S&P Global
Market Intelligence

The Hartford Financial Services Group, Inc. NYSE:HIG

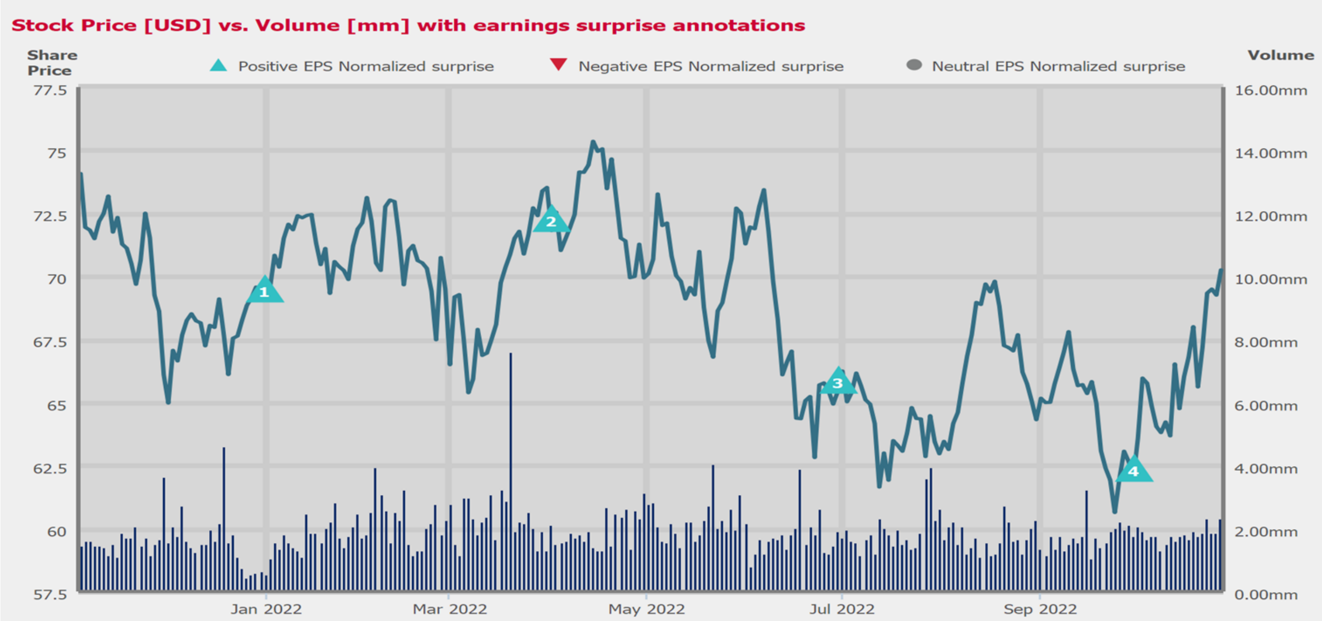
FQ3 2022 Earnings Call Transcripts

Friday, October 28, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.22	1.44	18.03	1.97	7.14	NA
Revenue (mm)	5544.65	5580.00	0.64	5780.71	22691.71	NA

Currency: USD
Consensus as of Oct-28-2022 10:43 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	1.52	2.02	1 32.89 %
FQ1 2022	1.55	1.66	2 7.10 %
FQ2 2022	1.52	2.15	3 41.45 %
FQ3 2022	1.22	1.44	4 18.03 %

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EXECUTIVES

Beth A. Costello
Executive VP & CFO

Christopher Jerome Swift
Chairman & CEO

Douglas Graham Elliot
President

Susan Spivak Bernstein
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Presentation

Operator

Good morning, ladies and gentlemen. Thank you for attending today's The Hartford Third Quarter Earnings Call. My name is Alex, and I'll be your moderator for today's call. [Operator Instructions] I would now like to pass the conference over to your host, Susan Spivak, with The Hartford Group. Susan, please go ahead.

Susan Spivak Bernstein
Senior Investor Relations Officer

Good morning, and thank you for joining us today for our call and webcast on third quarter 2022 earnings. Yesterday, we reported results and posted all of the earnings-related materials on our website. For the call today, our speakers are Chris Swift, Chairman and CEO of The Hartford; Beth Costello, Chief Financial Officer; and Doug Elliot, President. Following their prepared remarks, we will have a Q&A period.

Just a final 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 measure are included in our SEC filings as well as in the news release and the 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.

The Hartford produced a strong third quarter with core earnings of $471 million or $1.44 per diluted share which includes the impact of Hurricane Ian and the ongoing effects of a dynamic macroeconomic environment. Before discussing our results in detail, I wanted to extend our thoughts and prayers to all those impacted by Hurricane Ian, a powerful and devastating storm. It is in moments like this that I am especially proud of our Hartford's Claims team. To date, we have inspected approximately 95% of all claims submitted and had issued initial payments on 50% of those claims. Over the coming months, our team will continue to work tirelessly to help all our customers affected by the storm.

Nearly a year ago at our Investor Day, we told you how confident I was in our portfolio, capabilities, expertise, talent, and our ability to deliver consistent and sustainable returns. As we look back, the clearest proof point that our strategy is working is our financial performance. In the first 9 months of 2022, we delivered core earnings growth of 18% and core EPS growth of 27%, top line growth in Commercial Lines of 12%. At Commercial, underlying combined ratio of 88.6, a Group Benefits core earnings margin of 5.9%. We returned approximately $1.6 billion to shareholders and yesterday announced a 10% dividend increase. And we also produced a trailing 12-month core earnings ROE of 14.3%.

