Goldman Sachs U.S. Financial Services Conference

Company Participants

- Beth Bombara, Chief Financial Officer
- Christopher J. Swift, Chairman of the Board, Chief Executive Officer

Other Participants

- Yaron Joseph Kinar, Analyst

Presentation

Yaron Joseph Kinar {BIO 17146197 <GO>}

Good everybody. Very pleased to have Hartford's Chairman and CEO, Chris Swift, and CFO, Beth Costello with us this morning. Before I hand it over to Chris for a few opening remarks and then jumping into Q&A I do want to remind everybody that if you have any questions there is a box at the bottom of the screen and you're welcome to submit any question through that and with that, Chris thanks -- Chris and Beth thanks for joining us and I'll hand it over to Chris.

Christopher J. Swift {BIO 3683719 <GO>}

Thank you, Yaron. It's great to be with you at the Goldman Sachs Conference, I know Beth and I always enjoy being physically in your wonderful building but we'll do it virtually this year and get back to a physical next year so I would just -- just say a couple of things. 2020 certainly been a year of two sides of the coin started the year with great momentum, great confidence in all our businesses really pleased the way we were performing but then obviously COVID hit and we had to change to playbook complete later first focusing on our employees, then our customers and handling all their needs, during that time working digitally advancing our digital adoption and then trying to plan for '21, '22 cycle coming up here shortly. So I think we performed to actually very, very well during 2020 in spite of COVID.

Obviously, I think we've been very transparent on what our COVID judgments have been. But as I look forward, and I really believe and I have data and facts that support it. Now that we can't grow our topline and expand margins across our commercial franchise going forward. So we'll talk more about that in February when we normally give our driver guidance but I'd like to give your investors and audience your confidence that we are returning to growth and margin expansion and really that's a culmination of just 10 years of hard work in restructuring the organization, shutting[ph] businesses that didn't make sense for us to have improving them operationally, investing in them so I really believe the best days as a Hartford are ahead of us due to the cumulative effect of all our strategic actions, all our operating actions, all our capital and management actions.

So if I just go around the horn a small commercial is that the leading franchise I think we have the leading product out there NextGen spectrum, which really going to power our growth going forward. Middle market has been in the process over the last four to six quarters of re-underwriting books of business. So they are pivoting to growth. They have more products to sell through our agents and distribution with the navigators acquisition. The Navigators Global Specialty combined with ours is almost a $3 billion business that is enjoying robust rates and we've gone through our re-underwriting activities there led by this Vince Tizzio by pivot to Group Benefits, the integration activities with our acquisition from three years ago are down. We are squarely focused on growth, we can grow the top line from our core products, with voluntary and supplemental products coming there. And as I said, we've -- we've enjoyed building up excess capital during this time of crisis, but we see more clarity about the economic activity. We have more clarity about COVID. We have more clarity about COVID liabilities and our exposure. So we know how to announce these things. We normally do it at year-end towards the 1st February when we do our earnings calls but when there's something to announce on capital management, we will announce that Yaron.

So that's what I would say, and it's great to be with you again, Yaron.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Great, thanks. There is a lot of untap[ph] there so forgive me if I go back to some of the things you made with more directed questions around that. So one of those points I think you touched on specifically with Navigators but I think it's true problem for the broader market, which is great what are you seeing as we head into renewals. What are your expectations in the P&C market into 2021?

Christopher J. Swift {BIO 3683719 <GO>}

Well, if you look sort of at the P&C market it's again a tale of two sides of the coin, on one hand we're living through a pandemic that's creating widespread economic hardship displacements of jobs, people losing their lives, and the human toll here is not to be underestimated, and it might take some time for us emotionally as people to get through with that. The impact on sort of the economic toll for us is we're an employment centric firm so as jobs shrink rapidly there was a lot of adjustments through audits, premiums came down a little bit particularly and Group Benefits also but as jobs are coming back and I think it's been quite a remarkable employment picture just the big shock and the big now rebound. We got a good shot of getting back to somewhat close to normal unemployment levels, I think by the end of 2021 so that's going to bode well for more payrolls and more benefits to come from there and then on the P&C side, as we alluded to, I mean most lines of business is that comp are enjoying strong to robust rate environments primarily because of the factors that we've talked about as a team on our earnings calls, but you could look to social inflation, you could look to low interest rates, you could looked to COVID, you could look to just a number of different things that are going to continue to put pressure.

