Bank of America Securities 2021 Conference

Company Participants

- Beth Costello, Chief Financial Officer
- Christopher J. Swift, Chairman & Chief Executive Officer

Other Participants

- Josh Shanker

Presentation

Josh Shanker {BIO 21718992 <GO>}

And we're live. Hello, everyone. Welcome back to the Annual Bank of America U.S. Insurance Conference. If you're joining us now, this is the Hartford presentation. Just on deck is Ohio National forwards worth. And if you have any questions, you can email them to me on the Vericast webcast and I will ask questions, but try and get them in earlier, so we don't have a time crunch at the end.

I'm really happy to introduce Chris Swift and Beth Costello, CEO and CFO for the Hartford for giving us your time and I appreciate it. And so welcome. You guys, obviously, have most people on this call know who you are so, you welcome to have introduction. I hope that everyone's safe and your families are well and thanks for joining me today.

Christopher J. Swift {BIO 3683719 <GO>}

Yes. Thank you. Josh everyone's good and --

Josh Shanker {BIO 21718992 <GO>}

Good, good. Chris, you might want to make some opening remarks before we get to the Q&A, the few things you want to say and I'm happy to listen and then turn up the stage.

Christopher J. Swift {BIO 3683719 <GO>}

Yes, happy to, just briefly. Again, thank you for hosting the event, albeit virtually and look forward to hopefully being together physically next year at this time because of them, I always enjoy Bank of America's views of Manhattan.

So about a year ago at this time at your conference we had just finished up reporting 19 results and our outlook for through 2020. Really in a matter of weeks the world that basically completely changed in dealing with COVID in all of the factors that every organization and every individual across America had the deal with. So I said in our prepared remarks on earnings call, it probably was the most turbulent year of my life from both a personal side and a work side. And I'm glad 2020 is done, but I think heading in 2021, it's realistic to believe that the first half of the year is going to continue to be challenged in a lot of different respects. And that there are more hopeful signs in for the second half of 2010 -- 2021, excuse me. Last week, we did deliver our full year earnings report and our outlook. Hopefully -- I was pleased with both of them core earnings for 2020, we're over $2.1 billion, $5.78 per diluted share, a strong a strong core earnings margin even in a pandemic of 12.7% and I thought we gave ambitious guidance, but also realistic and achievable based on our strategies.

So I would say on our strategies nothing's that you really changed. I mean, we're focused on execution, improving our competitive advantages in the marketplace and leadership and expect you to grow top-line, expect to grow margins and continue to produce I think very strong ROE even with the pandemic lingering in 2021. So you heard us talk about the pricing environment. It continues to be robust vertically in P&C. Prices are going up I think they're going to continue to go up. I think that'll generate better risk-adjusted returns for the industry over a longer period of time making up for low interest rates. And we continue specifically could be focused on our efficiency as an organization with our Hartford next and initiatives.

I think the only maybe cloudy area is group benefits. We had a high level of excess mortality in the fourth quarter, we expect that to continue into early '21. But if you look at the core of the franchise and group benefits everything's fine, it's a solid franchise, it's the number two group benefit business in the industry. We just need to fight our way through this period of elevated mortality.

On the positive side with our long-term disability trends they're behaving as we would expect. There was nothing unusual that has happened in during 2020 with COVID, with any of the economic pressures that LTD sometime is correlated to, so feel very pleased that we're our performance on LTD is and continue to expect solid, solid performance in 2021.

So I think we have a good business mix, Josh, I said that on the earnings call. We're in the right aspects to the market where I think you can earn good returns over a longer period of time. We have wonderful distribution and I think we have a fulsome product set that is going to allow us to compete even more holistically than we have in the past. So and lastly, our financial results will continue to I think be very, very good. We'll earn good ROEs well in excess of our cost of equity capital, and you put it all together, I believe I'm going to create value for shareholders in the years to come.

Questions And Answers

Q - Josh Shanker {BIO 21718992 <GO>}

(Question And Answer)

Well, great. So you touch -- Beth, do you want to say some introductory remarks as well? No. Okay.

