Company Name: Hartford Financial
Company Ticker: HIG US
Date: 2019-02-05
Event Description: Q4 2018 Earnings Call

Market Cap: 17,360.14
Current PX: 48.33
YTD Change($): +3.88
YTD Change(%): +8.729

Bloomberg Estimates - EPS
Current Quarter: 1.239
Current Year: 4.948
Bloomberg Estimates - Sales
Current Quarter: 4800.250
Current Year: 19722.000

Q4 2018 Earnings Call

Company Participants

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

Other Participants

- Brian Meredith
- Ryan J. Tunis
- Elyse B. Greenspan
- Michael Zaremski
- Thomas Gallagher
- Jon Paul Newsome
- Kai Pan
- Josh D. Shanker
- Yaron Kinar
- Amit Kumar
- Meyer Shields
- Jamminder Singh Bhullar

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 measure are included in our SEC filings as well as in the news release and Financial Supplement

Christopher J. Swift

Business Highlights

Net Income and Core Earnings

- We had numerous accomplishments including excellent financial results despite a second consecutive year of high catastrophe losses
- Full year 2018 net income was $1.8B and core earnings were $1.6B or $4.33 per diluted share, up 58%
- The core earnings ROE for the year was 11.6%, well in excess of our cost of capital

Group Benefits

- With the exception of catastrophe losses, business metrics were in line or better than our outlook
- Group Benefits had an outstanding year with better than expected disability experience and investment income
- Commercial Lines delivered strong results including superb Small Commercial underwriting performance, new business production, and retention
- The Commercial Lines underlying combined ratio improved about 50BPS to 91.5, among the best in the industry

Personal Lines Results

- Personal Lines results were negatively impacted by two hurricanes and the largest U.S. wildfire loss in insurance industry history
- However, the underlying Personal Lines combined ratio of 91.2 was in line with our outlook and 2 points better than 2017
- New business levels were up in Personal Lines this year, which was a key goal that aligns with AARP objectives
  - This partnership, which is approaching 35 years, is truly unique and collaborative
- We provide their membership with unique products and quality service, and we are working together to grow the book with a focus on AARP's younger cohort, ages 50 to 60

Investments

- In addition to financial results, I am pleased with our effective and consistent operational execution in 2018
- We continue to make investments in people, processes and technology, enhancing service quality and speed
- Our customers and distribution partners value the enhanced digital capabilities, broader product offerings, and an expanded risk appetite that we are bringing to them

Net Promoter Score

- Net Promoter Scores continue to climb, and claims quality ratings are strong
- This year we also made progress on our innovation agenda, including the launch of the Small Business Innovation Lab located in New York City and the purchase of Y-Risk, a company specializing in the sharing and on-demand economy
- Finally, major strategic activities in 2018 included the sale of Talcott, substantial progress on the integration of Group Benefits, and the announcement of The Navigators acquisition

New Operating Model and Organizational Structure

- Related to the acquisition, yesterday we announced the new operating model and organizational structure and the formation of a new Global Specialty business
- This structure aligns with The Hartford's Commercial Lines businesses with The Navigators' U.S. and global operations and will optimize underwriting expertise and distribution relationships
- Integration planning is well underway, and the new teams will be out in the market quickly after closing

Core Earnings

- In addition to its strategic contributions, we expect it to generate an attractive financial return with incremental annual core earnings before amortization of intangibles of approximately $200mm within four to five years after closing
- In 2019, we will build on our accomplishments and momentum
- Doug will cover the outlook for key business metrics in more detail, but I have a few macro observations

U.S. Economy

- Overall, we expect our businesses to perform well
- The U.S. economy remains in a relatively strong position compared to Europe and other parts of the world
- That said, we expect some slowdown in the U.S. economy
- In addition, with Brexit still unresolved, the volatile equity and bond markets, slowing global growth, and continued uncertainty about global trade and tariffs, previous tailwinds may become headwinds particularly for investment performance

P&C and Commercial Lines

- In P&C generally, we expect underwriting margins and earnings to remain strong in 2019
- With lower catastrophe losses, we expect Personal Lines to improve and underlying margins to remain healthy
- In Commercial Lines, we expect underlying margins to remain very attractive but with some modest pressure on workers' comp
- Finally, we expect the Group Benefits core earnings margin to remain very strong although slightly down from 2018 due to lower projected limited partnership returns, consistent with our long-term view
- For 2019, our strategic priorities remain consistent, and we will strive to maintain core earnings ROEs well above our cost of equity capital
- Achieving this, along with growing book value excluding AOCI and dividends per common share, will drive long-term shareholder value creation

Acquisitions

- Turning to operational goals, expanding product capabilities and risk appetite remain key pillars of our strategy
- With the recent acquisitions, we will have what we need and we'll be intensely focused on realizing the combined potential, including deepening distribution relationships and meeting a broader array of customer needs

Strategy

- In addition to product depth and breadth, our strategy also emphasizes customer focus and talent management as well as building capabilities that make us an easier company to do business with
- We take pride in our ability to attract and retain talent, and having a diverse and inclusive workforce with a strong ethical culture

- We are consistently recognized for leadership in these areas, including being designated the World's Most Ethical Company for the past 10 years by Ethisphere
  - And a member of the Bloomberg Gender-Equality Index for the fourth consecutive year
- Recently, we were named a Best Employer for Women by Forbes and their first ranking on gender equality

Organic Capital

- Finally, we expect our organic capital generation to remain strong in 2019 and beyond, which will help fund the $1B share repurchase authorization we announced yesterday
- Beth will discuss our approach in using the plan, but I want to emphasize that our capital management philosophy has not changed
- We remain committed to a strong balance sheet and we'll continue to balance investing in the businesses for profitable growth with returning excess capital to shareholders that exceed business requirements

