Donegal Group Inc.

Q2 2021 Earnings Conference Call

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Company Participants

Kevin Burke - President and Chief Executive Officer

Jeffrey Miller - Chief Financial Officer

Conference Call Participants

James Inglis - Philo Smith & Co.

Robert Farnam - Boenning and Scattergood

Meyer Shields - KBW

Douglas Eden - Eden Capital Management

Operator

Good day. Thank you for standing by. Welcome to the Donegal Group Inc. Second Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Mr. Jeff Miller. Thank you. Please go

ahead.

Jeffrey Miller

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

Before we get started, you should be aware that our commentary today includes Forward-Looking Statements that involve a number of risks and uncertainties. We described Forward-Looking Statements in our news release, and we provided further information about risk factors that could cause actual results to differ materially from those we project in the Forward-Looking Statements in the report on Form 10-K that we submitted to the SEC. We expect to file our Form 10-Q for the second quarter on or around August 6th. You can access our SEC filings through the Investors section of our website.

Also, we use certain non-GAAP financial measures to analyze our business results, and we refer you to the reconciliation of non-GAAP information included in the news release that we issued yesterday.

With that, I will turn it over to Kevin.

Kevin Burke

Thanks, Jeff, and welcome, everyone. We are pleased to report solid underwriting results for the second quarter and for the first half of the year, resulting in annualized first half return on equity of 10% that contributed to continued book value appreciation. We achieve top line growth particularly in commercial lines, favorable reserve development, and we continue to make solid progress on our technology and analytical initiatives. For the second quarter of 2021 we reported net income of $16.2 million or $0.53 diluted share of our class A common stock, net premiums written increased 8.2% and our second quarter combined ratio is 96.1%. Comparisons to prior year quarter results are somewhat challenging given that all aspects of our business were impacted by the pandemic and related shutdowns throughout the country during that period.

We are pleased that our results for the first half of 2021 represents significant improvement from pre-pandemic periods. Starting back in 2017 we made several significant changes to improve our profitability including a shift of our mix of business towards commercial lines where we believe we will continue to have opportunities to obtain profitable growth through our independent agents. Our organization navigated the challenges of 2020 successfully, thanks to the professionalism and dedication of our employees. We also leaned on the independent agency relationships that we have built and cultivated in some cases over several decades.

While we stayed in close contact with our agents via remote communications during the pandemic, our marketing and underwriting teams have enjoyed opportunities to re-engage with our agents through in person meetings as our agents have begun to return to more normalized operations. I personally looking forward to several meetings that are planned with senior leaders of several large agency groups with whom our national accounts teams have been working with over the past several years to strengthen relationships and bolster our position within these groups.

We are committed to providing all agents with point of sales services that make it easy for them to produce business for us along with compensation programs that are specifically tailored to incentivize them to send us quality business. We remain committed to sound underwriting and pricing discipline and working closely with our independent agents to deliver best in class customer service which we believe is a key to achieving further market share gains.

To that end, we reported solid top line growth during the second quarter, with commercial lines net premiums written increasing to 19.9%. The largest contributor to this growth was an allocation of commercial premiums from four Southwestern states from the Donegal mutual underwriting pool.

As we announced previously, Atlantic States Insurance Company, our largest insurance subsidiary, began to receive an 80% allocation of the underwriting results of the Mountain States Insurance Group for policies effective in 2021, which is the culmination of our plan that began with Donegal Mutual's acquisition of that group back in 2017. Mountain States Insurance Group net premiums written added approximately $24 million to our net premiums written for the first half of 2021 which generally matched our forecast.

For the second quarter Mountain States Premiums represented approximately half of our 19.9% overall commercial growth. The 26.7% growth in our commercial multi-peril line of business during the second quarter reflected a combination of mountain states premiums, new business and premium rate increases. In our commercial auto line of business, we've been implementing substantial premium rate increases over the past few years and I've also taken decisive actions to substantially reduce exposures and litigation prone geographies. As a result, we believe that we will achieve rate adequacy in that line of business in 2022 when we will earn the premium increases we are implementing throughout 2021 and expect to fully benefit from our underwriting actions.

