Donegal Group Inc. (DGICA; DGICB)

Q1'26 Earnings Call Transcript – 04/30/2026

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Good morning and thank you for joining us today. This morning, Donegal Group issued its First Quarter 2026 Earnings Release outlining its results. The release and a supplemental investor presentation are available in the Investor Relations section of Donegal's website at www.donegalgroup.com. Please be advised that today's conference was pre-recorded, and all participants are in listen-only mode.

Speaking today will be President and Chief Executive Officer, Kevin Burke; Chief Financial Officer, Jeff Miller; Chief Underwriting Officer, Jeff Hay; Chief Operating Officer, Dan DeLamater; and Chief Investment Officer, Tony Viozzi.

Please be aware that statements made during this call that are not historical facts, are "forward-looking statements" and necessarily involve risks and uncertainties that could cause actual results to vary materially. These factors can be found in Donegal Group's filings with the Securities and Exchange Commission, including its annual report on Form 10-K and quarterly reports on Form 10-Q. The Company disclaims any obligation to update or publicly announce the results of any revisions that they may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

With that, it is my pleasure to turn it over to Mr. Kevin Burke. Kevin?

Kevin Burke – President and Chief Executive Officer

Thank you, and welcome everyone. We are pleased to provide an update today on our quarterly results and areas of focus for 2026.

Our underwriting results for the first quarter of 2026 lagged the unusually favorable results for the first quarter of 2025, largely due to higher-than-average weather-related losses and the impact of several large fire and casualty losses during the quarter. In spite of the unusual loss activity, we are pleased that our core loss ratios reflected solid underlying performance within both the commercial and personal lines segments.

We are navigating through softening insurance market conditions, maintaining underwriting and pricing discipline while also pursuing new business at adequate pricing levels. We have developed specific action plans and assigned clear ownership and accountabilities as we strive to generate new business and retain quality accounts. We have tools in place to monitor progress at a very granular level while executing a renewed engagement strategy with our independent agents to strengthen alignment and solicit increased opportunities for us to gain market share within our clearly-defined geographic and class of business appetite.

We mentioned in our last call that the successful modernization of our policy systems has provided a solid foundation for the next phase in our technology transformation, which is the migration of our on-premises

Guidewire claims, billing and policy administration systems to the Guidewire cloud platform. Moving these core systems to the cloud platform will increase our agility and speed-to-market and provide enhanced tools and capabilities to empower our business users and enable future growth. We began the first phase of the migration program in February, in which our claims and billing applications will move to the cloud platform in early 2027. We are excited about the opportunity and ability to co-develop and launch new GenAI solutions to production as part of the claims system cloud migration, leveraging the significant investments Guidewire and other strategic partners are making to deliver GenAI tools that will be integrated within our core business systems to drive enhanced insights and operational efficiencies. We expect to further leverage the successful outcomes we achieve in this first phase to expedite the implementation of GenAI solutions that will further enhance our underwriting, pricing and risk selection capabilities when we move into the next phase of the program in 2027.

At this point, I'll turn the call over to Jeff Miller for a review of our financial results for the quarter.

Jeff Miller – Chief Financial Officer

Thanks, Kevin. Starting with premium revenues, for the first quarter of 2026, net premiums earned decreased 4.9% to $221.4 million. Net premiums written decreased by 3.2%, with lower premium rate increases and retention levels offset partially by an increase in new business volume. A 13.1% decrease in personal lines net premiums written was offset partially by 2.2% growth in commercial lines. Rate increases achieved during the first quarter of 2026 averaged 5.6% in total and 6.4% when excluding workers' compensation.

The combined ratio was 99.8% for the first quarter of 2026, compared to 91.6% for the prior-year quarter, reflecting higher impacts from weather and large fires and lesser benefit of net favorable development of reserves for losses incurred in prior accident years. Excluding the effect of those specific loss ratio components, the core loss ratio improved to 53.4%, compared to 54.2% for the prior-year quarter, reflecting a continuation of solid underlying underwriting performance. Compared to the prior-year quarter, we achieved a 0.7 percentage-point decrease in the commercial lines core loss ratio and a 2.2 percentage-point decrease in the personal lines core loss ratio. A continuation of excellent personal lines segment performance, with an 85.7% statutory combined ratio, was largely offset by an underwriting loss in our commercial lines segment that resulted in a statutory combined ratio of 104.6% for that segment.