Conclusion

To conclude, 2018 was an excellent year and I'm really pleased about our operating performance and execution mindset

We are working hard to maintain and expand the momentum of progress and look forward to sharing the results with you

Douglas G. Elliot

Q4 Highlights

Property & Casualty and Group Benefits

- 2018 was an excellent year for Property & Casualty and Group Benefits
- Each of our business units delivered strong underlying financial performance, and operationally we continue to hit aggressive targets on our major initiatives
  - It was an outstanding year for Group Benefits
- We're meeting or exceeding all milestones for the Aetna integration
- Sales are very strong, and we delivered a year of record core earnings

Commercial Lines

- In Commercial Lines, we continue to set the bar for superior customer service and underwriting performance among small businesses
- Our Middle Market industry verticals are gaining traction
- And with the acquisition of Navigators, we are poised to deepen our relationships with customers and brokers with an expanded product suite and new underwriting expertise

Personal Lines

- In Personal Lines, our underlying auto results were strong and the business is better positioned for both auto and home new business growth in 2019
- This is the second year in a row marked by severe wildfire losses and hurricane activity
- Our claims team and our entire enterprise continues to respond with care and professionalism in the aftermath of these tragic events
  - However, the losses were significant to our fourth quarter results

Catastrophe Risk Management

- We continue to evolve our catastrophe risk management strategies based on the loss events in recent years with increased focus on wildfire
- This includes refinement of our loss models, exposure limits, underwriting guidelines and risk transfer arrangements
- While we're generally pleased with how our overall book of business and risk management program performed, given the CAT events of 2018, we will continue to refine our wildfire and tornado/hail catastrophe underwriting approach

Financial Performance

Group Benefits

- Let me pivot now to summarize our financial performance for 2018, and then I'll conclude with some thoughts about 2019
- Beginning with Group Benefits, we posted core earnings for the year of $427mm, up $193mm from 2017 with a core earnings margin of 7%
  - This outstanding performance relative to our outlook was due to favorable disability loss cost trends and limited partnership income

Group Disability Loss Ratio

- The group disability loss ratio for the year improved by 3.4 points due to the emergence of favorable incident trends on the most recent accident years and, to a lesser extent, slightly higher pricing
- The group life loss ratio remains solid, but was up 1.7 points vs. prior year due mainly to a mix of larger accounts from the acquisition which carry a slightly higher loss ratio
- Fully insured ongoing sales for 2018 were $704mm, exceeding our expectations for the year
- And persistency on our employer group block of business was stable at approximately 90%
  - This was simply an outstanding result from our sales and underwriting teams

Integration Plan

- As I noted earlier, our integration plans are on track

- Our 2019 results will include approximately $85mm of our $120mm expense savings target
- We expect to achieve the additional expense savings as we complete the conversion of business to our new systems
- Conversion of Middle Market and large case customers to our newly launched Ability Advantage claims platform has commenced and will continue throughout 2019 and 2020
- The reception of our new capabilities among customers, prospects and brokers has been overwhelmingly positive

Personal Lines

- In Personal Lines, results for 2018 swung to a core loss of $28mm, including catastrophe losses of $546mm before tax or 16.1 points vs. our 2018 outlook of 5.6 points
- The full year underlying combined ratio which excludes catastrophes and prior year development improved 1.8 points to 91.2, driven by better results in both home and auto
- The Personal Lines auto underlying combined ratio improved 1.5 points to 98.2 for the full year, driven by earned rate increases and moderate loss cost trends, partially offset by higher expenses due to increased marketing efforts

Commercial Lines

- Commercial Lines core earnings were approximately $1.2B for the year on a combined ratio of 92.6
- This includes catastrophe losses of $275mm or 3.9 points vs. our outlook of 2.6 points
- The underlying combined ratio was 91.5 for the year, improving 0.5 point over 2017, driven by general liability and commercial auto
- The underlying combined ratio for Standard Commercial Lines workers' compensation was generally in line with 2017, which was a very strong result, given the competitive market and recent loss trends

Standard Commercial Lines

- Renewal written pricing in Standard Commercial Lines was 2.1% for the full year, down 1.1 points from 2017 driven by workers' compensation
- Fourth quarter 2018 renewal written pricing was down sequentially from third quarter, driven largely by Small Commercial workers' compensation
- Overall, I'm very pleased with how effectively our team is balancing growth and profitability
  - We continue to be confident in our ability to manage workers' compensation loss cost trends despite the slight uptick in frequency we've noted in recent quarters

Workers' Compensation

- In Q4, we began to see those trends flatten
- Accordingly, we made no changes this quarter to our workers' compensation loss picks for accident year 2018
  - This flattening suggests that 2018 may have been a one-time step-change as the economy adjusts to recent growth and record employment levels

Other Business Units

- Shifting to our other business units, Small Commercial had another outstanding year
- The underlying combined ratio was 87, improving 0.8 points from prior year
- Retentions remain strong and new business increased to $637mm for the full year, up 7%
- Total written premium increased 1%

Middle Market

- In Middle Market, we posted an underlying combined ratio of 96.1 for the year, essentially flat with 2017
- The slight loss ratio increase was more than offset by a lower expense ratio and a decrease to policyholder dividends
- Retentions remain solid and new business production of $553mm was up 14% vs. prior year
- Total written premium increased by 5%
- We're achieving positive results from our investments in new industry verticals and efforts to improve our underwriting process, which allows our underwriters to focus on building a strong new business pipeline while making appropriate risk decisions

