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Earnings Call

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Presentation

Operator

Good morning. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter and Year-end 2023 The Hartford Financial Results Webcast. [Operator Instructions]

Thank you. Susan Spivak, Senior Vice President, Investor Relations, you may begin your conference.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Good morning, and thank you for joining us today for our call and webcast on fourth quarter and full year 2023 earnings. Yesterday, we reported results and posted all of the earnings-related materials on our website. For the call today our participants are Chris Swift, Chairman and CEO of The Hartford; Beth Costello, Chief Financial Officer; Jonathan Bennett, Group Benefits; Stephanie Bush, Small Commercial and Personal Lines; and Mo Tooker, Middle & Large Commercial and Global Specialty.

Just a few comments before Chris begins. Today's call includes forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance, and actual results could be materially different. We do not assume any obligation to update information on forward-looking statements provided on this call. Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings.

Our commentary today includes non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measures are 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. I will start with a summary of our fourth quarter and full year '23 results, which are simply stellar. Then I'll turn the call over to Beth to dive deeper into our financial performance and key metrics, after which I will close our prepared remarks with a review of expectations for 2024. We then will be joined by our business leaders as we move into Q&A. So let's get started.

The Hartford is pleased to report an excellent fourth quarter, capping another outstanding year of financial performance and achievement of our strategic objectives. These results demonstrate the power of the franchise and in particular, our superior underwriting execution, depth of distribution relationships and unmatched customer experience. I am grateful for the commitment, dedication and hard work of our 19,000 employees who show up every day to deliver for our customers, partners and shareholders.

Let me call your attention to some highlights for both the quarter and the year. Top line growth in Commercial Lines was 9% for the quarter with an underlying combined ratio of 86.6%, and growth was 10% for the year with an 87.8% underlying combined ratio. We achieved strong renewal written pricing increases across P&C during the quarter and for the year, including notable double-digit increases in commercial property, personal auto and homeowners in the quarter.

Group Benefits' fully insured premium growth was 6% for the quarter with a core earnings margin of 9.8%, and growth was 7% for the year with a core earnings margin of 8.1%. We delivered strong investment performance with an 80 basis points increase in the portfolio yield, excluding limited partnerships for the full year. All of these items contributed to an outstanding and industry-leading core earnings ROE of 15.8%.

Now let me share a few details from each of our businesses. Our Commercial Lines business completed its third straight year of double-digit top line growth and underlying margin expansion. Written premium growth of 10% for the year was driven by meaningful exposure growth, pricing increases across most lines and strong new business growth in each of our 3 businesses. As expected, underlying margins improved 0.5 point as slight headwinds in workers' compensation were more than offset by earned pricing, exceeding loss cost trends across the rest of the portfolio and by improved expense leverage.

Small Commercial remains a highly profitable growth engine for The Hartford. 2023 included record-breaking annual written premium of $5 billion and a decade-long trend of annual sub-90 underlying combined ratios. Spectrum, our best-in-class package product, continues to outperform in a competitive marketplace, contributing to annual new business premium growth up 20% over prior year. I am incredibly pleased with the overall performance in Small Commercial, a business we expect will sustain outstanding results with industry-leading products and unmatched ease of conducting business and unrivaled pricing accuracy.

Moving to Middle & Large Commercial. The performance has also been truly exceptional. Our team has improved annual underlying margins by approximately 10 points since 2019 while adding over $900 million in written premium at a 7% compounded annual growth rate. In 2023, written premiums grew 9%, reflecting strong rate execution and new business growth. Submissions, quotes and the hit rate are all up over prior year as we leveraged advanced underwriting capabilities, particularly within the low end of Middle Market. The stellar results in this business are a direct result of data science advancements, pricing expertise and industry-leading tools. Combining these advantages with our best-in-class talent and the strength of our distribution relationships, we are well positioned to sustain profitable growth in this business.

In Global Specialty, advanced underwriting capabilities and continued discipline are driving targeted market share gains with excellent underlying margin performance that has hovered in the low to mid-80s for the past 7 quarters. Our competitive position, breadth of products and solid renewal written pricing drove an 11% increase in net written premium for the year, including 33% in our Global Reinsurance business and mid-double-digit growth in U.S. professional liability and international marine and energy.

New business growth of 7% for the year and 20% for the fourth quarter was driven by significant increases in both submissions, end quotes and wholesale. Renewal written pricing continues to accelerate in wholesale excess casualty, and property pricing has been above 20% all year. We remain excited about our position in the wholesale market and across Global Specialty with execution that has never been stronger.

Looking across Commercial Lines. We are particularly pleased by the growth in property lines, a key area of focus. We will continue to capitalize on favorable market conditions with a thoughtful and disciplined approach. Property written premium of $2.5 billion for the year was approximately 20% higher than 2022.

