Company Name: Hartford Financial
Company Ticker: HIG US
Date: 2017-04-28
Event Description: Q1 2017 Earnings Call

Market Cap: 17,952.93
Current PX: 48.87
YTD Change($): +1.22
YTD Change(%): +2.560

Bloomberg Estimates - EPS
Current Quarter: 0.958
Current Year: 4.125
Bloomberg Estimates - Sales
Current Quarter: 4732.667
Current Year: 18930.000

Q1 2017 Earnings Call

Company Participants

- Sabra Rose Purtill
- Christopher J. Swift
- Douglas G. Elliot
- Beth Ann Bombara

Other Participants

- Brian Meredith
- Jay Gelb
- Ryan J. Tunis
- Jay A. Cohen
- Gary Kent Ransom
- Meyer Shields
- Robert Glasspiegel
- Randy Binner
- Elyse B. Greenspan
- Ian J. Gutterman

MANAGEMENT DISCUSSION SECTION

Sabra Rose Purtill

GAAP and Non-GAAP Financial Measures

Our commentary today includes non-GAAP financial measures

Explanations and reconciliations of these measures to the comparable GAAP measures are included in our SEC filings as well as in the news release and financial supplements

Christopher J. Swift

Business Highlights

Opening Remarks

- The Hartford is off to a very good start in 2017
- Core earnings per diluted share increased 5% in Q1 and we returned over $400mm to shareholders through repurchases and common dividends
- Underlying P&C results were strong, however, catastrophe losses were exceptionally high due to elevated seasonal wind and hail activity in the Central U.S.

- Starting with personal auto, the pricing, underwriting and distribution actions we have implemented over the past 18 months are gaining traction
- The underlying combined ratio improved over 5 points when adjusting first quarter 2016 loss ratios for the adverse development we recognized during CY2016

ARP Relationship

- We know written price increases have been in the high-single-digit range over the past several quarters and exceeded 10% this quarter, while our accident year loss ratio picks for 2015 and 2016 are holding
- While the top line is down, our ARP relationship is a competitive advantage for The Hartford and our deep knowledge of this customer segment positions us well for growth in personal auto as margins continued to improve
- All in, I'm pleased with the progress and remain confident that we will achieve improved results in 2017 and continuing into 2018

Commercial Lines

- Commercial Lines achieved a 90.9 underlying combined ratio, reflecting disciplined underwriting in a competitive market
- Small Commercial posted outstanding performance with 6% written premium growth and excellent margins, but competition remains robust
- We're intently focused on advancing our leadership in this market by innovating and enhancing our best-in-class capabilities
- We're doing this by leveraging our technology, data and underwriting expertise, deep agency relationships and leading customer service centers

Middle Market

- Middle Market delivered good performance with 4% growth in written premiums and a 93.8 underlying combined ratio
- In this challenging middle market environment, we remain committed to disciplined risk selection
- The overall Commercial Lines results reflect the investments we've made over the past several years, which have enabled us to become a substantially broader and deeper risk player with expanded product capabilities in new industry verticals

Acquisition of Maxum

- In addition, our acquisition of Maxum is already contributing as our new E&S capabilities have given us the opportunity to participate in the wholesale marketplace
- Group Benefits delivered excellent core earnings this quarter excluding a charge for the previously disclosed Penn Treaty liquidation
- Top line growth picked up to 4% and loss experience continues to be excellent, reflecting our claims expertise and the improvements we've made in our book of business over the years

Group Benefits

- Group Benefits is a core strategic business for The Hartford with a well-established brand and a Top Five market position
- The business has momentum with good traction and voluntary sales activities with our enhanced product suite and a total sales pipeline that's up significantly over the prior year
- Mutual Funds had a great quarter with total assets under management now exceeding $100B
- Strong market conditions and investment performance led to sales of over $7B and net positive flows of $1.3B, including significant sales and flows from the Schroeder sub-advised funds

Organic Growth

- As we look forward in 2017, our strategic priorities remain consistent: organic growth, improved customer experience and developing new operating capabilities
- The priority for our excess capital is to support these strategic objectives, particularly in areas such as Small Commercial, specialty risk products, A&H, Benefits in industry verticals that expand our underwriting appetite
  - We want to provide agents and policyholders with insurance solutions for more of their risk needs and be an easier company for them to do business with
- As I've said before, we have an organic growth orientation, but we will consider acquisitions that make financial sense and accelerate the achievement of our strategic objectives

Market Conditions

- In closing, I am pleased with our execution in navigating very competitive market conditions in Commercial Lines and Group Benefits and with the progress we've made in personal auto
- I'm optimistic about the initiatives we have underway to continue to profitably grow our businesses and to create long-term shareholder value