Specialty Commercial

- In Specialty Commercial, the underlying combined ratio was 97.5, 0.3 points lower than 2017 driven by an improved expense ratio
- Total written premium was up 2%
- In national accounts, our underlying combined ratio improved by 3 points, primarily due to a lower expense ratio
- Bond delivered consistent underwriting results and 4% written premium growth
- And in financial products, our Middle Market-centric platform delivered strong written premium growth of 8%

Guidance

Group Benefits

- Before I turn things over to Beth, I'd like to share a few thoughts about 2019
- In Group Benefits, we remain focused on successfully converting customers to our newly deployed Ability Advantage claims system
  - This platform is a distinctive capability that puts us at the forefront in using data and analytics to better manage disability and workplace absence
- January is off to a solid start, with renewal retention and new sales on par with prior year
- For the full year, we expect the Group Benefits core earnings margin to be between 6% and 7%

Personal Lines

- In Personal Lines, we will continue to drive new business growth in AARP Direct
- For 2019, we expect to achieve a Personal Lines combined ratio of 97.5 to 99.5, including 6.5 points of catastrophes

Commercial Lines

- In Commercial Lines, our top priority for 2019 is the successful integration of Navigators into our business operations to accelerate our strategy
- However, my comments this morning provide 2019 insights regarding the current Commercial business on The Hartford
- Across the marketplace, we continue to see very competitive conditions based on line of business, geography and industry
- In property, general liability and Commercial auto, we expect renewal written pricing to be generally consistent with 2018

Workers' Compensation

- In workers' compensation, we expect pricing to be flat to down modestly
- With 2018 accident year frequency flattening in Q4, we believe this continues to be a very manageable level of pricing change and while margins may compress slightly, profitability for the line remains attractive
- As a result, we expect the 2019 Commercial Lines combined ratio to be between 94.5 and 96.5, including 3 points of catastrophes, generally consistent with our performance for 2018

Profit Target

- Overall, 2018 was a strong year for all of our business units across Property & Casualty and Group Benefits
- We're a disciplined underwriting organization committed to maintaining strong margins and seeking growth when it meets our profit targets
- We continue to effectively segment our business to determine those accounts that need price increases to reach target margins as we balance growth and margins

Acquisition of Navigators

- 2019 represents a new and significant phase in our journey
- With our acquisition of Navigators, we are well positioned to advance the key elements of our strategy:
  - Profitable product and underwriting expansion, deep partnerships with our distributors, and outstanding value to our customers

Beth Ann Bombara-Costello

Financial Highlights

Investment Portfolio

- I'm going to cover results for the investment portfolio, Hartford Funds, and Corporate and also comment on the announced share repurchase authorization. 00:20:50
- The investment portfolio continues to perform very well
- Net investment income was $457mm for the quarter, up 16% from the prior year quarter
- Net investment income of $1.8B was up 11% for the year primarily due to higher partnership income and higher invested assets

Assets

- The increase in invested assets was driven primarily by the Group Benefits acquisition and receipt of proceeds from the sale of Talcott Resolution
- For the year, limited partnerships generated a 13% return primarily due to strong private equity results and gains from real estate partnerships vs. our outlook of 6%

Portfolio Yield and Reinvestment Rate

- The total portfolio yield for the full year was 4%, and excluding LPs was 3.7%, both flat with 2017
- During the year, the average reinvestment rate rose to 4% from 3.5% which reflects the impact of higher interest rates
  - However, this increase was offset by the lower yield on the invested assets acquired from Aetna after giving effect to the purchase accounting requirements to record the portfolio on the acquisition date at current market yields
- The after-tax portfolio yield rose from 3% in 2017 to 3.3% in 2018, driven primarily by the decrease in the corporate tax rate

Credit Performance

- The credit performance of our investment portfolio remains very strong with net impairment losses of only $1mm for the year
- During the year, we repositioned the acquired Aetna portfolio to align with our long-term portfolio model which generated a modest amount of capital losses due to the increase in interest rates since that portfolio was acquired

Hartford Funds

- Turning to Hartford Funds, core earnings were up 3% for the quarter and 37% for the year, reflecting a lower corporate tax rate; and for the full year, higher average daily assets under management
- Although markets were down in Q4, our investment performance remains strong with 68% of our funds beating peers on a five-year basis

Market Volatility

- Given the significant market volatility in Q4 and consistent with industry trends, net flows were negative and totaled $1.7B
- For the year, net outflows were $300mm as mutual fund outflows of $1.7B were offset by ETF inflows of $1.4B

Corporate Core Loss

- The Corporate core loss was $46mm for the quarter and $233mm for the year
- For Q4, the core loss was modestly lower than the prior year due to lower interest expense and higher net investment income
- For the quarter, Talcott Resolution did not have a significant impact on earnings since investment management fees, transition service revenues, and income from our retained equity interest offset the cost of providing investment management in transition services

Corporate Net Investment Income

- Corporate net investment income totaled $26mm in the quarter
- Once we close The Navigators acquisition, pro forma quarterly corporate net investment income will decrease by about $15mm
- At December 31, holding company resources totaled $3.4B, which declined to $2.9B at January 31 after repayment of $413mm of maturing senior notes and quarterly dividends and interest payments
- After the payment of $2.2B for The Navigators acquisition, which includes transaction expenses, holding company resources will be close to our liquidity target of 12 months projected interest and dividend expense or approximately $700mm

Net Reserves

- In Q4, we completed our annual asbestos and environmental reserve review
- Before session to the adverse development cover we have in place, net reserves increased by $238mm before tax comprised of $157mm for asbestos liabilities and $71mm for environmental
  - Since inception of the adverse development cover including the impact of the 2018 study, we have ceded losses of $523mm compared to a limit of $1.5B.
- There is additional detail on our A&E reserves and the adverse development cover in the appendix of the slide deck