Turning to pricing. Commercial Lines renewal written pricing was 6%, an increase from 5.5% in the third quarter. Excluding workers' compensation, renewal written pricing rose 4/10 to 8.5% with strong property pricing at 11%, auto closing in on double digits and many liability lines in the high single digits. Public D&O pricing remained pressured, although the fourth quarter result was the lowest pricing decrease since the second quarter of 2022.

In workers' compensation, renewal written pricing continues to exceed expectations, remaining slightly positive in the quarter. All in, ex comp renewal, written pricing in Commercial Lines remains comfortably on top of loss costs trends in the fourth quarter. In summary, Commercial Lines produced an exceptional quarter, closing out a very successful 2023.

Moving to Personal Lines. I am pleased with our continued progress to address elevated loss costs trends in both auto and home. During the quarter, we achieved auto renewal written price increases of nearly

22% and new business rate adequacy in over half the states, representing 2/3 of our new business premium. In homeowners, renewal written pricing of 14.7% during the quarter, comprised of net rate and insured value increases, outpaced underlying loss cost trends.

Our focus on the preferred market within the Personal Lines business is a competitive advantage with our modern, innovative and digitally enhanced offering, Prevail. This product and platform are currently available in 41 states with additional states coming online in 2024.

Turning to Group Benefits. We had an exceptional year, delivering record core earnings of $567 million and an outstanding core earnings margin of 8.1% and strong fully insured ongoing premium growth of 7%, demonstrating focused execution, a resilient economy, improved mortality trends and continued strong disability results. 2023 disability loss ratio of 67.1% reflects low long-term disability incidence trends and favorable claim recoveries.

In 2023, group life mortality trends have improved, though they remain above prepandemic levels. We expect the Group Benefits market to remain dynamic with digital transformation, product innovation and increasing customer demands. As a result, we are investing in this business and have a clear road map that I am confident will only strengthen our market leadership position.

For example, building on our historically strong presence in national accounts with an enhanced approach for small to midsized employers, we view this as a key strategic initiative, leveraging our unique expertise in these markets. In addition, as we have discussed before, we struck a partnership with Beam, a dental and vision company to expand our product offerings for small to midsized employers.

Overall, the strength of our Group Benefits diversified product portfolio, our commitment to outstanding customer experience using data and technology resonates in this marketplace, cementing our leadership position.

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

Beth A. Costello
Executive VP & CFO

Thank you, Chris. Core earnings for the quarter were $935 million or $3.06 per diluted share with a 12-month core earnings ROE of 15.8%. Commercial Lines had a very strong quarter and year with core earnings of $723 million and $2.2 billion, respectively, and an underlying combined ratio of 86.6% for the quarter and 87.8% for the year.

Small Commercial continues to deliver excellent results with premium growth of 8% and an underlying combined ratio of 85.8% compared to 87.5% in the prior year fourth quarter. For the year, growth was 10% and the underlying combined ratio was 88.6%.

Middle & Large Commercial delivered its third straight quarter of written premium over $1 billion with 11% growth and an underlying combined ratio of 90.3%. For 2023, growth was 9% with an underlying combined ratio of 89.3% compared to 92.1% in the prior year. Global Specialty's fourth quarter underlying combined ratio was an exceptional 82.9% and for the year, improved 30 basis points to 84.3%.

In Personal Lines, core earnings for the quarter were $36 million with an underlying combined ratio of 99.5%, including a strong homeowners underlying combined ratio of 67.3%. The fourth quarter auto underlying combined ratio of 113.5% was better than our expectations due to lower auto physical damage losses. This result is an improvement of 5.1 points from the fourth quarter of 2022 once that quarter is adjusted for the adverse development recorded in the first half of 2023 related to the fourth quarter of 2022.

Also, I will point out that during the fourth quarter of this year, we made no adjustments to loss reserves for prior accident years. As Chris indicated, we continue to pursue rate increases to offset the loss cost trends we are experiencing.

Written premium in Personal Lines increased 12% over the prior year driven by steady and successful rate actions. In auto, we achieved written pricing increases of 21.9% and earned pricing increases of 15.5%. In addition, we received approval for an 18.7% rate increase in California that was effective in January.

In homeowners, written pricing increases were 14.7% for the quarter and 14% on an earned basis. The total Personal Lines expense ratio improved by 10 basis points primarily driven by the impact of higher earned premium, partially offset by higher direct marketing costs.

With respect to CAT, P&C current accident year catastrophes were $81 million before tax, which compares to catastrophe losses of $135 million in the prior year quarter. Total net favorable prior accident year development within core earnings was $102 million, primarily concentrated in Commercial Lines as reserve reductions in workers' compensation, catastrophes and bond were partially offset by reserve increases in assumed reinsurance and commercial auto liability.

