S&P Global
Market Intelligence

The Hartford Financial Services Group, Inc. NYSE:HIG

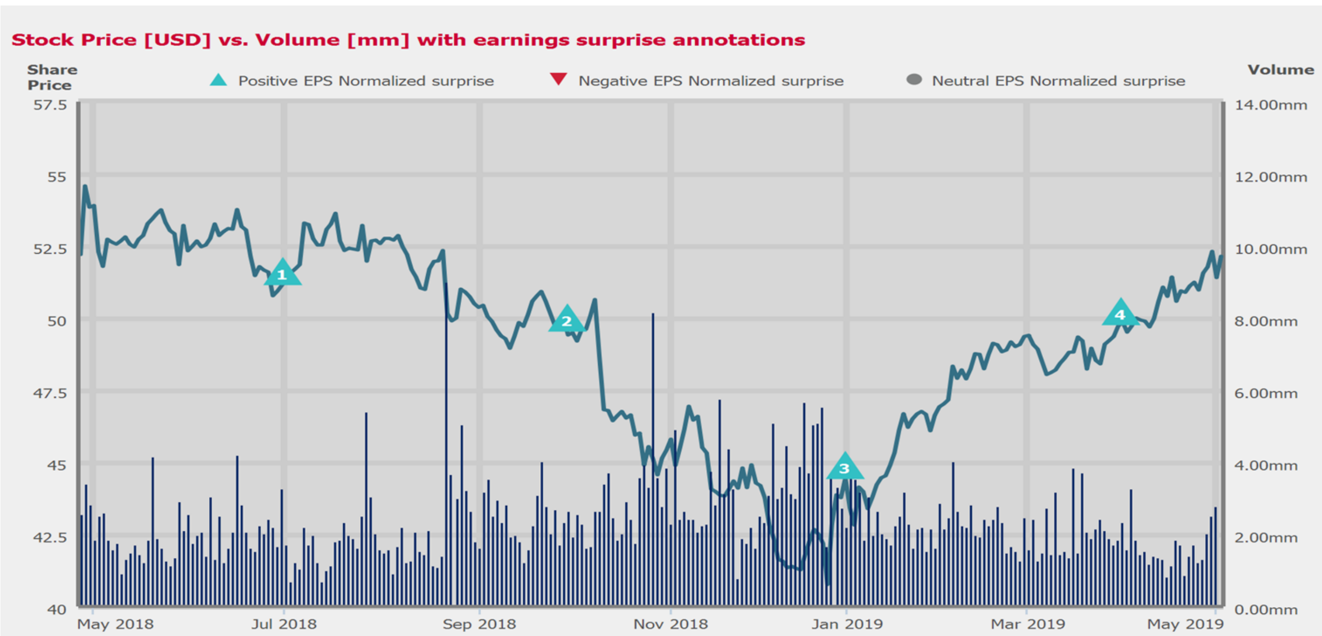
FQ1 2019 Earnings Call Transcripts

Thursday, May 02, 2019 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.24	1.39	▲12.10	1.21	5.05	5.43
Revenue (mm)	4840.00	4940.00	▲2.07	-	-	20861.34

Currency: USD
Consensus as of May-02-2019 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	1.02	1.13	▲10.78 %
FQ3 2018	1.05	1.15	▲9.52 %
FQ4 2018	0.57	0.78	▲36.84 %
FQ1 2019	1.24	1.39	▲12.10 %

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EXECUTIVES

Beth Costello
Executive VP & CFO

Christopher Jerome Swift
Chairman & CEO

Douglas Graham Elliot
President

Sabra Rose Purtill
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Presentation

Operator

Good morning. My name is Amy, and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford's First Quarter 2019 Financial Results Conference Call. [Operator Instructions] Thank you.

Sabra Purtill, Head of Investor Relations, you may begin your conference.

Sabra Rose Purtill
SVP, Head of Investor Relations & Treasurer

Good morning, and thank you for joining us today. We reported first quarter 2019 results yesterday afternoon and posted all the earnings-related materials, including the 10-Q, on our website. For those of you joining us live, we appreciate your finding time for us on such a busy morning for earnings calls.

Please note that we reported results a bit later than usual in expectation of having closed the Navigators acquisition by now. We also expect that post acquisition, our earnings releases will be about a week later than previous schedule as we complete all the financial reporting integration work, which we will launch immediately after closing. As per our usual practice, we will announce our second quarter earnings release date in early July.

Before introducing the speakers, I wanted to draw your attention to 2 recent 8-K filings. First, yesterday morning, Navigators filed an 8-K announcing that the outside date for the acquisition has been automatically extended from May 1 to July 1 in accordance with the terms of our merger agreement, which permit an extension for the regulatory approval process. The only approval we have yet to receive is from the New York Department of Financial Services. And as noted in the 8-K, they had been provided with all of the requested materials and information. There will be a public filing via 8-K when we have received that approval, and the acquisition will close 5 business days after that. We would note that as a result of SEC filing requirements, even if we were to close the acquisition before May 10, Navigators will still be required to file a Form 10-Q for the first quarter financial results.

Second, this morning, we announced that Stephen McGill has resigned from our Board effective today as a result of the announcement that he, along with other experienced executives, have launched a new insurance brokerage firm, McGill & Partners. Mr. McGill's resignation does not arise from any disagreement on any matter relating to the company's strategy, operations, policies or practices. We appreciate and thank him for his service on our Board.

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

Just a few final comments before Chris begins. Today's call includes forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance, and actual results could 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 also includes non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial supplement.

Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for 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. Yesterday, we reported first quarter core earnings of $507 million, up 10% over first quarter 2018. Core earnings were $1.39 per diluted share. First quarter results were strong, and all of The Hartford's businesses performed well, making meaningful contributions to financial results and progress toward the achievement of our strategic goals.

Our core earnings ROE, which is calculated on a trailing 12-month basis, was 11.5%, a very strong result considering the significant level of catastrophe losses in 2018. Our annualized core earnings ROE was 13.9% for the quarter. Book value, excluding AOCI, rose 11% over last year to $40.79 per diluted share for total shareholder value creation of 14% including dividends.

I am pleased by the growth momentum building in our segments. Commercial Lines written premium rose 5% over the prior year despite workers' compensation pricing headwinds. Personal Lines and Group Benefits both had strong sales in the quarter. In the Hartford Funds, net flows were positive.

Doug and Beth will cover segment results in more detail, but I wanted to highlight a few data points that illustrate the earnings power and financial strength of our franchise. Commercial Lines underlying combined ratio was 92.7 in the quarter, clearly among the best in the market. While up from the prior year, it was consistent with our expectations, although loss severity in property and marine was higher than average. The expense ratio increased also consistent with our expectations due to planned investments to make us an easier company to do business with, including our multiyear strategic initiatives focused on driving long-term efficiency and enhanced capabilities such as a rebuilt agency portal, which enables more digital interfaces with our distribution partners.

With Personal Lines margins much improved after recent pricing and underwriting actions, our key objective is to return to top line growth through a combination of sales and enhanced retention focused on AARP members. Our AARP partnership, now in its 35th year, is the cornerstone of our Personal Lines business. I am very pleased with the sales this quarter, which were up 57%, resulting from expanded marketing efforts over the last 1.5 years. Margins also improved. The accident year loss ratio before CATs dropped 3.3 points, improving for both auto and home, although substantially offset by the impact of planned marketing initiatives on the expense ratio.

Group Benefits continues to deliver strong results. In 18 months after closing the acquisition, operational performance is proceeding extremely well. Core earnings were up 44% to $122 million, which included the impact of favorable disability trends. The acquisition-related integration activities remain on track. And we have exceeded expense and sales targets by a good margin, with persistency in line with expectations.

The Hartford Funds had a solid quarter. Core earnings were down from prior year because of the impact of overall market performance in the fourth quarter but were in line with our expectations. Other operational metrics were quite favorable with positive net flows and continued excellent investment performance relative to peers.

Another area of significant focus this quarter was the pending acquisition of Navigators. The go-to-market leadership structure was announced earlier this year, and the teams are well prepared to hit the ground running when the deal closes. We continue to hear very positive feedback from agents and brokers and look forward to introducing the combined teams and expanded product offerings to our top distribution partners at our annual summit meeting later this month.

We are very excited about the potential of bringing the 2 organizations together. Near term, we are focused on achieving a timely and effective alignment of the underwriting teams, which will strengthen the Commercial Lines presence. In addition, we are confident that we will achieve our long-term financial objectives through a combination of improved underwriting margins, higher investment returns, higher revenue growth and expense savings.

The Hartford's overall strategy is straightforward and unchanged. First, we remain focused on achieving the full potential of our product capabilities and underwriting expertise, with a particular focus on the integration of the acquisitions. Second, we continue to invest for the future to become an easier company to do business with, including investments in technology, data, analytics and digital capabilities that improve the experience we deliver to distribution partners and customers.

Third, long-term success depends on the continued ability to attract, retain and develop top talent. We have top-decile employee engagement scores, which recognize our commitment to providing attractive career opportunities in a diverse and inclusive workplace. And we are proud to be recognized for our ethical culture as recognized by Ethisphere for the 11th time.

Our financial goals to drive long-term shareholder value creation are also unchanged: first, to profitably grow our businesses while generating strong returns well in excess of our cost of equity capital; second, to deploy excess capital accretively in our businesses or through capital management actions; and finally, to grow book value and dividends per common share over time.

How we achieve these goals is also important. Every day, we support our policyholders, agents, employees and communities by protecting their incomes, families and businesses and making sustainable and positive contributions to society, including support of organizations like Junior Achievement, the Boys & Girls Club, the city of Hartford and our support of programs to address drug addiction.

To conclude, first quarter results were strong with all business segments performing well. Our balance sheet and capital generation remain robust. I am very pleased with first quarter results, both financially and operationally, and look forward to building on our achievements during the remainder of 2019 and beyond.

Now I'll turn the call over to Doug.

Douglas Graham Elliot
President

Thank you, Chris, and good morning, everyone. This was a solid quarter for Property & Casualty and Group Benefits. Our financial results were led by outstanding earnings in Group Benefits, primarily driven by favorable trends in disability. The combined core earnings of P&C and Group Benefits were above our expectations and in line with last year as each of our business units continue to execute effectively.

Let me get right into our business results. Commercial Lines first quarter combined ratio was 96.1, increasing 2.8 points versus 2018. The underlying combined ratio, which excludes catastrophes and prior year development, was 92.7, increasing 2.3 points from 2018. The deterioration was primarily due to compression in workers' compensation margins and higher expenses, both as expected. We also experienced higher non-catastrophe property losses, which can fluctuate from quarter to quarter.

For the quarter, renewal written pricing in Standard Commercial Lines was 1.7%, consistent with fourth quarter 2018. However, March pricing excluding workers' comp showed an encouraging improvement over January and February. Commercial auto pricing continues to lead the way with nearly double-digit gains. Property and general liability are in the low to mid-single-digit range. Workers' compensation remains competitive, and margin pressure continues as the NCCI and other state bureaus submit negative loss cost filings.