So you talked on the price environment and I think that when people look at Hartford's numbers they look at these small commercial pricing and say, okay, your pricing is up 1 to 2% and everyone else is pricing is up 15% to 20%. Well, why should I be say. Well, I can something that you made -- I blended the numbers together and I got your prices up around 7% for what it's worth giving the disclosures that you give. And what we think about pricing for on the one extreme the global specially business being up 20% and we think about pricing in the small commercial business being up 1% to 2% and we serve think about the factors driving both those things. I guess we're lost cost trends for each of those areas in -- are both those areas pushing margin as it is right now we'll at 2% in small commercial. Can you get extra margin on the business and at 20% in global specialty? Can you get extra margin out of the business and are you nearly doing a responsible price above the lost cost trend in both? How should we think about? how -- why does different outcomes there and what that means for your loss ratios?

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

Yes. So a lot to unpack there as usual. So I appreciate your field question. So your first I'm glad that you are talking about segmentation of the market because our book is obviously concentrated more on the small middle side with our recent acquisition of Navigators were more of a specialty player and there's dynamics in each of those markets that are impacting price and loss cost trends. I hear an echo, Josh. So I hope you can hear me okay.

Q - Josh Shanker {BIO 21718992 <GO>}

You sound fantastic.

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

Okay, great. I'll just if I look like I'm listening to myself speaking. I hear myself in my ear. So, going back to the segmentation it really got to look at it on that type of granular level where I think all our trends are right in line with the marketplace broadly if you look at global specialty up 20% domestically, it's probably up 30% in London. We're right in line with the best in class in competitors in that area and I think we're competing well with our products set and capabilities and clearly, lost cost trends -- our pricing is exceeding lost cost trends there.

I think it with the Navigators book that we acquired that was a self-help opportunity and I give Doug and Vince Tizzio a lot of your credit for improving it and we did improve it, greater than the combined ratio margin and proven that we talked about in 2021. There's still pockets where more rate is needed in that book to get to sort of targeted ROEs on that book over long term, particularly in London and certain access lines. So but as we sit here today, we feel really good about what we've been able to execute. The rate increases that we've been able to deliver and giving ourselves the opportunity as we said in our guidance that continue to expand margins in all of commercial, but the largest margin in contributor is going to continue to be a global specialty in 2021.

Middle-market same story to a lesser degree. Same story it mode to occur in that business and Doug have been reshaping that portfolio a little bit, particularly in comp. We had elements of that book that just weren't performing to our standards. We took on that initiative basically 18 months ago, and obviously we're getting the rate that we can in the book in a competitive environment, but ex-comp middle markets been up 10%-ish the last two quarters and feel really good about that. And that is in excess of lawsuit trend also have the ability there to continue to grow margins and expand market margins in '21.

Not all product lines at the same rate, I would still say that certain expect of the commercial auto liability, products set probably need more rate it to expand even margins even greater, but we'll see what the market bears but we know what we're trying to achieve. In small is on the other end of the spectrum, but I always like to say, Josh, just look at where they're starting from. I mean two years in a row of sub 90 combined ratios with workers comp being 60%, 65% of that overall book of business. So I mean it's performing at a high level. Frequency trends in the last couple years have been coming down, they came down even more this year.

So got to put things in the context, as if Doug would here, he would say, yes, it's probably less negative rate environment in '21 than '20 but it still going to be negative just given the overall trends particularly on frequency. Workers comp is our largest line of business I think where we have deep, deep expertise on it, and we know how to manage that line well during different cycles. We're focused on severity particularly indemnity with low or higher unemployment, our people staying on comp longer. You always got to be sensitive to long term medical inflation trends which we take a prudent approach in pricing. So you put it all together and that's where we come out with our three points of margin improvement for commercial, but it -- there's different contributors by our sub-segment of the book of business.

Josh, you're on mute.