We completed our annual asbestos and environmental reserve study in the fourth quarter, resulting in an increase in reserves of $194 million, comprised of $156 million for asbestos and $38 million for environmental. All of the $194 million was ceded to the adverse development cover. The increase in asbestos reserves was primarily due to an increase in the cost of resolving asbestos filings and a modest increase in the company's share of loss on a few specific individual accounts. The increase in environmental reserves was mainly due to higher estimated site remediation costs, including an increase in the estimate for PFAS exposures.

After taking into consideration this year's study, as of December 31, we have $62 million of coverage remaining on the A&E ADC and a deferred gain of $788 million. For our Navigators' ADC, we have previously ceded the full limit of $300 million, of which $209 million has been recognized as a deferred gain within other liabilities. In 2024, we expect to start collecting recoveries on the ADC, and as a result, amortization of the deferred gain is expected to begin in the first quarter.

Based on our estimate of payment patterns, we expect total amortization of the deferred gain in 2024 will be approximately $125 million pretax with the remaining balance amortized in 2025. This will positively impact net income and have no impact to core earnings.

Before turning to Group Benefits, I would like to review the January 1 reinsurance renewals. Overall, we were very pleased with the placements and terms and conditions for our program. Our expiring core per occurrence catastrophe protection was renewed at an approximate 5% decrease in cost on a risk-adjusted basis, which based on publicly available information, compares favorably with the overall market and speaks to the quality of our book of business, strong reinsurer relationships and favorable experience.

There were some minor changes in the treaty that provides coverage for certain loss events under $350 million, but overall, the structure of our property CAT program did not change significantly. Additionally, we secured another $300 million layer on top of our program through a combination of traditional reinsurance and sponsorship of a catastrophe bond. The addition of CAT bond protection furthers our goal of securing diversified, strongly rated protection that affords durability in both cost and availability. The majority of our occurrence protection is secured on a multiyear basis. As of January 1, we have protection up to a gross loss event of $1.4 billion.

We also renewed our aggregate treaty under the same structure and term with favorable pricing from a risk-adjusted perspective. You've heard Chris reference our strategic growth in property writings. These changes ensure a consistent level of protection in keeping with that growth. We have summarized these changes in the slide deck. And in addition to our property catastrophe program, we also successfully renewed several other reinsurance treaties that experienced limited changes in terms, conditions and rates.

Moving to Group Benefits. We achieved record core earnings of $174 million for the quarter and $567 million for the full year. Core earnings margin of 9.8% in the quarter and 8.1% for the full year reflects strong premium growth, improved life results and continued strong disability performance. The group disability loss ratio of 63.6% for the quarter improved 1.9 points over prior year, reflecting continued strong long-term disability claim recoveries. For the year, the group disability loss ratio improved 1.2 points to 67.1%.

The group life loss ratio of 83% for the quarter improved 6.1 points versus prior year, reflecting an improving mortality trend. For the year, the group life loss ratio improved 3.9 points to 83.5%. The expense ratio improved 0.8 points for the quarter and 1 point for the year, reflecting strong top line performance and expense efficiencies, somewhat offset by continued investments to meet our customers' evolving needs.

Fully insured ongoing sales in the quarter of $71 million contributed to a full year sales total of $839 million. This, combined with excellent persistency at above 90%, resulted in fully insured ongoing premium growth of 6% for the quarter and 7% for the year.

Our diversified investment portfolio produced strong results. For the quarter, net investment income was $653 million. Our fixed income portfolio is continuing to benefit from higher interest rates, and we continue to be pleased with the positive 150 basis point differential between our reinvestment rate and the yield on sales and maturities. The total annualized portfolio yield excluding limited partnerships was 4.3% before tax, 20 basis points higher than the third quarter.

Looking forward to 2024, we are expecting 15 to 20 basis points of improvement reflected of the current yield environment. This increase, combined with portfolio asset growth, is expected to contribute approximately $135 million to net investment income before tax excluding LPs.

Our annualized LP returns were 7% in the quarter. Full year 2023 LP returns were 4.8%, reflecting the resiliency of our private equity portfolio, which helped offset the slightly negative returns in the real estate equity portfolio.

The overall credit quality of the portfolio remains high with an average credit rating of A+. Fixed maturity valuations increased in the quarter as a result of lower interest rates and tighter spreads. Net credit losses, including intent-to-sell impairments, remain insignificant along with a modest increase of $5 million in the allowance for credit losses on the mortgage loan portfolio. All of our mortgage loans continue to be current with respect to interest and principal payments.

Turning to capital. As of December 31, holding company resources totaled $1.1 billion. For 2024, we expect total dividends from the operating companies of approximately $2.2 billion. During the quarter, we repurchased 4.7 million shares under our share repurchase program for $350 million, and we expect to remain at that level of repurchases in the first quarter. As of year-end, we had $1.35 billion remaining on our share repurchase authorization through December 31, 2024.