Core Earnings

- To summarize, fourth quarter core earnings were $0.78 per diluted share, down 4% from last year
- While full year 2018 core earnings were $4.33 per diluted share, up 58%
- Aside from catastrophe losses, our actual business results were in line or better than the ranges we provided last February
- Book value per diluted share excluding AOCI rose 12% for the year to $39.40 and our 2018 core earnings ROE was 11.6%, a strong result in light of heavy catastrophe losses for the year
- Total value creation, which includes both the change in book value per share excluding AOCI and dividends paid to shareholders, was 15%

Balance Sheet Items

Capital Ratio ex-AOCI

- Turning to the balance sheet, we ended 2018 with a debt to capital ratio ex-AOCI of 24.2%, down almost 4 points from year end 2017
- Including the preferred stock we issued in November, our debt and preferred stock to total capital ratio ex-AOCI was 25.9% and our rating agency debt to total capital ratio was 29.2%
- Our goal is to keep the debt leverage in the low- to mid-20% range
- Between the January debt repayment and the assumption of The Navigators senior notes as part of the acquisition, we expect net debt reduction of about $150mm in 2019

Share Repurchasing

- Finally, we are pleased to announce a share repurchase authorization of $1B effective through December 31, 2020
- We expect to use this plan with discretion, taking into consideration the amount of excess capital as well as the timing of future sources and uses of holding company resources
- Given our projected cash flows which were summarized on page 7 of the slide deck, we would expect most of this program to be utilized in 2020

The Navigators Acquisition

- As noted earlier, upon closing The Navigators acquisition, holding company resources will be close to our liquidity targets
- As holding company resources build in 2019 from subsidiary dividends, utilization of NOLs, and AMT refunds, we will have some flexibility to utilize a portion of the authorization this year

Conclusion

To wrap up, 2018 was an excellent year for The Hartford despite high catastrophe losses

In addition to posting strong financial results, we achieved important operational and strategic goals including the sale of Talcott and a smooth integration of the Aetna book of business

In 2019, we are focused on continuing our momentum with a goal of maintaining and improving, where possible, strong margins and top line growth

We are intently focused on maximizing the potential of our two acquisitions, in Group Benefits and with Navigators, and are excited about the opportunities we see to continue to build and strengthen our position as a leading property/casualty and group benefits insurance company

QUESTION AND ANSWER SECTION

<Q - Brian Meredith>: A couple quick questions here for you. First, I'm just curious, your Commercial auto results are much better than the rest of the industry. Do you think that has something to do with like mix of business? Why do you think that is why others are seeing some issues with it right now?

<A - Douglas G. Elliot>: Brian, so Commercial auto has been a focus of ours for – Chris and I talked last night – at least five years. We had some signs in our book five, six years ago that were not acceptable to us, so we worked on closing down some programs. We've been working rate hard.

Again, our Commercial auto book is largely the complement to our Middle Market strategy in Small Commercial, so it has been a core priority of ours. Keep in mind we're still not pleased and don't think we have reached the end zone on where our returns are today in Commercial auto, but they are much improved from where they were a couple years ago, and we'll continue to work at the line. As we close up 2018, I feel very satisfied and confident in our reserve calls on the prior years.

<Q - Brian Meredith>: Great. And then, if I take a look at your outlook for the underlying Commercial combined ratio here going forward, you mentioned you're factoring into deterioration on workers' comp. Any offsets there that we could be thinking of? Like, in the general liability or improvement in Commercial auto, how should we be thinking about how your book should play out here?

<A - Douglas G. Elliot>: Yeah, that's a good question. So, yes, we expect some margin compression in comp, but we also think that we're going to see improved results across general liability, property, and again, we're going to work rate and we think we can improve our auto book as well. So, rate and underwriting attacking those three other lines, I think we're going to see an improved number for performance in 2019. And I think that will offset some of the workers' comp compression.

<Q - Ryan J. Tunis>: I just had a couple for Beth. The first one is looking at stat earnings and sources for dividends over the next couple years. It looks like really strong stat earnings here. Should we think about – if you have another, like, $400mm of stat earnings in Group Benefits, $1.1B in P&C, that's higher than what you've guided to for divvies. Does all of that translate to the higher dividend in the holdco income over the next couple years or would some of that upside be held in the subs? I'm just trying to understand how that maps to what could be deployable.

<A - Beth Ann Bombara-Costello>: Yeah, that's a great question. So when we do our projections for dividend to the holding company, we do tend to look at sort of over the long-term what we've seen from a performance perspective so that we have a strong degree of confidence that even if business activities are a little different from our outlook that those dividends can still come to the holding company.

So, over time, if we see those businesses performing strongly, we could expect to see increase in dividends in outer years. But we try and go into our planning period, putting some degree of – looking at just kind of historically what we've seen there.

<Q - Ryan J. Tunis>: Got it. And then just trying to get a better feel for the run rate in Corporate once you've closed the acquisition. I think you said the net investment income is going to come down a decent clip, but I would think there might be some other positive offsets to that. I mean is there any way you can help me in terms of...

<A - Beth Ann Bombara-Costello>: Yeah.

<Q - Ryan J. Tunis>: ... what the run rate is once we're done with this?

<A - Beth Ann Bombara-Costello>: Sure. Yeah, it can be a little complicated when you look at the line item by line item view of Corporate. But I think if you step back from it, there's really two primary drivers of our results in Corporate. The first is going to be interest expense after-tax and our preferred dividend. So if you look at 2019, we'd expect that to be about $230mm and you'd expect to see that pretty ratable over the four quarters.

