The Hartford Financial Services Group, Inc. NYSE:HIG

Earnings Call

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Call Participants

EXECUTIVES

Adin Morris Tooker
Head of Commercial Lines

Beth A. Costello
Chief Financial Officer

Christopher Jerome Swift
Chairman & CEO

Melinda Thompson
Head of Personal Lines

Michael Fish
head of Group Benefits

Susan Spivak Bernstein
Senior Vice President of Investor Relations

ANALYSTS

Andrew Scott Kligerman
TD Cowen, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Jian Huang
Morgan Stanley, Research Division

Joshua David Shanker
BofA Securities, Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Ryan James Tunis
Autonomous Research US LP

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Unknown Analyst

Presentation

Operator

Good morning, and welcome to The Hartford Financial's Third Quarter 2024 Results Conference Call and Webcast. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Susan Spivak, Senior Vice President of Investor Relations. Thank you. Please go ahead.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Good morning, and thank you for joining us today for our call and webcast on third quarter 2024 earnings. Yesterday, we reported results and posted all of the earnings related materials on our website.

Now I'd like to introduce our speakers. To start, we have Chris Swift, Chairman and Chief Executive Officer; followed by Beth Costello, our Chief Financial Officer. After their prepared remarks, we will begin taking your questions. Also to assist us with your questions are several members of our management team.

Now just a few comments before Chris begins. Today's call includes forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance, and actual results could be materially different.

We do not assume any obligation to update information or forward-looking statements provided on this call. Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings.

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

Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for 1 year.

I'll now turn the call over to Chris.

Christopher Jerome Swift
Chairman & CEO

Good morning, and thank you for joining us today. Before we discuss our results, I want to extend our heartfelt thoughts and prayers to everyone affected by Hurricanes Milton and Helene. These storms have been wide-ranging and devastating. In times like these, I'm especially proud of The Hartford's claims handlers, adjusters and leaders. Our team is working tirelessly to support every customer impacted by these storms.

Turning to our results. The Hartford's third quarter performance is a powerful example of sustained financial excellence, even in the face of industry-wide elevated catastrophe losses and liability severity trends. Our excellent performance reflects the effectiveness of our strategy and ongoing investments to differentiate ourselves in the marketplace. We remain focused on disciplined underwriting, pricing execution, expanding product and distribution breadth, developing exceptional talent and delivering a superior customer experience.

Highlights from the third quarter include top line growth in Commercial Lines of 9% with double-digit new business growth, strong renewal written pricing increases and a very strong underlying combined ratio of 88.6, Personal Lines top line growth of 12%, with over 5 points of underlying margin improvement and impressive Group Benefits core earnings margin of 8.7%, and continued solid performance in our investment portfolio. All these items contributed to an outstanding trailing 12-month core earnings ROE of 17.4%.

In addition, yesterday, we were pleased to announce an 11% increase in our common quarterly dividend payable on January 3, 2025. This is a continuation of our track record of annual dividend increases and another proof point of earnings power and strong capital generation.

Now let me share a few details from the quarter. Commercial Lines continues to produce excellent results with strong top line growth and an underlying combined ratio below 90% for the 14th straight quarter, reflecting our industry-leading underwriting tools, pricing expertise and data science advancements. New business growth in small commercial and middle market was once again well into double digits.

Retention was steady, and the environment remains conducive for growth. As I've highlighted in the past, the breadth of our product offerings, extensive distribution network and strategic investments in technology allow us to provide comprehensive and tailored solutions, which gives us a competitive advantage with small- and medium-sized enterprises.

Our emphasis on ease, simplicity and speed ensures that our customers and distribution partners experience seamless interactions and quick response. These strengths enable us to offer more precise and competitive pricing, enhancing our market position. Additionally, our product capabilities help us to support customers as their businesses grow. We expect to continue to gain market share, while maintaining highly profitable margins.

A prime example of Hartford's SME market leadership is our Small Commercial business, which once again had an outstanding quarter with strong top line growth and margins. New business premium was up 26% in the quarter, in part driven by a 31% increase in quotes and a doubling of E&S binding premium, a business where we continue to see tremendous opportunity.

We take pride in our robust business system and associated insights, which drives our rate strategy and segmentation, giving us significant edge that's a challenge for others to match. With another quarter of exceptional results and relentless advancement of our capabilities, I remain incredibly bullish on the outlook for our Small Commercial business.

Moving to Middle & Large Commercial. Third quarter performance was strong, including 8% top line growth, paired with an underlying margin that has consistently hovered around 90 or better for the past 8 quarters. We continue to take advantage of elevated submission flow driven in part by investments made to expand our product capabilities and the efficiency of the broker and agent experience.

Written premium growth reflects strong renewal rate execution, along with a 28% increase in Middle Market new business, with growth across nearly all products led by property. We have built a track record of delivering meaningful growth, while consistently maintaining underlying margins, a result we expect to sustain going forward.

In Global Specialty, we achieved excellent results with underlying margins in the mid-80s and a record quarterly earned premium approaching $850 million. Strong top line growth reflects our competitive position, diverse product offerings and solid renewal pricing. Gross written premium growth of 9% was driven by a 17% increase in our wholesale business, including 10% in property as well as significant contributions from auto and excess casualty and global reinsurance.

