Q3 2020 Earnings Call

Company Participants

- Beth Costello, Chief Financial Officer
- Christopher J. Swift, Chairman & Chief Executive Officer
- Doug Elliot, President
- Susan Spivak Bernstein, Senior Vice President, Investor Relations

Other Participants

- Brian Meredith
- David Motemaden
- Elyse Greenspan
- Jimmy Bhullar
- Josh Shanker
- Meyer Shields
- Mike Phillips
- Yaron Kinar

Presentation

Operator

Good morning, and welcome to the Hartford Third Quarter 2020 Financial Results Conference Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded. I would now like to turn the conference over to Susan Spivak Bernstein, Senior Vice President Investor Relations, please go ahead.

Susan Spivak Bernstein {BIO 1514699 <GO>}

Thank you Andrew, good morning, and thank you for joining us today for our call and webcast on third quarter 2020 earnings. We reported our results yesterday afternoon and posted all the earnings-related materials on our website.

For the call today, our speakers are Chris Swift, Chairman and CEO of the Hartford; Doug Elliot President; and Beth Costello, Chief Financial Officer. Following their prepared remarks, we will have a Q&A period. Just a few final comments before Chris begins.

Today's call includes forward-looking statements as defined under the Private Securities litigation Reform Act of 1995. These statements are not guarantees of future performance and actual results could materially be different. We do not assume any obligation to update information or forward-looking statements provided on this call. Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings.

Our commentary today includes non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial supplement.

Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without the Hartford's prior written consent. Replays of this webcast and an official transcript will be available on the Hartford's website for one year. I'll now turn the call over to Chris.

Christopher J. Swift {BIO 3683719 <GO>}

Good morning, and thank you for joining us today. In the third quarter, the Hartford continued to deliver strong results including core earnings of $527 million or $1.46 per diluted share, a trailing 12-month core earnings ROE of 12.3% and 5% growth in book value per diluted share excluding AOCI from year end 2019. These results in the midst of a pandemic and unusually high catastrophes demonstrates the progress of our strategic initiatives, strong execution, resilience and the dedication of our employees to serving our customers and distribution partners.

Today, I'll review the key highlights for the quarter beginning with the P&C business. In the third quarter, we saw very encouraging signs on our top line pricing and margins. First, the total written premium stabilized. Although down compared to prior year quarter, new business was up substantially from the second quarter. As for pricing, the strong momentum of the last three quarters continued across most lines. U.S. Global Specialty saw the largest increase at 20% and our standard Commercial Lines was also strong up 8.2% excluding workers compensation.

And finally, underlying margins benefited from favorable pricing trends as well as recent actions to improve profitability and efficiency across the platform. Overall, Property and Casualty underlying margins excluding COVID losses improved 4.2 points versus prior year.

The Commercial Lines underlying margin improved 1.8 points ex-COVID as each of our segments, underlying margins were better than the prior year. Expanded margins reflects strong rate increases in nearly all lines excluding workers comp with a stable loss cost trends. In our standard Commercial Lines, margin improvement also reflected underwriting actions, we began implementing prior to the overall market firming.

In Global Specialty, the ex-COVID combined ratio for the first nine months of 2020 has improved significantly and is on track to achieve our full year margin improvement goal. I am very pleased with the team's performance and the integration of this business to the Hartford platform.

In Personal Lines, the underlying combined ratio improved 10.9 points from prior year, which was offset by 15.7 points of catastrophe losses in the quarter. COVID incurred losses in the third quarter were $72 million pre-tax with $37 million in P&C, primarily from workers compensation and financial lines and the remaining $35 million in group benefits. These losses relate to claims from the third quarter and do not include any increase to previously reported second-quarter COVID losses or our legal expense accrual.

Included in these estimates are the retroactive workers compensation presumptive actions taken in New Jersey and Connecticut during the quarter. Catastrophe losses of $229 million pre-tax were driven by significant storm and wildfire activity during the quarter. The industry experienced its second highest level of third quarter catastrophe losses since 2005.

However, the Hartford's loss impact from these events was less than our market share would imply reflecting strong risk management and underwriting discipline. Before turning to our investment results, let me just say that our thoughts are very much with all those dealing with the many challenges posed by this extraordinary year.

While I believe the events of 2020 have once again highlighted the pivotal role played by the insurance industry in helping businesses, individuals and communities recover from catastrophes, it has also highlighted the inherent limitations of the industry. There continues to be the need for a healthy public-private partnership when it comes to issues like changing weather patterns and pandemics. As a result, we are committed to working with industry partners and public officials to find sustainable solutions to these challenges that are beyond the capital capacity of the insurance industry.

Turning back to our results. Net investment income was $492 million, up materially from the second quarter driven by contributions from limited partnership investments as valuations improved. During the quarter, we also made significant progress on our Hartford Next program. As you will recall, Hartford Next is a transformational multi-year $500 million program focused on increasing our overall competitiveness. Initiatives are now underway to improve the effectiveness of our operations while reducing costs including investing in new automation and improved workflows. We remain on track to deliver lower run-rate expenses as previously shared.

Turning to group benefits. Core earnings for the quarter were $116 million with a 7.9% margin, including $35 million pre-tax of COVID life and short-term disability losses. The disability loss ratio was 65.3%, up 0.9 points due to $7 million of pre-tax short-term COVID disability losses and a difficult comparison to the prior year quarter that benefited from more favorable claim recoveries on long-term disability. The underlying performance of our disability book of business remains quite strong with favorable claim recoveries and incidence trends.