Drilling down into the loss ratio components, weather-related losses of $17.2 million, or 7.8 percentage points of the loss ratio for the first quarter of 2026, were double the $8.6 million, or 3.7 percentage points for the first quarter of 2025. Extremely low temperatures for extended periods during the quarter throughout the majority of our operating regions resulted in water damage losses from frozen plumbing lines, and severe windstorm activity also contributed to the elevated claim volume. Commercial property losses from severe weather totaled $7.6 million and contributed 13.9 percentage points to the quarterly commercial multi-peril loss ratio, compared to 5.4 percentage points of the loss ratio for that line of business in the first quarter of 2025. The weather impact to the homeowners line was $8.0 million, or 25.6 percentage points of the homeowners loss ratio, which was also substantially higher than the 13.7 percentage points in the prior-year quarter. In total, the quarterly weather claim impact was well above the previous five-year average for the first quarter of 4.5 percentage points. Despite the elevated weather losses, our insurance subsidiaries did not incur losses from any single event during the first quarter of 2026 or 2025 that exceeded their individual $3 million catastrophe reinsurance retention with Donegal Mutual.

Large fire losses (which we define as over $50,000 in damages) contributed 5.5 percentage points to the loss ratio for the first quarter of 2026, which was higher than the 3.3 percentage points for the prior-year quarter and reflected increases in both commercial and homeowners fire losses.

Our insurance subsidiaries experienced $5.7 million of net favorable development of reserves for losses incurred in prior accident years, representing a 2.6-percentage-point reduction in the loss ratio, for the first quarter of 2026, compared to $10.5 million, or a 4.5-percentage-point reduction in the loss ratio, for the prior-year quarter. Specific line of business detail for the first quarter of 2026 included favorable development of $3.5 million for commercial auto, $3.4 million for personal auto, $800,000 for homeowners, $600,000 for workers' compensation and $500,000 for other personal lines, offset partially by unfavorable development of $1.7 million for commercial multi-peril and $1.4 million for other commercial lines (which was primarily umbrella liability).

The expense ratio of 35.4% for the first quarter of 2026 increased modestly compared to 34.6% for the prior-year quarter. The increase primarily reflected the impact of lower net premiums earned for the current quarter.

In summary, the modest underwriting income for the first quarter of 2026 combined with $14.3 million of net investment income, resulted in after-tax net income of $11.5 million, compared to $25.2 million for the first quarter of 2025.

To provide more details about our commercial and personal lines segment results and related initiatives, I will turn the call over to Jeff Hay.

Jeff Hay – Chief Underwriting Officer

Thank you, Jeff. As Jeff mentioned, higher-than-average weather-related losses and large fire losses had an outsized impact on both commercial and personal lines results for the first quarter of 2026. Through the diligence of our underwriting teams and the intentional strategies we've put into place, we were pleased to achieve new business growth in both segments of our business in alignment with our 2026 business plan and a continuation of strong underlying performance.

Within commercial lines, net premiums written increased by 2.2 percentage points for the first quarter of 2026. As market competition for new business has intensified, we have continued to stand firm, maintaining underwriting and pricing discipline and executing on targeted geographic and class strategies.

I'm pleased to report that in the first quarter, despite the soft market conditions, we experienced continued success in both new business writings and retention versus our goals. Commercial lines new business remained consistent with targeted geographic and class strategies that I have mentioned in previous calls, with the majority of new business written in our highly targeted classes with higher expected profitability. Additionally, we achieved a real retention rate of 82.3 percent for the first quarter of 2026 as we continue to work with our independent agents to retain quality accounts.

Our overall commercial rate and exposure increase, excluding workers' compensation, remained steady at 9% for the first quarter. While we are generally rate adequate across our lines of business, we continue to emphasize driving rate in areas where the intersections of class, line of business, and geography present challenges.

Shifting now to first quarter commercial lines loss trends. As previously shared, three trends impacted our first quarter 2026 versus first quarter 2025 results: higher-than-average weather impacts, large fires, and continued excess liability development on losses for prior accident years.

First quarter weather-related losses increased our commercial lines loss ratio by 3.8 percentage points when compared to the same quarter in 2025 and 3 percentage points compared to our long-term average. These losses were primarily driven by the previously mentioned winter storms in January and February that brought heavy snow and subzero temperatures across our footprint and significant wind, hail and tornado events that impacted several states across the Central and Eastern U.S. in March.

