Goldman Sachs 2021 US Financial Services Conference

Company Participants

- Beth Costello, CFO
- Chris Swift, CEO
- Unidentified Speaker, Analyst

Other Participants

- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Session started. Thanks, everybody for joining us. It's great to be in-person through all. Thank you, to everybody that joined us virtually as well.

With me today we have Chris Swift, CEO of the Hartford and Beth Costello, CFO of the Hartford. Thank you, all for being with us as well. It's much appreciated.

So I'm going to let Chris, kick it off with some comments. Then keep in mind, we will open it up for a couple questions in the last five minutes. So we'll take those at the end.

Chris Swift {BIO 3683719 <GO>}

Good. It's great to be here. Thank you for inviting us. I don't think I've been here in two years. So it's a pleasure to get back to 200 West Street.

Yes, The Hartford is in performing very, very well. We're living through a unique period of time, but I'm really pleased and proud the organization has performed, has grown and has generated, I think great value in returns for shareholders.

So we talked to you all our shareholders quite a bit during the year. I don't have any new news or new information for you. But again just pleased with how we're executing our strategies and how you really 10 years of effort to transform the organization is really coming together to prove that the better days at The Hartford are still ahead of us. So happy to take your questions.

Questions And Answers

A - Unidentified Speaker

Great. Thanks. So , maybe the first one, I'll start with just a higher level question about the commercial insurance market, I just be interested in your views as sort of the state of that market and pricing environment and where you see the opportunities?

A - Chris Swift {BIO 3683719 <GO>}

The commercial markets, it's a big market. So there's a lot of aspects of commercial insurance where we deploy capital and opportunities, small commercial, middle, large and global, specialty, and unbalanced. I think all of them are performing very well. Clearly, we're living through a hard market, a rate environment that I think is going to continue to allow us to get a good price into our products.

And that's principally because if you look at the environment, whether it be changing weather patterns, whether it be inflationary pressures, whether it be supply chain, whether it be just more adverse weather, particularly in property, I think all that leads me to believe that the market has legs, as far as pricing increases, exceeding our last cost trends for sure into '22. I think potentially into '23.

A - Unidentified Speaker

Maybe if we just go to the growth of premiums. You know, I think in recent quarters, it's exceeded the renewal price increases pretty substantially as we've gotten the rebound in the economy. I've just been interested in where we go from here in terms of the amount of exposure units, it's been entering into the business. We see that over the next year?

A - Chris Swift {BIO 3683719 <GO>}

Yes. Well I think the context of it is, obviously we've lived through 2022 months of a pandemic. When the pandemic hit, we felt in our top line, there's no doubt about it, particularly in small commercial, where we had a lot of cancellations, endorsements and exposures and just shrank, less so in middle but I would say middle market also experienced some form of modest contraction.

So it's not surprising to us that given the rebound, particularly this year, we're seeing exposure growth come back. That could be primarily, I would say in our workers compensation line of business where we have fuller payrolls. Wages are increasing, audit premiums and endorsements are coming back on, which all has greatly benefited our top line if I look at small commercial written premiums up 14% roughly in the quarter over a billion dollars.

We believe we're going to break through the $4 billion annual premium level which is pretty good from a growth story. But again that is comp-driven, but it's also a spectrum-driven our new business if items are up 26% driven by spectrum you think is the industry leading bop business owner's policy product. Retentions are strong. Renewal rate increases are moderate, but again keeping up with trends. So in small, it's our crown jewel and is performing very, very well.

In middle, middle in the quarter written premium was up 18%. If you really looked at sort of the drivers in new business was up 26% during the quarter. So all of that is sort of a compounding effect that really drives written rent premium growth.

Likewise in global specialty, I think we were up about 14% in total written premium in the quarter. But again strong retentions new business growth are really powered by our wholesale channel and our G&O [ph] product line there. So, really feel good about it.

In aggregate, I think commercial insurance will grow about loving percent for the full calendar year or it's dissipating that. That's a little ahead of our forecasts. I would say roughly that 11% is half exposure growth and half rate would be sort of a good rule of thumb. So -- and we look forward, we see your growth, you're continuing in that 4% to 5% range, which would have a compounding effect, or a CAGR over a two year period of time about seven and a half percent. So, really feel good about the overall segment performances in the commercial business sales.

A - Unidentified Speaker

So I thought maybe we could -- you mentioned workers compensation. I thought maybe we could spend a moment there. Can you talk about sort of the positives and negatives there? I think you guys have talked about booking, last cost percentage of reserves. And I think there's probably a lot of things to feel good about with just the quality of those reserves and the strength that is there on the business you've written.

