas business, but it's just not a focus area for us or a risk that we want to undertake. So we are gradually removing ourselves from that market and we are actually ahead of schedule expect to be pretty much withdrawn from the oil and gas risks by sometime next year. So

that will not have a material impact going forward. We are replacing that business with the more traditional products what Donegal has offered in other regions.

So, we expect that growth to start to hit the revenue stream of Donegal Group beginning in 2021.

Q - Douglas Eden
Sounds very exciting. Well, keep up the great work both of you and the entire team.

A - **Kevin Burke**
Thank you, Doug.

Q - Douglas Eden
Thank you.

Operator
(Operator Instructions) The next question comes from Bob Farnam from Boenning & Scattergood. Please go ahead.

Q - Robert Farnam
Yes, hi there. Good morning. A few questions. One is personal lines. Kevin, you mentioned the roll out of the new product. I'm curious when person, what do you expect personal lines premium to start to show some growth. I know you're doing a lot of re-underwriting and repricing and what not, but, so the premium still going down, you have an idea of when that might turnaround?

A - **Kevin Burke**
Yes. Bob, I believe it's 2022, probably end of First Quarter, beginning of Second Quarter of 2022. We are rolling out this product in the July-August time frame. We're going to group it in in states of three. This product is very much price refined and so we're going to be able to go out there and compete in the personal lines market space. But the reality is, in order for those agents to get fully engaged new product, we've got a product launch scheduled. You're really going to start to see the lift of that from a new business perspective beginning in 2022.

Q - Robert Farnam
Great. That's a lot more specific than I actually expected you to be able to offer. So that's good. Okay. In terms of COVID, you didn't really mention much in terms of COVID claims, I suspect you probably haven't had much change, but my question is actually, yes, I think you probably have a lot of business interruption type claims that you denied. How much is a legal expense do you expect to have to incur to defend yourself?

A - **Jeffrey Miller**
Sure Bob, this is Jeff. Very good question. We have somewhere over eleven hundreds of claims, business interruption claims that were presented. The majority of those were presented to us in the Second Quarter, very small number were added to that number in the Third Quarter of 2020, and as we announced last quarter that we had put up some reserves for legal expenses as we expect that we will have some level of litigation related to those, to those claims. All of them have been denied at this point and we do have a handful of lawsuits that were filed based on those denials. We put up $800,000 of legal reserves in the Second Quarter, we did not add to that number in the Third Quarter. To date, our expenses have been fairly minimal. We do have coordinating council that is really monitoring all of the

lawsuits and ensuring that we have a consistent response and a consistent defense strategy. There hasn't been much activity in those claims to date, in those losses to date. In fact, of the 9, 3 have been withdrawn without prejudice so they could be reinstated at some point, but they were withdrawn. So we have 6 that are active and we're closely monitoring that. So, our expectation is that we won't see a significant increase in litigation activity unless there are more decisions throughout the country where that would potentially suggest that there is coverage and to date, there really hasn't been many, there is only one that I'm aware of decision that has been a pro and pro customer as opposed to pro insurer. So for the majority of the decisions and the preliminary legal actions that we've seen, the lack of physical loss or physical damage has been apparent. And I don't think that the litigation has reached the second line of defense, which are the exclusions that of course we have in place on our policies. So at this point we're not anticipating a significant increase in those costs, but certainly something we're monitoring closely.

Q - Robert Farnam
Okay, so basically you've put in $800,000 as a reserve for reserves and that hasn't really changed, is what we're seeing in the Third Quarter.

A - **Jeffrey Miller**
Right. Just for defense cost, not for potential. We don't expect any payment of losses, it is just for the defense costs.

Q - Robert Farnam
Right, got it. The expense ratio, you said it ticked up a bit this quarter, you had some technology costs and the incentives for agency underwriters. Should we expect more technology cost to kind of down the pike as you put in these new products. I mean, I'm trying to think about how the expense ratio might react over the next, next 12 to 18 months?

A - **Jeffrey Miller**
Sure, Jeff again, I'll take a shot at that. We did have an increase in technology costs in 2020, about $2 to $2.1 million year-to-date, about $700,000 per quarter. And we do expect that that will continue through the second half of next year, so that same expense pace would be applicable through the Second Quarter of next year. When we do start to go live with the next release of the software, that will result in some additional expenses being recognized. So, the second half of the year, it will, we'll have some additional expenses that will be added to the expense ratio. I don't know the exact number of that at this point, but I would think it's fairly comparable to the impact that you're seeing this year being added again to the costs that we're currently incurring. So, the cost will over the next several years gradually have an impact on the expense ratio, our projections were that at the peak it was one and 1.5 percentage points impact to the expense ratio. We're currently at 0.4%, so it will ramp up over the next two years. So, we hit that peak and then it will start to subside. The bigger impact on our expense ratio is the impact of the incentive costs, profit sharing for our agents, growth incentives for commercial lines, and then the incentive costs for our employees that are all underwriting based to the extent that our loss ratio had ticked up in the current quarter that resulted in lower expense ratio compared to the Second Quarter of 2020, but higher than the Third Quarter of 2019.

Q - Robert Farnam
Okay. And I guess the last question, I'd be remiss if we don't ask about the kind of specific reserve development information by line if you have that handy?

A - **Jeffrey Miller**
Sure. I do have that handy. As we mentioned in workers' comp and personal auto, both had favorable development. Workers' comp was right around $2 million of favorable development and for personal auto, it was $1.5 million of favorable development. It was offset by $2.5, $2.6 million of unfavorable development in CMP. As we mentioned, that was primarily due to a handful of kind of unusual liability claims that were either reported to us during the Third Quarter or we had additional information that caused us to increase the case reserves. We believe that's more of a timing anomaly than anything else, there was no connection to those claims, no trend or pattern that we saw there. Other lines were fairly, commercial auto had about 900,000 of unfavorable development, that's pretty much in line with the Third Quarter 2019, which is we view that as a modest level of development in commercial auto. The other lines were up and down, but pretty much in that out. So hopefully that gives you sense.

Q - Robert Farnam
Yes, yes. And your point to where the commercial or the CMP. Sorry, the commercial multi-peril is the fact that over the, for the full nine months of the year; first nine months of the year that's been relatively flat, So you've had some adverse this quarter, but it's first half of the year was favorable in the CMP lines?

A - **Jeffrey Miller**
Correct. The reserve is, the development is virtually zero for the nine months for CMP.

Q - Robert Farnam
Okay. Great. Thank you.

A - **Jeffrey Miller**
Thank you.

Operator
And that was our last question. I will turn the call back over to Jeff Miller for closing comments.

A - **Jeffrey Miller**
Well, thank you to all of you for joining the call today. We appreciate your participation and the excellent questions. We look forward to speaking to you again after reporting our year-end results. Thank you, very much.

A - **Kevin Burke**
Thank you.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating.

You may now disconnect.