To wrap up, 2023 business performance was strong, and we are well positioned to continue to deliver on our targeted returns and enhance value for all of our stakeholders.

I will now turn the call back to Chris.

Christopher Jerome Swift
Chairman & CEO

Thank you, Beth. Let's now pivot forward. Strong fourth quarter results capped a year of outstanding financial performance, positioning us to sustain these results in 2024. In Commercial Lines, with our diversified and expanding product portfolio and innovative mindset, we are primed to continue to build market share at highly attractive margins. We expect total renewal written price increases in Commercial Lines, excluding workers' compensation, to be consistent with 2023. Workers' compensation renewal written pricing, which is composed of net rate and average wage growth, is projected to be flat to slightly negative.

We expect underlying margins to be consistent with 2023, reflecting our steadfast commitment to disciplined underwriting while sustaining industry-leading results. While we anticipate slight headwinds in workers' compensation, earned pricing is projected to remain on top of loss costs trends across the remainder of the Commercial Lines book.

Turning to Personal Lines. We expect annual renewal written pricing in both auto and home to be consistent with the fourth quarter results. In auto, as a result of the significant written pricing actions that will earn into the book combined with moderating severity trends, we expect meaningful underlying loss ratio improvement of 5 to 6 points during 2024. Earned pricing in home is expected to remain above loss cost trends.

As we navigate this inflationary period across Personal Lines, we are focused on balancing rate adequacy, quality of new business and marketing productivity. Overall, I am confident we have the right execution plan to return this business to targeted profitability in 2025. In Group Benefits, we expect the 2024 core earnings margin to be between 6% and 7%, consistent with our long-term outlook for this business.

In closing, let me summarize why I'm so bullish about the future. First, 2023 financial results demonstrated the effectiveness of our strategy and the ongoing investments in our business. In particular, underlying margins in Commercial Lines were excellent with meaningful top line growth, and we produced record core earnings in Group Benefits with strong premium growth.

Second, Personal Lines results have stabilized. We are achieving necessary rate increases and expect 2024 margins to improve towards our targeted profitability.

Third, we expect our book of diversified but complementary businesses will continue to sustain superior results. With our outstanding underwriting and pricing execution, exceptional talent and innovative customer-centric technology, we will continue to outperform.

Fourth, investment income remains strong, supported by rising yields and a diversified and durable portfolio of assets.

And finally, in the last 3 years, we have returned $6.2 billion of capital through repurchases and dividends, and we will continue to proactively manage our excess capital to be accretive for shareholders. All these factors contribute to my excitement and confidence about the future of The Hartford. Quarter after quarter, we are delivering industry-leading financial performance with a sustainable core earnings ROE anchored at 15% while creating value for all our stakeholders.

Let me now turn the call back over to Susan for Q&A.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

So I'm looking at the Commercial Lines expense ratio and with Hartford Next, you had significant improvement from '21 to '22. And then in the fourth quarter, you had 110 basis points of improvement. Now that Hartford Next is over, do you see that improvement continuing? And maybe to what degree?

Christopher Jerome Swift
Chairman & CEO

Andrew, I'll start and then Beth can add her commentary. So yes, I appreciate you pointing out the numbers. I think also, too, on a year-to-date basis, '22 to '23, the 60 basis point improvement, which, on a full year basis, I think, is a good run rate.

And all I would say is, philosophically, we do have a continuous improvement mindset in the organization to get after additional expense efficiencies. I wouldn't say we have a formal program that we called out. But clearly, it's in everyone's goals to become more efficient, create that operating leverage that as we grow the franchise, would just -- it's a good levered model that more earnings drops to the bottom line.

But Beth, what would you add?

Beth A. Costello
Executive VP & CFO

Thanks, Chris. I think you covered on the pieces very well. And if we look at the full year expense ratio for Commercial Lines ending at 31%, I think that's a really great result. And as Chris said, we are going to continue to look for efficiencies. But we're also very mindful of making sure that we're putting in place the appropriate investments that allow us to continue to deliver the outstanding results that you see in our Commercial Lines franchise.

Andrew Scott Kligerman
TD Cowen, Research Division

And then shifting over to personal auto. You got a 21.9% rate increase. I want to make sure I understand that, that's -- is that pure rate? Or is that exposure growth? And then secondly, Chris, if I understood you, did you say that you expected 5 to 7 points of loss ratio improvement? Or could it be a lot more than that given the 21.9% rate increase?

Christopher Jerome Swift
Chairman & CEO

Yes. Andrew, on your first point, and Stephanie can add in her commentary, the 21.9%, I think we achieved is vast, vast majority, all pure rate. There might be a little exposure in there but very, very little. And I did say 5 to 6 points of improvement in auto next year. So -- no, it's okay. I'm okay with numbers, so I'll help you out. 5 to 6, so we ended the year at 110. We think we can get down to 104 next year on an underlying basis. And that's why, again, we're going to have to continue to execute and work hard in '25 to get down then to targeted margins, which I would say, on an underlying basis on auto is generally in the 95% to 96% range. You put 2 points for catastrophes on there, and that's your overall combined ratio.

