2020 Wells Fargo Virtual Financial Services Investor Forum

Company Participants

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

Other Participants

- Elyse Greenspan

Presentation

Elyse Greenspan {BIO 17263315 <GO>}

Hello, everyone and welcome to -- this is a webcast with Hartford. I'm Elyse Greenspan, the senior insurance equity analyst at Wells Fargo, and it's our pleasure today to have with us, Chris Swift, Chairman and CEO, Beth Costello, CFO and Susan Spivak, SVP and Head of Investor Relations.

The format of today is going to be a fireside chat with the management team. I will be asking them questions, but if anyone that is listening in on the line, has a question that they would like me to ask management, please feel free to send that in to me via email. My email is elyse.greenspan@wellsfargo.com.

Before we get started with the Q&A, I'm just going to turn things over to Chris for some introductory comments. Chris?

Christopher J. Swift {BIO 3683719 <GO>}

Well, Elyse, thank you for inviting Beth and I to your Wells Fargo Virtual Conference. I just thought I'd reflect on a couple of things, particularly Hartford's first quarter performance and some of the key themes that I observed. We continue to generate good pricing gains, particularly in commercial and global specialty. I believe, we had solid performance in our group benefits business. Personal lines had impressive core earnings during the quarter. But I do recognize that everything changed from a go forward momentum perspective, and that there are lot of unknowns in the current environment, particularly related to COVID-19.

That said, we are trying to stress that this is a earnings event for the Hartford, not a capital event, continue to believe that is the case. Beth and I are happy to address any of your questions at least, but just to be clear, we don't have any new news to share with you, any new data points of particular, just given we released the earnings and did our call three weeks ago.

So with that, happy to answer any questions.

Elyse Greenspan {BIO 17263315 <GO>}

Thanks, Chris. So I think the first on area that I wanted to start on which has been pretty topical I think with investors is just on the business interruption side of things. And maybe could you just expand on the comments you guys gave on your conference call on -- you had pointed to the vast, vast majority of your policies having virus exclusions. Can you just help us think through what potential business interruption losses that you could see, and just how we should be thinking about the Hartford's exposure on the BI side of things in relation to COVID?

Christopher J. Swift {BIO 3683719 <GO>}

Sure. So I think the context on all this, Elyse, and I appreciate, the question is that fundamentally, our property policies cover physical assets, when there is direct physical damage or loss. And I think our policies are very clear, I've reviewed them. And then when you get into sort of the business interruption coverages it would just really include business income loss and civil authority. Those are all still tied to direct physical damage or loss to a property.

And then, we've said in the call, and the vast, vast majority of our policies do contain virus exclusions, which we've always thought of as just additional documentation, additional clarity of -- what's the terms and conditions in the policy. So if you refer to that, I mean, I have a hard time saying, if we're going to have a very much business interruption loss at all except for where we actually granted it, in the absence of physical loss and we talked about a small group of policies that our theater [ph] program as we called it.

So those will all incur losses, modest in relation to our book of business and size of balance sheet and P&L. But so when you ask, sort of frame your exposure to business interruption, unless I'm missing something, there is going to be no physical damage to the properties that are going to be covered, because the virus doesn't cause physical damage. So, I don't mean to be combative Elyse, I think you know me well, but I'm pretty firm on what we believe here, what our policies cover, what we got paid for, and we'll have to see how things play out over a longer period of time. But, I would not -- you should not expect a huge charge for business interruption coverage, as we go through our policies and make our judgments in the second quarter, because we don't think we've extended coverage.

Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then kind of sticking with the COVID topic, as I think investors are just trying to get their hands around just potential losses, right? We've seen some states, and principally, California, right, move to expand coverage with workers' compensation. And so, how do you think about that move as well as the move in other states? And may be helpful to investors, if you can just kind of help us understand Hartford's book in -- exposure to both frontline workers and then maybe some of the secondary industries like grocery store workers just as we think about the potential exposure on the workers' comp side?