I think on combined ratios were the need for rate well into '22 is apparent at least in my mind.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. And with that concept in mind as you look into 2021 what areas of the business are the areas where you think you're going to go really into offense and pursue new business more aggressively versus areas that maybe you'll (inaudible) defense trying to protect margins, trying to protect the market share you may have?

Christopher J. Swift {BIO 3683719 <GO>}

I would say the certain aspects of the casualty market again ex comp I think are ripe for being tad more aggressive. I think again across our portfolio I would say that our written rate increases that we've enjoyed this year ahead of loss trend if you look out even into next year I see that continuing. When you take aggregates you lose some of the nuances at the fringes. But the lines that I think continue to need the greatest rate continue to be commercial auto, umbrella access, certain aspects of (inaudible) but they're getting good rate.

But I think -- I think they need to continue to push for we as an industry need to continue to push for rate in '21, I think will be a little cautious in comp and the comp I'll call it debate is interesting to me obviously we are on the smaller end of the market and if you look at our results over the years, it's been pretty consistent in that 87, 88, 90 range of combined ratios, which are really strong results. So even though there is a little comp margin pressure that I still feel we're going to face at least in the first half of 21 and things might begin to inflect a little bit in the second half of '21. I mean we're starting from a point of strength with that workers' comp book and obviously the bulk[ph] spectrum product line as I talked about. So I think you just got to put things in the context that we're in a pretty good place with comp and small commercial and benefits. I would say again through the integration period of time, we expected a little higher lapse rates, which we did experience. But I think we are off to a great -- I know we are off to a great start with January 21 renewals. Our voluntary book is getting bigger and in each book is getting bigger. So all those will incrementally contribute to growth. But the biggest driver will be in the core as employment levels rebound Yaron.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Got it. So you mentioned, we may see a little bit of headwind in workers comp, at least, first half of the year. We're seeing a little bit of interest rate headwind as well. How are you thinking about ROEs here. I think a couple has had a very strong and stable ROE in the 12% range for the last three years. Is that a sustainable number here or do you think that's just with the environment we're in, we have to reset expectations, maybe slightly lower.

Christopher J. Swift {BIO 3683719 <GO>}

No, I'd say in a word, yes, I think that 12% ROE is a good anchor point for us going forward. And I'll tell you why. In spite of low-interest rates we've been again pruning, re-underwriting, many books of business in Global Specialty middle market. I mentioned what Doug and the team are doing there. So I actually margins are expanding in those lines not only due to price but re-underwriting actions that we launched four to six quarters ago. So that's going to have a cumulative impact on expanding margins from here.

Yeah, we could talk about it with Beth but obviously Hartford next our $500 million expense in saving program will help overall margins particularly on the expense side. Lower for longer is going to be a little bit of a headwind but again, I think it's manageable with our investment capabilities. We're not going to dial-up risk in this environment, but at the margins, there's things we could continue to do to eke out 10,15, 20 basis points of NII improvement while facing those headwinds.

So I put it all together and plus obviously we're sitting on excess capital today that we'll talk about, but when I put it all together, I think over the next two years a 12% anchor point on ROE is very realistic for us and doable.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. I want to dive into maybe a little deeper into COVID which has got a lot of questions on over the last couple of quarters or a little more[ph] maybe if we start with

Christopher J. Swift {BIO 3683719 <GO>}

We've contributed to those questions.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Yes. And try to offer some answers as well. I don't know if they're right, but I will try. I guess if we start with may be a broader view here, not Hartford view, some of the earlier estimates around over COVID losses were on the $100 billion range, a little more, a little less. What we've seen today has been closer to the mid 2020 for the industry. Do you think that we just got the numbers really, really long or do you think that there is still a lot of catch up in terms of the losses that are still coming through business[ph].