These are terrific results that reflect The Hartford's performance-based culture and demonstrate why despite the continued headwinds of inflation and economic uncertainty, we are confident in our ability to continue to execute at a high level.

In Commercial Lines, we remain disciplined and prudent in establishing loss picks. We continue to have approximately 100 basis points of spread between renewal written pricing and loss trends excluding workers' compensation. Our Small Commercial results continue to be exceptional. Next-gen Spectrum, our market-leading business owners product, is fueling much of our new business success as we gain market share at very favorable margins.

The digital customer experience we provide in Small Commercial is a significant competitive advantage for customers, agents and brokers as it provides a fast, intuitive and efficient platform for doing business. The most recent small commercial Keynova study ranks us #1 in digital capabilities for the fourth consecutive year. Our score climbed 4 points and we are now 20 points higher than our closest competitor.

Middle & Large Commercial is benefiting tremendously from the combination of deep industry specialization and product breadth, leading to new business growth and improving loss and retention ratios. We are confident that our data science, pricing segmentation and claims execution will continue to support underwriting discipline.

In Global Specialty, results are outstanding. Underwriting margins have improved materially over the last 3 years. Execution has never been stronger and the enhanced underwriting expertise we bring to the market is strengthening our competitive position and driving market share gains.

In Personal Lines, we continue to take pricing actions as higher inflation impacts results. As Doug will describe, we continue to file for increasing rate changes across our book to restore profitability. Overall, I am confident we have the right strategy and execution in Personal Lines.

Turning to Group Benefits. In the quarter, core earnings were $117 million, with a margin of 7.2% reflecting lower excess mortality and strong disability results. Long-term disability trends are stable and within our expectations for incidence rates and recoveries. Modestly higher expenses reflect increased investments in capabilities, including digital, claims automation and administrative platforms.

Fully insured ongoing premiums were up 6% compared with the third quarter of 2021, driven by an increase in exposure on existing accounts as well as strong persistency in sales. Fully insured ongoing sales were $106 million in the quarter, up 29%, with increases in both group disability and group life.

In many ways, the fundamentals of the Group Benefits business are stronger than prior to the pandemic. Product awareness is greater as both employers and employees are highly engaged on benefit offerings, with growing demand for supplemental products. This is an opportunity for us to deliver higher value and create a differentiated experience for our customers. And lastly, investment results were healthy in the quarter and are beginning to reflect the rising rate environment, which we'll earn in more meaningfully in 2023.

Taking a step back, I want to touch upon some overarching themes. First, the impact of inflationary pressures and changing weather patterns on pricing and loss cost. Second, the positive impacts of the current interest rate environment. And third, the importance of a healthy and balanced insurance regulatory system that ensures stability and predictability for all.

As we have discussed over the last several quarters across the industry, carriers are dealing with elevated inflation related to goods, services and most components used in manufacturing. These inflationary pressures are likely to remain as the Fed continues to tighten monetary policy and despite some early signs of reduced demand and economic output.

At the same time, changing weather patterns continue to drive increased frequency of events and associated claims severity. While there is no silver bullet to fix this problem, ongoing efforts to build more resilient homes, communities and commercial properties needs to be an ongoing focus of policymakers, insurers, agents and carriers. Taken together, these trends point to the need to maintain underwriting discipline and ensure pricing keeps pace with loss trends and reserving assumptions. As long as these trends continue, rates will need to rise and in some cases, will reaccelerate pricing increases over the near to medium term.

The Hartford is committed to maintaining price discipline, and we have clearly communicated to all our underwriters the need to expand or maintain margins, ex workers' comp, while prudently growing our book of business. Because interest rates are expected to remain elevated, we anticipate our portfolio yield, excluding limited partnerships, will increase by approximately 50 to 60 basis points in 2023 compared to full year 2022, which will benefit earnings.

Finally, on the regulatory front, our state-based system of insurance regulation has generally served customers and the industry well, although at times, has experienced instability in certain jurisdictions and across certain product lines. At its core, the mission of insurance regulation is to protect consumers while ensuring a stable market, one that fosters market competition and safeguards carrier solvency.

Balancing these 2 aspects of the regulatory mission is critical to ensuring widely available and affordable insurance. Recently, we have seen instances where regulation has become politicized, creating instability in the market and upsetting the balance the regulatory system is designed to achieve. We call on policymakers to respect the insurance regulatory framework, take the necessary steps to address rising legal system abuse, rate inadequacy and persistent underinsured exposures while working with the industry to support a well-functioning marketplace where insurers get the coverage they need and carriers secure an appropriate return for the risk they undertake. As a company, whose purpose is to underwrite human achievement, The Hartford stands ready to engage on these issues actively and constructively.

Before I close, last month, we announced the retirement of Doug Elliot as The Hartford's President at the end of the year. Beth and I have worked together with Doug and the entire Hartford team over the past decade to transform The Hartford and build the foundation for our company's future success. Doug was instrumental in expanding our product -- suite of products, developing industry-specific verticals within our Property & Casualty business, overseeing the integration of The Navigators Group and elevating our underwriting excellence.

Thanks to Doug's strong leadership, The Hartford is well positioned for profitable growth in the years ahead as we build on the momentum created to best serve all of our agents and brokers and customers. I want to thank Doug for his many contributions to our company. Thank you, Doug.