And then, on investment income, it's really going to be a function of just what cash we have at the holding company. So, again, right now it's a little elevated. I'd expect that to come down, and we're probably more in the $10mm to $15mm range for investment income. And those are really the two primary drivers of what you see in Corporate.

There obviously is other activities as it relates to the investment management fees that we get from managing the assets of Talcott, but those are pretty much offset by the cost of performing those services. So there's not a lot that drops to the bottom line on that.

And then, the last item I'd point to is obviously we'll be picking up our share of our interest in Talcott, the 9.7% ownership that we have. And then, obviously, that can vary. So when I put all that together and you sort of look through it kind of getting to a more normalized run rate on investment income, you're looking at a loss per quarter in the $45mm to $50mm range.

<Q - Elyse B. Greenspan>: My first question going back to the Commercial Lines outlook for the coming year, and then just trying to drill down a little bit more into the commentary on comp. So sounds like you guys are expecting stable frequency trends, continuation of what you saw in Q4. And so, can you just expand, is that something you expect within both the Small Commercial and the Middle Market books? And were the trends more or less in line within both of those books in Q4?

<A - Douglas G. Elliot>: Elyse, improvement in frequency in both Middle and Small in Q4 and very stable. So pleased about that and we're expecting that to continue into 2019. So I think you've got a fair summary of what we see moving out relative to frequency.

<Q - Elyse B. Greenspan>: Okay. And then, what should we, from the outside, pay attention to? What do you think it would take for frequency trends to turn negative again? Or is it just kind of more or less paying attention to any changes in the unemployment rates?

<A - Douglas G. Elliot>: Well, we're spending a lot of time paying attention to unemployment for sure. We're watching job growth. We're watching all the economic indicators, including sales. As we look out, we're obviously managing our book of business by territory, et cetera, by class. We're looking for high-growth industries. We're being very careful about how we price forward. So I think the general categories that I talked about in Q3 call are all key areas that we're focused on.

We're also spending a lot of time in our claim group making sure that we're doing everything possible with nurse case managers managing major medical, our managed care networks. We're spending a lot of time because we think we have been able to bend the curve. We think our durations in comp are top of market and the combination of sound underwriting and excellence in claims, I think, is a really good formula for us to compete moving forward.

<Q - Elyse B. Greenspan>: Okay, great. And then, my second question is related to capital. The disclosure in the slides is very helpful. Beth, in terms of the cash tax receipts at $600mm to $700mm, seems like that's going to be a big driver of capital to the holdco to finance what you might repurchase in 2019. Could you give us a sense of timing there?

And then, I think you said in your prepared remarks that you guys are now looking to keep about 1 time interest in dividends at the holdco. I thought in the past that was 1 to 1.5 times. So you guys are okay going forward kind of keeping that at about 1 time?

<A - Beth Ann Bombara-Costello>: Yeah. So, great, I'll take both of those questions. So on the tax receipts in 2019, they're coming from two sources. One would be a refund that we're due relative to our AMT credits, and those we'll receive shortly after we file our tax return. So we typically file our tax return in Q3. We'll obviously look to see if there's things that we can do to speed that process up, but that's dependent on that.

And then the NOLs, the way that that works through our tax sharing arrangements with the subsidiaries is we true-up quarterly kind of where we are vis-à-vis estimates of taxable income. So there's a source of cash flow that's kind of coming in each quarter related to that. And when you think about the projection that we have for tax receipts that we shared, I'd say a little bit more than half of that is from NOLs, with the remainder coming from AMT.

And then, for holding company resources, yes, in the past we've talked about 1 to 1.5 times. We've been grading down to 1 time as sort of the risk profile of the company itself has changed. And so, again, that's a target. It's not an absolute amount, but we feel comfortable being able to maintain holding company liquidity there as we sort of assess all of our access to liquidity across the company.

<Q - Michael Zaremski>: First question is a follow-up to Brian's question about underlying Commercial margins. Were non-catastrophe losses materially above or below expectations for the full year 2018? If they were, could you offer some quantification?

<A - Douglas G. Elliot>: Let me take that, Mike. For the year, our non-CAT losses in property were pretty much on our expectations. I would say, in our Middle Market business, slightly elevated to our normal patterns. So, something that's got our attention, but nothing more than that. And in Small Commercial, we had a very good year.

<Q - Michael Zaremski>: Okay. Great. Thanks, Doug. And then, a follow-up for Beth on investment income excluding limited partnership returns. And thanks for all the color on the call so far about the Corporate segment. But my question is, if I look at the new money reinvestment rate, it ticked up 30BPS this quarter, and I was curious if that's sustainable into 2019?

<A - Beth Ann Bombara-Costello>: And I'm assuming your question is on overall portfolio yield not just in Corporate, but as we look at where we ended the year and what our yield was on an ex-partnership basis before tax for 2018, we'd expect to see maybe some increase to that as we go into 2019. And obviously, to your point, we'll be really dependent upon just what – where reinvestment rates end up being for the full year. But we're expecting to see a slight increase there.

<Q - Thomas Gallagher>: I just want to be clear that I understand your comments on workers' comp frequency. I think you said they flattened out in Q4. So, does that imply that they recovered from the elevated levels from Q3, or were they consistent with Q3 levels?

<A - Douglas G. Elliot>: Yeah, I'm sorry, let me be very specific. Q4 compare which did flatten out, so I'm talking zero, would have been a compare to fourth quarter 2017, okay? Every time we do our quarterly compares, we're looking at same quarter last year. So, that would have been an improvement over the prior several quarters where we had positive frequency change, meaning more workers' compensation claim losses in the quarters compared to the same quarter prior year.