Our workers' compensation margins remain healthy and give us a strong foundation for competing in the marketplace. The uptick in frequency we observed early last year had begun to flatten by the fourth quarter. With another 90 days of data, trends continue to look favorable, and we are confident in our 2018 and 2019 accident year loss ratio selections.

Let me share a few more details on our commercial businesses, beginning with Small Commercial, which had another very strong quarter, posting an underlying combined ratio of 89.1. Written premium grew 4% with $185 million of new business and strong retention as we continued to successfully convert business from the Foremost renewal rights deal.

Middle Market had a difficult property quarter with an underlying combined ratio of 96.7, increasing 4.5 points from first quarter 2018. This is mainly due to adverse volatility in non-catastrophe property lines, including inland marine, which experienced several fires on large construction projects. We also had margin compression in workers' compensation as expected.

Expenses increased, driven by commissions and increased investment in technology and operations, partially offset by reductions in taxes, licenses and fees. Written premium increased 7% based on solid retentions and new business production of $143 million. In addition to strong performance across all lines of business in our core book, we continued to see favorable contributions from our teams in energy and marine.

In Specialty Commercial, the underlying combined ratio of 96.2 improved 1.3 points, driven by reductions in taxes, licenses and fees, partially offset by higher underwriting expenses. Strong written premium growth of 10% was primarily driven by bond and financial products.

Shifting over to Personal Lines. We are pleased with our performance, producing an underlying combined ratio of 89.1, improving 0.7 point from a year ago. In Personal Lines auto, the underlying combined ratio was 93.6, 0.6 point better than 2018. Loss cost trends remain within our expectations, with continued negative frequencies and severity in the low to mid-single-digit range.

New business for AARP Direct auto grew 57% for the quarter. Our higher marketing spend is delivering the increase -- expected increase in responses. Our conversion ratio is also improved, driven by more competitive pricing and continuous enhancements to the sales experience. Given our improved rate adequacy, projected retentions and cost per conversion, we are pleased with the profit profile of this business. Our product, process and pricing adjustments will continue throughout 2019, and I expect further progress in our conversion rate and new business growth.

Shifting over to Group Benefits. Core earnings for the first quarter was $122 million, with a margin of 8%, a terrific quarter. The increase versus prior year was driven by favorable disability results, lower amortization of intangibles and reductions in taxes, licenses and fees, offset by slightly elevated mortality in our life book of business. The lower disability loss ratio reflects favorable incidence and recovery trends across recent accident years, consistent with our experience over the last several quarters.

Persistency on our combined employer group block of business was steady at approximately 90%. Fully insured ongoing sales were $407 million. Overall, it was another strong sales quarter across market segments and product lines, with continued momentum in our voluntary product offerings.

The acquisition of Aetna's group life and disability business is well into its second year, and we remain focused on completing all phases of the integration. Conversion of Middle Market and large case customers to our market-leading Ability Advantage claims platform has commenced and will continue into 2020.

In closing, this was another solid quarter, with Group Benefits continuing to deliver excellent results and the Property & Casualty in line with our expectations for the year. We are looking forward to closing on the Navigators deal and being able to put our integration plans into action. We've been preparing to hit the ground running on day 1 as a combined organization with broad capabilities and deep underwriting expertise.

Our combined commercial insurance solutions will be focused primarily in 3 areas. First, our world-class Small Commercial business will continue to deliver market-leading products and services to the small business market and will benefit from the specialized capabilities of Navigators, particularly in the professional liability product area. Second, our Middle & Large Commercial business will have expanded capabilities, primarily adding liability products such as environmental, life science and umbrella to our existing package and workers' compensation capabilities. And third, our Global Specialty business will have the breadth, expertise and scale to compete in the wholesale surety financial products and marine markets. Also, our reinsurance and international capabilities will add to this product array.

I know that I speak for my teammates when I say we are very excited about our future. We look forward to updating you on our progress in the quarters ahead.

Let me now turn the call over to Beth.

Beth Costello
Executive VP & CFO

Thank you, Doug. I'm going to cover results for the investment portfolio of Hartford Funds and Corporate and provide an update on balance sheet items and holding company resources.

The investment portfolio continues to perform very well, with low impairments, strong LP returns and generally stable investment yield. Net investment income was $470 million for the quarter, up 4% from the prior year quarter, and impairments were $2 million before tax. Limited partnerships generated a 13% annualized return for the quarter, about double our outlook assumption, but down from 19% in first quarter 2018. Real estate funds posted very strong performance, up significantly from first quarter 2018, but relatively consistent with the fourth quarter. Private equity investment returns were also strong, but down from exceptionally high return in the first quarter of last year.

The annualized portfolio yield was 4.1% before tax and 3.4% after tax, down slightly from first quarter 2018 due to the lower returns on LPs. Excluding LPs, the first quarter 2019 annualized portfolio yield was 3.7% before tax, flat with the prior year and up slightly to 3.1% on an after-tax basis. Lower interest rates in the quarter impacted net unrealized gains on fixed maturities, which rose significantly from year-end to $703 million after tax. Strong equity market performance also generated unrealized gains of $126 million after tax, which are included in net income.

Turning to Hartford Funds. Core earnings of $28 million were down from $34 million last year, primarily due to lower investment fee revenue as a result of lower average AUM. Although AUM was up 2% from the prior year and first quarter market performance was very strong, daily average AUM was down 4% from the prior year first quarter due to the impact of year-end market levels.

Other quarterly performance metrics were favorable, with net positive flows of $874 million and very good investment performance. As of March 31, 70% of Hartford Funds have outperformed peers on a 5-year basis.