Doug leaves us many gifts, including a seasoned group of executives who are going to continue our high-level performance. I have tremendous confidence in the talents, skills and focus of this leadership team.

In closing, let me leave you with some concluding thoughts. These results demonstrate our strategy and the investments we have made in our businesses have established The Hartford as a proven and consistent performer. We have outstanding execution capabilities and exceptional talent that drives my confidence in our ability to continue to produce superior returns.

We are managing the investment portfolio prudently and all holdings are well balanced across diversified asset classes. And we are proactively managing our excess capital to be accretive for shareholders. All these factors underpin my confidence that we will continue to meet or exceed our core earnings ROE objectives.

Now I'll turn the call over to Beth.

Beth A. Costello
Executive VP & CFO

Thank you, Chris.

Core earnings for the quarter were $471 million or $1.44 per diluted share with a trailing 12-month core earnings ROE of 14.3%. Before reviewing the results by segment, I will cover the impacts in the quarter of catastrophes and specifically, Hurricane Ian. We recognized catastrophe losses of $293 million with Hurricane Ian losses of $214 million. In Commercial Lines, Ian losses were $133 million, including $35 million in Global Re. In Personal Lines, losses were $81 million, of which about 72% were auto losses, which reflects our market share in the regions impacted as well as a higher average loss per claim due in part to inflationary pressures.

Moving on to segment results. In Commercial Lines, core earnings were $363 million and written premium growth was 10%, reflecting written pricing increases and exposure growth along with an increase in new business in Small and Middle & Large Commercial as well as increased policy count retention in Small Commercial. The underlying combined ratio of 89.3 was up 2.1 points from the prior year third quarter, primarily due to several non-catastrophe property losses.

In Personal Lines, core loss of $28 million and the underlying combined ratio was 95.9, reflecting continued increased severity in both auto and homeowners partially offset by earned pricing increases and a lower expense ratio in both lines. P&C prior accident year reserve development was a net favorable $53 million with workers' compensation being the largest contributor.

Turning to Group Benefits. Core earnings of $117 million and a 7.2% core earnings margin reflects a lower level of excess mortality losses and growth in fully insured premiums. The disability loss ratio was flat to the prior year quarter, reflecting lower COVID-19-related short-term disability losses. And in long-term disability, higher estimates of claim recoveries were more than offset by less favorable incidence trends compared to the prior year quarter, but in line with our expectations.

All-cause excess mortality was $26 million before tax compared to $212 million in the prior year quarter. The $26 million included $14 million with days of loss in the third quarter and $12 million of losses related to prior quarters.

Turning to Hartford Funds. Core earnings were $47 million, reflecting lower daily average AUM, which decreased primarily due to equity market declines and higher interest rates. Net investment income was $487 million. The annualized limited partnership return was 6.3% in the quarter. We have been very pleased with the performance of LPs in the first 9 months of the year and expect the full year return to be at or above the high end of our 8% to 10% range.

The total annualized portfolio yield, excluding limited partnerships, was 3.3% before tax, a 30 basis point increase in the second quarter, and we expect another 10 to 20 basis point improvement in the fourth quarter. The investment portfolio credit quality remains strong with an average rating of A+. During the quarter, we recognized minor losses on sales of fixed maturities as we reduced portfolio duration and modestly reduced risk in the portfolio. So while interest rates and capital markets may remain volatile, we are confident that our high-quality and well-diversified portfolio will continue to support our financial goals and objectives.

During the quarter, we repurchased 5.4 million shares for $350 million. As of September 30, we have $3.1 billion remaining on our share repurchase authorization. We were also pleased to announce a 10% increase in our common quarterly dividend payable on January 4. This is the 10th increase in the dividend in the last decade and another proof point of the consistent capital generation of the company.

In summary, we had strong performance in the first 9 months of the year and believe we are well positioned to continue to deliver on our targeted returns. I will now turn the call over to Doug.

Douglas Graham Elliot
President

Thanks, Beth, and good morning, everyone.

Across our Property & Casualty business, we continue to be well positioned to sustain industry-leading financial performance. The strength of our broad product portfolio and underwriting execution are evident in our excellent year-to-date top line growth of 9% and sub-90 underlying combined ratio. In addition, the relative size of our Ian loss is further proof of that underwriting discipline.

In Commercial Lines, we achieved double-digit written premium growth for the sixth consecutive quarter, and underlying results remain strong even with some volatility in our non-CAT, non-weather property results. Diving deeper into third quarter growth, U.S. Standard Commercial Lines written pricing, excluding workers' compensation, was up about 0.5 point to 6.7%. Pricing increases in auto and property correspond with comparable inflationary increases. And in the coming months, we may see further improved pricing in these lines. Workers' compensation pricing remained positive, benefiting from wage rate growth.

Within Global Specialty, rate for the quarter of 3.2% was down about 2 points from the second quarter driven primarily by excess public D&O. For most of Global Specialty lines, pricing was in the mid to high single digits and in the aggregate, ahead of loss trends with very strong accident year results.

As Chris highlighted, in total for Commercial, excluding workers' compensation, renewal written pricing is still about 100 basis points above long-term loss trends. In addition to positive pricing, Commercial Lines top line growth benefited from strong new business in Small Commercial and Middle Market, up 15% and 8%, respectively. Our industry-leading products and digital capabilities within Small Commercial continued to drive excellent organic growth as evidenced by a terrific $190 million new business quarter.