Across Commercial Lines, our continued emphasis on property expansion has resulted in premium growth of approximately 20% this quarter, putting us on track to achieve our full year target of $3 billion. We remain confident in and continue to capitalize on market conditions that support earning's strong risk-adjusted return through a disciplined strategy, while maintaining a stable and consistent approach to catastrophe risk management.

As for pricing, in Commercial Lines, renewal written pricing excluding workers' compensation of 9.5% was relatively consistent with the second quarter. Low teens pricing in auto and high single digits in general liability are responding to societal trends. Umbrella and excess pricing was in the mid-teens. Overall commercial property pricing remained strong in the low double digits, with mid- to upper teens property pricing within our Small Commercial package product.

Commercial Lines overall loss trends are stable with some moderation in both property and financial line severity, offset by higher severity in liability. All in, ex comp renewal written pricing in Commercial Lines remained above loss cost trends. Workers' compensation pricing was slightly positive in the quarter.

Turning to Personal Lines. Our third quarter financial performance demonstrates continued margin improvement. We saw a 7-point improvement in the auto underlying combined ratio and are on track to achieve target margins in mid-2025. Auto renewal written price increases remained very strong at approximately 20%.

Pricing declines from peak levels remain consistent with our view of moderating loss trends for the remainder of the year. In homeowners, renewal written pricing of 15% during the quarter comprised of net rate and insured value increases outpaced underlying loss cost trends.

Turning to Group Benefits. Our core earnings margin was an impressive 8.7% for the quarter. Continued strong group life results and long-term disability execution are the primary drivers. Fully insured ongoing premium growth of 2%, consistent with the first half of the year, reflects strong book persistency still above 90% and sales of $105 million in the quarter.

Moving to investments. The portfolio continues to support The Hartford's financial and strategic goals performing well across a range of asset classes and market conditions. Beth will provide more details.

Before I turn the call over to Beth, I would like to share some insights from this year's Council of Insurance Agents & Brokers annual conference. Last year, we provided an update on CIAB where the strength of our franchise was a consistent theme. This year, our partners amplified that strength, highlighting our innovative digital tools, comprehensive product offerings and our robust innovation agenda. They praised our consistent strategy and execution over the years. Additionally, they expressed a strong desire to expand their business with us, viewing our team as best-in-class and noting that our relationships have never been stronger.

In summary, The Hartford delivered an excellent quarter, a testament to our execution, strategy, talent and the impact of ongoing investments in our business. As I've said before, we continue to build on our market differentiating capabilities and broad product offerings, all while becoming more efficient.

Our disciplined underwriting and pricing execution, exceptional talent and innovative customer-centric technology are expected to sustain superior results, and we continue to proactively manage our excess capital. All these factors contribute to my excitement and confidence about the future of The Hartford in our ability to extend our track record of delivering industry-leading financial performance.

Now I'll turn the call over to Beth to provide more detailed commentary on the quarter.

Beth A. Costello
Chief Financial Officer

Thank you, Chris.

Core earnings for the quarter were $752 million or $2.53 per diluted share with a trailing 12-month core earnings ROE of 17.4%. Commercial Lines had an excellent quarter with core earnings of $534 million, written premium growth of 9% and an underlying combined ratio of 88.6. Through the first 9 months, the underlying combined ratio of 88.1 is in line with the prior year and our expectations.

Small Commercial continues to deliver outstanding results with written premium growth of 10% and an underlying combined ratio of 89.3, slightly better than the prior year. These results were driven by favorable non-cat property losses, somewhat offset by a higher loss ratio in general liability, both within our packaged product.

Middle & Large Commercial delivered strong results as written premiums rose 8% and new business growth accelerated. The third quarter underlying combined ratio of 90.2 compares to 88.1 in the prior year, reflecting a level of non-cat property losses more consistent with our expectations compared to favorable experience in the prior year and an increase in the general liability and auto loss ratios, partially offset by a shift in business mix towards property line and the positive impact of premium leverage on the expense ratio.

Global Specialty results include written premium growth of 9% and an excellent underlying combined ratio of 85.3. The underlying combined ratio increased 1 point over the prior year quarter, primarily due to a higher loss ratio in global reinsurance driven by losses in Latin America, where we have taken underwriting actions to reduce our exposure to these risk profiles, and a higher expense ratio compared to prior year due to a higher commission ratio driven by changes in mix of business.

Written premium in Personal Lines increased 12% over the prior year, driven by rate execution. In auto, we achieved written pricing increases of 20.8% and earned pricing increases of 22.7%. In homeowners, written pricing increases were 15.2% and 14.8% on an earned basis.

In Personal Lines, the underlying combined ratio of 93.7 improved 5.3 points from the prior year. The homeowners underlying combined ratio of 75.4 improved 2.7 points, primarily due to the impact of double-digit earned pricing outpacing loss costs, partially offset by a higher expense ratio.

We are very pleased with the progress in our auto results. For the quarter, the auto underlying combined ratio of 101.5 improved 7 points from 108.5 in third quarter 2023. Through September 30, the underlying combined ratio of 103.6 is 4.9 points lower than the prior year period, including 5.3 points of loss ratio improvement.