Q - Josh Shanker {BIO 21718992 <GO>}

I guess somebody muted me maybe to take care of that echo. I don't know. But we'll -- I'll bear that in mind. So I think about comp a little bit. I'm going to have frequencies and grapes. You never know what the future brings but there's probably no admitted line of business that is more governed by interest rates than workers comping. There might be some other castles lines, but it's really one to one in some ways that we invite the relationship. Can talk about discussions with regulators, how they see the profitability right now and how they might see the profit in the future? And what is that conversations, they look interest rates are the most important ingredient, interest rates are down. Yes, we understand this very wonderful short period of low frequency, but that can change on a dime and we're stuck with low interest rates over the long term. How was that conversation take place?

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

Well, here you're pointing out sort of the inherent challenge with the model of regulation, it's on a lag basis and a lot of times it can't be forward-looking. Right? I mean, there's not an expected concept in pricing. So it look I don't have detailed discussions with the regulators on pricing as you would expect. But knowing and in observing and sitting in dialogues with our team, it's a challenge. Most of the lost data is backward-looking 12 to 18 months depending on your filing dates. Interest rates are a component, so the lower interest rate environment that we experience in 2020, will be start to be baked into trend into the pricing trends. But again, as I said frequencies continue to be very stable to improving particularly this year.

Different states -- in California is basically saying right now, we don't want to consider anything COVID in your filing. So all the presumption new rules right now at least in California. If they want to take a wait-and-see attitude in an approach and are basically asking either the impacts of COVID on the benefit side to be excluded.

Now, the frequency benefits are flowing through so it's a little bit of a mismatch in California. But those are some of the vagaries of state based regulation that we just have to live with and deal with. But, look, over a longer period of time I think we've managed these lags in cycles and time frames very well, but we're still in a period of declining frequency that's going to continue to overwhelm the other pricing environment at least through '21. Doug would say, and Doug said on the call, that I expect it to be less negative but still negative. And if you put it in the context of that are contributing to the overall margin your contraction in small, our next gen spectrum product, or BOP product, commercial auto those lines of business needs make up for it, to get it into that flattish to slightly down margin perspectives, but it's clearly a challenge. And you're right, our calculations are for every 100 basis point decline in interest rates. You probably need 3 points of improvement on your loss ratio to maintain the same ROE.

Q - Josh Shanker {BIO 21718992 <GO>}

This is well one of the top of workers comp this aside from one of the investors of the 90 people who are online right now. How much people workers comp benefit to Hartford take in the quarter, which was part of a net $14 million COVID charge from workers comp. Was there a I guess that's what would the growth claims versus the net favorable is what the fee investors --

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

What we can -- I'm going to ask Beth to comment upon it. But again, I think we've been transparent on what are gross COVID losses are, primarily due to the presumption and then the frequency of benefit that we get. We think it was important that the net those two down. So best going to give you fourth quarter, but I would also ask you to give you a year-to-date numbers, so that you could see the impact. Beth.

A - Beth Costello {BIO 15349374 <GO>}

Yes. I'm sure and as Chris said, we were very transparent and all of this is included right in our earnings slides for those that want to look at that. But in the fourth quarter the $14 million charge we took for comp was offset by $26 million of favorable frequency. And then from a full-year perspective the $66 million that we had was offset that was that was net of a $114 million a favorable frequency. And again, all these numbers are clearly laid out in our disclosures. I think we've been extremely transparent through this whole year and in quantifying both sides of that equation.

Q - Josh Shanker {BIO 21718992 <GO>}

Okay. One more question. I guess this is really calm but it's into margin everything. Can Hartford achieve 12% ROE in 2021 with notable COVID headwinds?

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

I've talked about ROE in the past, I've said and will continue to believe a good anchor point for the Hartford is 12%, ROE was 12.7% last year. But I think what we guided to with the COVID headwinds being 1.5 points in commercial and then roughly the $177 million in group life and disability. Never say never, but a lot of things have to go right, particularly with catastrophes, market performance views on how reserves are going to develop for us to come close to earning 12 ROE. So I'm not saying it's impossible. It's just highly unlikely.