Retention remains strong across markets and continued audit premium momentum from customer payroll growth was another bright spot. Within Small Commercial, as further evidence of our broadened appetite, we're particularly proud of the capabilities we're building in the excess and surplus line space. By the end of this year, written premiums will likely exceed $100 million. Going forward, we expect to become a leading destination for binding opportunities, a strong complement to our existing retail offering.

In addition, we're leveraging Small Commercial's underwriting and digital expertise to capture lower-complexity business in both Middle Market and Global Specialty and expect to take advantage of the growing technological developments implemented by our top brokers.

Turning to the loss ratio. Results were largely in line with our range of expectations. In property, coming off a favorable third quarter of 2021, fire loss frequency was a bit elevated in the quarter. With respect to workers' compensation, indemnity severity remains in line with wage rate growth and actual medical severity trends are well within our long-term assumption of 5%. Our liability lines continue to perform consistent with our expectations, and we are dialed in on social and economic inflation trends.

Closing out the Commercial discussion, I'm really pleased with the results we posted this quarter. Small Commercial continues to deliver superior operating results. Global Specialty's underwriting -- underlying margins improved 2.4 points from a year ago to a strong 84.5, and Middle & Large Commercial delivered a solid 93.7. We move into the fourth quarter from a position of financial strength, both in terms of accident year performance and balance sheet adequacy.

Let's switch gears and move to Personal Lines. Our third quarter underlying combined ratio of 95.9 reflects continued auto physical damage severity pressure driven by elevated repair costs related to supply chain and higher labor rates. In response to those loss trends, we have been increasing pricing since the fourth quarter of last year to ensure rate adequacy and overall profitability.

Auto rate filings have averaged mid-single digits through the first 9 months of this year with renewal pricing of 5% in the quarter, up 1 point from second quarter. Filed rates will move to double digits during the fourth quarter, and we expect mid-teens for the first half of 2023.

In home, overall loss results were in line with our expectations. Non-CAT weather frequency continues to run favorable to long-term averages, mitigating material and labor costs, which remain at historically high levels. We continue taking written pricing actions with home at nearly 12% for the quarter.

Turning to production. Written premium grew 5% for the quarter, largely reflecting pricing increases from both auto and home. Auto policies in force were flat to the third quarter of 2021 and up 1% from this year's 2Q. We will be prudent with growth, balancing rate adequacy, quality of new business and marketing productivity.

Before I close, let me share with you a few thoughts about our recent participation in the Annual CIAB conference. Common feedback centered on the complementary strategies across our businesses, strong cross-sell execution and excellent risk collaboration. Our position and engagement with the top brokers has never been stronger, and there are many exciting initiatives underway as our teams pursue deeper penetration with these partners.

In closing, I remain bullish about the future of our Property & Casualty business. As I shared with you last quarter, my confidence comes from our broadened and responsive product portfolio, the enhanced underwriting and data analytic capabilities we've built and our state-of-the-art technology and digital tools.

As I leave the organization at the end of this year, I could not be prouder of the nearly 12 years I've spent here at The Hartford. I am confident my teammates are well prepared to successfully tackle the challenges ahead while delivering consistent, industry-leading profitable growth. I look forward to watching their success in the coming years.

Let me now turn the call back to Susan.

Susan Spivak Bernstein
Senior Investor Relations Officer
Thank you, Doug. Operator, we are ready to take our first question.

Question and Answer

Operator

[Operator Instructions] Our first question for today comes from Alex Scott of Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is on the Commercial underlying loss ratio. Just on the year-over-year comparison, I think even adjusting for some of the non-CAT items that you mentioned, it didn't improve all that much. I think it even deteriorated a touch. And I just wanted to see if you could unpack what some of the drivers are. I think there was some mention of workers' comp in the 10-Q as at least a partial driver. So I was just looking to see if you could add some color around how we should think through the year-over-year comparisons there.

Beth A. Costello
Executive VP & CFO

Thanks, Alex. I'll start, and I'll let Doug provide some additional cover. So first, I just -- Doug said this in his comments, and I think it's always important when we start a conversation on Small Commercial is by any measure, I think their results are outstanding. As Doug discussed, we did see some impact from property losses, non-CAT, non-weather-related that obviously impacted the compare year-over-year. But when we look at year-to-date where we are compared to what we saw at the beginning of the year, we are right in line.

As it relates specifically to the workers' compensation point, again, if you go back to what we were expecting from the beginning of the year, we're very much right in line. We did not make any changes in the quarter as it relates to workers' comp in our loss picks from where we've been from the beginning of this year. And we had said at the beginning of this year that in this line, we expected a small amount of compression in workers' comp, and that's exactly what we've been booking to. And when I say small, less than 0.5 point.

Part of the compare to last third quarter and why that was called out was in the last year's third quarter, we had some true-ups in the quarter related to just some favorable frequency and rate coming in a bit higher than we had anticipated. So it's really more about last third quarter, this year and what we're producing overall completely in line with what our expectations were and no changes.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And maybe just a more broad question with my second. I think we've heard a couple of your peers discuss standard lines becoming a bit more competitive. And I think another was commenting on casualty pricing needing to reaccelerate and sort of highlighting the economic exposure potentially beginning to decline and being less of a tailwind. Could you frame for us the way you're thinking about the competitive environment and pricing and what you see needing to happen on the Casualty & Property side from here?