<Q - Thomas Gallagher>: Gotcha. So, from what you can see, it does look like that was a temporary increase, and now you think it's more likely to trend where it's recovered to in Q4?

<A - Douglas G. Elliot>: Our thought process that we have shared externally is that it looked to us like 2018 was going to be a bit of a step change. 2017 was a terrific year, maybe the best year we've seen in quite some time in comp. The absolute level now that we expect moving forward probably looks more like 2016 than 2017. But at this point, we don't see something further deteriorating from the earlier part of the year. And we're watching the economy, as I said before, very closely.

<Q - Thomas Gallagher>: Gotcha. And then, my follow-up is just on Group Benefits. I'm not sure if I caught this correctly, but I thought I heard you say Group Benefits sales were strong in the quarter, and I noticed they were down a lot y-over-y. So, I just want to know what you meant by that.

<A - Douglas G. Elliot>: Yeah, I was really referring, Tom, to the full year. We felt very good about the full year. As you know, a lot of the Group Benefit sales are – they lean into H1.

<Q - Thomas Gallagher>: Right.

<A - Douglas G. Elliot>: So, I felt very good about the overall effort, particularly with our Aetna book.

And then, I did comment further about the beginning of 2019 which we feel pretty good about. And when I say pretty good, we've had some nice successes. We had a Paid Family Leave at new case that came on all 1/1/18. So, when I adjust for that and I look at our core disability and our core life sales, I feel very good about 2019.

<A - Beth Ann Bombara-Costello>: I think the only thing I'd add to that, Doug, is when you look at the y-over-y compare for the quarter, in the prior year, we had a very strong one case sale that skewed the result when you look at it sort of y-over-y.

<Q - Thomas Gallagher>: But as you – and thanks for that color. And I guess, as you think about momentum for top line, though, would you say it's a good setup for sales persistency? And also, I'd be curious what you're seeing on rate only because your results have been so strong, I'm wondering if you have to give back something on price right now.

<A - Douglas G. Elliot>: So, many of our accounts are rated on their own experience, experience-based. So, it really is a case-by-case answer for much of our national account book. But let me just step back. We feel really good about these last 15 months as it pertains to how the Aetna book has combined, the talent, the ability for us now to stand up a very different unique claims platform.

So, yeah, I'm feeling very bullish about our ability to compete in the marketplace. There are situations where we're giving back a little bit of rate because of the performance. There are also some cases that need a little bit more rate, and we have been able to achieve that. So, I think a really strong year in 2018 and off to a good start in 2019.

<A - Christopher J. Swift>: Tom, I would just add from your top line orientation, remember we've built over the last three years a voluntary capability. We've added some new A&H products and refreshed some old one. We're doing things differently and creatively with some distribution relationships on the A&H side. So, we still think there's a momentum and upside potential from here.

But it is a competitive marketplace, as you well know. There's a lot of good competitors out there. But I think the agents and brokers we deal with and the clients recognize that we've really upped our game. And we're seeing opportunities, particularly in the large case side, we wouldn't have seen years ago. So, you put it all together, particularly how the models and how actual results are performing compared to our purchase expectations, it's been rock solid.

<Q - Jon Paul Newsome>: I was hoping you could talk a little bit about what appears to be some growth strains in the Personal Lines side and just, is there sort of an arc where we can see some of that strain reduced and the timing of that?

<A - Douglas G. Elliot>: Well, let me give you some color. So, as I think about our return to growth in Personal Lines, number one, we're very pleased with the progress on the profitability front. Our new sales in Personal Lines were up, as you can see in the chart, materially from last year. We expect more of that moving forward. Our direct AARP auto sales in Q4 new to new Q4 to Q4 were up roughly 24%. I expect more quarters like that as we move into next year.

So, we're working hard as more and more of our territories are rate adequate to compete in the marketplace appropriately, and I think that continued trend is within our sights and certainly expectations for 2019.

<Q - Jon Paul Newsome>: So, kind of for the foreseeable future is the thought. Okay. That's my only question. Appreciate it.

<Q - Kai Pan>: And first, thanks, Sabra, for highlight Chinese New Year today. My first question is on your guidance. The combined ratio guidance is not including Navigator (sic) [Navigators] acquisition; Navigator (sic) [Navigators] historically having higher combined ratio than Hartford's. So I just wonder would that be dilutive to your like combined ratio going forward? And what's your plan in that $200mm earnings target in 4 to 5 years, included some improvements in underwriting at Navigators?

<A - Christopher J. Swift>: Yeah, Kai, thank you for the question. So, you are right. It doesn't include it. Think we've been pretty clear, Beth and I and Doug, that once that we close, we will update our guidance.

So, as we think about the $200mm of incremental core earnings before amortization and intangibles, I think we've laid out a path and a track that we've talked about before in that, basically, 50% of that incremental increase will come from investment income and expense saves. A quarter of that incremental increase will come from what I would just describe as profit improvement opportunities in their book of business. And the other quarter would come then from synergies, cross-sell activities, of how we would go to the marketplace.

I would share, and then Doug can add his color, that obviously he's announced the operating model and the organizational structure. But doing all of that work, getting to know The Navigators team both domestically and internationally, we've made trips there, going back this weekend to London. I'm coming away more and more impressed with the talent, the skills, the deep underwriting knowledge they have in the organization.

And I think as a – just as a larger company, I think we can bring them more capabilities from the technology side, as a management routine side, while still being entrepreneurial, while still having a distributed decision-making model. So, I feel even more confident that this is going to fit like hand in glove going forward, Kai.

<Q - Kai Pan>: That's great. Then in the past you've been providing the P&C net investment income guidance as well as core earnings for Group Benefits. Any insight you can provide there?