First quarter 2026 impact from large fires resulted in a 4.2-percentage-point increase to the commercial multi-peril loss ratio when compared to same quarter in 2025. This can be attributed to an increase in the frequency of fires in the quarter, including one fire that exceeded our external property per risk reinsurance retention and resulted in a $3.2 million net impact to our commercial lines underwriting results.

Commercial lines prior-year reserve development was favorable overall for the first quarter of 2026, decreasing the loss ratio by 0.7 percentage points, driven by favorable commercial auto and workers' compensation development that was largely offset by unfavorable umbrella liability claim development in accident years 2022 and 2024.

In response to increasing severity trends in umbrella liability claims over the past few years, we have implemented an initiative to reduce net retained umbrella limits in our book of business. In the first quarter of 2026 alone, we reduced exposure limits by over $150 million. We expect this number to climb throughout the remainder of 2026.

Our commercial lines core loss ratio, which excludes the impact of large fires, weather, and prior-year reserve development, remained relatively stable, decreasing slightly by 0.7 percentage points for the first quarter of 2026 compared to the same quarter in 2025.

From an overall commercial loss trend perspective, we continue to experience upward pressure on liability severity within both commercial auto and commercial multi-peril liability coverages, with increases consistently in the double digits, slightly offset by a continued decreasing frequency. Property frequency increased in the quarter due to the weather activity, but overall severity remains in check. Additionally, frequency trend lines across all other coverages remain in check and favorable.

Now, turning to our personal lines segment – the decline in personal lines net premiums written remained steady at -13.1 percent for the first quarter of 2026. New business written totaled $1.6 million, representing an increase of nearly 25 percent over the fourth quarter of 2025, and a nearly 70% increase over the first quarter of 2025. Additionally, I'm pleased to report that our real retention rate for the first quarter was a very healthy 88.7 percent. Rate and exposure slowed to 2.4% for the first quarter, which was a direct result of the achievement of rate adequacy across all lines. We continue to build momentum with deliberate strategies that we've put into place to slow the decline in our personal lines premiums.

We were pleased with the excellent profitability that continued in the first quarter of 2026, fueled by the results of our personal auto line of business, which saw a 3.6-percentage-point decrease in loss ratio from the same quarter in 2025. This decrease was driven by a 0.8-percentage-point improvement in the core loss ratio, as well as 3.1 percentage points of more favorable prior year reserve development.

Our homeowners loss ratio saw a deterioration of 14.6 percentage points from the first quarter of 2025. This can be attributed to 11.9 percentage points more severe weather activity mentioned previously and 7.8 percentage points of higher large fire impact, offset somewhat by 3.9 percentage points of improvement in the core loss ratio.

In summary, homeowners frequency trends for the first quarter were in line with longer term trends, with lower-than-average severity due to the higher volume of weather claims in the quarter. Frequency trends in personal auto remain in check, as physical damage severity is showing signs of improving, while bodily injury severity continues to show a gradual increase.

I will now turn the call over to Dan DeLamater for an update on our operational strategies and developments. Dan…

Dan DeLamater – Chief Operating Officer

Thank you, Jeff. I will share a brief update on operational initiatives and how we are navigating the current competitive marketplace.

Despite the challenges we faced in the first quarter, I'm pleased to report that we continued to make progress toward many of our business plan objectives due to the deliberate actions of our marketing and underwriting teams in collaboration with our independent agents.

As we look to the remainder of 2026, we remain focused on several initiatives that will support our achievement of premium growth goals, expense targets, and profitability expectations. Among them, our collaborative state strategy planning process; internal alignment between marketing, underwriting, and product teams; enhanced pricing sophistication; and continued companywide expense optimization. These intentional efforts were among the key drivers of our new business achievements that Jeff Hay touched upon in his remarks.

Our product team continues to work closely with their underwriting and marketing colleagues to strategically manage regional product portfolios. This internal alignment includes our technical data team, which provides robust and consumable data, while our analytics team delivers valuable insights that ensure each of our teams are equipped with quick and easy access to key metrics across regional, state, territory, and agency levels. Together, their collaboration enables our business units to make intelligent, data-driven business decisions, and this alignment is essential as we look to grow confidently while holding firm on profitability expectations.

Despite a softening marketplace, we remain focused on our intentionally defined appetite as we work to be selectively aggressive in our new and renewal pricing. Selectivity will be critical as we remain vigilant for any signs of economic inflation as a persistent industry-specific challenge.