Douglas Graham Elliot
President

Alex, I would start by saying that we look at overall performance, and we feel very positive about what we produced for 9 months and look at our position in the quarter and just very pleased about that performance level. Now given the challenges that we all face, as I commented in my script, we are very conscious of both social and economic pressure inside our loss trends and are watching them carefully across all our lines, across all our segments.

The other thing I would say is we're coming off a significant natural peril disaster in the southeast part of this country. So we expect that the property market will go through some changes in the coming quarters starting very shortly. So we're in market with our CAT reinsurance program that renews 1/1. Our folks have been in Bermuda all week and expect over the next several weeks that we will talk about that structure.

I do not expect anything material to change relative to our reinsurance structure. But I think between property and social and economic changes, it's a really critical time that you stay on top of your trends, and we're trying to do exactly that here at The Hartford.

Operator

Our next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I wanted to go back to the Commercial discussion, right? So you guys, just a bit above the full year guidance year-to-date. I know there's moving pieces. And when I say a bit, right, it's 10 basis points. Just given that Q4, I think, seasonally does tend to run better than some of the other quarters, would you expect to be within that guided range for the full year?

Douglas Graham Elliot
President

Elyse, we do. So we're expecting to hit guidance. You're right, there is seasonality in our book of business, and so we're mindful of that. But based on what we see today and the early start with October -- very early start of October, we expect to be in that range.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question is on the Group Benefits business. Chris, I think you mentioned some higher expenses there. But if I look at the core margin, excluding COVID, that was nearly 9% in the quarter versus the 6% to 7% target. And you mentioned long-term disability trends are stable. So if we think about the run rate of that Group Benefits business ex COVID, do you think you guys could exceed that 6% to 7% target margin?

Christopher Jerome Swift
Chairman & CEO

Elyse, you're focused on forward guidance, and we've obviously talked about what we think we could do. But I would just share with you, yes, we feel good with the overall performance of all our businesses really through the first 9 months. And that's why I sort of called that out. Investment results have been very favorable across our portfolios, particularly with the strong LP contributions, but rates are rising.

So we still like our long-term view of 6% to 7% on sort of a normalized basis if you're going to look at it that way. But we'll always continue to try to outperform and exceed expectations. But I still would have you anchor in that 6% to 7% range.

Operator

Our next question comes from David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Chris and Doug, you both mentioned that you have approximately 100 basis points of spread between renewal written pricing and loss trends, if we exclude workers' comp. Just wondering what that is if we include workers' comp given how big that is within the Commercial Lines business.

Christopher Jerome Swift
Chairman & CEO

I'll just reinforce what Beth said, David, is that going into the year, our pricing plan compared to what we thought loss trend was, was going to have a modest negative effect, probably to 0.5 point on sort of combined ratios. I think through the first 9 months, we're outperforming that 0.5 point negative pressure. But that's the way I would frame it.

And Doug, I don't know if you would add anything else. But I'd like to just have you think of -- comp's in its own different sort of sphere as far as historical performance, the regulatory oversight in that line, David, and that's why we just talk about an ex comp spread.

Douglas Graham Elliot
President

David, I would just add that even inclusive of comp, our total commercial spread is still about the same. So the calculus is plus or minus 100 points. And yes, to Chris' point, comp continues to perform for us across our markets.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Okay. Great. That's helpful. And then also just a follow-up for Beth. Beth, you had said that there were some true-ups in the third quarter of 2021 related to favorable frequency and rate coming in a bit better than you had anticipated. I was wondering if you could just size the favorable impact that, that had on the third quarter of 2021 in Commercial Lines?

Beth A. Costello
Executive VP & CFO

Yes. So I guess the way I would characterize it is that when you look at the delta between last third quarter and this third quarter for Small Commercial, that delta in workers' comp was probably a bit over 1 point. And again, that really is coming from the favorability we saw last third quarter. And as I said, we were sort of anticipating when we set our loss picks for the year that we'd see, like I said, about 0.5 point deterioration. So I think that helps size a little bit of just kind of the delta and what we're seeing.

Christopher Jerome Swift
Chairman & CEO

And the remainder then would be property.

Beth A. Costello
Executive VP & CFO

Yes.

Operator

Our next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. First, I want to drill in a little bit on the Middle & Large Commercial Lines underlying combined ratios here. If we take a look at year-to-date, they're flat and the last couple of quarters has been up year-over-year. Just curious, what's kind of surprised you relative to what you were kind of expecting coming into 2022? And what are you doing potentially to address some of those surprises you're seeing in that market or that line?

Douglas Graham Elliot
President

Brian, this is Doug. The only real aberration through either 9 months and also in the quarter is our non-CAT, non-weather property volatility. So I look at the rest of the lines, I look at our performance, essentially right on target. So that little volatility in the quarter is the only thing we're looking at year-to-date against our expectations.

Brian Robert Meredith
UBS Investment Bank, Research Division

Would inflation may be a little bit higher than you expected on some of the property stuff? Is that potentially it?

Douglas Graham Elliot
President

I mean there's a little inflation as -- we've talked about inflation, but our pricing has been at or right on expectations as well. So I think we're matching what we're seeing on the economic loss trend side with our performance on the pricing end. So I feel good about that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then within your Global Specialty business, I'm just curious, do you all have the capacity or the, call it, the desire to potentially take advantage of what could be a much better pricing environment for cat-exposed property business? And what's your appetite for that?