In workers compensation, favorable reserve development contributed to profitable second quarter results. Our workers compensation loss ratio has steadily increased due to bureau mandated premium reductions over the past few years. We are beginning to see some early signs that may indicate rates are stabilizing across our markets.

Summarizing our commercial lines outlook, we believe current market conditions, including ongoing impacts of supply chain disruption, labor shortages, low interest rates and social inflation will continue to support reasonable new business pricing and renewal premium increases in the near term. Moving to personal lines our net premiums written declined 6.4%, which was expected as we continue to emphasize sustainable profitability over growth in anticipation of the launch of our new personalized products later this year. We will continue to look at the deployment of our products which will be done incrementally in 11 states, with the rollout extending into 2022 and we expect to see premiums decline that we've experienced in the recent year start to ease with the rollout of these new products.

The new products will provide diversified coverage options to meet the specific needs of personalized customers who recognize the value of the advice of a trusted independent agent and the value of excellent service and responsiveness from their insurance carrier. We will provide our agents and their customers with competitive pricing based on predictive analytical pricing models that segment risk characteristics and leverage external data to a much greater extent than our current product offerings and rating models. We look forward to competing more effectively for new quality personalized accounts through our independent agents.

Our book value per share at June 30, 2021 increased to $17.64 from $17.13 at December 31, 2020 as net income for the first half of 2021 was partially offset by declared cash dividends and unrealized losses within our available for sale fixed maturity portfolio due to an increase in market interest rates during the period. Since the end of 2018, our book value has grown by over 25% even after our return of dividends to our stockholders, that represent one of the highest dividend yield within our industry.

We were also pleased to declare regularly quarterly cash dividends of $0.16 per share of our class A common stock and $14.25 per share of our class B common stock. The quarterly dividends are payable on August 16, 2021 to stockholders of record as of the close of business on August 2, 2021. Based on yesterday's closing price of $15.10 per share our current dividend rate represents 4.2% yield for our class A common stock.

As we successfully execute our business strategies, we expect to continue to grow the book value of Donegal Group for the benefit of all of our stockholders.

With that I will turn the call over to Jeff for review of our financial results and then I'll return with a few closing remarks.

Jeffrey Miller

Thank you, Kevin. As is my usual practice I'll provide some additional color on our financial performance for the second quarter. Beginning with net premiums written we reported an 8.2% increase to $209.6 million, with commercial lines representing approximately 62% of the total and personal lines representing approximately 38%. The inclusion of Mountain States Premiums which represent entirely commercial business has contributed to the ongoing shift toward a higher percentage of commercial business in our product mix. As Kevin mentioned, we expect new personalized products will begin to stabilize that segment beginning in 2022.

Kevin also highlighted that commercial lines grew by 19.9% to $129 million led by commercial multi-peril growth of 26.7%. Overall, commercial growth included $10.7 million of Mountain States Ppremiums that were added to the pool business allocated to Donegal Group representing roughly half of the commercial growth for the second quarter.

Factors driving organic growth included a steady flow of new business submissions, strong premium retention and renewal premium increases averaging 6.8% for the commercial segment or 8% excluding workers compensation. The commercial lines premium retention rate was 90% for the first half of 2021. We're continuing to achieve substantial commercial auto rate increases excluding the impact of no fault reform in Michigan, those rate increases averaged approximately 11% for the quarter. We've also been achieving higher renewal premium increases in our commercial multi-peril line of business, which averaged around 5% for the second quarter up from low single digits in the first quarter.

While we were pleased to report growth in every commercial line of business we continue to closely monitor the underwriting results that segment is generating. The commercial line statutory combined ratio of 94.3% compared favorably to 99.3% for the first quarter of 2021 and was only modestly higher than 93.5% for the prior year second quarter which reflected lower claim activity due to the pandemic.