Douglas G. Elliot

Q1 Highlights

Property & Casualty and Group Benefits

- First quarter results for Property & Casualty and Group Benefits, excluding catastrophes, were very good and consistent with our expectations
- Our Commercial Line businesses posted strong underlying performance in a competitive market
- Personal Lines auto lost cost trends were in line with the full-year outlook we shared in February
- And after a very challenging 2016, we're pleased with our progress
- And Group Benefits posted another quarter of strong earnings, excluding the Penn Treaty guaranteed fund assessment

Catastrophe Losses

- Before I get into the details of our performance, let me touch on catastrophe losses, which were $150mm pre-tax for the quarter
- Wind, hail and tornado activity across the South, Southeast and Midwest was higher than normal
- First quarter catastrophes typically involve winter storm events, which were not as significant this year
- Compared to first quarter 2016, our catastrophe losses were up $59mm pre-tax
  - However, last year, several catastrophes hit near the close of the quarter
- We subsequently received a number of late reported commercial losses that drove our estimate for the quarter up to $131mm by year-end
- On this basis, catastrophe losses for first quarter 2017 increased by $19mm

Commercial Lines

- Let me now share some additional details on the performance of our business units
- Q1 2017 combined ratio for Commercial Lines was 96, up 4.9 points from 2016
- The increase was primarily due to higher catastrophe losses, as I just mentioned, and a change to slightly adverse prior-year development vs. favorable development last year
- Prior-year development for the quarter includes favorable development in worker's compensation, where our loss trends remain excellent
- Frequency trends continue to run better than expectations, particularly in the more recent accident years
- Bond was also favorable as trends in both contract and commercial surety continued to emerge better than expected

Small Commercial and National Accounts

- On the other hand, commercial auto remains a hotspot for us as well as the industry, and we increased prior-year reserves in Small Commercial and National Accounts to ensure that we're proactively responding to the latest signals of higher bodily injury severity and increased litigation
- Although the prior-year development is disappointing, we continued to achieve high-single-digit written price increases and execute on our underwriting actions
- Our new business and retentions across Commercial is down, which we expect to continue into 2017

Market Conditions

- The underlying combined ratio for Commercial Lines, which excludes catastrophes and prior-year development, was very good at 90.9 for Q1, up 1.3 points from 2016, in line with our expectations
- Given competitive market conditions, I'm very pleased with our execution across all our Commercial businesses, recognizing that we have more work to do in commercial auto
- Renewal written pricing in Standard Commercial Lines was 3.3% for Q1, up 90BPS from fourth quarter 2016

Small Commercial

- Small Commercial was up in all lines vs. prior year and sequentially
- This speaks to the strength of our value proposition in the marketplace and the ability of our team to execute in product, sales and underwriting
- In Middle Market, renewal written pricing turned positive from flat in fourth quarter 2016
  - This is a market segment where price competition has been notable
- I'm encouraged by our disciplined pricing actions, particularly in workers' compensation
- Our underwriting teams continue to hold the line, exercising sound judgment on a case-by-case basis

Middle Market

- Small Commercial had an excellent first quarter, with an underlying combined ratio of 87.3
- Written premium grew 6%, driven by strong retentions and $154mm of new business including $15mm from Maxum
- Middle Market delivered a solid underlying combined ratio of 93.8 for Q1, deteriorating 1.8 points from 2016
- Slight margin compression in several lines, including general liability and auto, was partially offset by favorable non-catastrophe property losses
- Expenses were higher due to increased technology and other operating costs
  - Written premium increased 4% based on solid retentions and strong new business production of $128mm, up 24% vs. last year
- Our new business growth was driven primarily from our industry verticals and specialized practice teams, which we've been steadily gaining traction over the last three to four years

Specialty Commercial

- In Specialty Commercial, the underlying combined ratio of 97.5 for Q1 deteriorated 3.2 points from 2016
- This was driven by higher operating costs and margin compression and excess auto liability
- Written premium in Specialty Commercial was up 5% for the quarter, largely the result of strong new and renewal premium and bond

Personal Lines

- Shifting over to Personal Lines, we posted a combined ratio of 99.3 for Q1 2017, improving 0.6 point from a year ago
- Higher catastrophe losses in 2017 were more than offset by a change from unfavorable prior-year development in 2016 to slightly favorable development this year
- The underlying combined ratio of 91.2 deteriorated 1.5 points from last year
- This was heavily driven by homeowners, where the underlying combined ratio for Q1 was 78.9, deteriorating 3.8 points vs. last year due to higher non-catastrophe weather and fire losses

Personal Lines Auto

- In Personal Lines auto, the underlying combined ratio for first quarter 2017 was 96.6 with a loss ratio of 75.6 vs. a 2016 reported loss ratio of 72.1
- However, by year-end 2016, we had increased the accident year auto loss ratio for first quarter 2016 by approximately 6 points
- Compared to this adjusted loss ratio, first quarter 2017 has improved 2.6 points, as noted in the slide presentation
- We're closely monitoring the effects of our pricing, underwriting and agency management actions on our overall loss costs and are very pleased with the improving trends we see
- Auto frequency moderated considerably in Q1 and severity returned to more historical levels

