Donegal Group Inc. (DGICA; DGICB)

Q2'26 Earnings Call Transcript

Becca Gregg Sansom – Senior Corporate Communications Specialist

Good morning and thank you for joining us today. This morning, Donegal Group issued its Second 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 ongoing business strategies and initiatives.

We are pleased to report excellent underwriting results for the second quarter of 2026 that outperformed the second quarter of 2025, largely due to lower-than-average weather-related losses, and despite the elevated impact of commercial fire losses during the quarter. We are especially pleased that our core loss ratios continued to demonstrate solid underlying performance within both the commercial and personal lines segments.

We are emphasizing increased engagement with our independent agents to further strengthen those important relationships. These efforts are yielding additional opportunities to write new business accounts within our clearly-defined geographic and classes of business appetite. Despite competitive pressures within our regional markets, we achieved our commercial lines new business premium goal for the first half of 2026, and positive momentum is building as it relates to our personal lines new business volume. We pay close attention to our retention and rate achievement metrics, both of which are areas where current market pressures are creating the greatest challenges. We are committed to growing our business over time, but we are also working diligently to maintain underwriting and pricing discipline in order to achieve target profitability levels. This is a balancing act that will require a great deal of focus and attention for the remainder of 2026 and as we plan for 2027 and beyond.

Our business and technology initiatives remain on track. We are making steady progress on the planned migration of our Guidewire claims and billing systems to the Guidewire cloud platform in the first half of 2027. In conjunction with that migration, we expect to implement several GenAI solutions that will provide greater insights to our claims personnel and increase efficiencies within our claim operations. We are already benefitting from the utilization of GenAI coding tools by our IT data and applications development teams, and we look forward to continuing to expand that utilization to garner additional efficiencies and cost savings.

We look forward to our annual state strategy planning sessions in early August, when our home office and regional leadership teams come together for several days to refine our strategies and tactics at a very granular level. These discussions will ensure alignment across our sales, marketing, underwriting and product teams and will inform our 2027 business plan objectives as that plan is developed and finalized over the next several months.

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

Thank you, Kevin. For the second quarter of 2026, net premiums earned decreased 4.0% to $222.6 million. Net premiums written decreased by 3.2%, with similar drivers to the first quarter as lower premium rate increases and retention levels were offset partially by an increase in new business volume. A 9.7% decrease in personal lines net premiums written was offset partially by 0.8% growth in commercial lines. Rate increases achieved during the second quarter of 2026 averaged 5.2% in total and 6.0% when excluding workers' compensation.

The combined ratio was 95.6% for the second quarter of 2026, down from 97.7% for the prior-year quarter, primarily due to lower weather impact and more favorable development of reserves for losses incurred in prior accident years, offset partially by higher large fire losses and a higher expense ratio. The core loss ratio remained fairly stable at 51.0%, compared to 50.1% for the prior-year quarter.

Drilling down into individual loss ratio components, weather-related losses were $11.9 million, or 5.3 percentage points of the loss ratio for the second quarter of 2026, which were far lower than the $25.8 million, or 11.1 percentage points for the second quarter of 2025. The quarterly weather claim impact was well below the previous five-year average for the second quarter of 9.4 percentage points.

Large fire losses (which we define as over $50,000 in damages) contributed 6.7 percentage points to the loss ratio for the second quarter of 2026, which was higher than the 5.2 percentage points for the prior-year quarter and reflected an increase in the severity of commercial fire losses.

Our insurance subsidiaries experienced $7.8 million of net favorable development of reserves for losses incurred in prior accident years, or a 3.5-percentage-point reduction in the loss ratio, for the second quarter of 2026, compared to $3.0 million, or a 1.3-percentage-point reduction in the loss ratio, for the prior-year quarter. Specific line of business detail for the second quarter of 2026 included favorable development of $2.6 million for personal auto, $2.4 million for workers' compensation, $1.2 million for commercial auto, $1.1 million for homeowners, and $700,000 for commercial multi-peril.

The expense ratio was 35.8% for the second quarter of 2026, compared to 32.2% for the prior-year quarter. The increase primarily reflected the impact of the lower base of net premiums earned for the current quarter and also reflected an increase in underwriting-based incentive compensation expense due to the more favorable quarterly loss ratio relative to the prior-year quarter.

In summary, solid increases in underwriting income, investment income and net investment gains combined to provide after-tax net income of $22.3 million for the second quarter of 2026, up 32% compared to $16.9 million for the second quarter of 2025.

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

Jeff Hay – Chief Underwriting Officer

Thank you, Jeff. As Kevin mentioned, we are pleased with the underwriting profitability in the second quarter of 2026, and we continue to prioritize the need to increase new business in targeted areas to offset attrition and achieve moderate growth levels in this softening market.

For our commercial lines segment, net premiums written increased modestly by 0.8 percent for the second quarter of 2026, versus 1.9 percent for the second quarter of 2025. As the market has selectively softened and competition for new business has intensified, we continue to stand firm, maintaining underwriting and pricing discipline and executing on targeted geographic and class strategies.