You know, at the same time, I think the price first loss cost trend is not what it is, and some other ones have commercial insurance at the moment. So just help us think through some of those positives and negatives. And if there's anything we should be thinking about is, if we look at underlying loss ratios?

A - Chris Swift {BIO 3683719 <GO>}

Yes. We talked internally. Yes, the pricing environment is sort of a function of the past, right? The past was good. So, when regulators look at your filings in last trends, obviously they're rolling back rate.

I think the key messages there, I would share with the group here this morning is that we have deep expertise in managing different cycles, in the Workers Compensation environment. It is true that if a pricing environment is under pressure, it was under pressure last year, meaning '21. We see it continuing under pressure in '22.

But when I say that you got to break it down, small commercial, it's more -- I would say structured. So, we don't have that much flexibility in small commercial. There's some with class plans and you know (technical difficulty) approach customers with quotes, and but generally it's -- you got to file your plan (technical difficulty) middle market.

We just have greater flexibility as far the ultimate price we present to a larger customer in middle market and again history shows, we've been able to manage I think that's a good outcomes, where we -- you know, trade off new business or trade off rate and retention, (technical difficulty) plan in a consistent fashion.

So those are all the components and raw skills that we have internally that will continue to deploy. You alluded about the balance sheet. Why we feel really good about the balance sheet is that we make, I would say appropriate loss picks for frequency in severity, both indemnity and medical.

And we hold ourselves to that in both on a pricing side or reserving side. If medical inflation is running hot, we have enough price in reserves up on the balance sheet if it's running more lukewarm, where it is these days. Obviously we have the potential build up some redundancies and release that, as that seasons from a severity side.

And if you would add anything else, Beth?

A - Beth Costello {BIO 15349374 <GO>}

The only thing I would add, and I think it's always important when we talk about workers comp because we do get that question a lot is -- and Chris alluded this is we're starting from a position, it's a very profitable line for us. So yes, on the margin, there's a bit of margin compression that we might see. But we still like the level that we're writing at.

And all of that is contemplated in the outlook that we provided. So, I know people tend to want to go and dissect that piece, and sometimes I think read into that more of a negative and I think (technical difficulty) is a very profitable line. As Chris said, we've been at this for a long time; we know (technical difficulty).

A - Unidentified Speaker

Next thing, I thought I'd ask you about is just in the small commercial business I think results have been pretty favorable and quite consistent over time there. I guess I just be interested in hearing about some of the competitive advantages, you feel like you have to drive that success. So, how do you win in the market in that business?

A - Chris Swift {BIO 3683719 <GO>}

Yes. I think Stephanie Bush, who leaves that business for us covered it very well in Investor Day. So, I wish I could press play. And just you could hear her talk as opposed to me, but I'll summarize what her belief is, is just principal architect of the strategy over the last five years. It comes down to product in our digital capabilities. In other words, how we service our aging customers, and then ultimately, the retail.

(Technical difficulty) and customer. You know, our product sets are deep, particularly (technical difficulty). The overall package of capabilities, we have to face off with agents, face off with payroll companies, alternative distribution, or even our direct distribution capabilities all comes down to the product in that digital experience.

Equally, though, is important, I think is the coding experience. Agents or other intermediaries have with us, we call that our icon platform. Industry leading based on just years and years of data and analytics, that just drives a fast, easy and intuitive process, particularly with spectrum redesigned. I would encourage you to explore the website because you could do it on our website, but you could see sort of the Amazon like interface of good better or best, other endorsements, you might want to add to a basic policy and package.

It's actually very, very modern. So you put that then together with claims or claims capabilities, particularly in comp and GL are unparalleled, I think in the industry, particularly in small. It all still works to come together. But the fabric of that is ultimately all based on data and analytics.

We see about a million quotes a year. So, how we process that, how we're able to do it with speed accuracy, and deliver a firm "online" where you know, have to be referred to a person underwriting. I mean you could just close out and hit issue. So, I think that consistency, what's expected in from an agent or a customer experience you're very in tune with.

And really what I'm trying to say Alex [ph], it's just not one thing. It's the whole package and how it comes together. And as I said, I expect about $4 billion in premium. We'll begin to thinking about sort of the future and how do we get the $5 million in over the years. So, it'll be an important growth driver for us in the future.

A - Unidentified Speaker

The next one I have for you is on just the courts reopening. I'd be interested if there's anything you can share in terms of the color, you're getting in this courts reopened and I think everybody's focused on social inflation, what that all tells us about those trends. Any color you can provide?