There were a number of moving parts within the favorable commercial performance for the second quarter of 2021. Lower weather related losses were generally offset by higher large fire losses compared to the prior year quarter. Increases in claim activity relative to the prior year quarter were generally attributable to the resumption of economic and driving activities offset partially by favorable reserve development on claims incurred in prior years. We experienced favorable development across all commercial business lines but it was heavily weighted toward workers compensation where we benefited from favorable claim settlements as courts reopened and our claims personnel were able to bring cases to closure within the reserves we established. Those were primarily claims from accident years 2017 through 2019. the workers compensation development was quite a bit higher and then in the second quarter of 2020, but very comparable to the second quarter of 2019.

Moving to personal lines. Our strategy over the past few quarters has been to stabilize that segments results by limiting disruption in the legacy book of business that has now returned to profitability. While personalized net premiums written have continued to decline we have retained 87% of expiring personalized policies and year-to-date 2021. That retention rate coupled with modest increase in new business writings has helped to slow the rate of premium decline we experienced a year ago. As we've been discussing over the past year we expect the launch of new personalized products later in 2021 and continuing into 2022 will further stabilize our personalized premium volume and ultimately provide opportunities for modest levels of premium growth as those products gain traction.

The personalized statutory combined ratio was 96.9% for the second quarter as auto claims frequency returned closer to pre-pandemic levels. Auto claim frequency was beginning to trend downward before the pandemic as a result of various underwriting actions we had taken. So we were not surprised that frequency levels have remained more favorable than we experienced in 2019 and prior years. The homeowners loss ratio reflected a lower weather related loss impact that was partially offset by higher large buyer losses compared to the prior year quarter. For both segments combined, the loss ratio for the second quarter was 59.2% higher compared to 57.1% for the prior year quarter but improved from 63.7% for the first quarter of 2021. The increase over the prior year quarter was largely due to the higher frequency of personal auto claims compared to the COVID impacted second quarter of 2020. Weather related losses represented 6.1 percentage points of the loss ratio which was lower than the previous five years second quarter average of 9.5 percentage points and 10.1 percentage points for the prior year quarter.

Large fire losses which we define as individual fire losses in excess of $50,000 increased to 6.1 percentage points of the loss ratio elevated somewhat compared to the 4 percentage points of the loss ratio for the prior year quarter. We reviewed core loss ratios in comparison to the second quarter of 2019 which we believe is a better comparison period when analyzing the underlying trends. Core loss ratios exclude the impact of weather, fires, and prior period reserve development. With the exception of workers compensation where the core loss ratio increased 4 percentage points primarily as a result of premium rate decreases over the past several years. We saw improvement in the second quarter 2021 core loss ratios for all major lines of business.

Our commercial auto is not yet generating an underwriting profit. The core loss ratio improved 5 points versus the second quarter of 2019. Personal auto improved by over 8 percentage points and commercial multi-peril improved by six percentage points. While a three month loss ratio can be distorted by a few large losses, we are pleased with trending improvement particularly in lines where we've taken substantial rate and underwriting actions to improve profitability.

We experienced net favorable development of reserves for losses incurred in prior accident years of $13.4 million for the second quarter 2021 which reduced the loss ratio by 6.9 percentage points compared to $6.6 million of favorable development for the second quarter of 2020 that reduce the loss ratio by 3.6 percentage points. In addition to the commercial lines I mentioned earlier, we had favorable development in the personal auto line of business at a level consistent with the prior year quarter. Development in both the commercial and personal auto lines related primarily to the 2020 accident year for which our actuaries conservatively assumed a continuation of historical loss emergence patterns due to a lack of clarity as to the ultimate impact of the pandemic on those patterns.

One last important point to make related to the reserves is that we continue to add to overall reserves, with IBNR loss and loss expense reserves increasing by $11.7 million compared to year end 2020. The increases are primarily in commercial lines of business where we've added exposures, and also where we see the potential for social inflation and other inflationary pressures on loss costs. The expense ratio was 36% for the second quarter of 2021 compared to 34.3% the second quarter 2020. We primarily attributed the expense ratio increased to commercial lines, growth incentives, and underwriting base profit sharing incentives for our agents particularly related to the performance of a number of larger agents who are growing and profitable along with increased allocations of technology systems related expenses associated with our multiyear systems modernization project. There was also an increase in the current quarter expense ratio due to a reallocation of certain costs from loss expenses to underwriting expenses that resulted from the implementation during the quarter of a new expense allocation software tool that enhanced our allocation methodology. In total, the combined ratio was 96.1% for the second quarter 2021 compared to 92.3% for the prior year quarter and 102% for the second quarter of 2019.