We are closely watching long-term disability trends in light of elevated unemployment levels. The life loss ratio of 87.5% increased 6.7 points from the third quarter of 2019 due to COVID-19 related losses of $28 million pre-tax as well as updated reserving assumptions for late reported claims. On the top line, book persistency remains solid at approximately 90%.

Sales for the quarter were up 81% versus prior year driven by several national account wins. Despite strong persistency in sales, total premium is down 1.5%. This decline is due to lower premium on in-force cases as businesses reduced their employee base in response to recessionary pressures. All in, from a top line and bottom line perspective, I'm very pleased with our group benefits results.

As we move through the final quarter of 2020, it's clear that the Hartford's digital journey over the last several years has been an important part of our current success and will be crucial to our future. Despite operating in a remote environment, we have been able to maintain outstanding service and support for customers and distribution partners. Since January, we have achieved a significant increase in the adoption of digital tools by customers, agents and brokers across our businesses.

Some examples include a 60% increase in Small Commercial endorsements processed online. A 36% increase in quotes that started online for our AARP Personal Lines and an online completion rate of 71% for premium audits. In addition, for the second year in the row, our Small Commercial business plays first for customer-facing digital capabilities in the Keynova annual study.

I will close with some comments on the P&C industry hardening price market. At the beginning of 2020, I forecasted a firming pricing environment would continue for 18 to 24 months. I now see the potential for a longer runway. Current market conditions are driving the need for higher rates even more than a year ago when the firming first started.

Factors behind the hardening market include; social inflation, which remains a very real concern and one we are watching for signs of increased exposure. Catastrophe losses that remain above average levels as we deal with the ongoing impact of changing weather patterns. A pandemic that continues to weigh on the economy and threatens human health. And a prolonged low interest rate environment putting added pressure on the need for underwriting profit to make up for lost to yield.

In spite of the many challenges we face as an industry and a country. I am optimistic about the Hartford's performance in the coming quarters as our results benefit from continued margin improvement, innovation that enables us to serve customers better and initiatives targeting improved operating efficiencies and expense reductions. Now I'll turn the call over to Doug.

Doug Elliot {BIO 3700927 <GO>}

Thank you, Chris and good morning everyone. Across our business, we remain focused on the underlying fundamentals including pricing, underwriting and expense management while we continue to manage the still emerging impacts of the global pandemic. Multiple catastrophes also provided added challenge to the quarterly results. Nevertheless, progressing levels of economic activity contributed to a much-improved top line trajectory during the quarter and we're pleased with the progress achieved on many of our 2020 initiatives as I will comment on this morning.

Overall, Property and Casualty core earnings were $428 million for the quarter and written premium was $3 billion down 3% from prior year. The underlying combined ratio of 90.6 included $37 million or 1.2 points of COVID losses was 3 points lower than last year. Excluding COVID losses, each of our businesses reported underlying margin improvement. Before I get into the segment details, let me summarize the actions we took this quarter with respect to COVID losses, CATs and prior year development.

In Commercial Lines, incurred COVID underwriting losses of $37 million were down significantly from the second quarter. Gross workers compensation COVID losses were $65 million, including a retroactive provision for presumptive coverage in New Jersey and Connecticut. Offsetting the gross loss was continued non-COVID specific favorable workers compensation frequency of $48 million driving a net impact of $17 million. Financial lines and other losses were $20 million primarily for D&O and E&O.

Turning to catastrophes, we incurred $229 million in the quarter. Industry losses were also elevated due in large part to Pacific Coast wildfires, Hurricane Laura, Tropical Storm Isaias and the Midwest derecho event. We have made significant advances in our CAT modeling and underwriting capabilities. For example, we're confident our incurred wildfire losses in the quarter were lower due to specific underwriting actions taken previously. Over the last two years, we have reduced our overall California homeowners policy count approximately 17% and our footprint in the five costliest wildfires this season is down 35% over that same time period.

Net favorable prior year development for the quarter was $75 million. We continued to experience favorable loss emergence in workers compensation, Small Commercial Spectrum liability and Personal Lines auto liability. U.S. professional liability claim activity is also developing favorably. Within the Navigators business, we increased prior year reserves $14 million primarily in wholesale construction. The entire increase was reinsured by the adverse development cover.

Turning now to our business line results. The Commercial Lines third-quarter underlying combined ratio was 93.7 slightly better than prior year. Favorable property results and a lower expense ratio were partially offset by 1.6 points for COVID losses and a few large marine losses in the international Global Specialty book. A few comments about the expense ratio. First, reduced travel and incentive compensation are contributors this year. Second, we're starting to see some modest early wins from our Hartford Next transformation program, which will carry into subsequent quarters. And finally, we continue to benefit from actions we took this year to reduce acquisition costs.

As I pivot to pricing, we continue to achieve excellent pricing gains. For the quarter, renewal written pricing in standard Commercial Lines was 3.7%, nearly flat with Q2. Excluding workers compensation, pricing was a solid 8.2% slightly ahead of our strong second quarter. Layering in U.S. Global Specialty lines brings ex-workers comp commercial lines pricing to approximately 11% for the quarter, a very strong result. In Middle Market, renewal written pricing in the U.S. excluding workers compensation increased 10.3%, up just over 0.5 point from second quarter and 440 basis points higher than the third quarter of 2019.