Auto Loss Ratio

- The Personal Lines auto expense ratio for Q1 was lower this year by approximately 3 points due primarily to reduced new business acquisition expenses
- Q1 auto loss ratio improvement is consistent with our expectations and in line with the full year 2017 auto combined ratio outlook of 101 to 103 that we shared with you back in February
  - That outlook includes approximately 1 point for catastrophes
- Written premium for Personal Lines was down 7% vs Q1 last year
- New business has decreased as we have continued to address our rate needs with added filings and improved underwriting segmentation
- We're pleased with our progress to-date, as our actions and results continued to track closely with our expectations
- Given our improving trends and higher rate levels, we expect to increase our ARP new business marketing efforts during H2

Group Benefits

- Now let me turn to Group Benefits
- Core earnings for Q1 was $40mm with a margin of 4.3%
- This includes a guaranteed fund assessment of $13mm after-tax for Penn Treaty, which we noted last quarter
- Excluding this assessment, core earnings was up $5mm, primarily due to favorable net investment income with an adjusted margin of 5.8%, reflecting very strong underlying performance in this business
- The group life and disability loss ratios this quarter were largely consistent with prior year
- Group life trends have been slightly favorable and very stable relative to the volatility we experienced in 2016
- Group disability, although slightly elevated this quarter, continues to perform within our expected range and we feel very positive about our trends

Ongoing Premium

- Looking at the top line, first quarter fully ensured ongoing premium increased 4%

- Overall book persistency on our employer group block of business was approximately 90% and fully insured ongoing sales were $211mm
- Overall, it was a healthy sales quarter and we're pleased with our competitive positioning in the market

Summary

In summary, first quarter 2017 represents a solid start to the year for all our Property, Casualty and Group Benefit businesses

Overall, we remain disciplined and balanced in our execution to deliver profitable growth

Beth Ann Bombara

Financial Highlights

Sales

- I'm going to cover the other segments, our investment performance, and provide an update on the execution of our capital management plan
- Strong investment performance, net flows and rising equity markets led to Mutual Funds' core earnings increasing to $23mm this quarter compared with $20mm in Q1 2016
- At least 70% of our funds are beating their peers over the one-year, three-year and five-year period
- Sales of $7.2B generated positive net flows of $1.3B in the quarter compared to $4.7B of sales and approximately $200mm of net outflows during Q1 2016
- Strong equity markets and the adoption of the Schroeder's funds in October 2016 drove total segment AUM to $103.2B, a 14% increase from the same period in 2016

Core Earnings

- Talcott continues to perform well
- Core earnings were $83mm, up from $77mm in Q1 2016 primarily due to higher returns on limited partnerships
- Over the past four quarters, VA contract counts decreased 10% and fixed annuity contracts decreased 6%
- As a reminder, Talcott paid a dividend of $300mm to the holding company in January and we expect another $300mm in H2
- Talcott ended the quarter with $4.1B in statutory surplus

Investment Portfolio

- The investment portfolio also continues to perform well
- Total LP investment income was $70mm before tax compared to $8mm in Q1 2016, which included losses on hedge funds
- Excluding LPs, the total before tax annualized portfolio yield was 4% this quarter, slightly lower than the 4.1% last year, largely due to the impact of lower reinvestment rates vs. the yield on sales and maturities over the past

year

- For the P&C portfolio, the annualized yield excluding LPs was 3.7%, down from 3.8% in first quarter 2016
- Credit experience remains very good, with total impairments and mortgage loan valuation reserve charges of only $1mm before tax, down from $23mm in Q1 2016, which included energy impairments of $16mm

Earnings

- To conclude on earnings, first quarter core earnings per diluted share was $1.00, up 5% from $0.95 in first quarter f 2016 as the impact of our share repurchase program more than offset the 2% decrease in core earnings
- The 12-month core earnings ROE was 7.6% and the core earnings ROE excluding Talcott was 8.6%, both of which include the impact of prior development on our A&E exposures prior to the purchase of the loss development cover
- Excluding the A&E charge, the 12-month core earnings ROE excluding Talcott was 10%
- Turning to shareholders' equity, book value per diluted share, excluding AOCI at March 31, 2017, was up 3% compared to a year ago