Christopher J. Swift {BIO 3683719 <GO>}

Sure. So, yes, California's Governor did do an executive order, I think about 10 days ago now, maybe 2 weeks. I think I saw data this morning, Elyse, you might have seen it that it was scored recently from a cost side, and not surprising. And that's why the industry really didn't fight it. The scoring is relatively modest from the size of the comp business in California. I think it's (inaudible) hold me to the exact numbers, but basically a $0.5 billion to $1.5 billion.

So -- and California historically has had one of the more generous presumption type of environment. So they just added incrementally to it. So I think from an industry side and working with a lot of our peers is as long as these presumption rules are modest, incremental, at least contain a rebuttable presumption on the industry's part. We understand and have a -- I'll call it sympathy for those on the frontline and maybe others that are covered.

But in those states that you get too radical or too broad with the presumption, that's where the industry will take us to the end and sort of fight. Legislators now can always what I'll call legislate, different rules into the comp system, but we would at least fight any executive orders that are overly expansive at this point in time. So that's what I would say.

As far as our book, I think, I can't confirm and we said in the call that, we have less than 5% of our premiums exposed to frontline workers in our workers' comp business. We didn't provide a detailed breakdown of other industries, and I'm not going to do that today, but we don't have any concentrations. We have a big diversified comp book, as you know we're the second largest player in the business. And if you like, we can manage through this and ultimately, workers' comp works on a lag basis. Meaning, if loss trends are favorable like they've been for the last five years, prices are going to come down. If loss trend is increasing, prices will move up to sort of reflect the economics of the program. So, as long as these presumptions are relatively modest, I think the industry can manage it very well Elyse.

Elyse Greenspan {BIO 17263315 <GO>}

Okay. So I guess, I'm kind of piggybacking upon that answer, obviously recognizing that there is a lot of unknowns. It seems like depending upon how the comp loss would shake out with COVID, I guess does that feel like we could maybe see a return to positive pricing within the comp line or maybe it's a little bit too soon to call that one?

Christopher J. Swift {BIO 3683719 <GO>}

I think it's too soon. And again, I don't want to just speculate, because what's happening in comp and some of the other lines as you know written about, I mean, I'll call it normal business activity is down and normal claim activity is down. So there could be offsetting positions with COVID increasing modestly, with again slower activity, normal claim activity in comp is also down.

Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then maybe shifting gears a little bit, it's been just about a year, right, since you guys closed that Navigators acquisition, could you just provide some updated thoughts there? It seems like the business and margin came in pretty well in the first quarter, compared to some targets you (inaudible) business for the full year. And maybe tying back into just thoughts around Navigators, has anything surprised you from the perspective of COVID losses that they might have that might cause you to decide to either re-underwrite or maybe stop writing certain classes that they're involved in.

Christopher J. Swift {BIO 3683719 <GO>}

Sure. I think it's exactly one year. I think it's one year maybe Saturday or Sunday. So, I could tell you we continue to be most pleased with the acquisition, the people, their skill levels and ultimately, what we're doing in the marketplace, because in a one year period of time, we've made significant changes, improvements, but also from a marketplace impact side. And if you remember, I think we've talked about three or four main components of why we liked the deal. And ultimately bringing our capabilities, data and analytics claims to their underwriting expertise and ultimately improving margins, creating a net investment income left and then some expense efficiencies with cross-sell opportunities within our middle market book in particular.

So, all those components are in place. There might be some pluses and minuses, Elyse, and we've talked about it, lower net investment income, but offset by more significant tailwinds on the pricing side than we had anticipated in our deal model. So I think the outperformance that we're going to get is ultimately from pricing. And yeah, we still are firmly committed to the view that we can improve the overall combined ratio in the legacy Navigators book, 5 to 6 points this year, well on our way as you noticed in the first quarter. So, it's been a good strategic and it will be a great financial acquisition for us.