The Personal Lines expense ratio of 25.6 increased 1.4 points, primarily driven by higher planned direct marketing costs and higher incentive compensation and benefit costs, partially offset by the impact of higher earned premium.

P&C current accident year cat were $247 million before tax or 6 combined ratio points, which compares to $184 million or 4.9 points on the combined ratio in the prior year period. We continue to actively manage our cat exposure through aggregation management and underwriting discipline.

Additionally, we have a robust and comprehensive reinsurance program on both a per occurrence and aggregate basis. As a reminder, we have a $200 million aggregate cover, which attaches when subject losses and expenses exceed $750 million.

Through September 30, catastrophe losses subject to treaty were $660 million, leaving $90 million before we reach the attachment point. The aggregate cover does not include losses from the Global Reinsurance business, which purchases its own retrocessional coverage.

Our estimated losses for Hurricane Milton are in the range of $65 million to $110 million of pretax, which includes $25 million to $40 million for Global Re. Therefore, at the high end of the range, we would be just under the aggregate attachment point.

Total net favorable prior accident year development within core earnings was $24 million, primarily due to reserve reductions in workers' compensation and personal auto physical damage, partially offset by reserve increases in general liability and commercial auto liability.

The increase in general liability reserve of $32 million reflects a higher frequency of large losses, including losses in more recent accident years. We continue to monitor liability trends closely, making minor adjustments to our underwriting and pricing strategies, including adjustments that are incorporated in our current year loss picks.

We recorded $26 million before tax of deferred gain amortization related to the Navigators ADC, which positively impacted net income with no impact on core earnings. As a reminder, we conduct our annual asbestos and environmental study in the fourth quarter. We have $62 million of coverage remaining on the A&E ADC, so any development over that amount will impact core earnings.

Turning to Group Benefits. We had another strong quarter with a core earnings margin of 8.7%. Results demonstrate ongoing strength in group life and long-term disability, along with growth in fully insured premiums.

The group life loss ratio of 77.5 improved by 2.7 points compared to prior year due to lower mortality. The group disability loss ratio of 67.9 increased 60 basis points due to a higher loss ratio in paid family and medical leave products, largely offset by a favorable change in the long-term disability recovery rate assumptions.

Fully insured ongoing premium growth of 2% was consistent with the first half of the year and reflects positive exposure growth and strong book persistency at over 90%.

The Group Benefits expense ratio of 25.3 increased 1.3 points from the prior year third quarter, primarily due to higher staffing costs, including higher incentive compensation and benefit costs and increased investments in technology.

Turning to investments. Our diversified and growing portfolio continues to produce solid results. The overall credit quality of the portfolio remains strong with an average credit rating of A+ and no net credit losses in the quarter. For the quarter, net investment income was $659 million. The total annualized portfolio yield ex limited partnerships was 4.5% before tax, 10 basis points above second quarter.

We continue to benefit from higher rates, security selection and accretive trading activity as evidenced by the third quarter reinvestment yield exceeding the sales and maturity yield by 110 basis points.

As anticipated, our annualized LP returns of 3% were higher than the first half of the year as private equity and real estate performance continues to improve. We remain confident that over the long term, LPs will generate returns consistent with historical levels.

Turning to capital management. As Chris mentioned, we increased our common quarterly dividend by 11%. During the quarter, we repurchased 3.7 million shares under our share repurchase program for $400 million, and we expect to remain at that level of repurchases in the fourth quarter.

In summary, we are very pleased with our excellent financial performance for the third quarter and first 9 months of the year. We believe we are well positioned to continue to deliver industry-leading returns, thereby enhancing value for all our stakeholders.

I will now turn the call back to Susan.

Susan Spivak Bernstein
Senior Vice President of Investor Relations
Thank you. We have about 30 minutes for questions. Can you please repeat the instructions for asking a question?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions here. The first one, general liability, the increase in loss picks this quarter, was there any kind of current year development in that increase in the underlying loss ratio in commercial this quarter?

Christopher Jerome Swift
Chairman & CEO

Brian, thanks for the question. I'll let Beth answer that, but I think I just would want you to have a little context on what we saw this quarter that required that $32 million adjustment, and I really would say it's just two simple things.

Our data is just simply showing more attorney representation claims of all sizes. So the percentage of claims coming in with attorney representation is high and is getting higher. And we talked about it in the past, the average settlement rate of claims or the dollars that we're paying for average claims, including sort of simple slip and falls, is increasing rapidly. So you put that -- those two components together, and that's ultimately why we adjusted our prior year pick.

And Beth, I think you could provide a little more detail.

Beth A. Costello
Chief Financial Officer

Yes. Thank you, Chris. So Brian, on your question on the increase that we recorded in the current year for liability in the quarter, yes, that would include some true-up for the first and second quarter.

So I would quantify that as you think about in the quarter, we probably booked a little bit over 1 point from the prior year, and 2/3 of that would relate to the first 6 months.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then on that, Chris, just kind of how are you thinking about -- given what you're talking about with GL development obviously going up a little bit, does it make you pause at all about some of the new business that you're putting on and the growth you're putting on in the Middle Market area to kind of make sure that you're adequately capturing what kind of real trend is looking like in your pricing and terms and conditions in that business?

