S&P Capital IQ

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The Hartford Financial Services Group, Inc. NYSE:HIG

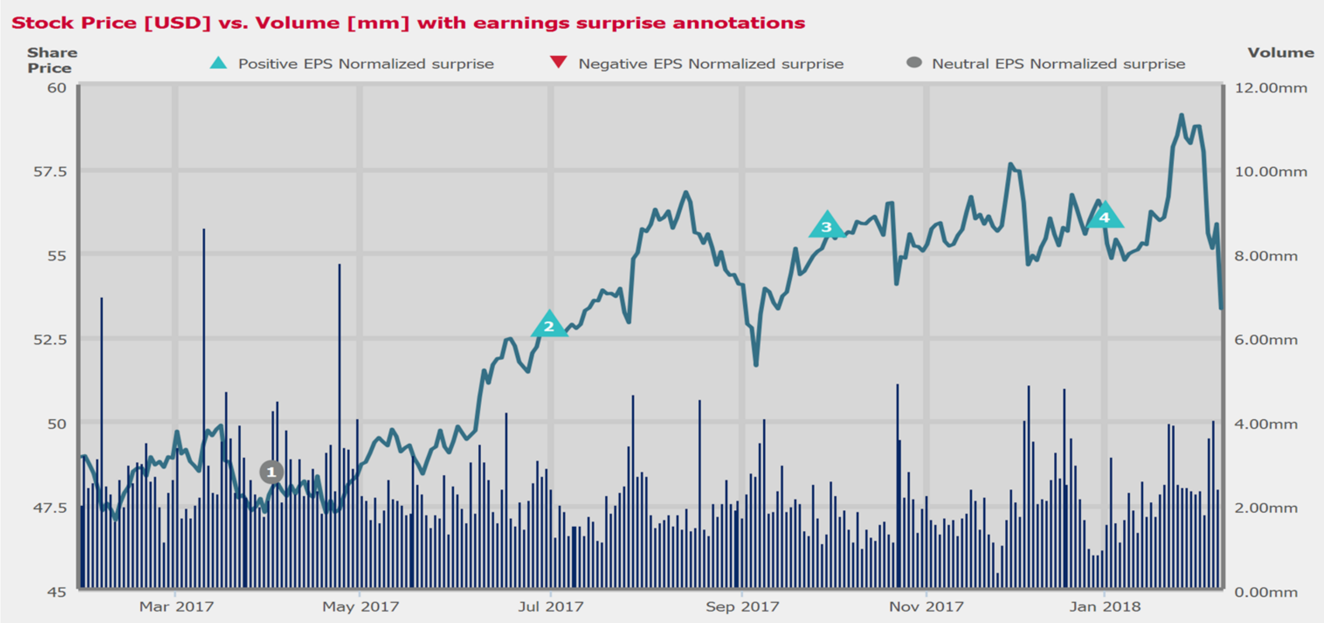
FQ1 2018 Earnings Call Transcripts

Friday, April 27, 2018 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.07	1.27	▲18.69	1.03	4.52	4.90
Revenue	-	-	▲1.60	-	-	-
Revenue (mm)	4617.00	4691.00	-	4644.00	18828.20	19352.60

Currency: USD
Consensus as of Apr-27-2018 12:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	1.00	1.00	●1 0.00 %
FQ2 2017	0.94	1.04	▲2 10.64 %

FQ3 2017	0.57	0.60	▲5.26 %
FQ4 2017	0.73	0.81	▲10.96 %

Call Participants

EXECUTIVES

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Chairman & CEO

Douglas Graham Elliot
President

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Presentation

Operator

Good morning. My name is Amy, I know will be your conference operator today. At this time, I would like to welcome everyone to Hartford's First Quarter 2018 Earnings Results Conference Call. [Operator Instructions]

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

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations

Thank you, Amy. Good morning, and thank you all for joining us today. Today's webcast will cover first quarter 2018 financial results, which we announced last night. The news release, investor financial supplement and the 1Q '18 slides and 10-Q are available on our website. Our speakers today include Chris Swift, Chairman and CEO of The Hartford; Doug Elliot, President; and Beth Bombara, CFO. Following their prepared remarks, we will have time for Q&A.