Moving quickly to investments. Net investment income increased 6.7% to $7.7 million for the second quarter 2021 compared to $7.2 million in net investment income for the second quarter of 2020. The increase in net investment income reflected primarily an increase in average invested assets relative to the prior year quarter. At June 30, 2021, we had $1.3 billion in total investments with an average investment yield of 2.6% and a duration of 4.8 years. The average tax equivalent investment yield has remained fairly constant throughout the first half of 2021 but we expect that average yield will begin to decline modestly, as currently available reinvestment rates continue to like those for maturing investments.

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

Kevin Burke

Thanks, Jeff. Let me conclude our prepared remarks by stating we are only now beginning to benefit from the significant operational strategic changes we have implemented over the past three years. We are making solid progress on a number of critical inflight initiatives. We will continue to invest in additional technology and analytical capabilities to further enhance our underwriting and claims processes, enhance customer service capabilities, and operational efficiencies.

We will enhance shareholder value by gradually expanding our premium base to provide additional scale, focusing on quality underwriting, and rate adequacy to maintain and improve our profitability, building on our excellent agency relationships to provide additional opportunities, to increase market share, and refining our marketing and underwriting strategies to maintain and enhance our position within our regional markets.

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

Question-and-Answer Session

Operator

Your first question comes from the line of James Inglis with Philo Smith.

James Inglis

Hi, good morning, guys. Two unrelated questions. One is, can you tell me what's your thought process about how the company will look in sort of a post-COVID world as to the work environment? And secondly, what effect that might have on an expense ratio and/ or loss ratio, potentially as well I guess.

Kevin Burke

Jamie, good morning. Thank you for the question. The first part of that will address in terms of what does Donegal look like post-COVID. Donegal, like many organizations is working through that right now and as I came in to the office this morning, there were more employees here in the home office than I've seen in the past year to 18 months. So we're delighted that we've got more employees coming back into the office. We really started the process in June, very gradual and bringing employees back. Our goal is that by the end of September that we will have a higher percentage of our employees back into the work environment.

Donegal has always been a very what I'll categorize as a traditional office work environment. Majority of our employees were working here in the office. But COVID has really caused us to take a step back. Operationally we did extremely well in 2020. And so we see that there are opportunities to create hybrid work environments for employees. So we've got employees that are here, a couple days a week and also working from home. We've also really evaluated those employees that operationally have been very, very efficient working from home.

And in those cases, those employees will continue to work from home. In terms of the second part of that, what does it do from an expense ratio standpoint, I think that's to be determined. I would hate to see that we're going to see some reduction or we don't need office space. I think that would be premature. But I do think that the Donegal organization from an office setting standpoint will have a different look to it for the second half of this year. And I've always held to the point that as long as operationally we are hitting the mark then we should remain flexible and open to make sure that we're providing the best and safe, safest environment for our employees.

James Inglis

Okay, great. The other question that sort of a broader one is, with the potential state auto acquisition do you think there is any potential positive might come about as a result of that for you guys?

Kevin Burke

Well, I appreciate the question. We have received several inquiries from stockholders following the recent announcement of the transaction with state auto financial which has a similar mutual company downstream holding company as ours. Recognizing that Donegal is the last remaining company with this unique structure may generate some additional questions and candidly that is to be expected. Jamie however, I will say that we are committed to staying focused on achieving and improving our operating results now and into the future. I think it's important to remember that this senior management team officially took control of Donegal in 2018 and we have made tremendous progress in our overall operating results of the company. And given the number of current initiatives that we've highlighted in past earnings calls, all of which are contributing to our current success and equally important our future success. The Donegal senior management team and both boards of directors the Donegal Mutual Board of Directors, as well as the public company Donegal's group board of directors are committed to long term success of our organization, and really wanting to see us execute on many of these initiatives that we have started in the last two to three years.