A - Chris Swift {BIO 3683719 <GO>}

Yes, it's a challenging topic. I'm going to refrain from any lawyer jokes or (technical difficulty) the pandemic, clearly there was a slowdown, but not stoppage but a slowdown in activity, I think the courts went virtual. There was a lot of activities over WebEx and things like that.

I think the key in this area is it really deeply understanding your loss costs, both on a traditional basis, and what then could happen from a higher exposure. The context for us, though, is, in particularly our standard commercial lines of business, which is small and middle. Generally, our general liability and auto liability policy limits are in that two to $3 million range. So, we don't have a lot of primary exposure, we do write some access policies frequently with some of the new capabilities we built. But even those access capabilities have some significant reinsurance that would limit sort of per risk or per events type of exposures.

But the key, at least in my mind, is getting them rate you need in that general liability, but the commercial auto liability. You know, book to keep up with trend. I feel good about where we're at today and what we've accomplished over the last three years. But I was just down in Houston last week with some agents and really important to understand that we need to keep up with trend better.

And we can't afford this sort of wild swings were relatively more consistent. That consistent mindset to me is you need to get six to eight to nine points away in a general liability to keep up with that that inflationary pressure you call social inflation.

A - Unidentified Speaker

Got it, thank you. Maybe shifting over to the personalized business just given the unique aspect of in the relationship with AARP. Can you talk about the severity and frequency trends? And what you're saying there and just sort of the update on how you're planning to sort of restore profitability in the product?

A - Chris Swift {BIO 3683719 <GO>}

I would say in profitability have been in decent shape. I'll explain why. So, I don't view it as a complete restoration. I view it as keeping up with some of the recent trends that are emerging with supply chain and broad-based inflation. But I think the larger context is, look, our personalized business is 90% AARP-based. What do I mean by that? We enjoy a 30 year endorsement as the exclusive home and auto provider for AARP members.

I think historically, and even today we know how to market it to the AARP membership base. We know how to present a value proposition that AARP members enjoy. With our new contractual relationship where we renew our contract for 10 years, we really modernized a lot of components of the program that really need modernizing.

I think the classic one that comes to mind is old contract, old products we're 12 months with guaranteed renewability, not price, but guaranteed renewability, or we call that that lifetime continuity agreement, both auto and home. Really what that meant the way we needed to operate with, was very cautious of who we let in the front door, in essence, because we knew we had to provide them at least a quote, on a renewal basis every 12 months.

And it's different than in some of our other -- you know, called mass market competitors where they had six months policies. If quite honestly, they could prune their book quicker and faster than we could.

So again we've modernized that. We're modernizing it with a digital chassis, 64% of AARP members start their experience with us online. So digital is more and more important, particularly as we target the 50 to 65 year olds, where they might have useful set at home on those lines. Then lastly, we're overlaying advanced telematics to ultimately helping the underwriting and basically policyholder behavior.

So we feel good that all the pieces are coming together to really modernize and transform that product line because, again it's not mass market. It is a targeted market. I think it's more efficient, the way we go to market and how we get customers to quote and ultimately buy. We still like that segment, because long-term, I think it will continue to outperform the mass market.

I think the point that you mentioned on profitability is, you know clearly there are inflationary pressures that are affecting both the home and auto marketplace. I think in our particular case, we're starting from a stronger position. Because we did less discounting during the pandemic. We did one 15% rebate early on in the pandemic. We didn't do anything beyond that. We didn't discount heavily on new business. We didn't discount heavily on the enforce on renewal.

And if you look at the trends over the last six or eight quarters, we've been able to get two to three, four points a rate into the auto book. So that again our starting point, would say his rate adequate given the inflationary pressures, but it is closer to the rate adequate than we think a lot of our competitors. Nonetheless, it we're going to have to go after your rate fairly meaningfully in 2022 in auto and home.

We have some inflationary indexes inbuilt into some of our products, particularly home in a little bit in auto in certain states. So there's some built in relief rate pressure from an indexing side, but it will still be an effort to make sure we're keeping up with last cost trends in all our major things.

A - Unidentified Speaker

Shifting gears over to the group business, there were a lot of questions on your call around the mortality trends and the IBNR that was booked that just hit just as any update for us there?

A - Chris Swift {BIO 3683719 <GO>}

You're discussing mortality, huh? My favorite topic.

A - Unidentified Speaker

Unfortunately.

A - Chris Swift {BIO 3683719 <GO>}

Yes.

A - Unidentified Speaker

Unfortunately, you have, yes.