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

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 financial supplement, which are available on our website. 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 at least 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. Our results this quarter were excellent, with solid underwriting and investment performance. Higher pretax results were the primary driver of earnings growth, with the added benefit of lower tax rates. Core earnings per diluted share of $1.27 were up 67% over first quarter 2017 and up in each of our 4 major businesses.

In P&C, underlying combined ratios improved for both Commercial Lines and Personal Lines, with better auto results in each segment. In addition, lower catastrophe losses and favorable prior year development contributed to higher underwriting results. All of our markets remain competitive, but that said, we are confident in our ability to execute and grow in this environment.

In Commercial Lines, the pricing trend is mostly positive, and we achieved higher rates in property and liability lines. However, workers' compensation renewal premium rates are generally flat to slightly down, reflecting the favorable loss experience of the last several years. Doug will provide more insights into pricing trends.

Group Benefits core earnings more than doubled to $85 million this quarter, driven by improved disability results, earnings on the acquired business and lower taxes, offset by higher mortality on the life business. In addition, first quarter of 2017 had a guaranty fund assessment for Penn Treaty. Disability trends continue to improve but were offset somewhat by elevated mortality. We think this variation was within a normal range of mortality experience, especially in the first quarter, which is historically more volatile.

Mutual Funds posted excellent growth in earnings and AUM, with positive net flows and healthy market appreciation from a year ago. Net investment income was up 10%, mostly due to higher invested assets, with virtually no net credit impairments. Limited partnership returns were very strong this quarter.

Lastly, we are hard at work on the integration of the Group Benefits acquisition and the separation of Talcott Resolution. Both of these major projects are proceeding as planned, with dedicated multidisciplinary teams working collaboratively and on schedule. We expect Talcott's sale to close by June 30.

As a leading insurer of U.S. businesses and their employees, we benefited from increased employment and small business formation, particularly in Commercial Lines and Group Benefits, over the last few years. We may see additional growth if the lower, more competitive U.S. corporate tax structure increases GDP growth and employment.

With regard to the quarter, I am pleased with our top line growth in Commercial Lines. Small Commercial new business grew 8%, with momentum in both our Standard Commercial book and Maxum, our E&S specialist. The top line was just shy of $1 billion of net written premium, putting a $4 billion annual level within range and up from $3.2 billion in 2014. We expect Small Commercial's growth to continue this year, including the impact of the recent renewal rights agreement with Foremost, which will take effect in July. This book is comprised of small commercial business segments that we know well and underwrite profitably. Combined with our best-in-class technology, customer service and claims capabilities, this deal will generate an attractive return for us.

Group Benefits earned premium grew 66% this quarter from both the acquisition and strong new sales, along with solid persistency. Our market presence across all customer segments has improved, particularly in National Accounts, which we expect will help drive additional growth from expanded market opportunities.

Looking forward, investing in our company remains the cornerstone of our strategy. We want to achieve profitable organic growth, particularly where we have attractive margins and strong competitive advantages. This requires developing better data and analytical tools and expertise, including leveraging our new claims system, which some of you have seen in action.

We also want to become an easier company to do business with. This requires investments, especially in technology. The technology initiatives currently underway include a new Commercial Lines policy administration system, which is a multiyear project. Another initiative is the integration of Aetna's disability claims system across the combined Group Benefits book. This integration, which is on schedule for completion by year-end, will give our customers market-differentiating capabilities for absence management.

With customers expecting us to provide digital service and capabilities similar to what they experience at other companies like Amazon, we must continue to build better digital interfaces for agents and policyholders. These investments will create faster turnaround times, reduce cost, improve ease of use and increase efficiency and customer service satisfaction. For instance, our automated certificate of insurance capability, available 24 by 7, has dramatically decreased response times at a fraction of the cost from our prior process.

Finally, before turning the call over to Doug, I wanted to spend a few minutes on our capital management strategy and objectives. With our businesses achieving returns well above our cost of capital, I want to be clear that we prefer to invest for profitable organic growth. However, we will not compromise our underwriting or pricing standards just to grow the top line. We will remain disciplined.

From a strategic perspective, we believe acquisitions can help build greater competitive advantages and accelerate earnings growth. The Aetna acquisition is an example of that, and we're really pleased with its performance. However, acquisitions are often expensive, especially in today's market, and they have execution risks that need to be clearly understood.