James Inglis

Jeff, I appreciate that. I must have misstated my question or didn't stated clearly. I meant from an operational point of view, do you think there will be opportunities within the agency world which you operate in and so do they where agents don't want to place so much of their business will ultimately want enterprise?

Kevin Burke

Well, anytime if there is an acquisition, in this case, similar to a state auto and liberty mutual given the size of that transaction, Jamie creates disruption in the marketplace. We would be very cautious in terms of what opportunities might come out of that transaction. But most certainly there will be some disruption in the marketplace.

James Inglis

Okay, well, good luck with that. Thanks.

Kevin Burke

Thank you.

Operator

Our next question is from Meyer Shields with KBW.

Meyer Shields

Thanks. I want to follow up on Jamie's question kind of open ended. Given the progress that you put together is undeniable. So not worried about that. But what are your thoughts on the fact that your operating structure like is now gone I mean, certainly the companies have failed, but we'll see been acquired or taken private. But is there any meaning to the fact that it's just on the side view non-existent right now?

Kevin Burke

Well, I think Meyer one of the things that we need to consider is when we first saw the announcement the first reaction is to the headline. And when you start to look at it, it's very important, I believe, for our analysts, as well as our stockholders to understand that there are a number of very fundamental differences, unique differences between state auto and Donegal in terms of how it's structured, not necessarily a corporate organization, but just from a financial structure standpoint. In fact, it might be worth just going through a couple of bullet points on those just for clarity. Jeff, do you want to talk a little bit about the -- perhaps the surplus or even the ownership of the mutual not to mention the stock option component of this as well?

Jeffrey Miller

Right. So to Meyer's question, certainly we are very similarly structured to state auto and from corporate perspective, but there are some subtle nuances that are somewhat meaningful in terms of the economics as we reviewed the transaction that was recently announced. One is that the mutual company for state auto owned a larger percentage of the economic value of the stock of the public company.

The mutual company had a higher relative surplus position as a percentage of the entire enterprise. And we have other factors such as outstanding stock options that are higher than what state auto had. So there is a number of moving parts there and nuances that would impact the economics if you're trying just to do a kind of an apples to apples comparison of what would something like that look like for Donegal group. So yes I guess the reason for saying all that is just to say you can't necessarily make broad assumptions based upon the metrics of a given transaction.

There's always very a lot of details that go into any transaction like that. But to your point, Meyer yes, we are the last remaining company that has this structure. That's not necessarily any different from when we were one of two companies that had that structure. We still believe that the structure works well for us. It has, we've tried to utilize that structure to the benefit of all of the various constituents that we serve including the mutual policyholders as well as the stockholders. Certainly there is plenty of debate that we could have as to how that has played out and the impact of the decisions that have been made by other companies that have that structure. But we're currently focused on our business strategy. We think we have a lot of runway ahead of us to continue to improve our results. And that's basically our focus at the current time.

Meyer Shields

Great. That all makes perfect sense. Thanks. Quick modeling question. Is there any way of ballparking the magnitude of the reallocation of loss expense to underwriting expense, and I assume that that continues for the next three quarters?

Kevin Burke

That's a great question and I appreciate the opportunity to kind of clarify that. It is somewhat technical. But let me just kind of walk you through that. As I said earlier, we implemented a new software tool during the quarter, and it was designed to enhance our expense allocation methodology. When in doing that, we determined that the overhead expenses that should be allocated to the loss function and the underwriting function should be done so on the basis of actual salaries for those functions as of June 30. That's similar to the method we had in the past, but we refined it and we updated all of the numbers that formed the base for those allocations as of the end of June.

And the result was that we increased underwriting expenses and we decreased our loss expenses meaning that we added to the expense ratio, but with a corresponding reduction to the loss ratio. So no overall financial effect. In terms of the numbers, the impact increased the second quarter expense ratio by about 1.5 percentage points compared to the first quarter of 2021 expense ratio and about 1 percentage point compared to the prior year second quarter. On a year-to-date basis the relative allocation of overhead expenses to the loss function was fairly comparable. The 2021 allocation added about 0.3 percentage points, 30 basis points into the year-to-date expense ratio. So going forward, we don't expect to see that same level of, there won't be an additional reallocation. So the year-to-date expense ratio is a more accurate run rate at the current time.