Christopher J. Swift {BIO 3683719 <GO>}

Well it's just hard hard for me to say speculate. I mean, I can tell you my instincts. It's a little heavy but again, there's different terms and conditions and policy wording in different countries and around the world. I mean you could see the litigation that is happening in various different forms. And that's why we say not all litigation is created equal. Right. Just, just because there might be higher case counts in our particular case, you can have one litigation involving one client that is pretty material and pretty significant

So I can't speculate on what the final tally is going to be, but obviously, it's a big shock and we're still living through it quite honestly. The second wave I think we all need be very thoughtful about activities and some of these liability exposures, some of the disputes that are going to inevitably need to be resolved in courts will take some time to play out, Yaron.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Right and so speaking on that last point. So I think over the last few months few developments one, Multidistrict Litigation ultimately the court decided[ph] the industry there not performing, these are MDL[ph] on the other hand, we're starting to see maybe at the state level three court decisions that are putting together some suites on the business[ph] interruption side specifically and even a couple of early cases now where court has actually cited[ph] that the client have some business interruption has -- have your views on business interruption potential as those are changed as we have seen these developments from the courts.

Christopher J. Swift {BIO 3683719 <GO>}

No. Not at all. I think it's playing out is pretty much as we thought there will be early winds in disputes. There might be on a state basis or state court system was probably our biggest concern in certain jurisdictions. But as we viewed and as we've shared with investors and analysts. We've done an exhaustive review ground-up of all our policy forms. We feel very good about how we've constructed it, and we feel very good about the direct physical loss requirement. We have contaminants and pollution exclusions. We also have the virus that sort of wraps around the virus exclusion that wraps around all that. I think our languages (inaudible) ambiguous, and it's just going to take some time in the court system, but I don't keep track it like a baseball score but I think it's been 80%, 20% at least in my judgment, that 80% of the decisions have generally gone the industries ways and 20% maybe have not and that they're going to be further appeals and further debate and motions to ultimately dismiss hopefully a lot of these claims.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Got it. And one question coming in from the audience on this specifically is as you head into (inaudible) policies over the course of the last few months, have you added additional exclusions or tighter language around this interruption[ph]?

Christopher J. Swift {BIO 3683719 <GO>}

Yes, totally in all our lines of business we've tightened up terms and conditions where it needed to be tightened up. Provided additional clarity. So as we head into a second wave here we don't think we will have any increased exposure.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. And then on the flip side of the COVID loss there is also the nominals, right, of decreased utilization and how it impacts everything else the people who are not in stores, not investors, not going into work, how is that impacting the loss ratios. What impact do you think that may have on the intermediate or longer term cluster[ph]?

Christopher J. Swift {BIO 3683719 <GO>}

Yeah. Those are things that I mean turn to Beth in a minute as the reserving function of actuarial function, it reports to Herb. But you're right, there's a lot of moving parts in establishing loss picks, loss ratios, yearend judgments. I think we've been very thorough and thoughtful on that. We've been through most of it. Beth has taken me through with the actuaries and Doug[ph] so I think we got our arms around everything and I'll let her explain, but I think we've been pretty transparent of what our direct COVID losses have been, where we put up I'll call it lost dollars, whether it be on comp, whether it be on surety in our D&O, our expense for litigation reserves, but then we also been equally clear and that we have taken some frequency benefits for exact in comp for exactly the reasons that you've talked about slower economic activity, people working from home, and we felt that there were real frequency benefits this year. We also obviously reflected some frequency benefits in personal lines but by and large that was the only call it frequency benefits that we took during this COVID period. But Beth what would you add?