Douglas Graham Elliot

President

I don't think you're going to see us in the next 6 months become a major CAT writer, right? We don't have that as an ambition. But our growing ambition over the past decade has been to be a stronger, more thoughtful, deeper, bigger property writer, and that goal remains and we're doing it selectively. So in our Middle & Large Commercial business, we've got a large property segment. We've got a growing property book in our core middle book. And then we also have a really neat specialty business -- property business in our Global Specialty.

So I look at property across the franchise. And I think that on the optimistic side, you will see that grow over time, but I don't think we're going to step right in and try to take advantage of a timing moment right now with CAT property.

Christopher Jerome Swift
Chairman & CEO

Brian, it's Chris. That's been one of our strategic themes Doug and I have talked about for years. It is just to have a broader property skill set in all our business segments, whether it be Small, Middle, Large, E&S and Specialty. And then the only color I would add on our reinsurance operations is it's a global property and casualty-focused reinsurer that has some specialty orientation also to it, writes about $500 million of total premiums. Doug, I would say its profitability and execution has been outstanding in the last couple of years. It did obviously suffer some Ian impacts this quarter that we called out. But generally, it's a nice specialty orientation in that Global Specialty area.

Douglas Graham Elliot
President

Yes. Very disciplined, very thoughtful and maybe some selective opportunity here that in Global Re, Brian, they will take advantage of. I was more referring to the primary space, but it's been a strong complement to our property capabilities and our thought process. So I think it will be opportunistic. We'll be thoughtful about what we do relative to CAT peril.

Operator

Our next question comes from Greg Peters of Raymond James.

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

Great. I guess for my first question, I'll focus in on the expense ratio. And obviously, there's a broader expense ratio across the entire enterprise. But I was looking at the Commercial Lines expense ratio, I think it's on Slide 7. And for -- it was 31.5% versus 31.8% a year ago. And I know you've been working on initiatives to improve it. So I guess with the growth that we're seeing, I guess I'm kind of surprised we're not getting a little bit more improvement. So maybe you can unpack what's going on with the expense ratio and where the improvements are coming from, and the good guys and bad guys, I guess, in the expense ratio.

Christopher Jerome Swift
Chairman & CEO

Brian, let me make a little context and then Doug and Beth can add their capabilities. As Beth said in our prepared remarks, and you can see in our deck, I'm really pleased with the execution of our Hartford Next program over a multiyear. That program and the savings that it generated is allowing us to think differently about investing going forward. And we've maintained sort of our view that we still want to build the organization in certain capabilities areas, whether it be digital, whether it be APIs.

So we still are investing in the organization at a healthy, healthy clip. That is sort of muting the underlying efficiencies that we're gaining. I would call out the investments we're going to continue to make sort of in our cloud journey as a big initiative over a multiyear period of time. We got the large initiatives in Global Specialty over the next couple of years from a data science side.

And then lastly, from a Group Benefits side, we are going to develop a new administration system with an outside service provider to modernize that 40-year-old tech stack. So I think you know we're builders, we're growers and that's part of why you're seeing maybe less benefit on the expense ratios as you sit here today. But Beth, what would you add?

Beth A. Costello
Executive VP & CFO

Yes. I would agree with those comments. I think specifically as it relates to third quarter, I believe in the third quarter of last year, we had a little bit of a release in bad debt. So that made last year's number maybe 30 basis points better. So that obviously affects that compare a little bit. And then also, we also look at our commission ratio has ticked up just a small amount as well, which, again, some of that reflective of just the strong profitability in the book and how that comes through in some of the supplemental comps. So those, I think, help to explain why maybe you wouldn't see more of a benefit just quarter-over-quarter.

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

Great. I'm going to pivot, and I know you spent time talking about this in your prepared remarks. But on the Personal Lines side, you look at the rate increase trend, it's all moving up. I recall Travelers' comments on their call where they were talking about mid-teens type of rate increases for their book of business next year. And I know you have a specialty auto book, but maybe you could spend a little bit more time just telling us how you see the rate trend moving over the next several quarters in the context of all the inflationary pressures we're reading about.

Douglas Graham Elliot
President

Sure, Greg. So maybe I'll build on what I shared in my script. Again, fourth quarter, as I said, we expect that change of 5% to move our rates, move up into the 10% category and then move into mid-teens. Our expectations in the second half of the year that our phys dam loss trend would abate a bit did not come to pass. So the world we see today and the trends we're experiencing at this moment, we're expecting those to continue into 2023, which are driving our assumptions inside our rate plan activity.

We described the first half of '23, an active rate process for us. And I think mid-teens will allow us to get on top of those trends. And I expect as we move through the first quarter into the second quarter, we'll be at very adequate terms for our book of business. Keeping in mind that as we introduce Prevail into the marketplace, which is a 6-month policy, we still have lots of policies out there that are 12 months. Our old Hartford auto and home product is a 12-month product. So there is a mix that will head towards 6-month the quicker we work our way through Prevail. But at the moment, we still have a lot of 12-month policies there.

Christopher Jerome Swift
Chairman & CEO

Greg, it's Chris. You characterized your question as a specialty auto carrier. I would push back on that. I mean we consider it a preferred segment through our AARP relationship over 30-plus years. So maybe you're just -- you've confused the thoughts in your head, but it's not a specialty-orientated auto book. It is a preferred class of customers, at least in my mind.