To achieve our goals, we will continue to work diligently with our independent agents to drive sustainable, profitable premium growth. We have segmented efforts in middle market commercial, small business, and personal lines. At present, construction represents the largest industry within our current in-force book of business, with the vast majority of accounts in specialty trades. Recently, we optimized our agency-facing quoting portal for targeted classes of contractors through the release of our new WriteBiz Express functionality. Soon, we will launch the same agency experience enhancement for our processing and services classes. WriteBiz Express greatly streamlines the quoting and policy issuance process for these strong performing classes and is just the latest way we are leveraging and refining our modernized platform to meet the evolving needs of our agents.

Finally, leaders and team members across Donegal continue to embrace our expense management efforts. We have further refined our comprehensive and sustainable budgeting process and expense monitoring tools, and we continue to emphasize expense optimization and accountability.

Our 2026 business plan projects a slight increase in our expense ratio as we invest in the migration of our systems to the Guidewire cloud platform that Kevin mentioned earlier. We're confident in the capabilities the Guidewire cloud platform will unlock for both our agents and our team members, and look forward to the operational efficiencies we'll realize from these investments in the years ahead.

In closing, we believe we are well positioned to face the challenges in today's competitive insurance landscape, and we continue to invest in our long-term success. With that, I'll turn it over to Tony Viozzi for an investment update.

Tony Viozzi – Chief Investment Officer

Thanks Dan. With the 10-year U.S. Treasury consistently trading above 4% for the last three years and forecasts anticipating little change in interest rates for the near future, we continue to experience favorable investment income results as bonds purchased at the bottom of the rate cycle continue to run off the books and are reinvested at higher market rates. On the equity side of the market, there continues to be volatility, mostly associated with recent geopolitical events. Our long-term strategy remains focused on achieving predictable, steadily increasing investment income, coupled with modest equity exposure for long-term capital appreciation. Our approach has delivered proven results and we believe positions us well to grow investment income in the future.

In 2025, we took intentional actions to enhance the composition of our bond portfolio, with strategic bond swaps and asset allocation shifts, boosting both credit quality and yield. Our first quarter of 2026 investment results reflected the benefits of those actions. We were pleased to achieve $14.3 million in net investment income for the first quarter of 2026, which was a 19% improvement over the $12 million for the first quarter of 2025. Additionally, the average tax-equivalent yield for the first quarter of 2026 increased to 3.94%, compared to 3.50% for the first quarter of 2025.

We received $44 million of incoming portfolio cash flow that was yielding 4.67% during the quarter. Adding that cash to other investable funds, we invested $63 million during the quarter at a yield of 5.39%. The 72 basis-point improvement in yield will boost annual investment income for the foreseeable future.

We are currently projecting $135 million in bond cash flow over the next twelve months, with a current average yield of 4.45%. We expect to benefit from a continuation of higher reinvestment yields that will further increase our portfolio yield.

Our relatively modest equity portfolio is positioned defensively with exposure to value and high dividend stocks, which has typically performed well in a declining equity market. Net investment losses for both the first quarters of 2026 and 2025 reflected modest decreases in the value of our equity securities held at the end of each respective period.

As of March 31, 2026, our book value per share increased to $17.54, which was a 1.2% improvement over $17.33 at December 31, 2025.

In closing, we are confident that our fixed income strategy will continue to generate investment income growth in 2026, and we will continue to watch for compelling bond swap opportunities as they may arise. Our portfolio is well positioned with highly rated bonds and a laddered cash-flowing portfolio that will allow us to continue to take advantage of higher reinvestment rates in the near term. We are currently focused on attractive opportunities to acquire high-quality tax-exempt, corporate, and mortgage-backed-securities, and on locking in longer duration bonds at current rates.

With that, I will now turn it back to Kevin for closing remarks.

Kevin Burke – President and Chief Executive Officer

Thanks, Tony. While our first quarter results did not meet our expectations, we have never been in a better position to achieve our short and long-term goals than we are right now. We have clear strategies and excellent leadership alignment on what we need to do to execute them. We recently announced an increase in our quarterly cash dividend last week, further demonstrating our confidence in our ability to achieve excellent financial performance. We look forward to providing an update on our progress in future calls. I'll now turn the call back to Becca.

Becca Gregg Sansom – Senior Corporate Communications Specialist

Thank you, Kevin. While we requested and received questions in advance of today's call, we have worked answers to these questions into our prepared remarks. If there are any additional questions, please feel free to reach out to us. This now concludes the Donegal Group first quarter 2026 earnings webcast. You may now disconnect.