Currently, our primary focus is in the Commercial Line space where we are building broader risk and underwriting expertise organically. We will consider financially accretive acquisitions that accelerate these goals. And to date, the deals that we have done in Commercial Lines have been smaller bolt-on transactions.

As to specific areas of interest, we are particularly focused on specialty lines and industry verticals. There are, however, certain product lines or businesses, such as reinsurance, that we do not currently view as strategic. That should not imply we would never buy a company that has a minor or small reinsurance portfolio, but it does mean that the majority of the business would need to align with or complement our Commercial Line strategies. And it has to meet our financial objectives, meaning that we expect an acquisition to deliver returns above our cost of equity capital in a reasonable period of time. We measure that return by future earnings power and capital efficiency, including expense savings, improved underwriting results, growth synergies, other benefits produced by the acquisition.

In addition to organic growth and acquisitions, capital management is an important tool for creating shareholder value. We have been and continue to evaluate the best use of deployable capital, including the anticipated proceeds from the Talcott sale. And we continue to weigh business opportunities against share repurchases and other capital management actions.

Our goal, consistent with our track record of a balanced approach to capital management, is to optimize deployable capital for shareholder value creation while maintaining a strong balance sheet. And as a fellow shareholder, I assure you that we will continue to be thoughtful and disciplined in our approach. We will not make hasty decisions, and we do not feel rushed to make long-term impactful choices. Rather, we will be patient and thoughtful regarding these matters.

To wrap up my comments, 2018 is off to a great start, with solid financial results and opportunity to grow in each of our businesses. I'm excited about the many initiatives underway, and I look forward to updating you on our progress.

Now I'll turn the call over to Doug.

Douglas Graham Elliot
President

Thank you, Chris, and good morning, everyone. First quarter results for Property & Casualty and Group Benefits were excellent, with each of our business units executing effectively against their priorities. Commercial Lines posted a very strong quarter as markets remain competitive.

In Personal Lines, auto margins continue to improve, and Group Benefits had an outstanding quarter of strong core earnings growth even after adjusting for the Penn Treaty guaranty fund assessment in first quarter 2017. All our businesses benefited this quarter from favorable net investment income results and, in P&C, lower catastrophe losses versus prior year.

Let me provide some details on our business unit performance. The Commercial Lines first quarter combined ratio was 93.3, improving 2.7 points from 2017. The decrease was primarily due to underlying margin improvement in auto, the result of pricing and underwriting actions taken in recent years and a swing to favorable prior year development versus adverse development last year. The prior year development was primarily driven by workers' compensation, where our loss trends have been favorable. Property and commercial auto also were slightly favorable.

The underlying combined ratio for Commercial Lines, which excludes catastrophes and prior year development, remains very solid at 90.4, improving 0.5 point from 2017. Market conditions showed some signs of price firming in the quarter yet continued to remain competitive.

I remain pleased with our execution on the front line. Renewal written pricing in Standard Commercial Lines was 2.5% for the first quarter, down 30 basis points from last quarter, primarily driven by Small Commercial workers' compensation. Our margins on this book of business remain very healthy, and renewal written pricing remains positive, giving us a strong foundation for competing in the marketplace.

In Middle Market, renewal pricing was very competitive in January, but February and March showed more positive signs, with prices increasing in all major lines in the back half of the quarter. I expect further positive rate movement in the quarters ahead for property and GL and continued strong pricing for auto, the lines most in need of margin improvement.

Our Middle Market business still needs more rate, and I suspect that we are not unique in that regard. We believe the appropriate path is to continue pushing for rate increases consistent with long-term loss cost trends and to maintain underwriting discipline even though retention has come under pressure.

Small Commercial had an excellent first quarter, with an underlying combined ratio of 87.5. Written premium grew 1% with $166 million of new business. This is our largest new business quarter in history, up 8% from last year. New business from the recently announced Foremost renewal rights deal will begin in early third quarter, and our team has been active in recent months working with agents to prepare for a successful transition. We're excited about expanding our relationship with many of our current agents while adding new partners through this transaction. This opportunity leverages the power of our Small Commercial platform to grow top and bottom line through inorganic consolidation, complementing the organic growth success we've achieved in recent years.