I would say on the other hand, if we didn't include those charges in our guidance for 2021, I think we could have anchored around at 12.5% ROE for the year. So yes, it's still a year of transition is as I said with COVID. And as I said, even more granular, I think the first half is going to be dramatically different than the second half of '21, but we will see how things play out. But I'd like you and most investors that think in terms of you can anchor around 12% ROE for us and some years we might outperform but this particular year coming up given over to COVID headwinds, it might fall a little shy of that.

Q - Josh Shanker {BIO 21718992 <GO>}

It's not necessarily the Hartford although many of your competitors talk about social inflation as a drive about why pricing is up. But given the majority of the past 12 months have had COVID overlay reclaims frequency is lower. What's your tools or confidence do you have that this is a blip in a larger social inflationary trend and that we should expect social inflation to revert back to the some of the reasons why pricing has been increased as we get through the vaccination period.

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

Well, I mean our litigious environment is not going to change overnight. I mean there's deep-seated views on a lot of different aspects in regarding litigation in America. And I just don't see it changing Josh, so it can take a temporary reprieve, during a COVID pandemic, but once we're out of the pandemics throws I just don't -- I don't see any reason and there's no impetus I could feel for a changing litigation environment.

Yes, we see it annually and specifically with our A&E study. Severity continues to go up as much as frequency is coming down on people with asbestos exposure, frequency goes up. We're seeing it in mass torts during the year with different mass tort new litigation that we get involved with. So I just think it's going to be a pattern of that's going to continue in for the for the future. We did get a reprieve this year primarily and what I would call the slip and fall categories and a less of the mass tort environment. But I think the industry's just needs to continue to be diligent about thinking about social inflation and making sure that we never fall behind trend again, in other way we did over the last four or five years.

Q - Josh Shanker {BIO 21718992 <GO>}

And what do you expect in a recovering economy regardless of the level social inflation? We should be seeing claims begin to spike year-over-year in workers comp and commercial auto due to recovery.

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

I would say not necessarily, Josh. I don't expect a spike in claims because I don't think there's any spike in economic activity that's going to come. I think we're going to slowly grind back to normal. And as more people get hired there's opportunities obviously for more frequency events and workers comp, but hopefully safety programs is still remain robust when people get back there. Hopefully, there's an element of (inaudible) worker can be contributing to safety, so I don't I don't see a spike in frequency in comp at this point in time. But we just got to be eyes wide open of just how negative frequency can be and plan for maybe a reversion to a longer-term mean of favorable frequency, but not as favorable has it been this past year.

Same in personal auto and commercial auto, driving patterns are down, miles driven are down everywhere claims are down roughly 20% year-over-year. But again as people get vaccinated and feel more comfortable, traveling and economic activity picks up. Yes, there is going to be again a reversion to the mean there, but I don't see any shocks or spikes in the systems in the near term, Josh.

Q - Josh Shanker {BIO 21718992 <GO>}

Changing focus, you renegotiate your relation with AARP and you're now going to be able non-renew poor-performing drivers to something that you get a hard time doing in the past. To what extent does that let you widen the net to get more drivers. When should we see it in the policy count and even if we don't see does that mean margins will begin to improve, their already good right now. So there's a question there.

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

Yes. Well as I said there's going to be a reversion to the mean right. So we did we did talk about seeing a normalization of driving patterns in 2021. So yes, I would say and I think I've chatted with you before on this. I'm prior earnings call. Yes, we were really pleased to renew a 30-plus year standing relationship with AARP one of the largest affinities place in the world. I think we've had mutual success over the years but on the other hand the program didn't need to be modernized because what was valued 20 years ago by AARP members isn't necessarily a value today, evidence by the fact that you referenced lifetime continuity is not part of a policy forum going forward because there is ample availability of product even for seniors that wasn't the case in 20 years ago. And again, it was a constraint that we managed through, but again in the negotiations which were cordial friendly professional with the AARP that they had some points of view, we had some points of view and we ended up where we did, but lifetime the continuity isn't required for their membership. And that allows us to be to be bluntly a little more aggressive on a new business opportunities. Because then we have the opportunity season the book faster through rate increases or other means to ensure that we're retaining the most profitable customers going forward.