Corporate core loss of $15 million improved by $51 million from first quarter 2018. Corporate has been more volatile the last few quarters, so we have provided a table on the slide that breaks down the key components of Corporate results.

The principal driver of the improvement this quarter was $22 million of net income from Hopmeadow Holdings, a holding company that purchased our former Talcott subsidiary, compared to $6 million in fourth quarter 2018 and 0 in the first quarter 2018. Due to the fourth quarter capital markets decline, Talcott had fairly large unrealized gains on hedges, resulting in significantly higher net income, all of which is included in core earnings.

A second impact in Corporate is net investment income earned on cash and short-term investments, which are at high level due to funds held at the holding company for the Navigators purchase. Upon closing of the acquisition, holding company resources will decrease about $2.2 billion, which will reduce net investment income from the first quarter run rate.

Finally, interest and preferred dividends were $56 million after tax, down from $63 million in the first quarter 2018, reflecting both the net reduction in debt and the issuance of preferred stock over the past 12 months. As a reminder, interest expense will increase slightly after closing due to Navigators senior notes, which has $15 million of annual interest expense. In total, first quarter core earnings were $1.39 per diluted share, up 9% from first quarter 2018, due to higher core earnings from Group Benefits and better Corporate results.

Turning to the balance sheet. Book value per diluted share of $38.36 grew 9% from December 31 due to net income and increases in net unrealized gains on fixed maturities. Our net income ROE was 13.5%, which is based on a 12-month trailing net income and, therefore, includes the impact of the high catastrophe losses in the second half of 2018. Book value per diluted share, excluding AOCI, was $40.79, up 4%. And the core earnings ROE was 11.5%, which also uses 12-month trailing earnings.

Our debt leverage ratios improved this quarter, with a debt to capital ratio, excluding AOCI, of 21.9% at March 31, down about 6 points from a year ago due to net debt reduction and growth in stockholders' equity. Our rating agency debt to total capital ratio of 25.7% was at the high end of our targeted range. After the Navigators acquisition, these ratios will increase slightly due to the assumed debt, but we expect to be back in line with our targeted range by mid-2020 through the combination of repayment of $500 million of senior notes in March 2020 and increases in stockholder equity from earnings over the period.

At March 31, holding company resources totaled $2.9 billion. At closing, holding company resources will decrease by $2.2 billion for the purchase price and related expenses, with the remaining balance of approximately $700 million roughly in line with our liquidity target of 12-months forward interest and dividend. Future subsidiary dividends and tax receipt will provide the funds for our share repurchase plan, which we expect to begin in the second quarter. We plan to use the $1 billion repurchase authorization with discretion and continue to expect that the majority of the program will be used in 2020.

Before closing, I wanted to update you on the Navigators acquisition. The regulatory approval process is nearing completion, and we are expecting final approval soon. As announced yesterday, upon closing, we will enter into an adverse development cover with National Indemnity, which will provide greater certainty about the impact to The Hartford from any potential loss development on Navigators reserves. We will pay approximately $91 million for $300 million of coverage and an attachment point that is $100 million above Navigators December 31, 2018, carried reserves subject to the cover. The premium for the cover will be recognized upon closing in net income but not in core earnings.

After closing, we will update and complete our review of Navigators reserves consistent with our indication in August that we would make adjustments to reflect our views. We intend to complete this in-depth review within 30 to 45 days of closing as we will want to review the most current information on exposures and claims.

As a reminder, beginning in the second quarter, the lines of business in Commercial Lines will change, which primarily impact Middle Market and Specialty Commercial. The 3 businesses in Commercial Lines will be: Small Commercial, Middle & Large Commercial and Global Specialty. We will provide historical restatements of our operating metrics for these businesses.

To summarize, with all of our businesses performing well, we have a strong start to the year. Our goals remain consistent: to maintain and improve where possible strong margins and top line growth and to achieve a timely and effective combination of our Commercial Lines business with Navigators.

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

Sabra Rose Purtill
SVP, Head of Investor Relations & Treasurer
Thank you, Beth. We have about 30 minutes for questions. Amy, can you please repeat the instructions for asking a question?

Question and Answer

Operator

[Operator Instructions] So your first question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the adverse development cover that you guys announced last night with Navigators. Beth, in your remarks, you said that you guys are going to do the in-depth review of the reserves, which you've told us about before, after the transaction closes. So I'm just trying to get a sense of how you guys came up with $300 million as being the right level for the cover that you bought with Berkshire.

Christopher Jerome Swift
Chairman & CEO

Elyse, it's Chris. Let me just start, and then we'll ask Beth to add her additional color. So I think we've been pretty consistent since we announced the transaction that we always planned to apply our views and methodologies and practices to establishing a conclusion regarding ultimate losses that needed to be carried on Navigators' balance sheet. That was known and part of our transaction. So ultimately, as we got into it, we decided that we wanted greater certainty regarding the outcome on their loss development and, obviously, negotiated a deal with Ajit that I think accomplishes that goal. So that philosophically was the approach and how we came up with it. But Beth, would you add anything additional?

Beth Costello
Executive VP & CFO

No, I think that summarizes it very nicely. As Chris indicated, this is an area that we have been focused on and thought it appropriate to look into the market to see what type of protection might be available. And as we looked at the terms that were provided in our discussions, we found them to be attractive and put the protection in place, which, again, we believe just provides greater certainty on what the impact could be to The Hartford.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question. Within commercial, is it possible -- you guys said in the prepared remarks that rate got better outside of comps in March. If you have an outlook that we can think about, and I know it's broad-based depending upon line, just what price you might see within commercial for the balance of the year and what you're really seeing in loss trend kind of away from comp. And then also, if you could just quantify the level of non-CAT property and marine losses in the quarter, that would be great.