I'm pleased to report that in the second quarter, despite the challenging market conditions, we had continued success in achieving our new business goals. New business volume was up slightly compared to the second quarter of 2025, with 69 percent 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 second quarter of 2026, as we continue to work with our independent agents to retain quality accounts. Retention was generally in line with our business plan, and began to reflect the impact of our exit from the farm line of business as mentioned in prior calls. The non-renewal of farm business had a negative impact of 0.6 points on retention and 0.7 points on our overall commercial lines growth rate. Excluding the impact of the farm exit, we achieved a real retention rate of 82.9 percent, with overall growth at 1.5 percent for the quarter.

Our commercial lines rate and exposure increase, excluding workers’ compensation, slowed to 7.8 percent for the second quarter of 2026. We are generally rate adequate across our lines of business and continue to emphasize driving rate increases in areas where the intersections of class, line of business, and geography present challenges, in order to keep pace with loss costs.

Shifting now to second quarter commercial lines loss trends, the impact from large fires resulted in a 7-percentage-point increase to the commercial multi-peril loss ratio when compared to same quarter in 2025. While we experienced a modest increase in the frequency of large fires in the quarter, there was a substantial 45 percent increase in the severity due primarily to a few large claims, one of which exceeded our $4 million reinsurance retention. We did not identify any specific underwriting deficiencies with respect to these fire losses.

Despite that activity, our commercial lines results improved for the second quarter of 2026 versus the same quarter in 2025, which we attribute to three primary drivers: lower-than-average weather impact, as Jeff mentioned earlier; more favorable prior-year reserve development; and continuing improvement in the core loss ratio.

Lower second quarter weather-related losses improved our commercial lines loss ratio by 2.3 percentage points, with an improvement of 6 percentage points on our commercial multi-peril line of business loss ratio. This favorable weather experience was despite relatively active weather patterns in our regions, including wind and hail in the Midwest in April and tornadic activity across the Mid-Atlantic region in June. There were also several wildfires in Utah and Colorado in late June that resulted in zero claim activity for us. We continue to actively manage our property concentrations as part of our geographic spread of risk strategies at an individual state and county level.

Commercial lines prior-year reserve development was favorable overall for the second quarter of 2026, decreasing the segment loss ratio by 2.7 percentage points, compared to modest unfavorable prior-year development that increased the loss ratio by 0.6 percentage points for the second quarter of 2025.

An ongoing initiative to reduce net retained umbrella liability limits within our book of business is well underway, resulting in additional significant reductions in casualty exposures during the second quarter. We expect reductions in our net retained limits to continue throughout the remainder of the year.

Our commercial lines core loss ratio, which excludes the impact of large fires, weather, and prior-year reserve development, remained relatively stable in the second quarter, decreasing slightly by 0.5 percentage points compared to the same quarter in 2025. Umbrella and commercial auto core loss ratios improved the most in the quarter, offset by deterioration in the commercial multi-peril and workers’ compensation core loss ratios.

From a trend perspective, recent upward pressure on liability severity for both commercial auto and commercial multi-peril coverages abated somewhat in the second quarter of 2026, as frequency and severity for both liability and property coverages returned to long-term trend lines, outside of the large fire activity previously mentioned. Additionally, workers’ compensation loss activity for the first half of 2026 was in line with the historical trend line for both frequency and severity across both medical and indemnity coverages.

Now, turning to our personal lines segment – we had an excellent quarter of profitability that was driven by excellent personal auto results coupled with favorable weather impact within our homeowners line of business.

Efforts to reverse the decline in personal line premiums began to take hold, as new business written totaled $2.6 million for the second quarter of 2026, representing an increase of 63 percentage points over the first quarter of 2026, and 118-percentage-point increase over the second quarter of 2025.

As a result, net premiums written improved by more than 5 percentage points from a 15.3 percent decline for the prior-year second quarter to a 9.7-percent decline for the second quarter of 2026. We are encouraged with continuing improvement month-over-month we have seen throughout the first half of 2026. Additionally, I’m pleased to report that our real retention rate for the second quarter held steady at a healthy 89 percent. Rate and exposure increases also held steady at 3.6 percent for the second quarter, reflecting the achievement of rate adequacy in this segment.

For the second quarter of 2026, the personal auto loss ratio increased by 2 percentage points compared to the same quarter in 2025. This increase was driven by a 4.5-percentage-point deterioration in the core loss ratio, with offsetting improvements in weather-related losses and favorable prior year development. While the core loss ratio increased moderately, it is worth mentioning that the second quarter core loss ratio was still well below our target for this metric.

Our homeowners loss ratio saw a strong second quarter improvement of 33.4 percentage points from the same quarter of last year. We attribute the improvement to a 26.9-percentage-point reduction in weather loss impact and a 6-percentage-point decline in large fire loss impact, with virtually no change to the core loss ratio.

Homeowners frequency trends for the second quarter of 2026 were in line with long-term trends with the reduction in weather frequency driving the decrease in losses. Frequency trends in personal auto remained in check, as auto physical damage severity showed signs of improvement, while bodily injury severity reverted to longer-term trend lines.