So yes, that's our plan. As I said before, I think Stephanie and the team have a very executable plan. They're executing well in the marketplace today and balancing, balancing new business, balancing renewals and balancing our spend in marketing.

Stephanie, would you add any additional color?

Stephanie C. Bush
Former EVP and Head of Small Commercial & Personal Lines

You covered it perfectly. Thank you.

Andrew Scott Kligerman
TD Cowen, Research Division

And would you drive any additional rate as we go through the year? Or you feel good about the rates that...

Christopher Jerome Swift
Chairman & CEO

Say it again. I didn't hear you clearly.

Andrew Scott Kligerman
TD Cowen, Research Division

I'm sorry. Would you go for -- would you seek additional rate increases as we move through the year? Or do you feel like the rates that you've gotten so far should help drive you to the goals that you want to be at in '25?

Christopher Jerome Swift
Chairman & CEO

Yes. Clearly, the rate that we achieved this year is contributing. And as I said, we're anticipating 20 points of rate also next year, which is very important because that then sets up getting back to our targeted margins in 2025.

Operator

Your next question comes from the line of Gregory Peters from Raymond James.

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

I guess, I'd like to go back to your comment in the outlook portion of your presentation, where you said the ROE is anchored at 15%. It sounds to me like there's been a step-up in your expectations on the ROE range. And I'm not trying to put words in your mouth, but I'm just trying to understand exactly what you meant by anchored at 15%.

Christopher Jerome Swift
Chairman & CEO

Thank you for the question. I'm happy to provide any clarity. I thought anchored was actually a pretty good word because it really means sort of floor, in my mind. And Greg, we had a 14% to 15% ROE range as guidance last year. We're giving qualitative guidance this year as opposed to sort of the table. So we really wanted to send a strong message that we're shifting and it's shifting higher. And the construct we came up with was let's just anchor 15% as far as the floor for everyone's expectations.

We always, when we put out guidance, have a high probability of meeting that. And we play for upside. And you saw the way we ended 2023. And I'd say I think we're off to a good start this year, and I think there will be upside in that floor number that we provide. But that was the mindset behind that.

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

Excellent. That was my interpretation. Just wanted to make sure I had it right. So appreciate that. I want to pivot to the benefits side. I think -- and I'm sorry, I was writing down a bunch of numbers during the presentation. But I think you said the core earnings margin target for '24 is going to be in the 6% to 7% range. It feels like there's been a step-up in the last couple of quarters in your core earnings margin.

And then if I look at in Group Benefits for the full year, I think the core earnings margin for '23 was 8.1% versus 6.5% in '22. So is there something going on inside that business that's causing a step-down lower? Or maybe you can provide some color around the -- your comments there.

Christopher Jerome Swift
Chairman & CEO

Yes. Happy to, Greg. And then I'll ask Jonathan Bennett who's with us to add his color. No, I think it's a great business. We've always -- I think it fits within The Hartford. It contributes moderately and it's improved, particularly coming out of COVID.

So I would just say that the 6% to 7%, we've been pretty consistent. That's our long-term view. We're commenting on a long-term view for that business and particularly given some of the rate guarantees that are in that book of business. So -- but I would also say that we had an excellent record year this year and that momentum, I think, will continue into 2024. And we like how it's positioned. We like our strategic initiatives. We like how we're investing for the future in this business. So yes, it's going to be and will remain a significant contributor going forward.

Jonathan, what would you add?

Jonathan Ross Bennett
Executive VP & Head of Group Benefits

That's a great setup, Chris. And Greg, I would add to that, that we look at the trends in a range when we start to plan our future and think about 2024. And in calendar year '23, a lot of those trends turned in the right direction in our ranges, but certainly in the right direction within our ranges.

We talked about life coming out of the pandemic, that has pulled back into a pretty good spot. We have some continued pricing action that we will execute on in 2024 and a bit beyond. But when you think about where we are in LTD, incidence levels coming into the calendar year, terrific. Also, our claim team did a wonderful job around recoveries. These have been things going on for us in our disability book, our LTD book for a number of years. And we feel like we're in a really good place, and the market has also seen some improvement there, too.

But when we think about where we're headed in 2024, we put a range around that. We're just reminding that there is a range around it. And we would expect these lines of business to continue to contribute and contribute very, very well, supplemental health included, which has also been a big part of our margin story here in the calendar year '23.

Christopher Jerome Swift
Chairman & CEO

Greg, one last point. Remember, that 6% to 7% we've commented upon before turns into a 14% to 15% tangible ROE. So again, it's another reason why we like this business so much. Margins are generally steady, predictable. And our ROEs are very contributory to us, particularly on a tangible basis.