Middle Market delivered an underlying combined ratio of 92.2 for the first quarter, improving 1.6 points from 2017, mainly due to lower commission expense this quarter and slightly better margins in several lines. Written premium increased 4% based on solid retentions and strong new business production of $141 million. The increase in written premium versus last year is coming primarily from our specialized practice teams, including our expanding construction and energy verticals. Written premium in our traditional block of business was essentially flat to 2017, impacted by continued soft pricing and excess market capacity.

In Specialty Commercial, the underlying combined ratio of 97.5 was flat to 2017 as slight margin deterioration in Financial Products and National Accounts was offset by lower commissions, driven by the mix of business. Written premium was down 2% for the quarter, largely due to a decrease in Bond, which had a very strong first quarter of 2017.

Personal Lines continues to show progress with an underlying combined ratio of 89.8 for the first quarter, improving 1.4 points from a year ago. In Personal Lines auto, the underlying combined ratio was 94.2, 2.4 points better than 2017. Loss cost trends remain within our expectations in the low single-digit range.

I'm increasingly positive about our improving financial performance in recent quarters. Returning to written premium growth for Personal Lines remains a priority for us. Our higher expense ratio in the quarter reflects our increased marketing efforts in AARP Direct auto. Early response rates have been strong, but our conversion ratios are not where they need to be for us to grow. We have a number of initiatives underway to lift our close rate, and I expect new business to increase over the course of 2018 as our price increases continue to moderate as well.

In Group Benefits, core earnings for the quarter were $85 million with a margin of 5.6%, driven by favorable disability results, the recently acquired book of business from Aetna and lower tax rates, offset by higher mortality in our life book of business.

The lower disability loss ratio reflects better-than-expected incidence and recovery trends across multiple accident years. This favorability was offset by a higher life loss ratio. There are 2 drivers here. The most significant factor, accounting for approximately 2/3 of the increase, is the mix of the group life book toward larger accounts, resulting from the Aetna book of business. We expected these large accounts have a lower expense ratio and run a higher loss ratio, consistent with our own historical National Accounts experience. The second factor is slightly higher mortality this quarter across the entire life book. At the moment, we see this as normal volatility, and we will monitor it carefully to ensure that we react appropriately if necessary.

Persistency on the combined employer group block of business was approximately 90%. Fully insured ongoing sales were very strong at $454 million. It was an excellent sales quarter across all market segments and product lines, with an especially strong start to the year in voluntary.

As Chris shared, we are very pleased with the pace of our integration on the Aetna group life and disability business. Our go-forward leadership team is in place. We're currently installing Aetna's disability claim platform on our infrastructure, and plans to begin converting business in early 2019 are on track.

On an annualized run rate basis, we've achieved $60 million of the $100 million target for expense reductions, consistent with our goals. A large portion of this comes from the corporate costs in IT, finance and marketing. We have also solidified our line of sight to the balance of our target reductions in claim, product, underwriting and other business functions. All in, the integration has been very successful thus far. The teams have become one, and we're executing effectively both internally and in the marketplace.

In summary, we're off to a very solid start in first quarter 2018 across all our businesses. We remain focused, disciplined and balanced in our execution to deliver profitable growth.

Let me now turn the call over to Beth.

Beth Ann Bombara
Executive VP & CFO

Thank you, Doug. I'm going to briefly cover first quarter results for the investment portfolio, Mutual Funds and Corporate, and provide an update on the Talcott sale before taking your questions.

Core earnings for our P&C and Group Benefits businesses included continued excellent investment results both from an income and credit perspective. For the quarter, net investment income totaled $451 million, up 10% over the prior year quarter, primarily due to the fourth quarter 2017 Group Benefits acquisition, which added about $3.4 billion in invested asset to the portfolio.

In addition, LP investment income was up $15 million, with annualized returns of about 19% compared with 16% in first quarter 2017. As you may recall, our outlook for LP returns is about 6%, reflecting a longer-term view and the expectation that returns may moderate as the cycle progresses.

Excluding LPs, investment income was up 7%, and the portfolio yield was 3.7%, down slightly from first quarter 2017 due to the impact of the Group Benefits acquisition. As a reminder, the acquired investment portfolio was marked to market on the date of the acquisition, reducing the portfolio yield in Group Benefits, excluding LPs, from 4.3% in third quarter 2017 to 3.8% in first quarter 2018.

P&C investment yields, excluding LPs, were essentially flat over the last year, averaging 3.7% in first quarter 2018, which is also consistent with reinvestment rates in the quarter. Looking forward, we expect before-tax yields over the balance of 2018 to be relatively consistent with 2017.