Property, general liability and auto pricing are holding steady near or slightly above double digits. In Global Specially, we're also seeing continued strong pricing gains in both our U.S. wholesale book as well as the international portfolio, which is primarily written in Lloyd's.

The U.S. wholesale book achieved 26 points of rate in the third quarter, up a 1 point from quarter two. Auto was in the low teens while Property Lines are now in the mid-20s and excess casualty in the mid-30s. Both property and excess casualty are approximately 5 points higher than last quarter. Pricing gains in the international portfolio remained steady with very strong results in professional lines energy and cargo.

Let me now share a few more details on our commercial businesses. Small Commercial posted an underlying combined ratio of 87.7, 0.7 point better than third quarter 2019, when COVID losses of 0.5 point are excluded. Small commercial written premium was down 1% versus prior year, driven by favorable audit premiums, the result was much better than we expected 90 days ago. Top line will continue to be impacted by somewhat lower exposures as a result of COVID impacts on the economy.

Small Commercial new business declined 14% versus prior year, yet it's up 9% versus the second quarter. Spectrum our industry-leading packaged products, saw a 15% sequential growth and record new business in September. Our new Spectrum product delivers insurance coverage recommendations tailored to individual small businesses, real-time transparent pricing and uses advanced analytics to pre-fill underwriting information and classify risks for an unparalleled agent quoting experience. I am thrilled with the results and the outstanding feedback we received from our agents.

As expected, policy retention in Small Commercial was lower in the quarter largely driven by the billing hold actions from the second quarter. Premium retention also declined but to a lesser extent as the average premium of canceled policies was lower reflecting the impact of the pandemic on Main Street America, and the micro segment of Small Commercial. Combining these past two quarters, average policy retention remains strong.

Turning to Middle & Large Commercial, we reported an underlying combined ratio of 97.7 in the third quarter, 3.5 points better than prior year after excluding COVID losses of 1.6 points. A favorable expense ratio, lower non-CAT property and improved national account losses drove the ex-COVID margin improvement. Written premium declined 2% in the quarter largely driven by the impact of lower insured exposure. New business in Middle Market was down 10% versus prior year, but up 32% from the second quarter. Submission flow, hit ratio and average premium in our core Middle Market book all improved over second quarter levels.

While retention declined, I continue to be pleased with the margin improvement driven by our pricing and underwriting actions.

Moving to Global Specialty, written premiums declined 2% in the quarter the domestic U.S. business grew 5% with solid contributions across most lines while international written premium declined 23% driven by underwriting actions to improve the profitability of the book. The underlying combined ratio was 98.2 this quarter, 1.6 points better than prior year after excluding COVID losses of 3.6 points. Margin improvement in U.S. wholesale and a lower expense ratio were partially offset by $11 million or 2 points from four large losses in the international marine book including the Beirut and Tilbury Port explosions.

I do not see these losses as a trend, rather we expect to incur large losses in this book from time to time. We continue to be pleased with margin expansion in Global Specialty. Year-to-date the underlying combined ratio was a 100% including 5.5 points for COVID losses. Excluding the impact of COVID, we've seen approximately 4 points of improvement from the second half of 2019, almost entirely coming from the Navigators book.

Shifting over to Personal Lines, written premiums declined 5% in the quarter. The result was partly impacted by the catch-up cancellations from the second quarters grace period extension along with the continued declines in the agency book. New business premium declined 10% driven by lower responses, which outweighed an increase in conversion rates. Responses were up a very strong 9% in the second quarter. So some of this decline was expected.

Despite lower growth we had another strong quarter of underwriting results. In Personal Lines auto, the underlying combined ratio of 84.9 point was 13.9 points better than 2019, consistent with the industry frequency continues to run well below prior year. However due to the demographics of our customer base, our third quarter frequency reduction of plus 20% has been better than industry results. We expect this trend to return to historical levels with the adoption of therapeutics and the introduction of a vaccine targeted for 2021.

In home, the underlying combined ratio of 74% was 2.6 points better than prior year driven predominantly by favorable non-CAT weather in the quarter.

Before I turn the call over to Beth, let me close by saying that I'm encouraged by our momentum on a number of fronts. After a very challenging second quarter, Commercial Lines written premium and new business momentum picked up in the third quarter, gaining traction with written premium almost back to prior levels. Pricing continues to be strong and our underwriting actions across Global Specialty and Middle Market books are demonstrating progress. And our view of loss cost trends for accident year 2020 have not materially changed.

With continued strong written pricing achieved in nearly all lines except workers compensation, we are clearly exceeding loss cost trends across most of our book. We need improved underwriting performance to offset the continued downward pressure on investment income as Beth will describe. I look forward to updating you on our progress and results after year end. Let me now turn the call over to Beth.

Beth Costello {BIO 15349374 <GO>}

Thank you, Doug. Today, I'm going to review the third quarter results for the investment portfolio Hartford Funds and Corporate. Net investment income was $492 million for the quarter, which was about even with the prior year as increased limited partnership returns and higher make whole payments offset declines caused by low interest rates. The current yield before tax excluding limited partnership was 3.3% down from 3.6% in the third quarter of last year.