I think equally important for, Josh, in our development is both of us including AARP wants to be more relevant in the 50 to 65 year old space, so that requires us to have more of an orientation for youthful drivers, associated with that 50 to 65 year old demographic. Because they probably have teenagers or young adults still living at home. So that's another reason against that the modernize our product and besides the contract and a modern auto and home, product we viewed that we needed some new technology to help us administer to have a bitter digital experience with the AARP members. So we've invested in a new platform administered by Doug [ph] customizing it, obviously for our knees, but we'll have that up and running and when we launched I think to auto states later in March here. So it will have a home in those some same states that by middle of the year and I think our plan calls for basically at 7 or 8 states in total here by the end of '21. So in the rollout will continue into '22. So I do expect new business yet to be better. I think our conversion rates in placements rates will improve but I would caution you was going to be a little bit of a timing difference going from 12 month policies to 6 months policies. So you shouldn't necessarily expect the big spike in net written premiums. But again over time, I think I think our growth rates will improve compared to they were they have been over the last five years.

Q - Josh Shanker {BIO 21718992 <GO>}

You know we're at times write down, I want to talk about groups, but I'll ask an investor question to make sure we get it out. What industry groups are you exposed to improve life that have particularly COVID vulnerable employees, I guess, frontline workers health. And there's a second part of the question what magnitude of long-term disability impact are you expecting as mortality transitions no morbidity.

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

Yes. I would say our book of business is roughly $5.6 billion of Premium $5.7, split almost 5050 between LTD and disability in life maybe just a smidge more of disability, but it's a highly diversified in book of business. And we don't have any industry concentrations in any way shape or form either on the mortality or the morbidity side. Obviously, certain aspects of the book think in terms of like airlines, they have reduced their workforce or furloughed people and or unfortunately had more permanent displacement employees that has hurt revenues, not necessarily be a losses given that they're my people are flying and they don't have a lot of -- people on the workforce these days. So I don't see any -- again, as any extraordinary amounts of concentration in any aspects of our book because it's a big national diversified book, we got small accounts, we got metal counts. We do have a lot of national accounts, but it's highly diversified.

Your impact -- your question on what is the COVID impact on LTD? We haven't yet seen any. We only have I could count them on one hand in the number of cases that have migrated from STD to LTD. STD on average is a two to three week benefit. I mean, it's a volume gain we've had significant spike in volume and STD and leave claims but we've only had as I said a handful migrate to LTD and we watch it closely. We watch the employment centric correlation happening in LTD, but there is no emerging trend here that causes us concern as we sit here today and it will continue to monitor it. I think we've been thoughtful and pricing new business as we look forward particularly on mortality and or we've experienced in certain aspects. So I feel good about where that overall book of business is. And once we get through COVID how it will continue to perform at a high level.

Q - Josh Shanker {BIO 21718992 <GO>}

I have a very specific and non-simple question from an investor to now you've committed -- commented that real-estate might be a source of savings as you rationalized real-estate. I'm curious if that includes potential selling of properties that are held in stat entities that carried values. If you sold properties, but then turn create potentially significant excess capital.

A - Beth Costello {BIO 15349374 <GO>}

So I'll take that one. So first of all we really don't own a lot of properties, a lot of our properties are leased. We've really two facilities that we own that are in Hartford and Windsor. So I would not look to the sale of real-estate property that we use for operations as the source of significant change in our capitalization of our subsidiaries.