My final note on the investment portfolio is that credit performance remains strong with no net impairments in the quarter and only $8 million before tax over the last 4 quarters. The low level of impairments reflects an overall benign credit environment and the careful underwriting of our portfolio.

Turning to Mutual Funds. First quarter core earnings were $34 million, up almost 50% from last year through the combination of lower tax rate and higher investment management fees. Income before taxes was up 23%, reflecting a 17% increase in investment management fees, driven by higher average assets under management.

Investment performance remains strong, with 68% of Hartford funds beating their peers on a 5-year basis. Net flows totaled $678 million in the quarter, including particularly strong flows in Exchange Traded Products, which totaled $194 million this quarter compared with $22 million in the first quarter of 2017.

Core losses for the Corporate category totaled $66 million, up from $52 million in first quarter 2017 due to the impact of lower tax rates. The loss from continuing operations before income taxes in Corporate was actually $10 million lower than last year, but the offsetting tax benefit was $21 million lower due to the reduction in tax rates.

During March, we completed 2 debt transactions, repaying $320 million of 6.3% senior notes and issuing $500 million of 30-year senior note at a coupon of 4.4%. Looking forward, this June, we will call at par $500 million of hybrids with a coupon of 8 1/8%. As a result of these transactions, interest expense will decrease by about $2 million before tax sequentially in the second quarter and then decrease by an additional $8 million before tax per quarter beginning in the third quarter.

Taken together, these actions will reduce outstanding debt by about $320 million by the end of the second quarter and reduce our average coupon rate and total annual fixed charges.

At March 31, 2018, our rating agency adjusted debt-to-capital ratio, which takes into account pension liabilities, equity credit for hybrids and AOCI, with 29.9%, up from 28.8% at year-end. The increase is primarily due to the impact of higher interest rates reducing AOCI. Total debt-to-capitalization, excluding AOCI, was essentially flat at 27.9% compared with 28% at year-end. Through earnings and debt repayment over time, we expect to reduce our rating agency debt-to-total-capital to our target in the low to mid-20s.

In total, first quarter core earnings were $461 million, up $173 million from first quarter 2017. Core earnings benefited from higher P&C, Group Benefits and Mutual Funds pretax earnings as well as the lower corporate tax rate. On a pretax basis, core earnings rose about 48% or $183 million, while income taxes only increased $10 million as the effective tax rate on income from continuing operations decreased from 24% in first quarter 2017 to about 18% in first quarter 2018.

The core earnings ROE was 7.8% this quarter compared with 5.1% a year ago. Keep in mind that this is a trailing 12-month calculation, not an annualized return for the quarter, so it includes the impact of high catastrophe losses in the last 3 quarters of 2017 as well as the higher corporate tax rates last year. As we have stated previously, we expect the 2018 core earnings ROE to be in the 11% to 12% range.

Book value per diluted share, excluding AOCI, was $36.71, up 4% from December 31, 2017, due to the impact of earnings less dividends. Book value per diluted share was $36.06, down 3% from December 31, 2017, as higher interest rates reduced AOCI.

I know many look at all-in book value for P&C companies, so as a reminder, our March 31, 2018, shareholders' equity includes $892 million of AOCI for assets that are part of Talcott. Therefore, we would expect June 30, 2018, book value per diluted share to be reduced by about $2.45 from March 31, 2018, upon the closing of the sale.

As an update, the Talcott sales process remains on schedule to close by June 30. As part of the regulatory approval process, the Connecticut insurance commissioner has scheduled a hearing for May 17, after which the state has up to 30 days to issue a ruling. Aside from the regulatory approval, the work to separate Talcott is well underway. Under the terms of the sale, we will continue to provide certain transition services to Talcott for up to 2 years, and we have a 5-year contract to manage their investment portfolio. The fees and expenses for those services will be included in our Corporate segment going forward.

After expenses, we expect that the Talcott sale will generate net cash proceeds to the holding company of approximately $1.7 billion, including $300 million of pre-closing dividends. In addition, the holding company will retain total tax benefits of about $700 million, including NOLs and AMT credits.