<A - Beth Ann Bombara-Costello>: Yes. So, on Group Benefits, I'll start with that. Actually, our practice has typically been to show margins. Last year, we did earnings just because with the Aetna acquisition, we felt that it would be clearer just to give an earnings target rather than a margin. So, we actually returned for Group Benefits to our normal practice.

And then, for P&C investment income, we concluded that just hasn't been an area of – an area that we needed to highlight that I think people's models are pretty consistent on that. And as I answered previously, as we look at investment returns kind of ex-partnerships, we'd expect a yield to be maybe slightly above last year. And then, again, as a reminder, when we think about yield on partnerships, we budget sort of assuming a long-term view of around a 6% yield. Obviously, we're much higher than that this year but we would not project that in the subsequent year.

<Q - Josh D. Shanker>: Looking at the guidance on the Personal Lines side from where it was a year ago, it's deteriorated a little bit. And if I look at auto over the last three years, it seems like you've had 28% rate increases. I'm kind of surprised, given now that some of your competitors are reporting declines in frequency or whatnot, that the combined ratio isn't better at this point in time. Do you have any thoughts there?

And also, if you can talk about the change in the catastrophe outlook. You obviously have a higher CAT loss ratio than you did a year ago. Has anything changed about the underwriting, or are you just like saying, look, there's a lot more losses out there it feels these days?

<A - Douglas G. Elliot>: Josh, okay, let me take them in each of the pieces, and then Beth and Chris can come over the top. So, relative to Personal Lines, all-in in Personal Lines, the first thing I would say is that it really was an outstanding non-CAT homeowners year. So, our performance far exceeded, really, the last three years, five years, et cetera. So, as we think about that moving forward, our pick on homeowners was a longer-term view which wasn't quite as positive as the outstanding year in 2018 that we had.

Relative to auto, we're watching the line. As you know, we've worked hard at that line over time. We're also spending more dollars on the marketing side. So, you're seeing a little bit of expense move there that is direct and something that we want to do to stimulate new sales. So, we're very sensitive to where the overall performance of the line is, feel very solid about our picks for accident year 2018 and 2017. So, I think we're in a good spot. But as we move into 2019, you're going to feel a little marketing and then we'll watch how pricing and loss trend move together.

I would note that others, and including industry data, have seen a little pickup in collision, collision severity. So it's something that we're watchful of. Our book isn't demonstrating the trends that fast track data is showing, but we're clearly watching that carefully as things like new bumpers and headlights, the replacement of those parts, I think, is starting to kind of work its way into loss trend in Personal Lines auto.

<A - Christopher J. Swift>: Josh, and just again, between Beth and myself, we're looking hard at our historical catastrophe numbers over the last 10 years, 5 years in particular. And we decided to make an adjustment because I think the trends were sort of undeniable, particularly from not only wildfire which created all the attention the last two years but winter storm activity, tornado, hail, particularly hail patterns moving, which I describe in a non-meteorological sense, eastward away from mountains more and more. So we did make a slight adjustment. I think that translates into roughly $50mm pre-tax.

But, again, I think that the patterns are there. We adjust to it. I think it's more realistic. And, ultimately, we need to begin to price for it and collect the cash from the policyholders. But as you know, regulators have a say in that. So it will be baked into our pricing models going forward. And then, it's a matter of trying to collect from policyholders over a longer period of time.

<Q - Josh D. Shanker>: Thanks for the answers. And let's hope for fewer catastrophes next year nonetheless.

<Q - Yaron Kinar>: Chris, in your opening comments you said that you were expecting a bit of a slowdown in the U.S. economy in 2019. How does that factor into your Commercial margin expectations in general and to workers' comp in particular?

<A - Christopher J. Swift>: It's a great question. As Doug described, I think it does take some of the pressure off of frequency. Again, I think the analysis that we've done in here as it relates to tax benefits, economic demand, unemployment, I think we've pulled a lot of economic activity forward with the stimulus. And I think that created a surge of workers, particularly new and inexperienced workers in certain industries and I think, in a strange sense, a slight slowdown.

We still see positive GDP in the 2%, 2.25% range. I'm looking at Brion Johnson, our Head of HIMCO. And so, I think that takes some pressure off. If Doug didn't say it, I mean, we still are always going to be conservative with our severity picks in putting up long-term trends on medical severity in particular. So we think that's generally unchanged by economic activity and sort of separate.

But, Doug, what would you add?

<A - Douglas G. Elliot>: So maybe as I think about adding something and the earlier questions, maybe an example that just came across my desk a couple of days ago of what – when I talk about increased economic activity and sometimes the pressure that puts on workers' comp, I saw a claim come across. Essentially, it was a manufacturing client we've had for many years. Their demand to produce product has grown substantially in the last nine months. So they took a piece of equipment that have been offline for five to seven years, put it back online and the third day it was in service, not noticing that the safety guard was not attached. We had a major hand/arm accident with a worker. And that's the kind of claim – that piece of equipment was not in use during, what I would say, level demand times of the last three to five years. And now with – in certain sectors, a little bit of needed increase in output, we have a loss that we might not have had last year or the year before. That's just a little example of why we're watching this economic activity so carefully.

<Q - Yaron Kinar>: Thank you. That's helpful. And then, maybe a follow-up to your answer to Josh's question on catastrophes. I did note that you reduced the limit per occurrence, but also reduced the attachment point for aggregate. Does that just – as you're looking at your CAT loss experience over the last couple of years, does that just signify that you're expecting maybe more of a frequency uptick and not necessarily a deterioration in severity per occurrence?