Christopher Jerome Swift
Chairman & CEO

Yes, I would just say simply, no, we're very confident in the new business that we're putting on. I'm looking at MO, he could give you a little bit of the history lesson that we've talked about.

And really, the improvement that we've made in our data science, our analytics, our pricing tools, our segmentation and all that improvement we've made in the book, and I still feel good about where we're at.

MO, I don't know if you would add anything else.

Adin Morris Tooker
Head of Commercial Lines

Brian, a couple of additions. I think we've talked to you a lot about the work that we've done, especially in Middle & Large Commercial and Global Specialty to reduce in some of the areas that we were worried about.

So we've been working on limits management, we've been working on jurisdictions. We've been working on kind of the underlying fleet sizes and certainly a lot of rate. And I think that's paying off.

You look at our frequency of claims, it's down. And it has been -- when you look at the '20 to '23 versus the prior years, your frequency of claims is down, so it's paying off. What we're seeing is, to Chris' point, where there the lawyers are involved, it's down less.

And so we watch this environment in real time. And we've got higher pricing standard for all of the Commercial Lines underwriters in certain jurisdictions, in certain classes. So we feel really pretty good about our ability to execute through this. We're watching it closely.

And maybe a little bit of context to finish, with the growth that we've put on over the past 3 years, our 9-month underlying combined ratio is right on where it was last year. And we think that's an evidence of us executing pretty well on our pricing strategies.

Operator

Our next question comes from Gregory Peters from Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

I'm going to -- the first question, I'll focus on the Personal Lines results. With the improvement gradually emerging, I'm just curious how you think about your longer-term combined ratio target in the Personal Lines business.

I know some of your competitors have very specific numbers in terms of like 96 or 95 or et cetera. So maybe you could provide some perspective on where you think that's going to go to.

Christopher Jerome Swift
Chairman & CEO

Greg, it's Chris. I would -- I'm going to refrain from giving you exact targets other than what we've always talked about of getting back to overall profitability back to our targets, and that's roughly our 15% to 17% ROE that we're targeting. That does have a corresponding combined ratio, including cat load, even in -- for auto.

So I'm going to just kind of hesitate a little bit about just dumping out a number just because that's the first priority is that we want to continue to improve our profitability. We're about 85% of the states in the country rate adequate now. So we're feeling good about getting the rate that we need into book and executing to that. But I'm going to pause on and giving you any targets actually for next year.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Okay. That's fair enough. I guess, I'll just come at it from a slightly different angle just on -- if I look at the homeowners business, the underlying improvement in the combined ratio, there was some.

But if I look at the rate slide that you put up in your supplement, mid-teens types of rate increases that you're getting in homeowners consistently quarter after quarter. I guess, I'm surprised that the underlying combined ratio hasn't improved more. So maybe you could provide some perspective on that.

Christopher Jerome Swift
Chairman & CEO

Yes. Actually, I think we feel really good about where our overall trends are in homeowners, both from an attritional side and even a cat side. We're pretty close to hitting our target margins there in total, Greg.

So I don't know how to respond to your sort of disappointment, but loss cost trends are increasing. That's why we are putting the rate in there. Attritional is behaving. And obviously, cat was elevated during the quarter, and it's a little elevated for the full year in homeowners.

But overall, it's still like what we're doing with that book of business, and particularly with our new product and chassis, we call it Prevail that I know you're familiar with, it's -- I think it's performing very nicely from a new business side.

I'm looking at Melinda Thompson. I'll just ask Melinda, would you add any color?

Melinda Thompson
Head of Personal Lines

I think you covered it well, Chris. The only thing I would add is that as you look at the rate and increases to value that we put into market, we feel that they're comfortably ahead of loss trend.

Operator

Our next question comes from Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

Looking at the commercial net written premium, pretty solid growth, 10% in small, 8% in mid-large, 9% in specialty. And then when I looked at the rate increases that you described, and I backed in workers' comp, back of the envelope, I get about 3% policy in force growth. Could you talk about the ability to gain share and maybe each of those 3 components of commercial and the outlook for growth there?

Christopher Jerome Swift
Chairman & CEO

Yes. How about if we tag team? I'll start, and MO, you could add your color.

I would say, across all the Commercial, Andrew, we're just really pleased. You could look at Small and see sort of the quotes up. We're cross-selling more of our Global Specialty products into there. We're growing E&S very rapidly at strong margins.

Likewise, with Large and Small Commercial submission flows up, hit rates are relatively stable. But again, all the investments we've made in our pricing, our data science, everything we just talked about, I think, is paying off.

And then Global Specialty, particularly the wholesale division there, which is our main E&S chassis, it's performing at a high level. It's growing rapidly with some of our most highly partnered E&S brokers.

So I put it all together, MO, and we feel good. And as I said, we're still in an environment, Andrew, that I think is very conducive to growth, whether it be in the standard lines or the E&S lines. And I believe we are taking market share with our differentiated capabilities.

But MO, what would you add?

Adin Morris Tooker
Head of Commercial Lines

No, just maybe to reinforce a couple of points. I think, Andrew, the flow in all 3 businesses, as we've talked about in prior quarters, remains strong. As Chris was talking about, the pricing environment is, we think, conducive, supportive. I would say the pricing environment is largely consistent with what we talked about last quarter, and then that's a good environment.