We expect the investment yield excluding limited partnerships in the fourth quarter to decline about 20 basis points from the third quarter reflecting lower yields on short-term investments and lower reinvestment rates and no expectations for make whole payments.

During the quarter we reduced our liquidity level which represents cash and short-term investments adjusted for unsettled trades and securities collateral from approximately 7% to approximately 5.6% of total invested assets at the end of the quarter. With continued strong cash flow generation, we expect to further reduce liquidity levels targeting 5% by the end of the year.

Credit performance on the portfolio was very strong for the quarter. We reduced our mortgage loan reserve by $5 million and recognized $1 million of net impairments on fixed maturities. The net unrealized gain position on the fixed maturity portfolio increased from $2.6 billion before tax at June 30th to $3 billion before tax at September 30th.

Turning to Hartford Funds, core earnings of $40 million were up 3% from last year. This is primarily due to higher average assets under management combined with lower expenses largely offset by a decrease in fee income reflecting a continued shift to lower fee generating funds. As of September 30, almost 70% of Hartford Funds out performed peers on a 3 and 5-year basis.

The Corporate core loss of $57 million in the quarter was $20 million higher than the prior year quarter, primarily due to the impact of the company's retained equity interest in Talcott resolution. For the quarter, we recorded $21 million pre-tax loss from Talcott, primarily due to hedge losses experienced in the second quarter driven by strong equity market performance. In September, we received a cash dividend from Talcott of $30 million.

As a reminder in the fourth quarter, we will complete our annual study of asbestos and environmental reserves. Under the adverse development cover we purchased in 2016, we have $860 million of remaining coverage available for potential future adverse development in these reserves. As Doug mentioned, during the quarter we ceded $14 million to our adverse development cover for Navigators. After this session we have $96 million of coverage remaining under the ADC.

In September we signed an agreement to sell the Navigators legal entities that operate in continental Europe. We were very pleased to reach this agreement as the go forward full focus of our international business is principally in the Lloyd's market. With this agreement we recognized a loss on sale of $32 million after tax.

Finally, we are executing on our Hartford Next initiative. As a reminder this program will improve our overall efficiency and achieve annual operating expense savings of approximately $500 million by 2022, contributing to our goal of reducing our 2019 P&C expense ratio by 2 to 2.5 points, our group benefits expense ratio by 1.5 to 2 points, and our loss expense ratio by 0.5 point. We were very pleased with our execution during the quarter, and realized savings from Hartford Next slightly above our expectations.

We incurred pre-tax restructuring costs of $87 million, which were recognized outside of core earnings, including $78 million of accrued severance. As it relates to the fourth quarter, I would expect the P&C expense ratio to be about 31.5, which would be about a 2-point reduction from the prior fourth quarter, reflecting continuation of the impacts of the current environment we are operating in as Doug mentioned as well as the impact of Hartford Next.

Before moving to Q&A, I wanted to provide a high-level overview of our workers compensation and property reinsurance programs as it relates to COVID losses. We have various reinsurance programs to mitigate losses, including an aggregate property CAT treaty and excess of loss occurrence-based treaties that cover property and workers compensation. Our workers compensation program provides coverage of $350 million excess of $100 million for losses occurring from a common origin which occur within a defined period of time commonly referred to as an hour's clause.

Based on current loss activity, we have not booked a recovery under this program as we believe it is unlikely for coverage to attach.

Our property CAT aggregate program requires a PCS CAT designation for events in the U.S. Since the pandemic caused by COVID has not been designated a PCS event, COVID losses are not covered by this program. Our property CAT occurrence program does not require a PCS designation and does not exclude pandemic. This program begins attaching for losses in excess of $150 million.

If losses breach our retention, we would have the opportunity for recovery under the terms and conditions of the contract including applicable hour clauses. To date our property losses do not reach this level and accordingly, we have not booked any recovery from this program. Additional details on our reinsurance programs can be found in our Form 10-Q.

To recap, despite the many challenges in 2020 our results benefited from execution on financial and strategic goals. I'm very encouraged by the underlying strength of our businesses and confident that we have the right initiatives in place to continue to deliver on our stated goals. As per our practice, we plan to share our outlook of 2021 financial metrics in February on our year-end earnings call.

I'll now turn the call over to Susan so we can begin the Q&A session.

Susan Spivak Bernstein {BIO 1514699 <GO>}

Thank you, Beth. We have about 30 minutes for questions. Andrew, we'll take our first question.

Questions And Answers

Operator

(Question And Answer)

Thank you. The first question comes from Michael Phillips of Morgan Stanley. Please go ahead.

Q - Mike Phillips {BIO 21023048 <GO>}

Thanks. Good morning, everybody. Appreciate it. Chris and maybe Doug, in opening comments you've talked about margin expansion, obviously you had some decent amount in Commercial Lines ex the COVID. Chris, your comments were, with pricing, stable loss trends and your underwriting actions before the market started to firm has allowed for this and should continue. I guess, when you talk about stable loss trends there that's helped your margins, are you also including what we're seeing from COVID with frequency? And then maybe you can give some thoughts on -- you talked about how it's going to continue in 2021 the level or should this continue the margin expansion into full year 2021?