Beth Bombara

Yeah, no, that's correct. So obviously, on the comp side. If we have seen reduced counts on from a non-COVID perspective and we reacted to that we are watching closely the severity side of comps. So taking into consideration the fact that with some of the shutdowns and people's reluctance to go to doctor's offices and things like that you can see extension sometimes. So we've taken that into consideration in our overall loss picks and feel very good from a comp perspective of where we stand.

And then, as Chris mentioned, on the personal auto side, definitely have seen decreases there which we reacted to. We did provide rebates to customers in the second quarter to reflect some of that, but those are really the two primary areas where we've made sort of an explicit judgment to reduce kind of our initial pics from the beginning of the year because of those frequency trends.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay, that's helpful and then Chris, I guess returning to one of your opening comments and Beth, I'd love to hear your thoughts from a reserving perspective as well. Low interest rates. So I've heard many times the argument we're in a lower interest rate environment (Technical difficulty) lower. Therefore, we need to get more price to offset the loss and eye on. But I feel over the last 30 years, we've been in a pretty continuous bull bond market and we haven't seen that play out in terms of (inaudible) for that matter. Why would this time be different or what's changed?

Christopher J. Swift {BIO 3683719 <GO>}

Yeah, I would poke at your thesis just a little bit. I mean I can remember the days, 20 years ago. I mean you could -- you could feel good about running comp at 101 or 102 and make some money off float[ph]. I mean you can -- you can't run comp today at 101, 102, 103 and make anywhere near adequate returns. I think we also debate returns in relation to our cost of equity capital and what is an appropriate long-term spread to try to target.

So as rates do come down interest rates that theoretically does lower your cost of equity capital. So it's not necessarily dollar for dollar. But directionally, I still -- I still believe that we're going to have to raise rates to earn any resemblance of a good return on capital. Just given the sheer magnitude of the declines. Right, if you look at the tenure compared to just a year ago, it's probably down 125 basis points. It's trading at 91 or 92 these days. I mean it's a meaningful difference that will -- have to be reflected and rate increases in my judgment Yaron.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Beth, anything you could have from a reserving perspective. How do you factor in lower interest environment?

Beth Bombara

Well, again, from a reserving perspective, we're looking more at loss cost right, so the fact that you can earn investment income because we're not discounting our reserves, isn't really going to impact our loss net but the business point we look kind of all in when we're doing our pricing models, to make sure that we believe we can make an adequate return over time I think the other thing too that's happened over this period of time as you have seen the loss cost trends in some lines like comp trending down.

So I think that that sometimes had kind of an impact relative to maybe not seeing with full impact of low rates but I agree with Chris given the size of the decline and how quickly it has happened, they do you think that you will see it work its way into pricing over time.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay and then and then going back to the opening comments, social inflation and maybe tie into loss trends as well I would imagine and trying to figure out loss trends in this environment is nearly impossible just given the volatility in the shutdowns and what not how do you go about it and how haven't gone about it in 2020. And have you seen any changes in what we call social inflation considering that courts have been shutdown for part of this period and we haven't seen as much economic activity how are we thinking those?

Christopher J. Swift {BIO 3683719 <GO>}

Again I'll let but Beth had commentary to it. I mean social inflation is a broad term right for elevated claim judgments usually coming out of courts or settlements. There is elements of just inflation that is creeping into damages at a fairly alarming rate, some of it could be current activity, some of it could be like the reviver statutes and in various states where again people we're actually harmed due to physical or sexual abuse so that has a cumulative effect of lost cause years ago, I could tell you that. So there is current trends, there is catch up matters. And just sort of a reality of where you're at. But we try to make our best estimates again by line of business. I think the more challenged lines are obviously the excess casualty or the retailer and airlines [ph] where again we're up upper single digits to low digits and some of the loss cost trend picks there. The trick there is to be stable and consistent over a longer period of time and look for trends because as you know, one or two years, does not make a trend. Even in COVID as Beth said there might be slow down in judgments or court decisions or people seeking appropriate medical attention which creates larger problems down the road. But I think our team is very thoughtful in looking at all aspects of what goes into a loss cost trends, frequency, severity everything I believe we've been very thoughtful over the years in how we pick trend.