A - Chris Swift {BIO 3683719 <GO>}

No, it's real. You know, that has said look, as I said repeatedly, there's nothing structurally wrong with the benefits business. Except we're still in a pandemic, and we need to just manage it in the best way we can. But again the structural soundness I think has never been better. I'll share why.

I think the punch line on mortality is I think I said in the earnings call and maybe on Investor Day but predicting mortality sort of an expected the actual basis where you usually attract your expected mortality best, and what actually emerges. From various causes it's been never more challenging than it is the last 2020 months. It's not getting any easier.

So as we sit here today everyone was talking about, how you say I caught army from. What's going to happen with Delta. How many vaccinations can people still really be encouraged to get as a protected the society in general. Those are all those debates. But that I think are going to continue in the next couple quarters.

That said, I give you two updates and data points, our Third Quarter I've been -- our estimates continue to hold. So, I think we made the right judgments particularly led by Beth and her actuarial team in the Third Quarter and those are holding.

As we look into the Fourth Quarter, there's a wide range of outcomes. So, I just have to say a wide range. I'll try to narrow it to where I think it's the tightest. I'll give you the datasets and the points that we're seeing to help shape that numbers. But bottom line, where we stand right today where we're seeing October results, we've seen November results. November is really in the tour because it's generally, Beth, best I would say there's a two to four week reporting lag. So, November is immature. October is more of a tour.

But the punch line is we see for the quarter about 150 million. It's a 190 million pretax losses due to mortality. That is based on a point estimate of 110,000 U.S. deaths from that U.S. COVID deaths. We add in a factor for non-COVID deaths, excess mortality due to the non-COVID. We put those two numbers together and that's how we come up with that range. So , I think I said before, Alex, just anticipate your question, on 2022 we'll give you our point of view in 2022 in February when we report your end results and update our drivers.

Beth, would you add anything?

A - Beth Costello {BIO 15349374 <GO>}

No. I think you covered on all the points. Implicit in that is we are seeing we look at October, numbers coming down from the piece that we saw in August and September. And as Chris said November's early. So there's a lot of estimation that goes into all that. Obviously we'll look at actual results right through the end of the year and a little bit beyond that to make our final judgment for the quarter.

A - Chris Swift {BIO 3683719 <GO>}

I'll give you two others other data points, just in case you're interested and if you want to encourage loved ones or family members to think about vaccines. This is primarily our death claims, since really the Second Quarter, 90% of the dollars are going to people below 65 and the majority unvaccinated.

It's there's tools. We feel good about where things are going, particularly with vaccinations and therapeutics and things like that. But a lot of this could have been avoided. As Beth said, we are seeing declines. I think the data I gave you, in prior public forums was we're seeing about a 25% to 30% decline from our August and September levels.

That point -- that mid-range at that point estimate, compared to our total Third Quarter losses would be about a 27% decline in total losses Third Quarter to Fourth Quarter if those estimates hold. So, trending in the right way. But as we said before, it's probably another quarter or two before this really lightens up significantly.

A - Unidentified Speaker

Thanks for the comments. Nice. The next one I have for you is on navigators, keep providing an update on that business, how it's performing. And maybe also just any comments you can make on the reserves and the adverse development covered that's there?

A - Chris Swift {BIO 3683719 <GO>}

But if I talk about the Ziani [ph], talk about the ADC. So, in total amount, I'm ecstatic, it would be navigators deal; I thought it was a great cultural fit, great talent, and we picked up, we picked up additional distribution, primarily wholesale. We picked up additional product sets, particularly environmental access casualty, additional strength in E&L, Z&L. And after two, two and a half years of integration, I think we're in great shape. Evidenced by the numbers in the strong growth that we're seeing, and the profit improvement that we've made in this book of business.

In terms of course just the deal metrics we're outperforming our overall deal metrics, whether it be cross sell, whether it be expense savings, whether it be profitability, and then ultimately, through the end of '22 we're on track to achieve double digit ROI, which again are better than our deal metric assumptions heading into it. So, I think it's fitting well. I think we're respecting the wholesale distribution, which is an important channel; it's a $5 billion book of business.

Then the teams are just really working well with a quarterback mentality to physically account wound to bring more specialty products into the equation to be given opportunities to talk to our agents and brokers about how we can make their life easier. You know, when we offer them more products.

Again down in Houston with our agents and brokers received great feedback, as far as what is happening on an overall account basis with our package capabilities, and then adding in all the specialty capabilities that we've built and or acquired for navigator. So really, really pleased with the acquisition.