A - Christopher J. Swift {BIO 3683719 <GO>}

Hey, Michael. I'll share my views and Doug I know will share his. So, yes, we feel really good about the execution of various initiatives over the last 12 months. And I tried to highlight the impact even prior to COVID, there were certain aspects of our book of business that we were targeted for underwriting improvement, particularly in Middle Market. So, a lot of those activities started prior to COVID. I think what we're seeing right now and if you look at the numbers in the third quarter, we had net $17 million of COVID impact. So, there's a gross impact and there's a benefit and it's relatively minor. So right now, what at least we feel in workers' comp is an offsetting impact on COVID-related losses from a frequency benefit of just slower economic activity. And as I tried to conclude in my prepared remarks, Michael, the lower interest rate environment, the social inflation factors that are still out there, catastrophes that seem to be elevated in the last three or four years to my metric-driven mind all points to that. We just need to continue to get after and expand underwriting margins to earn adequate returns on our capital. But Doug, what would you add?

A - Doug Elliot {BIO 3700927 <GO>}

Mike, I would just add that it was a core priority of ours this year to improve our returns in Middle Market and Global Specialty for sure. We gave you the underlying ex COVID so you could look underneath COVID and understand what those changes are, and I'm quite pleased that both those businesses were seeing real progress. We were willing to forego some top-line to achieve that initiative, and obviously, those goals were set pre-COVID. But when I look through COVID, I feel underlying three-and-a-half-point improvement in Middle and I feel the Navigator book is really improving as we expected. So, I'm quite pleased by nine months of the year so far. And I would just conclude with, as Chris and I talked about the forward trends, we talked a lot about written pricing trends, they will earn-in in the ensuing quarters. So, we expect an improving earned premium impact as we go into '21.

Q - Mike Phillips {BIO 21023048 <GO>}

Okay. Thanks to both of you. Second question on -- you put up about $40 million of legal defense in 2Q. It looks like that's still holding in 3Q. I guess, as you think about COVID and litigation expense, how confident are you that that's enough given, I guess, the spotlight that seems to be on companies like you for COVID litigation? And then any concerns you might have for your exposure should maybe a second, third, fourth, whatever number you want to pick of shutdowns occur in the near-term?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yes. So, a lot to unpack there. So well, I'll try. I would say, in our overall COVID litigation posture, we remain very confident in our policy language how that's been constructed, the clarity, the unambiguous terms that we use. And as we sit here today, the $40 million accrual, we did not change, yes, that's established with the mindset. This litigation is going to take some time to fully resolve. But again, we're confident.

As it relates to your last point in the question is as far as I think COVID impacts in second waves, thirds waves, however, you want to frame it, yes, it's very real and you could see the beginnings of it right now as the winter turns. So, I would just frame it for you from an economic perspective is that the next two quarters are probably going to be a little rough from an economic side. Our forecast would say that we would have about a 3% contraction in economic activity at the end of '20 compared to '19. But when you then get into '21 compared to '20, we could see a 3.5% to 4% economic expansion, particularly, as Doug said in his comments, as vaccines come onboard, as we get more treatments to keep up people healthy. So, I think the trends are all in the right direction, Michael, but it's hard to predict what just really going to happen in the near-term and that's what we're bracing for. But Doug, what would you add?

A - Doug Elliot {BIO 3700927 <GO>}

I think that's well said, Chris. Nothing to add.

Q - Mike Phillips {BIO 21023048 <GO>}

Thank you. Thank you, Chris.

Operator

The next question comes from Elyse Greenspan of Wells Fargo. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks. Good morning. My first question is on the capital side of things. You guys have a good amount of capital, $1.6 billion at the holding company. Just trying to get an update on thoughts around repurchases and what you guys are looking for when you contemplate a return to buying back your stock?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yes. Thank you for noticing, Elyse. And you're right, we have built up excess capital during the last seven months and that was partly, by design, to deal with any unknowns that might come our way, but as we sit here today, I mean, we're still operating in a pandemic environment. The economic outlook is a little foggy, particularly as it relates to fiscal policy coming out of Congress. So, I would say, we're just waiting for just slightly a little bit more clarity. And then as we head into '21 and we share our business plans with you and our metric drivers, we will also update you on our capital management actions.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my second question, I was hoping to get a little bit more color on the pricing trends that you're seeing within workers' comp. Are there decreases that you're seeing there still decelerating? I think you alluded to that last quarter. And then can you give us a sense of how the asset in your picks for your book year-to-date this year compared to 2019?

A - Doug Elliot {BIO 3700927 <GO>}

Yes, let me start with the first part of that, Elyse. So, when we think about color on pricing trends, I will start by saying that there really isn't anything in the quarter that surprised us. our Middle Market, workers' comp, quarter-to-quarter pricing trends were about flat second quarter to third quarter, and we saw a little bit of deterioration, about one point, on the workers' comp Small Commercial book. Keeping in mind that Small Commercial, as I said in the past, is less subject to underwriter actions, it's more slot-rated and it's in the small negative single-digits in our expectation zone for 2020. So not surprised by anything that happened in the quarter. This is not, Elyse, as you know, a new story. The negative trends were deeper -- slightly deeper last year and we expected to face into these headwinds on the pricing side with comp now. And we're spending a lot of time thinking about the next several quarters as we and others get ready to make our filings in the various states on the workers' compensation line. So that's my color on workers' comp. I don't think it was a big news story in the quarter from my end.