You won't see us growing workers' comp, and you asked specifically about workers' comp. You won't feel us growing that at a much different pace. It's basically a flat in the quarter from a written premium perspective.

And maybe just to build on Chris' CIAB point, coming out of that meeting, it gave us great confidence that those flows to us will continue. And we feel really good that with those opportunity flows the way our underwriters and sales teams are executing that will take advantage of it.

Andrew Scott Kligerman
TD Cowen, Research Division

Excellent. And shifting over to Group Benefits. You again came in at a compelling margin of 8.7%, well above your 6% to 7% guidance. Can you talk about kind of the trajectory of going back to that level and the competitive landscape that you're seeing in Group Benefits?

Christopher Jerome Swift
Chairman & CEO

Yes. I'll start, Andrew, and then I'll ask Mike Fish to add his market color.

I would say I'm pleased with our performance in total, whether it be on the margin side or an underwriting side. Sales are down a little bit, 15% from prior year, but we sort of signaled that we thought we were operating in a highly competitive environment, and that we might have a different point of view on mortality trends where we're still pricing for an endemic state, which you could see in our numbers, our life sales are down a little bit.

I'm really pleased with a lot of the new products that we're bringing to market, particularly in the absence area and all our paid family and paid medical leave products that are -- is having a little bit of a compare challenge between years where we had a lot more new business opportunities in paid family medical leave that are not run ratable going forward.

But Mike Fish, what would you add as far as your market color?

Michael Fish
head of Group Benefits

Chris, I would add just a couple of comments there. It's a competitive market. And -- but I'd also say our new business activity is strong. So our sales team is active in the market with our brokers. You noted on the life side, pricing for that endemic state, so that is putting a bit of pressure on the new life sales front.

But I'd end by saying our persistency is strong. We're still well north of 90%, which is on the high end of the historical range. And really, we're looking to avoid situations where price is the only driver. And we're going to compete fiercely when we have an opportunity to sell our product and service capabilities.

Operator

Our next question comes from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

I guess, just a follow-up on that last one. Obviously, first quarter, pretty big renewal on the group side. Things are more competitive. But what does that mean in terms of what we should expect for pricing at this upcoming renewal?

Christopher Jerome Swift
Chairman & CEO

I would say the 1/1/25s, particularly from a national account perspective, is largely done. We'll give you a little bit more color on our next quarterly results. But I feel good about them, where we're at and how we competed, how we're differentiating ourselves with some of our service capabilities. So that's all I'm going to say right now until we just officially close out the year.

But it is, I guess, a competitive market. I said it, Mike Fish has said it, and we're trying to pick our spots where we think we could make good margins over a longer period of time with appropriate rate guarantees. And inherently, there is some conservatism in our pricing when you think of 3- to 4- to 5-year rate guarantees. So -- but again, generally very, very pleased.

Ryan James Tunis
Autonomous Research US LP

Got it. And then I guess, just a follow-up. Thinking about group disability, we've obviously been in a volatile macro environment. To what extent have you seen any new trends emerge this year from a claims perspective on the disability side? Have you? Or has it just kind of been more of the same as what you saw in '23, '22?

Christopher Jerome Swift
Chairman & CEO

Yes. I would say more of the same. There isn't anything to call out. I mentioned our absence in paid family leave and medical plan. So we're in 6 states. We'd like that product line. It's very complementary to what we're doing with disability.

It's actually a product line that consumers are more aware of and are using it, and employers value it. So that's probably the only new, new thing, I would say, over the last 2 or 3 years worth calling out at this point in time, Ryan.

Operator

Our next question comes from Bob Huang from Morgan Stanley.

Jian Huang
Morgan Stanley, Research Division

Maybe one on workers' comp. So on reserving, it looks like workers' comp release has been the highest over the last 7 quarters. As we look at the post-COVID cohort start to age a little bit, can you give us maybe a little bit of color on how that book is developing? Should we expect similar level of reserve releases -- or reserve development, rather, going forward from that part of the book?

Christopher Jerome Swift
Chairman & CEO

Yes. I'll let Beth add her color, but I would say less -- or more and more, we're making less of a distinction between COVID years, post-COVID, pre-COVID and just running it, I'll call it, in an aggregate basis and looking at aggregate trends.

But Beth, what would you add?

Beth A. Costello
Chief Financial Officer

Yes. What I would say is on workers' comp as it relates to -- and this relates to all of our reserves, we evaluate them every quarter, and we'll make adjustments accordingly. But I can't offer any predictions on what reserve development would be in the future.

As it relates to years post-COVID, so I think it's sort of '21, '22, '23, those reserves are still very young. And so, as typical, we wait to see how those season before we would start to make any adjustments.

Jian Huang
Morgan Stanley, Research Division

Okay. Got it. No, that's helpful. But maybe one other thing on workers' comp really is the weaker or perhaps even a negative pricing environment. As you think about the business going forward, it's still incredibly profitable.

What are some of the key focuses that we should really look into? Are you also -- are you really worried about the rising medical cost inflation, things of that nature around workers' comp?