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

Right. I understand that. Wrong -- poor word choice. But thanks for the additional color, and congratulations on your retirement, Doug.

Douglas Graham Elliot
President

Thanks, Greg.

Operator

Our next question comes from Andrew Kligerman from Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Reading through the press release, you talked about a decrease in new specialty business. Could you share a little color on what lines you were pulling back on and perhaps what lines you were seeing some strength in new business growth?

Douglas Graham Elliot
President

Andrew, our comments relate to competition in the specialty space primarily in the professional lines area. So our fin lines area has -- as I commented, seen depressed pricing. In fact, our pricing went negative in the second quarter -- I'm sorry, the third quarter for

D&O. But it's an area that has gone through significant profit opportunity. And now as the lines are very adequate for us and probably many others in the industry, a lot of competition has gathered.

So we see that competition. We are not going to chase poor pricing. We're going to keep our discipline. And I attribute the lack of growth compared to prior periods in that Global Specialty space really to competition and us keeping our discipline, which we intend to maintain as we move into 2023.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

So could you see a further decline in sales in new business?

Douglas Graham Elliot
President

So hard to predict, and we always give you our best view of the future when we talk to you on the fourth quarter call. But I think the fourth quarter probably will not be a lot different in behavior than what we saw in the third quarter. A little early to talk about '23, I think, at the moment.

Christopher Jerome Swift
Chairman & CEO

Hopeful, Andrew, maybe there's a little more rationality that comes back into the market in '23, but time will tell.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got you. And then shifting back to Personal Lines. It was interesting to me that you cited auto physical damage as a real pressure on the loss ratio. But no mention of the medical cost inflation and I think Allstate had highlighted some pretty severe movements in their reserving for medical on the auto line. So any thoughts on where medical is trending?

Beth A. Costello
Executive VP & CFO

Yes. So included in our loss picks in auto, a component of that is medical. We have seen some uptick and that's reflected in our estimates and has been, and we haven't called that out because it hasn't been a significant driver of the changes that we were anticipating for the year, which has really been on the physical damage side because as you recall, we had anticipated to see some relief in inflationary pressures in the second half that have not obviously materialized.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Okay. And maybe if I could just sneak one quick one in there. You wrote some new business, as you cited in the release, in the personal auto area. Given the rate increases that you need, are you comfortable with that new business that you're putting on the books? Or could that be a little weak in year 1?

Douglas Graham Elliot
President

Andrew, good question. We are spending a lot of time on the quality of the new business we're writing in Personal Lines. And I think our team to date still feels very solid about the quality, but we are moving on the pricing side, and we'll continue to move. And it's one of the reasons that we have slowed the Prevail rollout. Still moving forward, but slowed slightly to make sure that our rate adequacies as we introduce the new product into market are where they need to be, given our view of current trends. And as you know and as we've discussed, that trend has been moving on us throughout the year. So yes, I'm very confident about where we are today and know that quality is something we've got in our front viewfinder day in, day out.

Operator

Our next question comes from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess I want to continue with auto for a second. I scratched my head with some auto results of some companies, and I got to put yours in that category. I'm a little confused on something. And then if I look at your auto core results, you've been north of 100% even in the back half of last year. Your pricing back then was low single digit, it's now 5%. It's going to get better. That's good. It's going to get better.

But I guess what I don't get is, you're averaging north of 100% last year. The question might be just kind of when did you start seeing -- maybe you saw it differently. When did you start seeing the high physical damage? Maybe you saw it a little bit later. But despite north of 100% and low single-digit pricing even back then, today, you're taking favorable development. So I'm confused on that and how long that might last.

Douglas Graham Elliot
President

Yes, Michael, we started seeing adverse phys dam pressure to our book and our expectations by late -- mid-to-late summer last year. So our filings ramped up in the September time frame, and they have continued to ramp throughout the year. Many of these states are now in the double-dip stage. So we're taking 2 bites at that apple inside the year.

And our expectation for '22 was that we would see some of those physical damage trends contain themselves a bit in the back half of the year, which we have not seen over the third quarter. So as we project forward, our activities will deal with the climate we see today. And as such, our fourth quarter pricing activities are going to be in the 10% range. That is reflective of where we think those rates need to be filed at. And as we continue to '23, as I said, it will go north from there.

Beth A. Costello
Executive VP & CFO

And then the only thing I add because you did mention the favorable prior year development that we saw in the auto line, that was primarily related to 2018 and prior. Just to put context on where we were seeing that benefit.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. Okay. That's helpful. So it was prior to 2021. But I -- what I have is concern, maybe the numbers you were putting up in the back half of last year had some padding for it, despite the fact that as you just said, you even start to see the higher trends last year. But you must have put some padding there for 2021 accident year.

Beth A. Costello
Executive VP & CFO

Yes, we had increased our views on physical damage in the second half of '21. Again, our expectation was that those were going to start to level off and we start to see some improvement in the back half of this year, which obviously we've not seen, and we've been responding accordingly each quarter as we book the current quarter activity.

Douglas Graham Elliot
President

And Michael, I think it goes without saying, but obviously, that activity quarter-by-quarter now is rolling into our filings. So what we experienced in the fourth quarter became a big part of the first and second quarter filings in the first quarter. So as we think about the experience, we have tried to reflect it in our loss pick calls but also in our filings as we move ahead.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Looking at the healthy increase in the dividend, I'm just trying to understand the idea about a permanent 10% increase in the dividend versus extra gun powder for share repurchase with the lower increase of the dividend. How are you balancing those 2 things?