Operator

Your next question comes from the line of Mike Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

On the Commercial Lines guidance to kind of keep underlying margins consistent for '24 versus '23, that obviously would be a -- margins are at a great absolute level, and that would be a good outcome. But just kind of curious what your thoughts are, any details on kind of social inflationary lines? A lot of your peers have been kind of embedding a slightly higher loss cost trend on the go-forward, getting some IBNR. Just curious kind of within that outlook, any context around kind of the puts and takes other than workers' comp, which you talked about during the prepared remarks?

Christopher Jerome Swift
Chairman & CEO

Yes. Mike, thanks for the question. Yes, those are reality of our society today, right? Social inflation, legal system abuse, however you want to call it. So it's alive and well. It's nothing new for many, many industry participants, but it is still something you have to be aware of, particularly in the umbrella in the excess liability lines.

I'll ask Mo to add his commentary. But I think we've been thoughtful about the trends over the last couple of years and the need to stay on top of those trends with rate. And that's why I say particularly, we're looking for an element of consistency with '23. Because in a lot of those long-tail liability casualty lines, we need high single to low double-digit rate increases to stay on top of the trend assumptions that we have.

So yes, it's all part of managing a multiple product line approach. But again, in aggregate, I think the setup is very similar to last year's setup at the time when we talked about it is that there's going to be some slight pressure on comp. And we're going to try to maintain and expand margins where possible in other lines of business.

But Mo, what would you say specifically in the casualty world?

Adin Morris Tooker
Head of Commercial Lines

Yes. Mike, we're watching these trends closely, and we think the performance has been good. But that being said, we continue to work hard on rate. Chris referenced wholesale casualty accelerated throughout the year. So we're trying to make sure we're keeping rate on top of or at least not ahead -- if we can, ahead of trend. The same thing happened in our Middle Market GL book. Rate accelerated throughout the course of the year. So we're working hard on rate.

At the same time, we've talked to you about it a couple of times now, we're making sure that the underlying exposure we continue to adjust. So for the past 3, 4 years, we've been working hard in the jurisdictions we're in, our customers are in. We're working hard on the limits we're deploying. So there's some long-term strategies playing out here that give us some confidence in our ability to navigate, which is a difficult environment.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And my follow-up is just on capital management. I see the guidance there. Just curious, top line growth has been fairly robust, which is obviously a good thing. If the top line growth kind of continues at similar-ish levels in '24, which I assume is a capital user, I mean, should we be toggling maybe down the buyback levels a bit? Or am I splitting hairs here?

Christopher Jerome Swift
Chairman & CEO

Yes. I'm going to let Beth add her color, but I think you're splitting hairs. So our opcos are well capitalized. You see what we have left in authorization through the end of '24. Our intention is to complete that on a timely basis.

But Beth, I don't want to take any more of your thunder.

Beth A. Costello
Executive VP & CFO

Yes. No, I think you said it well, Chris. I mean we -- I talked about our expectations for dividends from the operating companies in 2024, which is up slightly from 2023. In the past, I've talked about that we typically target about 70% to 80% of the earnings to dividend out of the subs, and that provides us with enough room to fund the growth that we're expecting. So really no change in how we're managing the balance sheet and balancing those items.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Chris, so just curious, looking at the Small Commercial business, rate renewal pricing looks good. What do you think about exposure, kind of the growth there as we look going forward? Is -- what are you kind of seeing in that business? Do you think it's going to start to slow here in 2024 and could have an effect on top line?

Christopher Jerome Swift
Chairman & CEO

Brian, I know what you're trying to triangulate to. So all I'd say qualitatively on any top line point, because we're not going to give a precise number in aggregate or by line of business, is I think the macro sets up well. I think the economy is performing well. You saw the jobs report this morning, and unemployment remains low. You could see the Fed as being a little cautious on how quickly it cuts rates, which actually we support. So I think the macro sets up well.

All I would tell you is that what we saw in January, early indications are much of the same coming out of 2023 and sort of that double-digit range in commercial. So 1 month does not make a trend. But I think the environment will be fairly conducive to continuing going forward. So we perform very well when the economy is performing well, and I think that's the general view I have heading into 2024.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then just another one here. There was another company that announced some reserving actions and specifically related to the construction liability business. I know Navigators used to write that. Maybe you can talk a little bit about your exposure to that business. Is that an area of concern? Just put maybe a little color around that.

Christopher Jerome Swift
Chairman & CEO

Yes. There's always things to be concerned about and worry about. That's not one of the top ones and principally because bluntly, we've been there, done that. Part of our integration and activities with the acquisition we did years ago was to deal with -- sort of with those balance sheet reserving issues that we knew were there and saw.