And COVID-19, yeah, I don't think there's anything unusual in sort of the -- their specialty book. So, there's nothing that causes us pause at this point in time. We did mention the theater program that we picked up that again granted business interruption coverage without physical damage, which will cover those claims, but there's nothing of concern in the book that we see right now.

Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then on my next topic, just thinking about the impact of pricing exposure on your premiums over the balance of 2020. And then I did maybe adding in new business, (14.03) question that came in from an investor, just wanting to think about if the lockdown get extended, if you could see no continued impact on new business trends within small commercial. I know you called out some impact to the second quarter, if you think that that might be extended into the back half of 2020?

Christopher J. Swift {BIO 3683719 <GO>}

Sure. Yeah, I think, a couple of points, and appreciate the question. As I said in the opening, the pricing environment continues to be robust, and I think will continue to be robust, driven not necessarily by COVID, but all the conditions that we talked about before for needing price, whether it'd be social inflation, loss creep, low interest rates are still all there. If you add COVID, if you add some reinsurance pressure that's building, given just reinsurance results of late, particularly related to COVID, I mean it does set up an extended period of time for rate increases in my judgment, and I think again a minimum 12 to 18 months of fairly robust wage increases.

As far as it relates to -- I'll call it just written premiums in general, the components of written premiums as you know are written premium renewals and ultimately sort of changes of exposures or audit premiums, however, you want to describe it in. I would say that the components of net written premium by component vary. I think new business is going to be down across the board, just less shopping. And I think Doug commented wisely on the call, particularly in middle, there's just risk managers that are going to be focused on all the things right now, as an organization and shopping their insurance program, probably not one of the higher priorities.

So that has downward pressure, likewise exposures. Whether it'd be in small or even middle, exposures are coming down as people lay off workers, as cars and fleets are not on the road as much as they were before. So there's pressure there. On the other side of it, I think there is going to be increased renewal activity again, just because people aren't shopping and they'll just want to renew existing terms and conditions, may be again with a little less exposure. But I think renewal activity will generally be up and so retentions and -- will be higher than the normal.

How long all that continues, Elyse, is a sort of the great question, just what's the path of this virus? How quickly does economic activity get back to any semblance of normal? But my instincts on all this is, we're still going to be in a stress mode, at least through the end of the year, and normal begins to look a little clearer in 2021 at this point.

Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And maybe shifting gears a little bit towards the capital side of things. You guys, like most other insurance companies suspended buybacks with earnings just to have some flexibility, given the uncertain environment. What should we be thinking about as we -- and what are you guys thinking about as you think about when you might return to buying back your shares?

Christopher J. Swift {BIO 3683719 <GO>}

Beth, would you want to comment there?

Beth Costello {BIO 15349374 <GO>}

Sure. Yeah. So as we talked about on our first quarter call, we did pause our share repurchase program, again really in response to what's happening and making sure that we're maintaining a strong balance sheet, and thinking about our overall liquidity position. So as we think about the opportunity to turn that back on, it really is a decision that will be based on just how we're seeing just general economic conditions. How the economy is performing, what our views are on COVID-19, and the impacts somewhat related to the question you just asked, which is how long might we see some of the impacts, that go on? I think that's really going to be reflective of just what happens with the spread of the virus, and obviously, other things that could happen from a medical perspective that would curtail future infections.

And then again, just overall, what the overall market conditions are. So, I don't see it as sort of a point in time, I would say, okay, at this date we would expect to resume, it's really reflective of the overall environment that we have. And in the meantime, we're continuing with our plans relative to dividends that are coming from our operating companies. So we are building and will be building liquidity in the holding company over the course of 2020. So if at the appropriate time, we see it's the right opportunity to turn back on our share repurchase program, we'll have liquidity at the holding company to be able to do that.

Elyse Greenspan {BIO 17263315 <GO>}

Beth, I know in the past, I think you've spoken about having 1x to 1.5x annual interest in dividends at the holdco. Does this uncertainty, I guess, is there an -- like is there a way that we can think about the extra buffer above that level, just in terms of framing kind of the excess liquidity that Hartford might have at the holding company?