Christopher Jerome Swift
Chairman & CEO

Yes. I would share with you, there isn't really anything new. I think everything that you've talked about, we would say the trends are generally stable. Particularly on the medical severity side, we're still within our assumption of 5% from a long-term side. It could bounce around from quarter-to-quarter, but the overall trend, I still think is encouraging.

And as you said it, it's a highly profitable line, particularly for those that lead the industry, which we think we're one of the leaders in the industry.

So yes, we'll be selective on new business and going to be sensitive on states that are maybe taking bigger price adjustments going forward. But from an overall side, we still like it. It's contributing mightily to our earnings growth and profile. And generally, we feel good on all the assumptions that we manage to.

Beth, but is there anything you would call out?

Beth A. Costello
Chief Financial Officer

No, I think you covered off -- on all of it.

Operator

Our next question comes from David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just wanted to follow up on the underlying loss ratio in Commercial Lines. If I take out the current year prior quarter, still looks solid at 56.6 or 56.7, that sort of range. Was there anything else in there that you would characterize as being one-off or unsustainable either way?

I know there were a few moving pieces between Small Commercial and Middle Market and Large with the non-cat property losses. But I just wanted to make sure I understand the baseline here.

Christopher Jerome Swift
Chairman & CEO

Yes. I'll ask Beth to provide any -- her insights, David. But I would say, and I put our expense ratio in there and come up with 88.1 through the 9 months, which we feel terrific about. MO mentioned that before. That means we're executing well. It's generally consistent with prior year that we've talked about.

I would say from a macro side, we feel good about the non-cat property losses this year. I would say maybe they're just slightly ahead of our expectations and then offset by some of the GL movements that we've made there. But you put those two pieces together and still come up with an 88.1 with the fourth quarter to go. Yes, the teams feel really good about that, David.

But Beth, what would you say?

Beth A. Costello
Chief Financial Officer

Yes. David, the only thing I'd point out, which you referenced, was when you look at all-in on Commercial Lines, a little bit of favorability in non-cat property primarily in Small Commercial. But we're talking about tens of basis points here. Nothing significant that I would call out.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Okay. Yes, that's helpful. Nothing big there, okay. And then so not big numbers, but commercial auto also continues to develop adversely. I know, Beth, last quarter, you spoke about those reserve increases being related to a few specific accounts.

I guess, was it the same story this quarter? What sort of -- would it -- what would it take for you guys to a step back and think about if some of those trends that are impacting a few accounts would start to be more pervasive across the book?

Beth A. Costello
Chief Financial Officer

Yes. So I would characterize what we saw this quarter as very consistent with last quarter, so again, on some specific accounts within certain lines. And I'll just remind you that we increased our loss pick on commercial auto in the fourth quarter of last year, just sort of addressing sort of the more macro trends.

And so when we look at where we are with the current year, we feel very good with our loss picks and feel that we've incorporated some of sort of the broader, I would say, market impacts.

But MO, would you add anything else?

Adin Morris Tooker
Head of Commercial Lines

Yes. Maybe just, David, from an underwriting perspective, I think we've talked about it, but we've certainly been managing accounts that were impacting us, and these are accident years '22 and '23 as a reminder.

We've been either moving them to loss sensitive if they got a larger fleet or we're moving them out all together. Certainly, we're pushing rate and continue to push rate hard in the auto lines.

And just maybe the last piece is the only place we really have any heavy trucking exposure is in our wholesale book, and it's less than $150 million. And we're very transactional in that space. So I think we really feel good about the underlying auto exposure across Commercial Lines.

Operator

Our next question comes from Mike Zaremski from BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

I just want to preface, clearly, the results overall are excellent, but we're going to get lots of questions on general liability, so I wanted to focus another question there.

In the prepared remarks, you gave us good color about more attorney rep on all claim sizes. Is there any way you could kind of parse it out more? Because I think that what we're seeing in the industry is that the -- on the Small Commercial side, more so than the Large Commercial side, we're seeing more -- that the loss trend rise more so than in the large account space because there's just more attorney involvement, I've learned historically, on the -- on larger clients, like larger Fortune 500 clients.

So just wanted to better understand if you are seeing the higher GL trends in any specific pockets based on account size or maybe type of employer or business that could add.

Christopher Jerome Swift
Chairman & CEO

Mike, all I would say, yes, there's lawyers everywhere, all 50 states, all the territories. Obviously, they're looking for clients any which way they can from advertising or 1-800 numbers. So I'm being fastidious, obviously, because we don't see any discernible trend.

I think there -- what we called out and what we're reacting to is the more -- higher percentage of claims coming in the door with attorneys already in tow, and that's driving up overall settlement rates no matter what business, what country or state, and that's what we see.

But MO, anything from the underwriting side you would comment upon?

Adin Morris Tooker
Head of Commercial Lines

No. I would say, and I don't think we should need to get into the details, but just know that we're deep in every jurisdiction. We're in by class, we're in by the type of accident. So I think there's a lot of nuance in here.

But Chris' overall point, there's more lawyers around. But certainly, when we get to the underwriting, we're tailoring it by industry, by state, by county. And certainly, any underperforming areas are getting their necessary rate action and book management activity.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And maybe just switching gears a bit to the overall commercial rate environment. It feels like the industry is being extremely disciplined. We're seeing pricing increase a bit in many lines, despite overall industry return on equity levels being healthy to excellent.