So I think we've tackled that appropriately. I think we've made the adjustments in those older years, adjusted our loss picks and trends going forward. So I feel very comfortable and confident we got our arms around that issue a couple of years back.

Would you add anything, Mo?

Adin Morris Tooker
Head of Commercial Lines

So Brian, I'd just say there is an underwriting element here that -- so when we made the changes and then when we had the Navigators book come in, we shifted some of the underwriting in response to some of these trends. And that would have been 2, 3, 4 years ago. So we feel good about the go-forward book as well.

Operator

Your next question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on capital, I guess, following up on the earlier discussion. So Beth, you said $350 million buyback in the Q1, which is in line with the Q4 level. But you did point out, right, like the dividends out of group are going to be a few hundred million dollars higher in '24 relative to '23. So I think that, that would give you a tailwind to perhaps have a higher level of buybacks in '24. Is it just timing of dividends? And should we think about buybacks picking up in the back 3 quarters?

Beth A. Costello
Executive VP & CFO

Well, Elyse, I'll start with -- I mean we're executing on the share repurchase authorization that we have in place. And that is what we're executing to. And as I said, we expect $350 million in the first quarter, and we'll continue to execute on that.

As we think about dividends in total for 2024, operating company dividends versus '23, they're up about $100 million in total. So that all obviously goes into how we think about the balance sheet strength going forward, but not making any changes on our current share repurchase plans.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question is on the Commercial Lines guidance. So I think you said underlying margins would be consistent but did point to a headwind in workers' comp. As Chris, I know you said pricing there would be flat to negative. And we've gone through The Hartford Next program. So how do you think about the split between the loss and the expense ratio within commercial when you're coming to like an overall stable underlying margin in '24?

Christopher Jerome Swift
Chairman & CEO

Yes. Again, Elyse, what I tried to describe is that the setup is similar, right? So if there's pressure in comp, it needs to be offset by other components, noncomp in our product lines. You've seen what we've done with accelerating pricing, particularly in the fourth quarter. That mindset continues into '24. So when I say hold or expand, that's what I mean.

And look, I can't predict with great precision the top line, but I think there'll be some slight expense leverage. That will also contribute overall. So that's what I would say.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Question about adverse development covers. You have the NICO cover for the asbestos in 2017. You have the Navigators cover from a few years ago. Both are -- have been or about to be exhausted. As a sort of operating principle, when you buy an adverse development cover, do you buy with the expectation that likely it's going to be exhausted? Is that how it's structured? Or do you -- is it kind of a surprise that you get to the end of the cover?

Operator

Please stand by. We're having some technical issues. One moment.

[Technical Difficulty]

Christopher Jerome Swift

Chairman & CEO

Somehow we had a glitch. We want to answer your question. Don't worry about -- we're not trying to avoid your question.

Joshua David Shanker
BofA Securities, Research Division

I was worried it was me. I ask tough questions sometimes, and so I was worried it was me.

Christopher Jerome Swift
Chairman & CEO

No, no. We just gave our IT tech guys a heart attack. So that's okay. So ADC utilization, all I would say is it really depends, right? I mean, obviously, on the Navigators acquisition, it was part of the purchase price and funding there and dealing with it. So that's different.

The A&E deal that we did with NICO was just slightly different as far as long term. So if we would do anything again in the future, it would have to be economic for us, first off. And a lot of those deals that we did in prior were just in the lower interest rate environment, just a different part of our development as an organization and our performance.

So -- but the guiding principle that Beth and I talk about all the time is just what makes sense from an economic side because they're not cheap and they're actually expensive. So you give up things to do it, to have that economic cover. So I would just say, Josh, it depends. And we're going to always try to think in terms of what is the best economics for the shareholders and pursue then the right strategy from there.

Joshua David Shanker
BofA Securities, Research Division

And back when you did the 2017 cover, you were in a different capital position than you are today, I assume. So even if there was a deal available to you today, perhaps it doesn't -- the urgency is different than it was 7, 8 years ago?

Christopher Jerome Swift
Chairman & CEO

Yes. I think you got it right, totally. 6, 7, 8 years ago, we were just in a different place. And I just think we're in a better place. We have prudence on the balance sheet that feels good. And so yes, you're right, totally different place.

Joshua David Shanker
BofA Securities, Research Division

And the other question is also a philosophical one. I was talking to [Eileen] last night, and I think that these are the best commercial results you guys have had almost ever. Looked at -- going back to '06, there was 1 quarter that might be better. And clearly, it's the best Group Benefits results ever. What do you say to concerns that these might be peak margins?

Christopher Jerome Swift
Chairman & CEO

Well, we never give up. We keep on pushing ourselves to reset the bar higher, perform better. We have a growth orientation now that I think we've earned the right to think differently and creatively about the marketplace and activities we could pursue that are profitable and accretive to our shareholders, Josh. So I would never ever bet against us.