Capital Management Plan

- Before taking questions, I want to provide an update on the execution of our capital management plan
- During the quarter, we repurchased $325mm of stock
- During the month of April through the 25th, we repurchased about 1.9mm shares for $92mm
  - This leaves approximately $883mm available under the $1.3B equity repurchase authorization for 2017
- With respect to debt management, in March, we repaid $416mm of senior notes, which is our only 2017 debt maturity
- We also exercised the option on the Glen Meadow contingent capital facility, which resulted in the issuance of $500mm of junior subordinated debt
- As a reminder, we intend to use the proceeds to call our 8 1/8% $500mm junior subordinated debentures when they become redeemable at par in June 2018

Conclusion

To conclude, we are off to a good start in 2017

The actions that we have taken in Personal Lines are taking hold and we expect further improvement in 2017 and 2018

Underlying results remain strong for Commercial Lines, Group Benefits and Mutual Funds, and we are very pleased with our investment performance

QUESTION AND ANSWER SECTION

<Q - Brian Meredith>: A couple of quick ones here. First, Chris and Doug, I'm just curious, the underlying combined ratio development that we saw in the Commercial Lines area, particularly related to GL and commercial auto, is that something that you guys are anticipating as you laid out guidance for the year kind of within where your expectations are?

<A - Christopher J. Swift>: Brian, from a guidance side, Doug could give you a little more color on what we're really seeing and feeling, but we don't guide for prior year adverse or positive development. So, Doug, I know we've been watching commercial auto trends specifically. Do you mind giving Brian a little more color?

<A - Douglas G. Elliot>: We have. So I guess couple of points. One is relative to general liability, a little bit of pressure from a prior program, but we are watching the GL line overall. First quarter's essentially in line with a little pressure from a program that we had had several years ago.

On the auto side, we've been underwriting, re-underwriting and working pricing the last couple of years. A little bit of pressure in our excess National Account book and also in Small Commercial. So feel good about the work we've done in Middle, but we did feel a little bit of prior year pressure in Small, and we felt like we needed to address both that and our National Account book.

<Q - Brian Meredith>: Great, thanks. And then second question is, Chris, there's a bill, I believe it's in the senate right now, Connecticut senate, that would enable, I guess, you guys to break up Talcott into separate pieces. Could you give us the status of kind of where you know that bill is right now, kind of timeline it, and what would it mean for your kind of desires to get rid of Talcott?

<A - Christopher J. Swift>: Yeah, I think the bill you're referring to is we call it the divisions bill. I would share with you it's something that we have sponsored. Really, from all our restructuring activities over the last couple of years, Brian, we observed some better practices in different parts of the country, or the world, in fact. And we have worked with the Connecticut department to sponsor it. I would say sponsoring it and reading anything into what it means from a possible transaction, I would not do that. I think what we viewed it as a piece of legislation and rules and regulations that we thought our leading regulator, the Connecticut Department of Insurance, should avail itself and avail all Connecticut companies with the opportunity to separate businesses and legal entities and transact those types of activities that are aligned to their go-forward transactions.

So the bill is in Congress right now. It's come out of Congress. The legislature side of Connecticut – it needs to go to the senate side. It then needs to be signed by the governor. The legislature is in session I think through late June, and we're optimistic that it will get passed and signed by the governor.

<Q - Jay Gelb>: I had a couple of questions first on personal auto. The magnitude of rate increase, 10.5% in the current quarter, it's probably among the highest of any of the companies I track. Just wanted to get your perspective on what kind of impact that's having on Hartford within the market.

<A - Douglas G. Elliot>: Jay, thanks, this is Doug. Last quarter, I believe, on the call I did give you a little bit of a forward lean into what we expected to see over the first three to four quarters of 2017 and this 10.5% is largely in line with that commentary. So yes, we're pleased. Obviously, this is the written element, so it's got to earn its way in, but we feel like there's forward traction on our actions, including pricing in our first line's book and encouraged by the start to 2017.

<Q - Jay Gelb>: Okay, and then on claims inflation personal auto, in the deck, it was mentioned that there's less impact from personal auto frequency and severity. Can you provide some more insight in terms of what you're seeing on the trends there?

<A - Douglas G. Elliot>: Sure. On the frequency side, Jay, our numbers have essentially flattened out. So as we go back over the prior couple of years, we had some small-single-digit moving to mid-single-digit pressure on frequency, and as we look back over this quarter and the last several quarters, we feel very good and it's essentially flat.

On the severity side, as we've talked on prior calls, our plans were in the mid-single-digits, maybe in the 4 to 5 range on severity, and first quarter essentially came in as expected. So pleased that our view of the year is playing out as we had hoped. Very watchful – 90 days does not make a final outcome, but relative to the path we've carved and our goal of over these two years to make the improvements financially that are required, very good start to 2017.

<Q - Jay Gelb>: Good to hear. And then separately, there's been some persistent press reports about a potential Talcott transaction, and I'm just looking at the difference between statutory capital, $4B and GAAP equity, ex AOCI, of $7.3B.

If a transaction were to come in below stack capital, how should we think about the financial implications of that?