Beth Bombara

Yeah, the only thing I'd add is that on the specific comment on social inflation and recent trends given the fact that courts have been shut down and so forth is, we take that all into consideration and not sort of overusing kind of a current trend to say that's the new long-term trend. And we try and balance that as we -- as we make our loss fix and that's why we don't usually come off of our initial picks until time has really transpired and they seize in so that we can really see activity because you can always have distortions.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Right. I mean that's redirected[ph] to my next question. So industry has seen more considerable rate today. So we're seeing rate over time. And now we're entering to rate over -- rate on rate return. And again we have seen a lot of that actually comes through loss picks or lower loss ratios. I'm not necessarily asking for date which we should expect to see that but in terms of recognizing good news later what guide posts are you looking for. How much maturity are you looking for before you feel confident and releasing some of that (inaudible).

Christopher J. Swift {BIO 3683719 <GO>}

Well, I'll let Beth add her point of view, but she said it, it's the word we use around office quite a bit, as you seasoning time, these are long-duration policies and liabilities, you could put up 90% IBNR in sort of the current calendar year in the most recent year. So it takes time. I wouldn't say there is a -- there is a formula. There isn't a guide guidepost. I mean it's guided by data, historical trends are getting more or less claim counts coming in settlement patterns. But generally on these and casualty lines. It's -- it's a minimum in my judgment, three to five before you get real, real good indicators of how things are going to develop long-term. Beth would you add anything.

Beth Bombara

No, I agree with that. I mean sometimes you -- you'll see the frequency probably maybe sometimes a little sooner than the severity and they try and balance that relative to the overall loss pick that we made, but we typically don't come off our initial estimates unless we see something to the negative, obviously you tend to respond to things that are going against some of your adjustments than the other way and we look at this stuff, every quarter we look at our claim activity every month and all that helps to form our judgments of just understanding what's happening in our book of business.

Yaron Joseph Kinar {BIO 17146197 <GO>}

And we switch gears to the personal (inaudible) so we've seen the company really improve the loss ratio over preceding COVID. But on the top line, we're seeing the sustained pressure when do you think that that influx and what actions are you taking to get there.

Christopher J. Swift {BIO 3683719 <GO>}

Yeah. I think we addressed the question you had on the call. What are we doing with personal lines and we talked about remember, this is 90% book of business we did extend our ARP relationship 10 years. The new contract runs through I believe 133. We are investing in a new platform. New chassis[ph] to administer products by (inaudible). We're rebuilding home and auto products. Changing in terms and conditions. We're going to six month auto policies. We were really modernizing the program to really the two organizations ERP in the Hartford are committed to being more of a relevant player and a lot of our growth dynamics were just the way our products were designed particularly with lifetime continuity agreements, we had to be very, very cautious of who got that on day one because and since we made a potential lifetime commitment to someone so I think again with a more modern product with better data and analytics to support our underwriting judgments and how we refresh those data analytics with six month policies. I think will all lead to higher and faster growth. But clearly, the next two years '21 and '22 were sort of in that transition period that flux period. So I think we could flattish to slightly up over that period of time, but it's going to really take until we're in all 50 states, with our new product set, which happens by the end of '22. So '23 sets up for more of a growth story than the next two years.

Yaron Joseph Kinar {BIO 17146197 <GO>}

So we're running out of time or do you want to touch on two other things, one being the Hartford next initiatives and the other capital management. So if Hartford next $500 million of cost saves that you are targeting and maybe talk about the key buckets where our sales are going to be distracted from and maybe on the other side of it, it's not just about the cost saves. It's also then that's in the platform and digitalization helping growth. Maybe we can talk about that as well.