Douglas Graham Elliot
President

Let me take the individual pieces and do my best with them. Again, I would remind you the segments we play in as a core here at The Hartford, right? So our book is largely middle and Small Commercial, where we probably won't see all of the amplitude that I think some of the specialty markets are feeling. But we are encouraged by what we saw toward the end of the first quarter on our noncomp lines, moving up into the mid-single-digit range. As I commented on, that depends upon line. We still see some firming in auto for sure. But we are encouraged by what we're seeing in property and GL, particularly CAT-exposed property, wind areas and other parts of the country. So I expect that momentum to continue.

Do I think it's going to be 15 or 20 someday? No, I think that's outside the boundaries of where we compete. But I do think we'll see continued momentum because, as you know, particularly in the property side, we've had rather disappointing initial results, and we need to address that issue both with product and pricing. So that's how I think we're going to march quarter by quarter. And we'll look at our book and we'll think about our risks and do a risk-by-risk pricing evaluation.

Relative to loss trend, I would say that 90 days in or 120 days in, they're about where we thought they would be for 2019. Workers' comp has settled in nicely, so we're pleased about what we see in frequency. The severity around medical and wage is about where we expected it to be. Property and liability, similar. And auto is something that we're still working hard at improving our book. We are not at all satisfied with our book performance. So very few surprises on the exposure front, from my perspective. Beth, did you want to add anything over the top?

Beth Costello
Executive VP & CFO

Yes. I mean we did obviously call out in Middle Market that we did have some elevated non-CAT property losses, and that definitely had more of an impact on the Middle Market. Combined ratios, when you kind of pull that through to total Commercial Lines, it's probably about 1 point of what we saw sort of in the year-over-year compare. So I think that provides, I think, the question that you had on sort of what we were seeing in there.

Operator

Your next question comes from the line of Randy Binner with B. Riley FBR.

Ryan William Aceto
B. Riley FBR, Inc., Research Division

It's actually Ryan Aceto on for Randy this morning. Wanted to turn to Group Benefits. Last 2 quarters have had pretty strong margins. Is that something we could expect going forward? Or are we going to be coming back toward your guidance toward end of the year?

Beth Costello
Executive VP & CFO

Yes. So we're very pleased with the performance that we saw in Group Benefits this quarter and, as you point out, the previous quarter. And it really continues to be driven by favorable incident levels in our disability block. And when we think about it kind of over the long term, we do see ourselves being in the range that we provided at the beginning of the year. But obviously, with these trends, we're probably trending a little bit higher from a core earnings margin in the range that we provided. And we'll continue to watch incident levels. As you know, they're very tied to economic activity, and we'll continue to make adjustments as we go through the year. But overall, we're just very pleased with how that book is performing, and we also saw improvements in our recovery rates as well.

Ryan William Aceto
B. Riley FBR, Inc., Research Division

Great. And then I didn't see -- or I'm sorry if I missed on the call. Did you touch on the tax payment that was supposed to be coming through the door, I guess, first quarter or maybe towards the second with the timing of payments?

Beth Costello
Executive VP & CFO

Yes. So I think you may be referring to refund on AMT, which will come through when our tax return is finalized, with this review by the IRS. We did file our tax return already, so we'll await to receive those receipts. And the timing is somewhat dependent on the IRS process. So we did not get a receipt in the first quarter.

Ryan William Aceto
B. Riley FBR, Inc., Research Division

And you still expect $600 million to $700 million?

Beth Costello
Executive VP & CFO

So again, the $600 million to $700 million is not just AMT. That's our anticipation over the course of the year. I'll remind you that we also will have tax receipts coming to the holding company as we utilize our NOLs. So our operating subsidiaries will basically pay the holding company for use of those NOLs. And we do those tax settlements with our operating subsidiaries throughout the year, beginning in the second quarter. But yes, overall for the year, we're still anticipating net proceeds to the holding company of about $600 million to $700 million.

Operator

Your next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here for you. Just back in the Group Benefits discussion, just curious, are you seeing any impact on pricing as a result of the favorable disability results that are coming through?

Douglas Graham Elliot
President

Brian, I would suggest that it's a fairly competitive marketplace. It's been competitive, but clearly, the disability results across the industry, including our own, are in very good shape. So I think there is a bit of enhanced competition. Nothing outside the norm though.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second question is, I'm just curious, your thoughts on kind of what the market conditions are looking like right now for Navigators. You obviously know the businesses they are in and what's going through. Do you expect they're seeing the same type of kind of pricing that we are hearing from other people, out of Lloyd's, et cetera? And is Navigators today maybe a little bit better than you would've thought when you actually made the acquisition or announced it?

Christopher Jerome Swift
Chairman & CEO

Yes. Brian, it's Chris. Obviously, we haven't closed yet, so we can't speak for Navigators and what they're going to report in the first quarter. But I would say, generally, between Doug and myself and in all the discussions with their team that we've had over the last 3, 4 months, numerous visits to London to see firsthand some of their Lloyd's operation, I'm pretty encouraged. I think again, the deal still makes a tremendous amount of strategic sense for us, and the quality of the team that I'm seeing there, the underwriters, their knowledge of the market and quite honestly, the tailwinds that are really beginning to develop in certain aspects of the market, particularly where they play domestically and in Lloyd's, is very encouraging to me and probably long overdue. But Doug, what would you add?