Meyer Shields

Okay, perfect. That's what I was looking for. Thank you.

Kevin Burke

You're welcome.

Operator

Your next question is from Robert Farnam with Boenning and Scattergood.

Robert Farnam

Yes. Hi, thanks. Good morning. I want to continue the questions that Meyer was addressing with the expense ratio. Can you just kind of give us an idea of how much of that expense ratio was related to the incentive compensation as well? Just trying to figure out how that is trending and where that should be going, going forward.

A - Kevin Burke

Sure, the higher agency incentive compensation accounts for about a 1 percentage point increased over the prior first half. So looking at the first half of 2021 relative to 2020 is about 1 percentage point increase. And like I said, that's based upon our projection of what we would pay out at the end of the year if the experience for all of our individual agents would continue to be as profitable and the growth rates would be maintained. We've talked about the technology project and the impact that has on the expense ratio and that's about 50 basis point addition to our expense ratio relative to prior to the our expense ratio prior to beginning that project. So it's not yet having a real material impact. But the higher agency compensation is definitely a factor.

Robert Farnam

Right. Okay. In terms of the reserve development it sounds like most of it was from workers comp, but you did have some from personal commercial auto. Can you just give us some numbers to back it up and just give us an idea of specifically for the auto pieces what accident years those are coming from?

Jeffrey Miller

Absolutely, yes, this is Jeff again. The $13.4 million of favorable development in the second quarter. That's a, I think, a record high for us in any one given quarter. 6.5 million was in workers compensation and as I mentioned earlier, that's primarily from favorable settlements from 2017 through 2019 accident years. There was some favorable development in the 2020 accident year as well which is kind of similar to what I talked about an auto with the assumptions of higher loss emergence that ended up not coming to fruition. On the commercial auto side of is $2.1 million and that's primarily in the 2020 accident year. And the personal auto was 3.4 million again primarily in the 2020 accident year. Although we did have modest favorable development in the earlier accident years for both of those lines. CMP rounds it out at about 1.1 million and that's again in the 2020 accident year primarily.

Robert Farnam

Okay. So it sounds like you were just about everybody else said you don't have to with how 2020 went had some maybe conservative baking into their numbers just to be safe.

Kevin Burke

Sure. We really didn't know how those patterns were going to emerge, and although frequency was down severity was up, I think, yes we and others were somewhat conservative just not knowing what to expect.

Robert Farnam

Right. And maybe one for Kevin. I know you've got the new personal lines products coming out. If you could you've commented the fact that the personal lines growth has been negative but that should start to change going forward. Can you give us an idea of maybe the timing or expectations for growth going forward in personal lines?

Kevin Burke

Sure. Obviously, we're looking forward to the rollout of the new product. We are going to be doing this in a staged approach sort of batch stages. We're calling them just in terms of timing third and fourth quarter of this year. So states like Indiana, Ohio, and Pennsylvania will be part of the first group that will be deployed. And then third and fourth quarters. I'm sorry, the second and third quarters for next year will be the other batches of states kind of rounding out the field. We're looking for some modest growth, Bob. Our hope is that some of the new business that we'll be able to add, brings us to a breakeven point where we get to a zero and maybe even in the plus column.

As part of Jeff's remarks, he talked a little bit about an 87% policy retention rate and personal lines which has been excellent. It was part of our plan that that legacy book of business which is performing well and is profitable. But now we do need to start to offset the attrition and we believe with the new products that we're going to be rolling out throughout 2022 we'll start to see that lift to give you a sense of timing. I think 2023 is where we'll start to see the new business start to level off for overall personalized performance. But as you're aware, personal lines, business takes a couple of years to become profitable. So we are going to be relying to a certain extent on that legacy book of business.