Beth Bombara

Yes, I'll start on that. So, yes, so, so yes our Hartford next initiatives that we launched this year. We're on track to save $500 million in 2022 and of based on our 2019 starting points. And it really is across all areas of the company. It is a company wide initiatives. So, there's things that we're doing in our operation centers from an IT perspective, how we contract with vendors, our claims is a component of this as well and really looking to maximize our use of technology and so forth.

So it really is all encompassing. There is over 600 initiatives that are trapped by the team on a weekly basis and they're very good going into 2021 with what we've laid out, because we said that by 2021 we would have saved $300 million of the $500 million and we are, we are on track to do that. So, a component of it, as you, as you referenced is being able to expand the use of digital techniques and we're seeing more pickup there. Chris alluded to that earlier and we think in the end this isn't just about saving cost. It's also going to better the experience for our customers, which we think obviously is really important in this day and age.

Yaron Joseph Kinar {BIO 17146197 <GO>}

So then my final question. Buy backs so we haven't seen buybacks from the company in the last couple of quarters. You're generating a lot of capital today, you're confident of 12% ROE not that worried about this introduction. It seems like the market is somewhat worried about potential losses what would be a very strong signal to the market. If you was in buybacks in terms of the confidence in the balance sheet and then in your position?

Christopher J. Swift {BIO 3683719 <GO>}

I would frame it in a slightly different way, what I would share Yaron, is what is our priorities for capital and how does then match up to the operating environment that we're in today. So, we've always talked about investing in our businesses, as Beth said whether it'd be for greater efficiency technology that we need security growth and we've been pretty aggressive I think appropriately. So, in building out and improving the chassis[ph] our core capabilities, our digital footprint for the future, and we're going to continue to do that.

Obviously in the environment, as you alluded to, we want to make sure that are that our businesses can grow and take advantage of those opportunities in the marketplace. I think also if you look then at priorities, yeah, we've had a capital a philosophy of always increasing our dividend in relation to growing earnings. Again, if you look over the last 10 years, I think we've been able to -- grow our earnings base so that we have a good healthy dividend in relation to earnings in particularly GAAP and statutory earnings.

Third, we've always said, if we don't put to good use in earned acceptable returns IRRs, we will return excess capital to shareholders and we've done that periodically over the last six or seven years, you've seen the trend. I think we've been balanced during that period of time. We also paid down a lot of debt as we were right sizing the balance sheet and ultimately exiting Talcott[ph] so we used a lot of excess capital to right size the balance sheet and return capital to shareholders.

And that continues to be a valid thought priority for us today. So, as we've talked about it's a time here we finalize plans we have meetings, discussions, we typically give our driver guidance in February. So, between now and February, we'll have a lot to communicate and I'm just asking you to be just a little patient.

Yaron Joseph Kinar {BIO 17146197 <GO>}

All right. I do look forward to February. I guess. Any closing comments before we close.

Christopher J. Swift {BIO 3683719 <GO>}

FINAL

It's always again great being with you. Thank you for your time and attention, but I'll stop and end where we started. I think our next three years are going to be fantastic. Again the accumulation of a lot of great work by the team. Our talented teammates across the country. The improvements we've made in the platform, the businesses we're in. I think you Yaron are the right business long term to be in to earn superior returns in and out of those profit pools.

We're executing well or a team that sets high goals and high standards and I think we're performing. So the environment the next three years, I think will allow us to continuing to perform at a very, very high level and the most excited I've been in my 11 years with the Hartford over the next three years. So we've seen a lot. We've done a lot, as I say, but now is the time to sort of harvest all the hard work all the gains all the strategic moves we made, and I really believe that's what we're in now. There is no more things to fix. There is only things to grow and get better at.

Yaron Joseph Kinar {BIO 17146197 <GO>}

Great. I look forward to seeing that. Thank you both Chris and Beth for your time. Take care.

Christopher J. Swift {BIO 3683719 <GO>}

See you later.

Bloomberg Transcript