Would you say that the pricing environment is really being driven more by loss ratio than -- and your folks and your peers aren't really taking into account the investment income benefit as much as I think maybe some investors thought would take place in recent years? Just kind of curious about the competitive environment.

Christopher Jerome Swift
Chairman & CEO

Yes. I would say, again, Mike, I think it's rational and thoughtful and principally driven by loss trends, right? I can't speak to any other of our competitors and how they really think or manage. But at least from our side, we start with trends, and we've always said we're trying to hold margins where we're at today.

Underwriting margins feel good that, again, we're generally consistent with last year, and we'll start to talk about '25 a little bit more. But we don't -- from an underwriting side, we don't think about net investment income.

All our metrics are sort of elastic, except when you get into maybe the national account book of business that does have a little bit more float there. But I think it's primarily loss cost-driven, MO, we're executing to what we're trying to do from a consistency perspective.

Adin Morris Tooker
Head of Commercial Lines

Yes. But Mike, that doesn't mean it's easy. I just want to make sure you understand, it's a difficult underwriting environment. And if you don't give the right tools to underwriters, if you aren't making investments in the data science and the feedback loops to see the stuff, you're going to miss it.

And so I just want to make sure we are talking about the difficult choices underwriters are making every day. And I think our team is doing a terrific job navigating the market.

Operator

Our next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I guess, going into -- on the premium growth side, within Middle & Large growth did slow a little bit in the quarter. And I know it was a little -- an easier comp last year, especially right when I look at growth within the Middle Market, right around 7% this quarter, a little lower what we saw so far year-to-date.

Can you just give a little bit more color on what you were seeing there in the quarter and how we should expect that to trend from here?

Christopher Jerome Swift
Chairman & CEO

Yes, Elyse, you're right on. We certainly commented on July last year that the market just didn't come our way. But we're really excited about -- I think our year-to-date growth in Middle & Large Commercial is 9.9%. We're really excited about that.

But as we talked about a minute ago, the flow continues to be really strong. Our underwriters are active in the marketplace. And again, coming out of CIAB, I use that as a reference point since it's so recent, I think our agents are really talking about their desire to consolidate carriers and that would -- we would benefit from that in the Middle & Large Commercial space.

So I think as long as we can get paid for risk and the market holds up, we feel really good about the growth possibilities in Middle & Large Commercial.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then I just want to come back to GL for a second as well, right? So we saw adverse development, right, on some more recent years this quarter. Last quarter was some softer here. It sounds like it was just, Chris, the attorney representation that you were talking to that kind of was the driver of both.

Can you just, and I know you touched on it in previous remarks, give us a sense of the severity kind of assumptions that you're assuming within GL? And is there a buffer that -- give us a sense of the buffer you have on top of kind of what you're seeing just so we can -- that you would expect not to see additional movements from here?

Christopher Jerome Swift
Chairman & CEO

Yes. I would share with you, Elyse, and thanks for the question. I'm not going to talk about buffers or how we manage sort of in total. But yes, you're right. The data that we're reacting to this quarter is rep rates and settlement rates, particularly on our bread and butter, Small Commercial and Middle Market accounts.

Slip and falls, particularly, that type of claim seems to have the most explosive growth in settlement values there. So I think that's the color that I would provide.

Beth, but would you add anything else?

Beth A. Costello
Chief Financial Officer

No. I think you covered it well. We reacted to what we saw and incorporated that as well as our projections for what we would see going forward.

The adverse development that we took in '22 and '23 and then how that informed our view of changing our pick for '24. So from our perspective, we've taken all of those inputs in and made our best call.

Operator

Our next question comes from Meyer Shields from KBW.

Unknown Analyst

[indiscernible] here. Just have a question on Personal Lines expense ratio. It had ticked up year-over-year, but has declined sequentially. Anything you see differently from last quarter in terms of resumed marketing or just seasonal [solicitation]? Just wanted to make sure I didn't miss anything.

Christopher Jerome Swift

Chairman & CEO

Yes. I think the expense ratio, there's nothing to call out. I think last quarter, we called out we were started -- restarted our national advertising and solicitation through -- for our direct response business. I'd expect it to normalize and go down over time, particularly as we have more operating leverage as we start to grow again. So that's about it.

Unknown Analyst

Got it. My second question is on E&S growth. You previously targeted $300 million in E&S binding by end of the year. Could you provide an update on the progress and discuss where the social inflation is driving more submission to the E&S channel?

Christopher Jerome Swift
Chairman & CEO

Yes. I think the overall trend of E&S continue to be a meaningful channel for both casualty and property products is very strong. Obviously, they're capturing more of the flow on the small side and the middle market side. We're happy to participate with what we think is a pretty good offering and a pretty good mousetrap.

We're on track to achieve our $300 million goal that we set this year, particularly in Small Commercial E&S binding. And it's an important channel for us to continue to develop capabilities in underwriting skills to support over the long term.

But MO, would you add anything?

Adin Morris Tooker
Head of Commercial Lines

No, I agree with everything on E&S binding. And I would just reinforce, we're seeing the same momentum in the wholesale space within Global Specialty and in property, in inland marine, in construction and casualty in total. So we feel really good about the progress in both segments.