Beth Costello {BIO 15349374 <GO>}

Yeah, I wouldn't characterize that as a specific target, I mean, I look at what's happening right now in the short term, as being hopefully that the short-term. And again, as we look to continue to build our capital at the holding company, we'll obviously be running well ahead of the 1x to 1.5x, as we progress through the year, if we don't determine an appropriate turn back on our share repurchase program.

And so how we'll think about those targets, is really going to probably ebb and flow a little bit as we go through the remainder of the year. We do think it's important in times like this to have obviously a very strong balance sheet, very strong liquidity position. And again, I define our liquidity position as not just versus the holding company, but also in our operating companies who've been very mindful of building liquidity, so that we can deal with any potential shortfalls and cash flows, as we've extended billing term to our customers. So I'm not changing our long-term target as we think about holding company resources, and again, in the short-term, I would expect us to be seeing those resources build as we manage through this period.

Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then maybe shifting gears again towards the group benefits business. How can we -- how should we think about the margin for that business over the balance of the year and into 2021? That's obviously been a real strong performing business for the Hartford. And then typically, that business in certain cases, does start to -- does see some headwinds during economic slowdowns and recessions, and how can we think about that?

And I know the Hartford business is obviously significantly different than the global financial crisis. So just anything you can kind of point us to as you think about the margins and the compression may be that you guys could be, as the economic slowdown continues?

Christopher J. Swift {BIO 3683719 <GO>}

Sure. I think you're right. We have a good benefits business, second largest in the industry. The integration that we did -- the acquisition and the integration activities that we did over three years ago are virtually done. So it's been a wonderful performing business. But you're right, I mean, COVID-19 is going to put some pressure on certain aspects of it currently and then going forward. So I would break things into sort of near term Elyse, and then maybe longer term. Near term as we alluded to in the earnings call, and some of the actions that we took in our financials were STD related short-term disability and sort of leave management where we put up additional claims for exposure.

I think heading into the second quarter here, we could see a spike in mortality. But even when I say a spike in mortality, I mean, you've got to put it in the context of over the last two years. I mean, we've paid out over $1.8 billion of mortality claims a year. So even if there is a modest spike or blip in the second quarter, it's not going to be material in relation to the annualized mortality benefits we put out there. But we have had 95,000 deaths roughly in the U.S, so we'll have a proportion of that -- small proportion.

But the longer term question mark that we're watching very closely is LTD, and really what happens to incidence rates, which again, incidence rates have been at all-time 50 year lows. We had been expecting a moderation of those lows or a modest increase over the next couple of years. But the question that we're analyzing and watching closely is just, okay, where do incidents goes. And then, how are our terminations affected, if people aren't seeking the appropriate medical care or treatment whatever was the cause of their disability, the people sort of extend out on disability.

So I can't predict where that's going to come out, but generally there are correlations in both those areas with slowdown of economic activity. So it's one of those things. I don't think it's going to affect us in the near term, meaning 2020, but we just have to be watchful for those conditions in 2021 and beyond and we're taking that into account as we quote new business right now. It's the height of the season for quoting 1/1/2021 [ph] new renewals, so a lot of our initial views and thinking are going into those quotes as we speak. So we'll just have to see how it plays out, Elyse.

Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then shifting back towards the commercial line side of your business. Obviously, a lot of focus on COVID and potential losses, but then maybe let's take a second or a minute to talk about areas of your business, right, that can be benefiting obviously lots of individuals working from home. I would think that that translates into favorable frequency on the comp side. And beyond that, are there other commercial lines as well, right, that we're just observing favorable frequency trends, just given that a lot of individuals are at home right now?