With that overview of our underwriting results for the second quarter, 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. As we review our operational performance for the first half of 2026, I will provide an update on our efficiency initiatives and the expense management efforts discussed in previous calls.

For the second quarter of 2026, we operated at an expense ratio of 35.8 percent, which was higher than 32.2 percent for the second quarter of 2025. While the increase breaks from our recent trajectory and stated goal of decreasing our expense ratio, it's important to recognize the intentional business decisions and external forces that are contributing to this temporarily elevated metric. Our second quarter expense ratio was impacted by several specific factors:

First, projected incentive compensation for agents and employees, which are based on overall underwriting performance, was higher compared the first quarter of 2026 and the prior-year quarter.

Second is the fact that we have not yet completed the conversion of legacy policies from our mainframe, which means we are still incurring costs to maintain that legacy platform. In addition, our expenses continue to include allocated depreciation costs related to our multi-year systems transformation project. And, we also have projects underway to migrate our data and core application systems to the cloud.

And the final, but significant, factor is the comparatively lower second quarter net premiums earned on which the expense ratio is based. As you heard from my colleagues, our top line was impacted by the soft market conditions that are currently challenging new and renewal rate achievement and renewal retention.

These factors – profit-based incentives, temporarily elevated technology expenses, and a lower premium base – all contributed to our elevated expense ratio for the second quarter of 2026. We project that our technology-related expenses will begin to moderate over the next few years as we decommission legacy systems and fully depreciate our major systems transformation investment. In the meantime, we are focusing on expense containment and achieving increased efficiencies in our operations.

Shifting to agency engagement initiatives, our marketing and underwriting teams continue to align with senior leadership on intentional strategies to generate growth via new business and rate and renewal retention.

In the first half of 2026, we hosted agency forums in several strategic growth states. Senior leaders have also traveled to agency offices in targeted states across the country. We remain committed to the independent agency channel as our sole distribution channel for our products, and we recognize the importance of continuing to build and strengthen these relationships.

Two systems-related enhancements were launched in the first half of 2026 to better support agents' ease of doing business with Donegal. Our newly introduced WriteBiz® Express system has increased the speed-to-submission for targeted classes of small commercial business. Additionally, a WriteBiz® agency portal refresh released this month provided significant enhancements to the commercial lines quoting, submission, binding and payment workflows for our agents. Such enhancements demonstrate Donegal's commitment to being the regional carrier of choice for independent agents.

Finally, as Kevin mentioned, we continue preparation for our annual state strategy workshops in August. These sessions are especially vital as we underwrite property books in increasingly weather-prone states and regions, and are critical in steering our regional and national accounts teams toward intentional product mix and appropriate growth plans across all lines and classes. We continue to stand firm in our focus on engagement between our marketing teams and independent agents, in tandem with our enterprise analytics and underwriting teams, as we identify profitable new business and renewal opportunities in states and classes that match our objectives.

I'll now turn it over to Tony Viozzi for an investment update. Tony?

Tony Viozzi – Chief Investment Officer

Thanks Dan. We continue to actively manage our investment portfolio to provide a consistent and growing income base for this quarter and future years to come. We had strong investment performance for the second quarter of 2026, as net investment income was up 16% to $14.5 million, versus $12.5 million for the second quarter of 2025.

The average tax-equivalent yield for the second quarter of 2026 increased to 3.99%, compared to 3.64% for the second quarter of 2025.

During the second quarter of 2026, we reinvested about $90 million in bonds at 5.45%. This 100 basis points in yield boost is projected to increase net investment income by upwards of $1 million annually.

Net investment gains in the second quarter of 2026 came in at $3.3 million, which was net of a $1.2 million one-time realized loss on a $30 million bond swap in May, that allowed us to increase yield by 225 basis points on that $30 million. By comparison, the net investment gain for the second quarter of 2025 was $1.5 million. We will continue to actively manage the portfolio, looking for strategic bond swap opportunities as they arise to increase portfolio yield.

As of June 30, 2026, our book value increased to $17.98, which was a 3.8% improvement over $17.33 as of December 31, 2025. The increase was driven primarily by investment income and underwriting profit, offset partially by stockholders' dividends and a modest decrease in value of the available-for-sale bond portfolio.

Highlighting changes in our portfolio mix over the past year, we have shifted out of agency and corporate debt and moved into mortgage-backed securities, non-agency structured notes, tax-exempt bonds and a modestly higher allocation to equities. This approach has improved yield and risk profile, allowing us to extend duration at a higher average yield.

In closing, we are projecting about $90 million in portfolio cash flow over the next twelve months, with a current average yield of 4.25%, which is lower than our current investment rate of 5 to 5.25%.

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

Kevin Burke – President and Chief Executive Officer

Thanks, Tony. We are continuing to operate from a position of financial strength as we carefully and intentionally navigate the challenges of a softening underwriting marketplace. We are executing strategies that we expect will result in long-term success and increase the value of the investment of our stockholders. We look forward to reporting on our progress in future calls. I'll now turn the call back to Becca. Thank you.

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 second quarter 2026 earnings webcast. You may now disconnect.