Douglas Graham Elliot
President

Yes. I think the timing is terrific for us. Launching -- Chris and I just got back from Boston. We spent a couple of days with some of our leading distributor partners and also some of our key risks. And again, relative to my comments, although we're seeing some upward movement in the core, middle and small lines, I think the need in some of the specialty areas is a little more advanced, and I expect that we're going to see that in the marketplace over the coming quarters. So I think a good time for us to come together, excited about the expertise that now will become part of The Hartford upon completion of the deal. And Brian, I think you have a good start here.

Operator

Your next question comes from the line of Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

So in terms of Navigators, we know they spoke -- talk about $50 million of after-tax reserves after you close the deal. And you're signing the ADC with Berkshire right now. And if you need the ADC, that's a material deterioration in their loss reserves. Can we talk about ROI when you did this deal, what you think the return is? Has the return materially deteriorated? So you have looked under the wheel -- you haven't closed it yet, but has your perspective changed a little bit? Has anything deteriorated from your initial perspective when you did the deal?

Christopher Jerome Swift
Chairman & CEO

Josh, it's Chris. I would add just a couple points maybe to help you. Obviously, the $70 share price that we negotiated was the negotiated price, obviously, a willing buyer and a willing seller. As I said just in the prior commentary, we still feel very good about the strategic and financial components of this transaction. So nothing fundamentally has changed. But clearly, we paid a full price for a property that we're excited to own and integrate and keep its own special identity going forward as a Global Specialty operation. But we probably pay the price once we see their first quarter results in a book value range of 1.9 at the end of the day.

But as I said in my prepared remarks, the metrics and the components of earning that $200 million in that 4- to 5-year period of time remain very valid, improvements in underwriting results, contributions of net investment income, cross-sell, revenue generation and expense savings. So I feel all those points and that $200 million run rate is very achievable in that 4- to 5-year time period. And actually, I think there's more improvement opportunity beyond that.

That said, yes, our IRRs on it -- on the deal given what we've learned since then had probably come down a little bit, maybe 0.5 point and 1 point range. So I'm not terribly concerned about what that means for the long term but, yes, it's probably a little at the low end of our expectations as far as IRR.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. Appreciate the answers. And then maybe a question for Beth on Talcott. Obviously, the hedges worked in your favor in 4Q '18, which came through as income in 1Q '19. I guess that's going to give back some in 2Q '19. Can you walk through the math we should be considering on that line item in Corporate and what we should consider as a run rate sort of income generation from the Talcott share?

Beth Costello
Executive VP & CFO

Sure. Yes. And as I'm sure you can appreciate, that's a little difficult to answer because, obviously, the share that we pick up is going to have inherent in it some volatility because of the hedging gains and, to your point, hedging losses when markets recover. I would say, as we think about the impact of their first quarter and what that could be on our second quarter, I'd expect it to be pretty flat, $0 to $3 million kind of range, definitely not at the level that we saw this quarter.

And unfortunately, it's just going to kind of bounce around a bit because of that. So I think you should expect to see some noise in that line item. I think the other line items within Corporate are pretty straightforward, which is why we provided the slide that kind of summarized those, being interest income, which again will come down once we complete the purchase of Navigators, and then obviously the interest and preferred dividend line.

Operator

Your next question comes from the line of Paul Newsome with Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

The -- yesterday, Progressive put in their shareholder letter that they're sort of seeing a more competitive personal lines market. I was wondering if you could give us a few comments on what you're seeing from a market perspective in Personal Lines and if you're seeing kind of the same thing.

Douglas Graham Elliot
President

Paul, I would suggest that the last few years have been competitive in the Personal Lines space. So I'm not sure I could contrast the last 90 days, the last 180 with the prior 3 or 4 or 5 years. I think the better companies are investing, in a more competitive industry, on how they reach customers. And so that's just the marketplace we face into every day. Obviously, we are leaning into our capabilities and feeling good that we made some progress across both the sales front and the product front, but more work to be done in understanding these terrific competitors we see in the marketplace each and every day.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

For my second question, I was wondering if you have any updated thoughts on the expense ratio, and I guess it ticked up a little bit with some investments that you've made, and whether or not that is something that would eventually get ticked back down to the 30 range that it was at one point. And kind of the time line maybe, but nothing specific.

Christopher Jerome Swift
Chairman & CEO

Paul, it's Chris. I guess as I said in my prepared remarks, we've been very deliberate and conscious really over the last 6, 7 years since this team has been together to think about the needed investments in our internal infrastructure, technology, data analytics, claims systems. And we've been on a multiyear journey that we're continuing. And I would say, yes, maybe they've spiked up a little bit here. But we've been pretty disciplined and really pleased with our approach of generating expense savings over the years, expense cuts, rationalizing certain aspects of our infrastructure to invest in the new and more modern technology and digital capabilities. So yes, the long-term trend, we still believe in to invest, have greater efficiency, a better customer experience. And from any one quarter on a comp basis, it could bounce around a little bit. But Beth, Doug, I still feel very committed on the path that we're on because it's the right one for the long term.

Beth Costello
Executive VP & CFO

Yes. I agree with that. And when we look at the expense ratio, and primarily focusing on the Commercial Lines group, we definitely saw an increase there. Kind of what we see in this quarter around that is probably where we'll be for the remainder of the year. And we feel very strongly and are committed to the agenda that we are on relative to the improvements that we're making in our core operations and our capabilities that we think are critical to continue to compete at the level that we compete at.