<A - Christopher J. Swift>: Jay, it's Chris. I don't know what you mean. To me, it's math, right? I mean, you've got stat and GAAP. You've got cash, and really, I don't feel comfortable speculating too much here with you on any potential transaction. So to me, I just would tell you it'll be math, but I mean, we've always said we're comfortable running Talcott off over a longer period of time. We've shrunken its risk profile and that any transaction that we would consider has to be first economic for us and our shareholders, it needs to be provable, a clean break, potential parties need to take care of our customers and employees. So I mean, we know the conditions that we're looking for, and beyond that, I just would ask you to do the math yourself and you make your judgments on what you think it means.

<Q - Ryan J. Tunis>: My first question, I guess, was for Chris and just hearing him emphasize Group Benefits as a core business. How do you think about weighing M&A opportunities when you think about P&C, Commercial vs. Group? And I guess more specifically, you mentioned you're a Top 5 player. What would be the benefits, I guess, of becoming even bigger than that? Thanks.

<A - Christopher J. Swift>: Ryan, thanks for the question. I would just say from a business and capital allocation perspective, Commercial Benefits, Personal Lines, Mutual Funds, I mean, we're comfortable deploying capital into those businesses that make financial and strategic sense. So specifically, if there is a Benefits opportunity in the marketplace, it's something we would consider seriously looking at. We like our Group Benefits businesses. You can see the returns, its earning. It has a concentration a little bit in the large national account space of over 5,000 lives.

So Doug's leadership, we've been trying to grow the small to middle size of that. We've completed our voluntary products suite. We think about A&H more broadly. So it would be a business that we would want to continue to invest in and we think we have capabilities and the brand to effectively compete over the long term.

<Q - Ryan J. Tunis>: Thanks, and then I just had a couple for Doug. I guess the first one, growth was good in Small Commercial, but again emphasizing the competitive dynamic in the marketplace. Is there potentially a need for another investment cycle, I guess, in that business in the near to medium term just given what you're seeing coming out of peers?

<A - Douglas G. Elliot>: Well, I guess I would answer it this way. I'm not sure we've ever stopped investing in Small Commercial. There's no question there are a lot of interested parties looking at that segment, trying to participate in that segment; we've been at it a long time. Very pleased with last several years of progress, had an excellent quarter, but this year and next, big priority around digital. The capabilities we have in the service center are selling skills, et cetera, so I would like you to think about our investment in Small as ongoing and doubling down as we move forward.

<Q - Ryan J. Tunis>: Okay. And then in Middle Market. Seeing the growth there in new business. If you could just talk a little bit more about what was driving that and how you can see the momentum there playing out throughout the rest of the year. Thanks.

<A - Douglas G. Elliot>: Yeah, good question, Ryan, and a little outsized and certainly quite a bit different than last year first quarter, largely, as I mentioned in my script around our verticals. Construction had an excellent first quarter as did marine and some of the other verticals. So we are still grinding our way in the generalist space of Middle and the growth there was clearly not as robust as it was in these other areas. Our momentum in construction has been very positive over the last couple of years and in Q1, we were awarded two very large athletic arenas in the United States. So feel good about some of the wins. Again, I think it was a little outside, I don't expect to have four quarters of growth like that in those verticals, but I am pleased with the progress.

<Q - Jay A. Cohen>: A couple of questions. First, you talked about non-cat weather in the two different segments having sort of offsetting impacts. Can you characterize the non-cat weather in either segment as not relative to last year, but relative to expectations? Was it unusual? Either bigger or less?

<A - Douglas G. Elliot>: Sure Jay, I will try to do that for you. When we think about homeowners as I talked about it, in that non-cat weather category and fire, we were essentially 3.5 points high than our three- to five-year average over a period of time. I'd remind you that the early part of the quarter had a lot of West Coast water activity, not just

California but really up through the Northwest. Got a sizeable part of our book on the West Coast. So we were impacted by that water and also in our commercial book as well. So a little bit of out of pattern. We felt the pressure from weather, but I think things will snap back in as we go forward.

<Q - Jay A. Cohen>: So homeowners, about 3.5 points above a normalized level, is that fair?

<A - Douglas G. Elliot>: That's correct. Driving essentially the 3.8% variance that I chatted about in our homeowners XX.

<Q - Jay A. Cohen>: Yeah, that's helpful, thanks. And then the other question. Personal auto, acquisition cost being down, is that a function of lower commissions? Less advertising through the AARP channel? What really drives those lower costs?

<A - Douglas G. Elliot>: Yeah. What was driving fundamentally this quarter change was lower marketing activities associated with our personal auto book. So as I commented, as we feel and continue to feel better about rate adequacy, which is going to be a quarter-to-quarter March moving through this year and next, we will adjust accordingly, Jay, turning back on those, very specific state-by-state basis, but I do think that run rate, we will not be able to continue at that. You should expect to see some more marketing expense as we feel better about our rate adequacy.