A - Beth Costello {BIO 15349374 <GO>}

Yes. I totally agree. On a specific question on the ADC, and we purchased the ADC upon the acquisition because we knew and felt that there was potential for adverse development and in some of those lines that we have experienced that. We're almost through the ADC that we purchased.

And again stepping back from it when I put the reserves of navigators, kind of in context of the whole Harford is really becoming a smaller piece. But there obviously has been some volatility there. We continue to do very thorough reserves reviews every quarter and our practices, if we do something will react to it. But very, very happy that we purchased the ADC. You know, initially.

A - Unidentified Speaker

So next, what I have for you in the mutual funds business. You know, I think in my view, this is a business where scale does matter, quite a bit. I think we get the question frequently, like is there a need to either make a decision to buy and build around it or to potentially sell it to somebody that has more scale. I mean I just be interested in your reaction to that, any comments you have around Hartford is, and you need to take any action there.

A - Chris Swift {BIO 3683719 <GO>}

Yes, it's a business that I would say has scaled today. It basically has about 150 billion of AUM, primarily, retail mutual fund AUM, some advised by Schroders and in Wellington. Our distribution is three distribution channels. So, we're focused, I think what we have stripe, particularly with the independent advisors, the wire houses, and then 401(k) clients.

As far as how we think about the investment, I'll give you a couple of data points. One, 10 years ago that business was making about 90 or ahead about $90 million after tax profits. I would say 50% of it came from Talcott, or the old life annuity operations of the Hartford. You know, today it's going to make over $200 million by the end of this year.

And 10% of its assets are AUM is called Talcott related. So, it is really been able to grow dramatically both core equity, active, passive, and then fixed income capabilities. It's our highest ROE business. We get a strong dividend from it. It's growing. It's relevant. It's a type of investments we'd like to hold for long-term, Beth.

A - Beth Costello {BIO 15349374 <GO>}

Yes. And I think it's important to, just remember, it is a unique model. So, I think sometimes when we're asked about scale, and people look at the AUM, they're comparing that to large mutual fund companies. This is very different. This is really, as Chris said, and more about the distribution where the product origination coming from Wellington and Schroder.

So just really pleased with the trajectory that has been on, that we just had a review with the team there, and their plans going forward. And as Chris said, it produces a very good return for us and provides cash flow to the holding company.

And the other thing too, I would like to point out is it's not a distraction either, right? It is a self-contained group. It's not using a lot of our time, like other businesses that we had that were non-core that took up a lot of our time. This is very different from that and run very differently.

So we have a few minutes left. Are there any questions so we can take from the audience?

Unidentified Participant: Hi, yes just curious in your group disability book, what your thoughts are on possible paid family leave and how that might regulation that might change the market that you're looking at there?

A - Chris Swift {BIO 3683719 <GO>}

I can't hear the question.

A - Unidentified Speaker

One more time.

Unidentified Participant: In your group disability book, how might changes to pay family regulation, change the market?

A - Chris Swift {BIO 3683719 <GO>}

Yes. I think it is based on D.C. The way we follow it is it's back and forth. It's in right now. But certain senators, I think led by Manchin of West Virginia, I think are trying to take it out. We've, through our trade group; have been obviously pointing to private market solutions as opposed to government solutions. I think they're sensitive to that.

But I don't know how it's going to come out, honestly. I had to handicap it. I would handicap it is coming out and not part of the package and what again the private market or state-based solutions continue to grow and develop from there. That's where I would handicap it right now.

A - Unidentified Speaker

And do we have any other questions? Otherwise we can wrap things up. Anyone more here?

Q - Unidentified Participant

Hi, you mentioned that actual versus expected mortality right now felt like it was harder to predict than any time in history and physical over the medium term. That might be the same case. I wonder if you can -- does that feed back into a pricing opportunity over time and the competitive market? Thank you.

A - Chris Swift {BIO 3683719 <GO>}

Yes. It needs to. So yes, I think what we've experienced, particularly the length of it, if a pandemic sort of morphs into epidemic, and just mortality is elevated for the foreseeable future, we're going to have to start to take pricing actions and we're studying and developing our points of view right now, particularly for the 1123 renewals are new business opportunities, and that would both be life, it would be leave based on the number of claims that were getting in on a lead management basis in SPD [ph].

So yes, that is front and center. We'll have to see what the -- how the broad based market views it, before the only one having those views that would be challenging for us to execute in the marketplace. But given the broad based nature of mortality affecting most of the life insurance industry, I'm sure our good competitors are also studying it wisely also.

A - Unidentified Speaker

All right. Well we will leave it there. Thank you very much.

A - Chris Swift {BIO 3683719 <GO>}

Thank you for having us.