Douglas Graham Elliot
President

I would add maybe 3 thoughts. One is data science has become a fundamental key initiative here in terms of looking and working with external data, working more aggressively with our internal data and thinking about how that will help us compete and be thoughtful about markets we intend to move into. And so yes, we have clearly extended our reach and are investing more dollars in data science. But I believe there will be a long-term pay that will be more than equal to what we're spending now. So there's a bit of short-term pain for what I think will be a long-term gain.

Secondly, which ties into the earlier question around NAV, we have spent a lot of money and continue to invest in new products over the last 5 years, and that started with Group Benefits through the voluntary suite and now has extended into things like energy, our construction verticals, et cetera. That progress in some of those cases now gets accelerated with Navigators. So as Chris talks about expenses, the fact that we are standing up an environmental practice and standing up a life science practice now, we've put that on a much different speed dial. And I think there will be cost saves there, but we have spent a lot because we feel like that full product suite was absolutely necessary to be the player that we intend to be and needed to be in the Middle Market space. That's point 2.

And then thirdly, there is some slight upward pressure on commissions, both to defend our space in the Small Commercial area and also to reach into specialized practices that now we're building products for. So we are aware of it. I think we've been thoughtful about how we pick our spots to compete long term. But I share those 3 areas as complementary to what Chris and Beth shared relative to expenses.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

And congrats on the quarter.

Operator

Your next question comes from the line of Tom Gallagher with Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Just a question on the ADC deal as it relates to the way we should be interpreting this. The -- do you think it's fair to say that -- if I just look at the little over $2 billion acquisition price and I add the premium you're paying for the ADC plus the $100 million up to the attachment, add an extra couple of hundred million to the purchase price. Is that a fair way to think about the IRR on the transaction? So maybe it's 10% worse than you originally thought. And the question then becomes did you have 10% conservatism in your assumptions when you priced it? Can you -- is that a fair way to think about this? Or would you make any adjustments to that?

Christopher Jerome Swift
Chairman & CEO

Tom, it's Chris. I understand your path -- your points, your math, your concepts. So I wouldn't add anything to it other than how fast the run rate to get to $200 million might change sort of -- the future earnings power, I think, is enhanced since we announced the deal. So -- but as far as the basis, the investment in sort of the Navigators deal, I would agree with your concepts.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. And then just a follow-up for Doug on Group Benefits. The -- you said retention is about in line with your expectations. And I'm looking at a couple of things going on there: flattish year-over-year earned premium and sales came down about 10% year-over-year. So just curious, how has the underlying persistency been trending on the block? Is the sales success about in line with what you expected? And then also, one other thing I noticed there. The other sales were quite strong, I think up over 30%. I'm assuming that maybe that's voluntary benefits. Can you comment on what's happening there?

Douglas Graham Elliot
President

Yes. So just to nail that, and then I'll come back around. Certainly, that's where our voluntary products are. And we feel good about progress, not just last year and the prior but certainly start of 2019.

A couple of comments about sales. I would remind you that we had a new product, the New York Paid Family Leave Act, that's initiated 1/1/18. So that was about a $50-plus million program. When you adjust for that, our run rate is more reflective of my comments, which we feel pretty good about, the start to 2019. So I think you need to make that adjustment. It was a onetime change with the law in New York.

When I think about retention, we did build in some shock to our anticipated 1-, 2-, 3-year scenarios around the Aetna deal. And so when I think about what is playing out, Chris and I view experience to be basically largely in line with what we expected. So not what I would say a normalized run rate, but with a little bit of shock for the first couple of years. Through that, we feel pretty good about the accounts we are retaining. I feel pretty good about the setup. As you know, we're already working on backside of 2019. So I don't think there are any major surprises that fall out of line.

Christopher Jerome Swift
Chairman & CEO

Tom, it's Chris. As I said in my prepared remarks, from -- on operational side, whether it be retention, whether it be sales, whether it be expenses, all meeting or exceeding our expectations. And something that you don't talk about too often, Doug, is I think the Ability Advantage, the claims system that we inherited, plus the modifications that we made and our claims expertise embedded in our organization is another key differentiator long term that we feel terrific about.

Douglas Graham Elliot
President

I mean Tom, you know, you understand that book. So a good chunk of that book, 70% plus the Aetna book was national accounts. And therefore, you can have lumpy progress as you move through time. You lose one account and you need to be accounted for that. So I look back and I think our 2018 retention was really solid. I'm pretty pleased about the way we started '19 and looking forward to the rest of the year and then next year. Very excited about what we're building and how fast we brought to market our brand-new claims platform. And we will now compete with that going forward.

Operator

Your next question comes from the line of Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I have a question on the pressure you've been talking about in workers' comp, and whether we could drill down a little bit. Are there places where you're seeing a lot more pressure, maybe states or small versus middle? And I just wanted to get a little more color on the differences you might be seeing in that line.

Douglas Graham Elliot
President

Let me make a few comments, and you can direct the path forward. First comment I'd make relative to the quarter is that you know as we moved through 2018, we did adjust our Middle Market workers' compensation pick. So this quarter was a little bit of a difficult compare, comparing first quarter '19 to a 2018 first quarter that did not have the recorded actions that happened through the rest of the year. So I'd just start with that when you think about the all-in numbers we posted.

Secondly, I've commented in the past that we have a bit more discretion in the Middle Market through the underwriting process, where accounts have more experience per account. They are larger size, et cetera. And therefore, underwriters use the state filings, but also have some ability to adjust based on underwriting views, engineering, workers' compensation, safety habits, et cetera, et cetera. So I would say to you that in the Small Commercial world, there's a bit less flexibility. And where we see pricing more driven by market conditions, there'll be a little bit more pressure on margin. And in the middle, we're able to do a better job of looking at accounts one by one and making appropriate judgments as we move forward on the margin.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. Just to get in on the Small Commercial side, where you say you have less flexibility. I mean is there -- if you look at the individual account level, you've got a new piece of business coming in and the pricing is maybe not quite where it needs to be to get the business. Can -- is the facility there to quickly adjust price, if you can, to attract that customer?