Relative to margins, I guess, I would say two things. There are a lot of underwriting activities happening in the Middle. So, the Middle underwriting story is a combination of underwriting and pricing, and there I think we feel pretty good about where we are and I don't see any compression in our Middle Market. In fact, optimistic that we'll see improvement. In Small Commercial, we said to you at the beginning of the year when we forecasted 2020, we expected small compression pressure, and we're seeing that slightly. Although, you know, 2020 has got so many moving parts because of COVID, so we've tried to look through them. And when I give you that margin component pressure, I'm really looking through COVID because, as you know, we're seeing very positive signs of favorable frequency from COVID. So, there are a lot of things happening with workers' comp, we're spending a lot of time on the issue. I feel like our team is all over it by state, by geography, by class, but there isn't anything happening in our loss trends right now that we would say would be surprising. We feel like we're on top of it.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks. Thanks, Doug. I appreciate the color.

A - Doug Elliot {BIO 3700927 <GO>}

Sure.

Operator

The next question comes from Josh Shanker of Bank of America. Please go ahead.

Q - Josh Shanker {BIO 21718992 <GO>}

Yes. Thank you very much for taking my questions this morning. I want to push on Elyse's thoughts a little bit. Workers' comp is more regulated than a lot of other lines of business, but also workers comp is probably more interest rate sensitive than other lines of business and obviously that's a huge driver of what's going on right now. Can you talk us a little about the process of getting rate approvals in workers' comp? It's been six months since the big decline in interest rates. To what extent are regulators responsive to that? To what extent is there are lag in workers' comp pricing changes versus other lines? How should we think about 2021 and the way regulators think about interest rates?

A - Doug Elliot {BIO 3700927 <GO>}

Sure, Josh. I'd start by saying that, right now, the industry, over the past several months and extending forward, is in the middle of filing working on rate changes for workers' comp for 2021. I would remind you that much of the experience base for those filings would be 2019, right? We're working a year in arrears. And 2019 was a very good year from the industry. So, on one side, you have a pretty solid year underlying next year's pricing expectations. On the other, as you described, no question, there's been a change in the yield curve, and all companies like ourselves are factoring that in. So, you have competing forces, and then I might add these are very state-specific. So, all of us have our own loss experience in the state that we're looking at overall industry experience, our loss experience, trying to factor all that in and now we have a new dynamic, obviously with COVID, that will enter the picture as we move over the next several quarters. So, a lot happening in the workers' comp line, a lot happening in states relative to presumption, not all states have taken presumptive activity, but that is basically the way the process works.

Q - Josh Shanker {BIO 21718992 <GO>}

And then switching gears to Personal Lines, there's obviously, State Farm is announcing big price cuts, there's other large competitors cutting, you haven't grown in Personal Lines in a long time, certainly, and on policy count. Thinking about the next year or two, do we see a path for Hartford to stabilize its drip of declining policy numbers and what sort of strategies can Hartford use to maybe even grow that business a little bit?

A - Christopher J. Swift {BIO 3683719 <GO>}

Josh, thanks for the question. I would anchor it on our AARP, obviously, relationship where 90% of our business comes from and our renewed contract, our renewed terms and conditions with them, plus our commitment to build a modern platform chassis to help grow that business for their benefit and our benefit. So, we've been at it, I would say, quite hard for the last 12 to 15 months. We start to roll out a home and auto product in early '21 on the new platform. We got a number of states that'll fast follow after that. So yes, we are thinking dramatically different about the marketplace, thinking about digital, thinking about telematics and really just modernizing our auto and home offering. But that's what I would say. Doug, would you add anything?

A - Doug Elliot {BIO 3700927 <GO>}

I think that's good, Chris.

Q - Josh Shanker {BIO 21718992 <GO>}

All right. Well, good luck with that.

A - Doug Elliot {BIO 3700927 <GO>}

Thanks, Josh.

Operator

The next question comes from Brian Meredith of UBS. Please go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. A couple ones here for you. First one, I'm just curious where are we with respect to some of the re-underwriting actions that's going on with the old Navigators book, clearly still causing some pressures on top-line? And is that at all impacting your ability to take advantage of this pretty terrific pricing environment where a lot of the, call it, E&S specialty players are seeing really substantial growth.

A - Doug Elliot {BIO 3700927 <GO>}

Yes. Brian, we are well through, what I would say, round one. So clearly, into 12, 13, 14 months of the progression. Secondly, I do not think that our underwriting activities are standing in the way of what we're able to achieve on pricing advances for customers that we intend to retain for long periods of time. They just needed a different price level, and very pleased that we're able to achieve that. And then lastly, I think it's well known, but I just going to state it, there are profit pressures within many of the Lloyd's Syndicates. And our Syndicate has clearly not performed to our objective. And so, we've taken appropriate actions to get our margins back where they need to be. And yes, that has meant that we've had more top-line pressure than probably we had hoped, but I'm encouraged that our bottom-line margin performance will be much improved. And yes, we will take advantage of the pricing dynamic because the market needs it, those products demand it and we're going to achieve it.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. But as far as the new business outlook there, probably not really good for at least the near-term as you continue these fixes?