Again, that's been performing well. And we're going to know by midyear next year how well this product is doing and being received in the marketplace particularly with the deployment of Pennsylvania with policies effective January 1, 2022. By the end of the second quarter, we're going to see how well it's doing and we have taken a lot of time to ensure that our agency plan is ready. The marketing team has been out working with our agents. And so there's been a lot of build up as we prepare to deploy these personalized products throughout 2022.

Robert Farnam

Okay. So it sounds like it's more of a 2023 where you might see some growth in the person lines. But between now and then it's going to be more of a slow trickle that it's trying to offset the attrition.

Kevin Burke

Yes, that's correct. That's when I use the 0% to 1% or 2% at an 87% policy retention rate if we can close that gap in 2022 I think that sets us up for 2023 with your comments are right on that you'll start to see some modest growth, which is what we're looking forward to.

Robert Farnam

Right. Okay. Thanks for that.

Kevin Burke

Thank you.

Operator

Your next question is from Douglas Eden with ECM.

Douglas Eden

Good morning, Kevin and Jeff.

Kevin Burke

Morning Dough.

Douglas Eden

Congratulations on a solid quarter. Nice growth and book value and now 10 consecutive quarters of stable and favorable reserve development. How the stock is not trading, at least at book value is anathema to me. But that's a conversation for another day. I have two questions. First, with Michigan being a large territory for the company, I was wondering if you're seeing any initial impact from the recent storms and tornadoes that came across the state in the last week or two? And secondly, regarding the new personalized product, I know we just discussed it, but what of the CSRs said so far, who have tested it relative to how it differs from the current products and I guess even more importantly, how it's, what's its marketability compared with competitors in their offices in their agents locations.

Kevin Burke

Well, two good questions. We'll start first with Michigan. We actually received the report yesterday in terms of potential losses as it relates to those storm related issues. And so far, it's been very modest. So we think that we're fortunate. We're not seeing some uptick in terms of claims activity. So for right now I can't report and tell you that. I think that we're in good shape in terms of those storms that hit Michigan particularly in northern Michigan. On the personal lines piece of it. Great question as it relates to the CSRs, because as they are the gatekeepers within any agency in terms of writing personalized business.

One of the things that we have done is to ensure that our pricing is appropriate. We've run it through a couple of different models to ensure that the pricing that we have and we'll be deploying with the new products is competitive. And right now all indications are that those rates are very competitive. When we built the product itself, we took a number of our peer companies and some larger national companies and really looked at their product in depth, and built the product around it. So I think that from a coverage standpoint we are going to be in very good shape. But as you know, in personal lines, rate is king. And so we have to make sure that we're appropriately priced and we believe, based on all that we have seen that we're going to be just fine from a rate standpoint.

The last couple of weeks in particular as we're getting ready to roll out this first batch of news of states for person lines our marketing team has spent a lot of time in Indiana, Pennsylvania and Ohio preparing our agents for this rollout and building some enthusiasm for it and the feedback that we've been getting back from our agents in particular the CSRs they're anxious to quote Donegal. They want to see his back engaged in that game and as historically Donegal has always been a very solid personal lines carrier and so it's been a couple of years removed because of the actions that we had to take to bring it back to profitability. We've executed on that but now it's time to reengage and we think that we are appropriately set to do that.

Douglas Eden

Good and I think the timing will be fortuitous as well with the marketing folks able to travel again get out into the field visiting their agency plant just getting in front of the CSRs constantly is going to be the key to getting the repetitive quotes coming in. so I think that's going to work in our favor as well.

Kevin Burke

We agree.

Douglas Eden

Yes. Did you say Kevin Pennsylvania is in that first group? Is that a is that a fourth quarter or a first quarter?

Kevin Burke

That is, it is in the first group. It's in the first group of states and so it will be for policies effective January 1, 2022. So we will be working in late September, October to deploy that product working with our agents and then we'll be writing on January, 1.

Douglas Eden

Terrific. Okay. Well keep up the great work another good quarter from both of you and the whole team.

Kevin Burke

Thank you very much.

Operator

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

Kevin Burke

Thanks to all of you for joining the call today and thanks for the good questions. We look forward to speaking to you again after reporting third quarter results. Enjoy your day.

Jeffrey Miller

Thank you.

Operator

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