Douglas Graham Elliot
President

Well, you're really talking about a class-by-class process, and now you're inside the wheels of, I think, what makes us so effective in the marketplace. So yes, in certain areas, territories and classes, have we changed the referral process? Absolutely. And even inside classes, there are micro-classes that we spend more time with, probably have a bit different appetite. And this is all on a state and regional basis. So you're now inside the granular nature of what we do day in, day out, inside small.

I just gave you a little bit of a 50,000-foot view that says, across Small Commercial, it's a bit more of a slot-rated product. Given the fact that we are seeing prices go negative, we're very focused on where and how that is happening and making sure that we're doing everything we can to preserve the margins we've got and to protect our future.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. I just had one other little question. The $90 million of premium you're paying for the ADC, is that -- how is that going to be treated in terms of core versus noncore earnings?

Beth Costello
Executive VP & CFO

Yes. So the premium that we'll pay will be in noncore. So it will not be in core earnings but, obviously, will be in net income on an after-tax basis, of course.

Operator

Your next question comes from the line of Meyer Shields from KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Two really quick questions. One, the ADC premium, is that going to come out of P&C? Or is that a Corporate expenditure? In other words, is it going to affect underwriting results?

Beth Costello
Executive VP & CFO

So it will not be reflected in underwriting results, again, similar to how we treated the ADC cover that we bought for A&E exposures a few years ago.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then, this is a little nitpicky, but you've had a few consecutive quarters of adverse development in general liability. And I was hoping you could talk to what's going on there.

Douglas Graham Elliot
President

I think it's pretty picky. I think it's small. We've had a couple of older product liability cases that we've added to. It's nothing that has my attention in the way of concern. So I feel pretty good about our balance sheet. I think we finished 2018 strong. We feel good about our position in first quarter 2019, and I think we march ahead.

Operator

Your last question comes from the line of Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Just very quickly, going back to Gary's question on workers' compensation, what exactly was the 2019 comp loss plot?

Christopher Jerome Swift
Chairman & CEO

Amit, just as Doug looks at it, I'm glad you asked the question because I just wanted to add a perspective that may or may not be helpful to you in that. When we establish our outlook/guidance for '19, clearly, we're fully aware of the environment, particularly pricing, but also loss cost trends composed of frequency and severity in that when we established the range of outlook, I thought we were pretty clear. And I know I've said in subsequent FD-friendly environments that we did expect some margin compression in workers' comp. So as we sit here today, there's nothing that surprised us in the first quarter. And as we look at the next 3 quarters, there is nothing that we see that's going to surprise us or change our original views on guidance.

But the offset though, we said, was that primarily commercial auto, property and GL, we thought we could actually expand margins in this environment. And as Doug just said, we're very encouraged and continue to be encouraged with the pricing environment less -- to a less extent than the specialty world. But pricing and margins, we feel, knock wood, for the rest of the year can expand and grow so that, in general, we'd be flattish to maybe slightly down on a year-over-year margin comparison basis to '18. So that's the context. I think we judged the market very well and are managing appropriately in this environment. But Doug, I don't know if you have that number or if we really want to give it out at this point.

Douglas Graham Elliot
President

No. I guess a couple of thoughts. One is I think a total workers' compensation number doesn't make a lot of sense. You're adding excess workers' comp from national accounts in with middle and small. So what's relevant to me is that on the quarter, we had about 1 point of workers' comp margin pressure, 1 point on the quarter. And as I commented before, part of that compare is the fact that in the first quarter of '18, we didn't have the adjustments that we had made later in the year.

So as the year progresses, we're going to watch carefully the gap. Chris, that's largely in line with our expectations so there's nothing that I'm talking about that Beth and I or the teams are surprised about. And when I think about our view of trend and our view of pricing, I think 2019 has started about the way we thought it will. So slight compression, not major, and we'll watch it every 90 days and share with you what we see in our book.

Amit Kumar
The Buckingham Research Group Incorporated

And maybe just one very quick follow-up on Navigators. And Navigators have a substantial E&S book in its U.S. operations. And I was curious, there's been a lot of discussion right now how it's a tale of 2 markets where E&S pricing is substantially better than commercial -- Standard Commercial. Any thoughts on that, Chris or Doug, in terms of, are you thinking about that piece differently? Or are you sort of positively surprised by how quickly that piece is turning?

Christopher Jerome Swift
Chairman & CEO

Yes. As I said before, we haven't closed so it's unfair for us to comment on Navigators' trends in the first quarter. We don't know them, and obviously, we'll read about it once they publish their results or we close first, whatever happens. But general market conditions, as Doug said, he and I were at the RIMS conference in Boston. We've been to London numerous times. And I would say, yes, in that E&S wholesale specialty orientation, it is a rapidly changing and dynamic environment, one where rates are rising very rapidly in certain lines. So that's the tailwind that we talked about and that we feel good about as we start our ownership of Navigators going forward.

Operator

This concludes our question-and-answer session. I'll now turn the call back to Sabra Purtill for closing remarks.

Sabra Rose Purtill
SVP, Head of Investor Relations & Treasurer

Thank you. We appreciate you all joining us today, particularly on such a busy day for earnings. Please do not hesitate to contact us if you have any follow-up questions. Thank you, and good day.

Operator
This concludes today's conference call. You may now disconnect.