Operator

Your next question comes from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden

Evercore ISI Institutional Equities, Research Division

Just had a question on the property book within Commercial Lines. It sounds like you guys had really good growth last year in line with what you guys are saying. How are you thinking about growth, growing the property line in 2024 and if there's any sort of mix shift benefit that we should think about coming through incrementally to margins next year?

Christopher Jerome Swift
Chairman & CEO

David, I would say we're pleased with what we accomplished this year, but it's not the end of the mission where it's really just sort of the beginning. So growing that book about 20% to $2.5 billion, I'm looking at my pricing sheet, with overall pricing up on the full portfolio, about 16%. Our non-CAT property weather was essentially on plan for the year between our various business units. So yes, I feel really good about the underwriting, the tools.

Obviously, our reinsurance programs that Beth talked about, we made adjustments to. So we have all the components. Obviously, it's still a constructive marketplace to really build that national diversified book of business that we want to have. So just because you asked, and I like you, I'm going to tell you that I think we could produce about $3 billion of premium next year.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Awesome. That's great. And then maybe just following up, good growth last year in Commercial Lines, up 10%. I was just wondering if you could just maybe talk about how much exposure maybe contributed to that in 2023.

Christopher Jerome Swift
Chairman & CEO

Well, the exposure piece I can give you right now that I have in my mind is related to pricing, right? So if you look at our pricing expanding to 8.5% this quarter, about 2.5 points of it is exposure-related. So if you go back and look at -- it's been generally consistent, sort of, I would say, 1/3, 2/3. So that's what I have there.

But I'll look to Mo and Stephanie to see if they want to add any color on exposure in Personal Lines or Middle Market.

Stephanie C. Bush
Former EVP and Head of Small Commercial & Personal Lines

I'll start. It's Stephanie, David. From a Small Commercial perspective, I just want to continue on some of the comments that Chris and Beth made in their prepared remarks, but Small Commercial will continue to be a growth in earnings engine. You talked about exposure, but we look at many factors in Small. We look at new business starts. Those remain healthy. Unemployment in our sector is healthy. We track small business owner sentiment and the likelihood of them to invest and hire, and that is at a high level. And again, audit premiums, again, still strong.

So you take all that in combination with the results that we had, $913 million, all in just in new written premium. We grew every line. We grew policies in force in every line. And then as the team referenced that we delivered outstanding underlying in the fourth quarter and then our 14th consecutive quarter of 90 or below.

So the business model is incredibly strong and powered by exceptional data analytics and an outstanding team. So Chris touched on it. We had an outstanding start to the year, but it's a long way to go. But I feel really confident in what we'll be able to continue to deliver.

So I look at it broader than just exposure. It's all of those combinations. And then, again, from a personal insurance perspective, I think Chris and Beth laid out our mission very well in the auto line as well as in the home line. Home results are very strong as well, and that contributes to our growth and our aspiration to be a stronger property market.

So I'll turn it over to Mo.

Adin Morris Tooker
Head of Commercial Lines

Yes. Many of the same messages. I think the exposure growth we are seeing, and again, across comp, property is holding in well and even into January is holding in well. So I think we just -- we think the economy is very supportive there.

So David, I don't have much more to add to Stephanie's summary there.

Operator

Your final question comes from the line of Alex Scott from Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is on the Group Benefit dividends up to the holdco, it took a nice step up. And just looking at the $600 million, I mean, that's more than the core earnings from '23 by a bit. It seems to imply that you think some of this strength can continue in 2024. So I just wanted to understand that number a little bit. And we don't usually, for maybe these type of businesses, see distributions in excess of earnings. So is there any excess capital drawdown there to consider, those kind of things?

Beth A. Costello
Executive VP & CFO

Yes. I'll take that, Alex. No, I mean, again, we're looking at it on a statutory basis. And obviously, dividends out of Group Benefits have been lower over the last couple of years given those results. So as we looked at what the dividend capacity was there for 2024, we felt it was appropriate to increase those dividends.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. All right. Helpful. Just on the -- going back to the environmental and given we got to think about it a little harder with ADC closer to being used up. I know you mentioned the PFAS. Could you give us a sense of what kind of adjustments are made around PFAS? And is that related to any specific developments? Or do we need to think about that as something that could impact things going forward?

Beth A. Costello
Executive VP & CFO

Yes. I mean, again, I think we've mentioned PFAS on environmental the last couple of years. And overall, we looked at what the increase was for environmental, not overly significant or a big change from where we've been. So I wouldn't point to anything unusual there. It's just as we went through our study this year and just looked at all components, saw some increases in some of the remediation costs. And as is our practice, I'm not going to talk about specific accounts and where that came from.

Operator

We have reached the end of our question-and-answer session. I will now turn the call back over to Ms. Susan Spivak for some final closing remarks.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

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

Operator

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