<Q - Gary Kent Ransom>: There's been an increasing discussion on the impact of the plaintiff's bar on loss trends. Either more lawyers working for cases, or more willing to go to trial, or simply more legal representation. Are you seeing anything on that front?

<A - Douglas G. Elliot>: Gary, we've looked hard at that issue, hard at that data, and with our new claims system that we brought onboard the last couple of years, better visibility. As I look at the representation rate, it's up slightly, but not in big numbers, so I feel slight representation numbers up. What I do see, though, in our data is a higher, quicker trigger to litigation, particularly at the moment around auto liability, and also GL. So we're watching very quickly those cases that are with representation, and how quickly they're going to litigation, and how that is working through our book of business.

<Q - Gary Kent Ransom>: Just as a follow-up, if that is broad based, do you think the industry is responding in pricing? And obviously they are in commercial auto, but maybe in GL, is there some upward pressure on pricing because of those trends?

<A - Douglas G. Elliot>: It's a really good point. I do think the industry is responding to auto. I would absolutely agree with you. I think GL, other liability is an area that needs more attention and would benefit by a bit more discipline across the industry. It's a line that has our attention, probably differently than a year or two years ago. I look at what we've been able to achieve on the pricing side in middle in that core middle, and I think the line over time will demand more rate so that we offset some of the trends that we will feel. I don't think these litigation trends that others and we are talking about are going away anytime soon.

<A - Christopher J. Swift>: It's Chris. I just would add, particularly given our book of business more in the middle, we get exposed through our primary lines. We're not big umbrella or excess players. In fact, as we think about the future and expanding our risk appetite, it's one area that really causes us pause on the umbrella, the excess lines. Can we get paid and earn an adequate return? So until we see a little more correction and realism in price and exposure, I don't think we're going to deploy too much capital into excess umbrella lines in GL.

<Q - Gary Kent Ransom>: Right. Okay. Should I read anything into the little uptick in renewal pricing that we saw in Q1 vs. last year?

<A - Douglas G. Elliot>: Certainly, I'd ask you to read something in on Small Commercial, and that is we are leaning into some of the signs in our book, first auto, which we've chatted about, but also GL. We had some slip and fall-type classes over the last three to four quarters that, Gary, we have tuned up our pricing around. And so those changes are real and they are necessary.

As we step back in our middle market book and we look at trends, generally we feel pretty good, Gary, about frequency across our core commercial middle market lines, but there's a debate and discussion we're having about severity. And as I think about GL, it's a line that I think you'll see us be thoughtful and lean into a bit more on the pricing side. We expect that trends are not going to be in the 0-2 range out 2017 and 2018. I think it's more likely that we feel a 4-5 range, and that is clearly not where the market is pricing that line at the moment.

<Q - Meyer Shields>: Doug, can you give us an indication of how the adjusted auto loss ratio played out over 2016 so we can use that as a base for 2017?

<A - Beth Ann Bombara>: Yeah, Meyer, it's Beth. I'll take that question. So when you think about 2016, we increased our loss picks for accident year 2016 both in Q2 and in Q4. And you may recall that in Q4, we talked about the fact that it was probably about 6 points that we booked in Q4 that related to earlier quarters. So you can kind of think about how you'd adjust Q4 loss ratio. So it really leaves second and third quarter, and the way we look at it, I don't have the exact numbers in front of me, is that it's probably around 1 point to 2 points of difference you'd expect from what we reported.

So in second quarter, the number we reported would be a little bit high because, again, we had strength in Q1 at that point. And then third quarter, the reported number is probably a little bit low by that amount. And when we kind of put all of that together, as Doug said, we do expect to see the improvement that was embedded in our overall combined ratios that we gave as an outlook back in February.

<Q - Meyer Shields>: Okay. That's certainly helpful, thanks. Then second question. You talked about flattening frequency. Again, I'm talking about personal auto. What have you been assuming in the price changes that you've been filing and implementing?

<A - Douglas G. Elliot>: Well, our 2017 plan had essentially a mid-single-digit total trend outlook. And the reason I say we're encouraged by first quarter with flat frequency and in the 3, 3.5 range of severity, feel like we're just underneath that. So a good start to the year. We'll see as we go forward, again, next couple of quarters, but mid single digits is where the entire sector has been running. Fast-track data is now out on fourth quarter, so you get a peek at that, and that has been our Lean plus experience into our filings state by state, and there's a lot of geography and a lot of specificity in terms of territories that obviously loads up an individual state.