<A - Christopher J. Swift>: Yeah. I think your observations are right. I think if you look at our pattern, I think it was two, three years ago, Beth, we added an aggregate protection in a more material, meaningful way to protect on multiple occurrences as opposed to just one big one. So when we think about spend and trying to maximize coverage on a power vs. aggregate cover, we spent a little bit more on an aggregate. So, again, I would say it's a modest change, nothing major, Beth, but would you add any color?

<A - Beth Ann Bombara-Costello>: No, I'd agree with that. One thing to keep in mind is the layer on our per occurrence treaty that we eliminated was a layer that used to be able to go between either the per occurrence treaty or the aggregate. And really all we've done is now put it into the aggregate and increase the aggregate protection by another $25mm from what we had before. So, really, again and to your point, as we look at our experience and where we see the potential for protection, we felt that that was a better use of our dollars.

<Q - Amit Kumar>: Two quick follow-ups. Number one, just going back to the workers' comp comments. Net-net, I think what you're saying is that 2018 might have been a blip and the underlying CR uptick is due to the pressure on the pricing side of the equation. Can you just maybe expand on the level of pricing on comp? Maybe give us some color. And then, talk about pricing expectations in 2019?

<A - Douglas G. Elliot>: Sure. Let me provide a little color. And I think the exposure in the loss trend piece you have, exactly on, right? We see stability moving out ahead, watchful and not moving off our long-term medical severity picks, but a flattening frequency.

Relative to pricing, as I said in my script, I see pricing workers' comp flat to down. I think we're going to see a little more downward pressure on Small Commercial, where we don't have the underwriting ability to deviate based on account experiences, much more group rated. So we're going to see a little more pressure, minus single digits, small-single digits, mid-single digits in Small Commercial.

And then, in Middle Market, it's going to be a risk-by-risk evaluation. And, again, we see quite a bit of competition in the industry, but I see that pricing being flat to down a couple points as well.

<Q - Amit Kumar>: Got it. That's helpful. The only other question, I will end here, is I know this is early days on the buyback discussion. But is there any thought process based on where the stock has traded over the past few years? Would there be any desire – let's say, if we get down to end of 2019and early 2020, could there be a possibility this buyback could be front-loaded? Or am I getting ahead of myself? Or this is going to be spread out over 2020? Thanks.

<A - Christopher J. Swift>: Yeah. I think it's probably premature to speculate on trading practices. I think Beth – and we've been clear – historically, we've have done things on a pro rata basis, but I think with this program and the intention to sort of foreshadow two years of demand, we'd rather be just a little bit more opportunistic when we see opportunities, particularly as we get into later 2019.

It's not without – it's feasible, we could be active sooner, but we have obviously funding requirements and we've got holding company liquidity targets that we like to maintain, so – but as we get into later half of 2019 and into 2020, I think we'll be much more opportunistic in buying patterns as opposed to anything front loaded in a large program, a one-time buying opportunity or anything more mechanical. So, just expect us to be more opportunistic going forward.

<Q - Meyer Shields>: Doug, I was hoping you can talk a little bit about what you've seen over the course of 2018 that led to the workers' compensation reserve releases and the GL reserve strengthening.

<A - Douglas G. Elliot>: Okay. On the workers' comp side, we continue to reflect on positive experience in our prior accident year. So, as we go quarter by quarter, Beth and I and our team actuaries sit down, and those calls, we think, were appropriate given what we saw coming out of the prior year. So, we feel very good about our positions in all our booked accident years.

Relative to GL, we've seen a little bit of product liability adverse experience in the last couple years. So, we're watchful of that, but the moves in GL for prior have largely been in the product liability area.

<Q - Meyer Shields>: Okay. Can you give us a sense as to the accident years?

<A - Douglas G. Elliot>: Say that again. I'm sorry.

<Q - Meyer Shields>: Which accident years?

<A - Douglas G. Elliot>: Yeah. On the workers' comp, we're talking about the last four accident years, right, 2014, 2015, 2016. I'd have to go back and check on the GL.

<A - Beth Ann Bombara-Costello>: GL I think is on, I believe, is probably coming from the 2015 accident year.

<Q - Jamminder Singh Bhullar>: So, most of my questions were answered. Just maybe a couple. On M&A, are you still interested in pursuing acquisitions once The Navigator (sic) [The Navigators] (01:02:48) deal closes? Or – and if yes, what sort of product lines or regions are the most interest?

<A - Christopher J. Swift>: Yes, thanks for the question, Jimmy. I would say, again, in the context of how we have talked about excess capital, obviously, we've said what we want to do with our excess which is authorizing a share repurchase. We are in the final stages of integrating the Aetna book of business during 2019, so there's still more substantive work to do there. And we haven't even closed The Navigators acquisition, which we are expecting to close in March or April. So, I think from a practical point, as I said, I mean, we have everything we need at least for the foreseeable future.

And who knows what would happen down the road, but we wouldn't take M&A off the table per se, but if something attractive that fits within our existing strategy, sort of like a foremost deal or another small bolt-on opportunity, we would look at it, but it would have to make more financial sense going forward. So, that's what I would say. I mean, it's not a current focus. It's not a current priority. We have higher priorities that we need to really focus on the next 18 to 24 months. But we'll see what things look like in two years.

<Q - Jamminder Singh Bhullar>: Okay. And then just lastly, on Group Benefits, your margins over the last couple of quarters have been pretty strong. I think the rest of the industry has seen a similar trend as well. As you went through renewal season for 2019, what was just a few comments on what you've seen in terms of pricing in that market?

<A - Douglas G. Elliot>: It's been a pretty consistent market. It will move by account. So, yes, we've had a couple accounts with outstanding performance, and I think we've made reductions thoughtfully. But generally, I think it's a similar consistent market to what we've experienced over the last 12 to 15 months.