Q - Josh Shanker {BIO 21718992 <GO>}

Okay. That was easy enough. So turning back to the group section. One thing I'm curious about, so there are a lot of people who want to go back to work. I want to go back to work. I'm in the office today for the first time since I joined Bank of America, it's very exciting. A lot of people don't want to go back to work. They've adapted this lifestyle and the flexibility they really enjoy. And I'm not -- I don't -- I'm cautious about using the afford for fraud, but are there people who are going to bristle at the prospect of going back to work that could evolve into a spike in disability claims the things that they might have been willing to live within a prior environment, somebody become debilitating in a circumstance where they have to go back to work.

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

The honest answer is I don't know. Josh, I mean it's feasible, but I think a little unlikely. Remember, disability usually does involve some type of mental -- excuse me, mental [ph] in medical condition. So, I'm sure people are working at home and those even in the office, with may be minor medical conditions that might be eligible for STD today. So yes anything's possible but. Yes, I think it -- I think the probability is low. And the other reason for saying that is I do think there will be a level of increased flexibility employers offer to their people to avoid that dispute or that argument that is you alleged might create another claim. So I think we're all learning a lot during this important in time and that's why we've been pushing our digital agenda so hard not because we saw a pandemic coming because it was an easier way to connect with customers and agents and allow people to directly have a relationship with us and we kind of going to continue to accelerate all aspects of digital in all our businesses going forward. So that's what I would say, Josh.

Q - Josh Shanker {BIO 21718992 <GO>}

One last question, I think maybe it's more for Beth, but you can both answer it. So you recently announced $1.5 billion share repurchased authorization across the next two years. In the four years 2014, 2017 you reverses $5.4 billion worth of stock. That's $1.35 billion annually. I would argue that $1.5 billion over two years feels a little light to me. Maybe doesn't you but it does to me. How much cash flow are you guys generating at annually to pay for dividends and repurchases and how do you rank the priorities given where your stock prices for the best use of cash right now?

A - Beth Costello {BIO 15349374 <GO>}

Yes. I'll start with, Chris you can add. But when I look at it $1.5 billion over two years we talked about the fact that would probably use that, roughly half and half which would be $750 million and $750 million. I'll remind you when we entered 2020, we had an $800 million share repurchase authorization, and that was before a pandemic. So the fact that this is what we're projecting and in the near-term given the fact that we're still in a panda, I think is very strong.

I'll also remind you that when you look back at some of those numbers that you quoted, we were also divesting of things as well and in some of the early days. So I think all-in-all, it's a very good program. We were also very pleased to be able to raise our dividend again that we announced last week as well. And the cash flows that we get from our subsidiaries, we again laid out very clearly in our disclosures very robust and provides excess capital for the holding company to for us to be able to deployed it for the share repurchase program that we have.

And as Chris has said in the past, obviously, we want to continue to find ways to invest in our businesses, invest for growth and we do have ambitious growth plans as we look out over the next several years and feel that we have the right balance as we think about capitalization of our subsidiaries, holding company needs and as I said returning capital to shareholders.

Q - Josh Shanker {BIO 21718992 <GO>}

I think I commented, Josh, you were -- I think on our earnings call. As Beth said, I mean we want to grow, we think it's a great time to grow right now. We think we have all the capabilities inside the organization today to capture more market share really pleased with the overall you have team's performance and all our businesses and we got our leverage ratio down, best work that down over the years. And if we can't find growth opportunities organically, we're prepared to return excess capital shareholders.

M&A is a lower priority right now, just given where we're at as an organization and where we're at in the cycle, pricing cycle. So again, we're going to invest in our capabilities to grow and have a healthy increasing dividend over time like we have and we're pleased to buyback shares particularly at what I think is a very strong or weak valuation depending on how you want to look at it, but a great time by Hartford stock.

On mute.

A - Beth Costello {BIO 15349374 <GO>}

On mute.

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

I appreciate all your time. And thank you for coming today and may your safety your families and all your employees. And one year from today, we'll be doing this in person.

Excellent. Thank you for having us.

A - Beth Costello {BIO 15349374 <GO>}

Thank you.

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

Great. Thanks. Take care. Bye, bye.