<Q - Robert Glasspiegel>: Following up a little bit on Gary's question. So I think what you're saying is that the sort of rates that you're taking, 3% or so in Standard Commercial, aren't quite keeping up with underlying trend which you thought might be closer to 5%. I mean, I give you credit – you're one of the few companies publicly sort of saying that our underlying commercial will be deteriorating this year in your guidance. Are we still at a point where looking out 12 months, margins are coming down, or can you sort of offset that with better risk selection?

<A - Douglas G. Elliot>: Yeah, I guess, Bob – this is Doug. First thing I would say is when we think about our operating margins, I'd separate small from middle, just to – they're very different marketplaces. But overall, our theme – my comments back 90 days ago, as I look out across, in general, pricing has been at or slightly below loss trends for some period of time, several quarters at least. And the math on that, as you roll into 2017, unless you're predicting very encouraging severity signs across auto, GL and compensation on the medical, it's hard for the math to work in any other direction but pressure on core margins.

So that's my own personal view. This is several cycles for me. I'm encouraged by our pricing lift in Q1, though. So the other side of that is the 90 basis point lift in pricing both in small and a little bit of benefit in middle. I'm encouraged, encouraged with our discipline, and maybe we have a bottoming, if you will, on the pricing side in commercial. That would be a good thing because we've worked hard to achieve the operating levels we're at. Very pleased about those levels, but I don't want to give them away. And that is a debate we're having every day across our lines across all our businesses, but in a very segmented way. Does that help?

<Q - Robert Glasspiegel>: Yep, very much. Switching gears, just on your acquisition target, is there a size of what the ideal type company and how big you could go on an acquisition?

<A - Christopher J. Swift>: Bob, it's Chris. I would say just a couple thoughts on M&A in general is that we've been proactive in the marketplace. We're very disciplined about our approach. It has to make strategic and financial sense. So we think in terms of bolt-on and/or extensions into adjacent markets, that would be a little less complex to integrating into The Hartford. But I would also say we're open to larger opportunities that accelerate our growth in markets, product lines, geographies that we want to be in. That I would characterize as a target that has anywhere between $500mm and $1B of premium. So I don't know if that helps size – your size question, but I think that would be something digestible. But again, it has to make the financial sense and we've been disciplined, given we've been at this over the last four years, and we've said no to a lot of opportunities. So that's what I would say, Bob.

<Q - Randy Binner>: I think this question is for Doug. I just wanted to jump back and weave together some of this commentary. So it sounds like in kind of the – I'll call it, the small commercial or middle market book, your severity trend is maybe in the – loss trend rather is more in the maybe in the 4% to 5% range, but then drilling in on commercial auto, I think I heard your comments to say that you were planning on mid-single-digit loss trends. So call it 4% to 5%, but that you're below that now. So I just wanted to clarify that I'm kind of hearing that right because some of the loss trend data points we've been getting in this earnings season would indicate that commercial auto is still kind of higher single digits and really is not stabilizing. So I'm just trying to tie that all together, that you do see commercial auto trends stabilizing here.

<A - Douglas G. Elliot>: The commercial auto results, I'd start by saying, are not acceptable. They're not acceptable in our book, and we're determined to continue to work at that. In the middle market over the past four years, we put 37 points of rate into that book of business. So the good news is that with re-underwriting in rate, it's a much healthier book, but we're also dealing with the same dynamics in the marketplace relative to driving behavior that we faced in Personal Lines. So middle has been a pricing story after years of re-underwriting. I feel pretty good about our core book.

In Small Commercial, we faced some pressures over the last three quarters that to me have also come from the Personal Lines re-underwriting, and that's a book where in our micro end, we've got many businesses that have one and two and three employees. So I think there is a lot we can learn from Personal Lines. We're not pleased about our performance in Small Commercial on the auto side. We're addressing it through not only underwriting and pricing, and we still feel pressure on the bodily injury side of those trends in both small and middle with auto. So I'm feeling mid single digit pressure on severity in our commercial auto book, and I don't expect that to change because I think that's largely what we see out in the external environment and what our view of the external data is saying to us. And, therefore, we're building our action plans around that.

<Q - Randy Binner>: Are there particular kind of sub segments of commercial auto, though, that are still kind of spiking into the high single digits? I'm just trying to reconcile some of the data points we're hearing out there, because I know you're going to have a bigger look at the market, and then the fast track data you discuss would, too, but are there still pockets that are seeing kind of bigger blips, especially in BI severity?

<A - Douglas G. Elliot>: Well, there certainly is a geography twist to that, so there are zip codes and areas of the country where we feel more pressure than others. There are class dynamics to it. In Small Commercial, I've mentioned in the past that we have changed our referral triggers on several of those classes that used to just hit the glass for quotes and run right through. Now we'll take those quotes at a technology level and bring them back to an underwriter for more strict underwriting. So yes, I would say both class and geography are definitely triggers that we're looking at and impact an aggregate performance that needs more pricing and more underwriting.