Beth A. Costello
Executive VP & CFO

Yes. Well, I think we've been consistently balancing those things. We do think that it's important for us to maintain a competitive dividend. And I think the dividend really, in my mind, speaks to just the ongoing earnings power as we see in the organization. And as I said, we've been on a path of increasing that each year as our earnings continue to increase. I think we've got a very healthy repurchase authorization that allows us to execute on deploying our excess capital. So I feel very good about the balance that we create in both of those items.

Joshua David Shanker
BofA Securities, Research Division

And then I didn't catch it in the prepared remarks, maybe I missed it, but did you give us a gross loss for Ian so we compare it to the net loss, how much of reinsurance picked up?

Beth A. Costello
Executive VP & CFO

I did not, but I would say that from a reinsurance perspective, it's like $15 million to $16 million of recoverable that we booked within those estimates for Ian loss.

Operator

Our next question comes from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Congratulations to Doug on the retirement. I guess first question, just with your plan of really keeping the reinsurance structure unchanged next year. And I realize nothing's really set in stone yet, but assuming you're able to do that and with reinsurance costs probably going up, and I think you guys are mostly in the admitted markets, so maybe you see the ability to offset that through price lag a little bit. I guess all this said, is it reasonable to think that all else equal, margins could see a little bit of pressure, at least in the early half of next year?

Douglas Graham Elliot
President

I think that's a little bit big step to take right now. Our property pricing moved up in Middle & Large Commercial toward the end of the third quarter. Our underwriters across the franchise on property know they've got to look hard at insured-to-value numbers on all of our accounts. I think they're understanding and looking back at their CAT models given what happened over the last 30 days.

So we're moving on the primary side. And our experience, certainly from a CAT perspective, reinsurance has been generally very, very solid over the last decade. So it is too early to tell, but I'm not thinking about property compression right now. I'm thinking about it in terms of making sure we get needed rate on our book of business across every line that is writing the property.

Christopher Jerome Swift
Chairman & CEO

And I think you said it well. To me, Yaron, we'll always think about economics and what does it mean and sort of that risk/return trade-off. But as Doug said, our historical performance, our deep partnerships with our reinsurers and the fact that we do have multiyear rate guarantees on different layers, I think, immunizes us a little bit from any pressure on rates that we might face. So time will tell, and we'll report back to you early next year.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Understood. And then on the D&O competitive pressure commentary, can you maybe add a little more color on where this pressure is coming in more? Is it more in the primary layers? Is it more excess? Are you seeing it more from new entrants or incumbents?

Douglas Graham Elliot
President

Well, I would share our book is approximately 80% excess in the U.S. D&O space. So I can comment on what we're seeing there, which is where the pressure we're seeing -- we're also seeing it on the primary side, but our book is primarily excess. So I'd start with that. There have been a series of new entrants over the past 24 months.

As we all have talked about, the IPO market has slowed and the SPAC market has slowed as well. So the new, new opportunities in the marketplace are not where they were 1 and 2 years ago. So lack of upside opportunity and very solid, strong rate adequacies has led to quite a bit of competition, which I think is fueling inside this book and on us, it's hitting primarily in our excess area.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I understand that you're mostly excess, but ultimately, if the primary layer is coming in at a lower price, it also reflects on the excess price, I think. So I guess, is more of the pressure coming from the primary layer coming in? Or is it more from the excess layer pricing diminishing?

Douglas Graham Elliot
President

I think there's pricing pressure up the tower. There is some pressure in the primary, but I'm really speaking to primarily excess where we've seen quite a bit of new capacity come in. Easier to come in, in the excess area, and that's we're experiencing that pressure today.

Operator

Our next question comes from Michael Ward of Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

I was just wondering, you cited volume-related staffing costs for commercial. Just curious, is that related to workers' comp claims? Or I guess, what does that pertain to? I think we had heard about this in group in the past, but not necessarily for P&C.

Beth A. Costello
Executive VP & CFO

Yes. I would call that more on the production side, not on the claims side. So again, as you can see from our very healthy top line from a dollars perspective, we also just see some more costs relative to that production, just with respect to that volume but not claims related.

Michael Augustus Ward
Citigroup Inc., Research Division

Okay. The rest of my questions were asked.

Operator

Our next question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I just had a question on the development in the Commercial side. I think you mentioned adverse development in commercial auto. If you could just go into detail on what years it related to and what the driver was?

Beth A. Costello
Executive VP & CFO

Yes. So in Commercial Lines, auto really relates to accident years 2017 to 2019. And specifically, we had 1 claim that had an adverse verdict during the quarter that we reacted to.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then on personal auto, obviously, you're raising prices. It will take a while to flow through your results given your 12-month policies. Do you have any views on states that are not allowing price hikes right now like California and whether the companies are making some sort of headway in convincing regulators to approve price hikes?

Christopher Jerome Swift
Chairman & CEO

Yes, Jimmy, I'm not going to comment on the regulatory environment because it's pretty dynamic in various parts of the country, and you mentioned 1 particular state. So we pride ourselves on working with all our regulators in a constructive fashion. And hopefully, that can continue in some of these problematic areas.

Operator

Thank you. This concludes the Q&A for today. I will hand back to Susan Spivak for any further remarks.

Susan Spivak Bernstein
Senior Investor Relations Officer

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

Operator
Thank you for joining today's call. You may now disconnect.