Operator

Our next question comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I'd like to talk about Group Benefits, if we can change the subject. I want to talk about the sales growth looked a little weak year-over-year, but these are a lot of times multiyear sales cycles. So the year-over-year comparison might not be apt. And of course, the first quarter is more important than the third quarter.

But can we talk a little bit about sales conversion given a number of companies -- number of contracts that are coming from renewal, how well you did this year and what that augurs for in the future? Especially, maybe how many contracts are coming up for renewal in '25?

Christopher Jerome Swift
Chairman & CEO

Yes. We're not going to talk too much about '25 right now, Josh, but we'll give you plenty of color once it's all tidied up. I would say, and Mike Fish will add his perspective, we still feel good about, obviously, our sales team and what we're able to do in the marketplace and all our broker relationships. It's quite an ecosystem that you have to manage with the feet on the street and relationships. And we get a lot of opportunities.

I think the comp issue that I talked about, we had some onetime PFL and PML sales last year, so that's distorting it. If you take it out, we're still down, but we're down just slightly. And Mike, I don't know what you would provide to Josh to give him comfort that we're competing every day as hard as we can. But we're also trying to make money and we're being disciplined with our pricing also.

Michael Fish
head of Group Benefits

Yes. Chris, those are the right points. I'd just add a couple of items here. On the renewal side, think of it this way, it's a little under 1/3 of our book comes up for renewal every year. And I noted earlier in my comments around this year's persistency north of 90%. Now that's on the whole book. .

So renewal is a subset. But again, I think that just speaks to the fact that we're able to compete certainly on our in-force and keeping those customers.

On the new side, our volume of quotes that we're seeing is consistent year-over-year. What I would sort of -- if I double-click under that, when you look on the larger end, those opportunities can ebb and flow over the years.

And essentially, when we're looking to line up with our underwriting appetite, we're going to be a bit more selective on the large end. But again, I don't think there's anything you need to note this year, very consistent with what we've seen in the past years.

Joshua David Shanker
BofA Securities, Research Division

Well, I just want to take your comment, Chris, is that we are here to make money, and I think that's right. You definitely are making money in the Group Benefits business. The margins are fantastic.

Is that showing up not necessarily in The Hartford, but in competitors, cutting prices at this point, being willing to tolerate a higher benefits ratio than it might have a year or 2 ago?

Christopher Jerome Swift
Chairman & CEO

Yes, I don't want to speculate. I don't want to say I really don't know, honestly, Josh. So you'll have to ask them that. I know what we're trying to do every day. Again, we want to be thoughtful. We want to compete. We want to maintain our margins. And I've said this before, you of all people know it and get it.

We're making 3- to 5-year rate guarantees, depending on product line, and we can't go upside down with those types of guarantees out there. So we're going to be thoughtful and disciplined and try to do the best we can, but there are certain lines that we're just not going to cross.

And so all I could say is, yes, we want to be relevant. We are relevant in the marketplace. There isn't a national account opportunity that doesn't come our way, and we're going to compete thoughtfully. But we're also willing just to put the pencil down and say that's enough.

Operator

Our last question will come from Alex Scott from Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

So I wanted to ask about property pricing, actually. I thought it was pretty striking that the small to mid area anyway that the pricing is still pretty elevated.

Can you talk about some of the dynamics there that are allowing for that kind of price action when we're seeing sort of the larger, more global property end of things, it's slowing down more significantly?

Christopher Jerome Swift
Chairman & CEO

Yes. Alex, let me just give you a data point or 2 and then ask MO to add his color.

Our total property capabilities spread across all the -- across all the -- all our businesses. Ex Global Re, pricing actually accelerated 60 basis points during the quarter from 12.2 to 12.8. And I would say the two largest segments from a premium volume sort of led the way. Spectrum pricing is up 60 basis points also to 17.6, and our general industry property capabilities is up another 60 basis points to 8.5%.

So again, feel really good as far as our sweet spot of being in that SME space and pricing remaining firm and actually expanding a little bit. That's not true in some of the larger -- large property or E&S.

MO, but what would you just add to your color?

Adin Morris Tooker
Head of Commercial Lines

No. And I think we're watching the reaction to the storms and trying to understand how that impacts the marketplace and certainly the reinsurance renewals. But generally, it's a favorable market that we would look to take advantage of.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Got it. That's helpful. And maybe if I could sneak one last one in. Just when I think through the A&E reserve review in 4Q, I know you're probably not ready to give a number or something like that.

But could you help us think through some of the underlying trends you see with those claims and so forth? They could help us at least directionally understand which way things are going there.

Christopher Jerome Swift
Chairman & CEO

I'll let Beth add her color. But Alex, we need to finish the review, the study. We'll announce it, obviously, with fourth quarter. But there's nothing to speculate right now because we haven't completed our work.

Beth A. Costello
Chief Financial Officer

Yes, I would agree with what Chris is saying. We'll complete the study and report on the trends and underlying exposure that we see there at that time.

Operator

We have no further questions. I'd like to turn the call back over to Susan Spivak for any closing remarks.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Thank you all for joining us today. And as always, please reach out with any additional questions, and have a great weekend.

Operator
This concludes today's conference call webcast. Thank you for your participation. You may now disconnect.