A - Doug Elliot {BIO 3700927 <GO>}

I would say that we're actively involved in the new business. Now, it has to fit our profile and our activity. So, we've made some choices to move away from some of the other European countries, and we've moved away from some classes that we just do not see a way toward profitability. But in our core professional marine lines and others, Brian, we are open for business and I think you will see further growth as we get out behind this re-underwriting process that is largely behind us.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. And then pivoting over to Group Benefits, the margins there continue to be, ex COVID, stellar. How much of that do you think is just the environment we're in right now kind of have you kind of rethought what kind of a normalized core margin in that business kind of looks like?

A - Christopher J. Swift {BIO 3683719 <GO>}

Brian, yes, it is good. It's a good margin. If you really look through COVID, it's comparable to maybe slightly up compared to last quarter. I just would remind you, we did guide to 6.5% to 7% margin this year. I still think that's a good long-term anchor point for a margin on this business that equates into a strong returns on capital. So that's what I would say. Right now, it feels good that we're printing the numbers we are but there's pressures building particularly from a competitive side, I could feel right now.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. So it gets more [ph] clear. Great. Thank you.

Operator

The next question comes from Meyer Shields with KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Yes. Thanks. Beth, I was hoping you could look over or share your thoughts on positives and negatives with regard to reinsurance coverage over the course of 2020, like what parts worked as expected and what parts didn't?

A - Beth Costello {BIO 15349374 <GO>}

Yes, I would characterize that, overall, our reinsurance programs have worked exactly as designed and exactly for the coverages that we were looking to mitigate risk in. So, there's nothing that I would point to that -- would say, that our contracts are not in line with our expectations.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So, can I extrapolate from that that you don't anticipate major changes going into 2021?

A - Beth Costello {BIO 15349374 <GO>}

I mean, we're still right now, obviously, in the process of looking at those renewals, but structurally and the way that the program is designed and the types of exposures that we're looking to mitigate, I would expect it to be very consistent.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks. And then just a more I think of a philosophical question than anything else. But Chris, you've been very consistent in your confidence in defenses against BI, how do you reserve for the likelihood that some courts are going to make bad decisions?

A - Christopher J. Swift {BIO 3683719 <GO>}

So yes, we -- as we said in the second quarter, we did not put any BI-specific reserves up. So, we think the policy language, as I said, it's clear, it's unambiguous and we're going to defend ourselves. So, we'll have to see how things play out over a longer period of time. And unfortunately, Meyer I've spent so many hours with our lawyers reviewing strategy and approach, and I wish there was a quick fix to sort of get rid of this overhang but that's just not the way our legal systems work. And you're just going to have to be a little patient as we work through this litigation environment. I mean, we're still very early in this and it's just going to take time.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, understood. Thank you so much.

Operator

The next question comes from Yaron Kinar of Goldman Sachs. Please go ahead.

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi, good morning. Couple of questions. One, with regards to Group Benefits, we're hitting the 180-day mark, I think, now from when the crisis -- the COVID crisis began. Do you expect to start seeing some long-term disability claims coming in over the next quarter or two? And maybe you could talk about the magnitude of those relative to what we see in short-term disability so far?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yes, Yaron, as we said in our prepared remarks, the trends both on recoveries, which is important, plus obviously new incidents remain strong. You're right, that the first quarter of in essence earned premium on LTD as coming out of that 180-day elimination period. And as I said before, we don't see any new trends emerging at this point in time, it's only obviously one quarter, but I mean you can see in the data a slight to modest increase in incidences that we're just watching closely at this point of time, but I'm not here saying we've declared a new trend but it's just clearly a watch area.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay, thank you. And then I was curious, I think in response to Josh's question earlier with regards to the Personal Lines business. I think you mentioned that you're looking into digital and telematics. And I guess intuitively, I didn't think that that would necessarily be an area that that would necessarily be, I guess, most conducive to the AARP market, if you will. So, I'm just curious how you're thinking about that and what do you think the take-up rate would be on digital distribution and on telematics for the AARP market?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yaron, I'm an AARP Hartford customer, you call me digital naive. In all honesty, it's -- yes, it's a changing trend and it's part of our joint strategy. And I'd let Doug add his commentary. AARP does want to grow in the 50 to 65-year-old, I'll call it, mature segment. We want to grow with them in that side of the marketplace and digital, mobile, telematics is all part of the future from a number of different perspectives. Obviously, ease, there's some concerns about using credit in underwriting in the future that some regulators are bringing up, and then obviously, the COVID environment, I think, has taught us a lesson of sort of how you can have more on-demand insurance in this space. So, it's all part of our strategy to modernize that platform going forward.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. I appreciate the color.

A - Christopher J. Swift {BIO 3683719 <GO>}

You want to retract call me old?

Q - Yaron Kinar {BIO 17146197 <GO>}

Absolutely,

A - Christopher J. Swift {BIO 3683719 <GO>}

Okay.

Operator

The next question comes from Jimmy Bhullar of JP Morgan. Please go ahead.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, good morning. So, I first had a question maybe for Chris, Beth or Doug, just on where acquisitions fall in your whole plan on capital deployment? There is one of your competitors that's trying to sort of sell an affinity block -- a Personal Lines affinity block. So, is acquisitions something that you're interested in currently? And then secondly on Group Benefits, what are you seeing in terms of persistency both at the case level, and more importantly, at the client level and your outlook for premiums given high unemployment?