Christopher J. Swift {BIO 3683719 <GO>}

Sure. I would say, again in, well, a commercial and personal auto are beneficiaries of lower frequencies that we've seen over the last -- particularly in the first quarter and in through early April. I think as Doug said, we were a little bit on watch of what happens when the economies reopen and we might have a surge of miles driven, due to economic activity or vacations if people avoid flying on the airplanes. There's been some discussion as far as increased severities, maybe due to speeds. So there might be some offsetting factors there, but generally auto claims, both commercial and personal are down meaningfully.

As you said, workers' comp, traditional non-COVID claims are down, general liability claims are down modestly, not significantly, but just there is a downward trend on it, and a little bit even in property. So, yeah, there are some pluses and minuses happening in the book. So I don't know what I'm rooting for, right? I mean, you could say that those are positives, but I'd still rather have the economy normal, people employed and healthy and not dealing with COVID, but I guess there is a impact, a second degree impact on COVID on other lines of business.

Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then --

Beth Costello {BIO 15349374 <GO>}

I guess --

Elyse Greenspan {BIO 17263315 <GO>}

Oh, sorry, go ahead.

Beth Costello {BIO 15349374 <GO>}

No, I just -- Elyse, I was just going to add the other line, although not in commercial lines that we've seen, some decreases in -- is in group benefits and just sort of normal short-term disability claim. So although obviously we're seeing an impact as it relates to COVID, we're also seeing other impacts where people are probably pushing off some elective procedures that normally would have had them going up on short-term disability, such as like another area that we're watching closely as we think about impacts.

Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then I did get a question from an investor, I guess, just go back to the COVID topic, but just trying to get a sense on the reinsurance treaties. And I guess, so it's a kind of work where it's follow the fortunes, in terms of your losses. I know with the caveat saying, you kind of pointed out the intricacies of BI, and you don't think there's much exposure, and also commented on workers' comp. But just with the caveat of what you said about potential losses, can you just -- are there any nuances to your reinsurance programs that investors should be thinking about, if you do invest attaching into some of the covers?

Christopher J. Swift {BIO 3683719 <GO>}

Beth, I think you answered that during the second quarter call. Why don't you answer it again?

Beth Costello {BIO 15349374 <GO>}

Yes. So again, let's --

Christopher J. Swift {BIO 3683719 <GO>}

Excuse me, first quarter call.

Beth Costello {BIO 15349374 <GO>}

Yeah, first quarter - yeah, it wasn't the second quarter -- the first quarter. Yeah, as it relates to our reinsurance programs, it is follow the fortune so there's no specific exclusions as it relates to pandemic. There are obviously complexities of looking at hours clauses and things of that sort. And as we said, we don't sit here today, expect to see recoveries on those programs in total. And then the only other item that I point to is that for our aggregate reinsurance treaty that only covers losses that are declared cats by PCF, and this has not been declared a cat by PCF at this point.

Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. We are running against the top of the time for this presentation. But before we end things, Chris or Beth, did you have any concluding comments you want to leave investors with?

Christopher J. Swift {BIO 3683719 <GO>}

Again, thank you again for the opportunity to be with you and your investors. But again, I think structurally, the Hartford is very sound. Again, as Beth and I've said repeatedly, I mean, this is an earnings event, not a capital event. Our businesses were performing at high levels, even -- through the first two months of the year, and then COVID hit and really shut down everything. So I'm firmly optimistic in the belief that as we as citizens, as a nation, as a government get our arms around COVID, things will eventually go back to a new normal, and that our strong fundamentals in businesses that we like will begin to perform again at a high level. When that happens, Elyse though, that's a big question, that's -- it's hard to predict right now.

Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And just -- I just want to take a moment just to thank Chris, Beth and Susan Spivak from the Hartford for joining us today. And if anyone has any follow-up questions, just reach out to Susan within Investor Relations. And if anyone has questions for me, feel free to reach out to me as well. And thanks to the Hartford for participating today, and that does conclude today's webcast.

Beth Costello {BIO 15349374 <GO>}

Thank you, Elyse.