<Q - Elyse B. Greenspan>: I had a question first on the auto book. I appreciate the additional disclosure this quarter. When I look at the underlying loss ratio for Q1, we see the y-over-y improvement, but I'm thinking when I think about going forward, I know seasonally auto does run stronger margins in Q1, but does the fact that you're going to be earning in more rate over the rest of the three quarters change some of the seasonality that you expect when you think about the underlying loss ratio, Q2 to Q4, vs. what you printed in Q1?

<A - Douglas G. Elliot>: Elyse, this is Doug. Our plan did contemplate that. So largely, our expectations for the year and our guidance stands as is. So yes, you're absolutely right: the seasonality that we've seen in the past we expect to continue, and essentially our pricing objectives are being met, and we continue to work hard to achieve the next three quarters so that we can have a full year and get this back on track.

<Q - Elyse B. Greenspan>: Okay, and then last quarter, you guys provided some color around the retention within the auto book in terms of kind of by loss ratio. The retention did come down in the overall book a little bit in the quarter, but when you would look by loss ratio band, in a way, did you see the kind of the same dynamics where you're seeing a greater drop in retention within some of the more higher loss ratio parts of the book?

<A - Douglas G. Elliot>: We did, Elyse. We saw very similar patterns, which is actually why we didn't put the exhibit in. It would have been very similar to what you saw 90 days ago.

<Q - Elyse B. Greenspan>: Okay, great. And then, Chris, when we last quarter discussed the possibility of you guys looking into a sale of Talcott, you had mentioned the potential proceeds from a sale that your preference would be to use that towards managing down leverage as well as M&A. Subsequent to that, and we've addressed it earlier on this call, there's this bill going through Connecticut. Does the ability to sell parts of Talcott, and so obviously different sales could happen at different times, and the level of proceeds would come in at different periods of time, does that change how you would consider thinking about what you might do with the proceeds?

<A - Christopher J. Swift>: Yeah, Elyse, I would say it's gotten very tactical in an area that we're not going to speculate or comment on. One, I'd remind you the bill's only through one half of the legislature, so the other half needs to approve it, and the governor needs to sign it. And as I said, we expect that to happen in June, and then we'll evaluate things from there. But I think it's way too premature to go down the path that you are going down.

<Q - Ian J. Gutterman>: Doug, you mentioned in your script about being able to restart marketing for AARP in H2. Should I take that as a sign that you feel pretty good about the progress you're making to have the confidence to do that?

<A - Douglas G. Elliot>: Ian, you should feel good that we are pleased with the early start to progress. I'd remind you, and you know, this is a multiyear effort, so one quarter does not make the goal we have in mind, but pleased about the early signals of our initiatives across underwriting and claims and pricing, et cetera, and again, you can see it because we share transparently, there's a direct side of this financial dynamic, and then there's the agency piece. And our top line is a bit more moderated in the agency side (sic) [Direct side] (53:51), so we're not shrinking nearly as much as we are in total, and that's something that is a clear focus to us. We've got terrific partners at AARP, and we are intent upon stabilizing this book and looking for opportunities to grow going forward. That is our goal, and I think we're going to be at a healthier spot in H2 to achieve that, and as such, we will direct marketing activities accordingly.

<Q - Ian J. Gutterman>: Got it. I mean, I assume if you felt that you still didn't have your arms around this, you wouldn't be thinking about growing the book again – is that a fair assessment?

<A - Douglas G. Elliot>: That's a very fair assessment.

<Q - Ian J. Gutterman>: Okay, great. And then just a broader question for whoever wants to take it on reserves. Obviously, each of the last few years, you disclosed in the K the range above the midpoint, and it's continued to creep up. But that hasn't really shown up yet in reserve releases, and I'm just wondering philosophically how you guys think about that. Is the goal sort of to keep growing that range above the midpoint each year and sort of keep the base reserve releases around zero and strengthen the balance sheet for the future? Or is it just that most of that move above the midpoint has been in the recent accident years and they're just not seasoned enough, and over the next, call it, near to midterm, once they get more seasoned, we'll start to see sort of consistent releases?

<A - Christopher J. Swift>: Ian, it's Chris. I'll let Beth comment also, but philosophically, there is no target. I mean, we evaluate reserves every quarter and try to use our best math, our best judgment, both on what's happening and the potential scenarios, sensitivities going forward. So that really informs sort of our view of what our carried position is compared to the actuarial indication. So I would dissuade your mind into thinking in terms of math equation program releases should start to come because it's really facts and circumstances.

And again, personally, speaking for one member of our team, we're watching inflation very closely. We see wage pressures. We see litigation pressures in other areas. So the wage sensitivity we have in our book in comp, in disability is material. So we want to be very, very prudent, have those accident years seasoned with great deal of certainty before we deal with them.