A - Christopher J. Swift {BIO 3683719 <GO>}

Sure. Jimmy, on the first one, what I would say is, M&A is a low priority for us right now. We have, I would say, 50% of the integration activities at Navigators is completed at this point in time, we need to finish that. I think there are wonderful organic growth opportunities that we're focused on with our excess capital. And as I alluded to, when we talk about capital management in early '21, I think it's a beautiful time to be buying our shares back, particularly in relation to intrinsic value. So, I put it all together and M&A is just a low priority to us, particularly, I think the opportunity you're referring to is a mass market Personal Lines opportunity and that just doesn't fit our profile to allocate incremental capital to at this point in time.

As it relates to GB persistency, as I said in my prepared remarks, I'm generally pleased with the persistency that's about 90% through the year. So overall, I'll call it, account persistency is good, but the trend that we are seeing, and it just happens automatically, is that monthly payrolls are coming down in all segments, whether it be national accounts or Middle Market or smaller end of priority accounts with unemployment going up in a shock fashion, people are reducing premiums and that's what's created most of the drag that we've seen. but persistency, new business activities are returning to normal levels, although slightly down. So that's what I would share with you, Jimmy.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Thank you.

Operator

The next question comes from David Motemaden from Evercore ISI. Please go ahead.

Q - David Motemaden {BIO 18818634 <GO>}

Hey, good morning. Just a follow-up question for Doug on Commercial Lines. If I look at the accident year loss ratio ex CAT and I take COVID out, it was around 59% this quarter, that was up from second quarter but still was down 40 to 50 basis point year-over-year. I'm just wondering did you guys benefit at all from any favorable frequency on casualty lines ex workers' comp? Or are you guys still holding your picks steady there?

A - Christopher J. Swift {BIO 3683719 <GO>}

David, we are largely holding our casualty picks steady there. We want to see the maturity inside those trend lines and as such we feel like those years -- 2020 accident year is still immature in our deeper casualty lines.

Q - David Motemaden {BIO 18818634 <GO>}

Got it. That makes sense. And so, just thinking about going forward, is 40 to 50 basis points year-over-year improvement in sort of underlying loss ratio a good baseline for how we should think about 2021?

A - Christopher J. Swift {BIO 3683719 <GO>}

I would say that we're going to help you a lot more with that question in 90 days. Part of the reason I say that is, there's so many different stories inside Commercial Lines and we've got to roll it back up. There are lines where our pricing on a written basis are several hundred basis points ahead of loss trends. There are lines where it's tighter. And so, as we get a better look at it in terms of what fourth quarter is all about and we kind of pull together our final details with 2021 plans, we will share that with you. But we are clearly leaning into margin improvement next year relative to these lines where we're achieving strong pricing gains.

Q - David Motemaden {BIO 18818634 <GO>}

Okay, got it. That makes sense. That's fair. And if I could just -- just my second question on Small Commercial, the top-line was a bit more resilient than what I would have thought there. So that's great to see. It sounded like the loss accounts were lower premium accounts. But I'm just wondering, if you can expand on anything else that helped the top line there and maybe how you're thinking about Small Commercial top-line going forward.

A - Doug Elliot {BIO 3700927 <GO>}

Yes, good question. Let me do two things with that and then we can go wherever you want to go. First thing I would say is that, we've adjusted our underwriting strategy over these past eight months. When COVID hit, we certainly increased our referral activity -- referral to underwriter activity, taking away some of the abilities of CSRs to quote us and bind us online, and that definitely had an impact on the top-line. Over the course of the last eight months, we've modified that as we've learned more about the virus and we worked that through our underwriting protocols. And as such, I think that's given us a little bit of punch -- positive punch on the backside of Q3. So I'd start there.

Secondly, as you look at our supplement on Page 14 where we give you some in-depth detail with retention, we've tried to describe for folks that, as you look at the PIF retention, particularly with Small Commercial, we were benefiting in second quarter because essentially we had cancellation holds on all those accounts that were non-paying because of our moratorium. And as they lifted during the month of June into July, depending upon state, we saw the impact downward in the third quarter. So, if you put Q2 and Q3 together, you look at a PIF retention that's really stable throughout the year and very consistent with prior years.

The same impact is going on with premium retention. So, this is a dollar retention. And again, lots of things were happening in Q2 but we're feeling a little bit of the exposure pressure from payroll down in our 82 calc [ph] and I'm looking at Small Commercial in Q3 in the supp. So, I look at the fundamentals underneath this IFS supplement that we share as very solid and very encouraging as a shared momentum as we closed out Q3 and jumped into Q4. I say that all with the caveat, as Chris described, that we don't control what happens in the COVID pandemic economic environment, but I feel really good about our engine. I feel like our product, particularly on the Spectrum side is well understood and now fully appreciated with the digital capabilities. And I'm pretty bullish about where we're going to go in Small subject to challenges, headwinds of the environment we face into.

Q - David Motemaden {BIO 18818634 <GO>}

Got it. That's helpful color. Thanks a lot, Doug.

A - Doug Elliot {BIO 3700927 <GO>}

You got it.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Susan Spivak Bernstein for any closing remarks.

A - Susan Spivak Bernstein {BIO 1514699 <GO>}

Thank you, Andrew. We appreciate all of you joining us and please do not hesitate to contact me if you have any follow-up questions. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.