To conclude, the first quarter was a good start to the year, with underwriting and investment results remaining quite strong despite catastrophe losses higher than our outlook. While the capital markets have been more volatile recently, like most insurance companies, our investment income will benefit from a higher rate environment over time so long as inflation trends are modest. In addition, equity market values remain high, helping generate strong returns on our private equity limited partnership portfolio.

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

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations
Thank you, Beth. Before the operator, Amy, gives the Q&A instructions, I wanted to remind everyone of our upcoming Annual Shareholder Meeting on May 16. Please remember to vote your proxies. Amy, could you please repeat the Q&A instructions?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

As you think about M&A in the commercial business, I'd love to get a sense of the past deals, well, specifically Maxum. I guess that's among the larger ones you've done in the commercial business. Can you -- and it kind of disappears within your organization. Can you give us a sense of the kind of returns you've been able to generate since you've acquired that? And then secondly, a smaller question. With Foremost, I think the premiums there were roughly $200 million. Any sense of how much you expect to keep on renewal?

Christopher Jerome Swift
Chairman & CEO

Yes. Jay, it's Chris. On both these, we'll tag-team between Doug and myself. On Foremost, it is about a $200 million block of premiums. And a lot of it depends on the persistency and the rollover. I think we feel very good about signing up the agents and in their authorization and, more importantly, data to easily quote this. So it's hard to predict, but I suspect we'll keep 75% of the overall book long term. On Maxum, I would say that was relatively a small deal. If you remember, it was approximately $200 million-ish we spent. We went through some level of restructuring and shutting down certain aspects of their business model really to build the new Small Commercial E&S model, which we're very, very, very pleased with. I think on an earnings basis, you ought to think about it, we're making about $10 million to $15 million after tax in core earnings. We've avoided some businesses that were unprofitable, and we're really excited about the opportunity to integrate E&S into our quoting platform. Doug, what would you add?

Douglas Graham Elliot
President

Chris, I think you hit it. So on the Foremost piece, Jay, mid-70s would include some shock loss from our normal run-rate retention in Small. So we're anticipating that we won't -- we'll not run as strong as we run our normal retention. Very excited about that. And as we talk about early third quarter, just so you're all aware, we're quoting 90 days out in advance, so we're actually right now in market quoting July activity, but the premium won't hit the books for a couple of months. On the Maxum side, very strategic opportunity for us. We didn't have E&S talent in this organization. We didn't have relationships on the distribution side. And we clearly wanted to challenge ourselves with the product breadth opportunity in the Small Commercial and Middle Market arena. So just getting started. Many of you know that we now have expanded our product capability in Small, including an E&S opportunity on our ICON quoting platform. Very excited about the early days, but we'll be talking more about it over time because I think it bodes well and has a big opportunity for us to be a broader, deeper player in Small Commercial over time.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

I just had a first quick one for Beth. Can you remind us what is the stranded kind of cost from Talcott? How much that was in the quarter and kind of how that could have -- is going to be running off here over the course of the next 12 to 18 months?

Beth Ann Bombara
Executive VP & CFO

Sure. So when we think about costs, and again, stranded costs, we think about as costs that were allocated to Talcott, kind of overhead costs that obviously would not go with the transaction. And on an annualized basis, we see that in a sort of $35 million to $40 million range, and it's pretty even across the quarters. And our expectation is, over these next 12 to 18 months, we'll see those costs reduced. Again, we will be providing some transition services to Talcott over that period as well and being reimbursed for some of those costs as they continue to use some of our infrastructure, so we'll have a slight offset to that. But it's kind of -- it's in that range.

Brian Robert Meredith
UBS Investment Bank, Research Division

And those are sitting in your Corporate line item right now?

Beth Ann Bombara
Executive VP & CFO

Yes, we have them there, and they're included in core earnings.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, great. Just wanted to confirm that. And then, Chris, Doug, I'm wondering if you could talk a little bit more about just the competitive environment out there. What's happening with workers' comp insurance? Clearly, an area that you're seeing some pressure on pricing. Is it worse than kind of you'd anticipated? Is that at all questioning maybe where your underlying combined ratio guidance is for the year for the commercial space?

Christopher Jerome Swift
Chairman & CEO

Brian, I just -- I'll quickly, and then I'll get out of the way and let Doug share with you his thoughts. But as we sit here today, as I said in my comments, we got off to a terrific start, and we feel really good about our ability to execute in a competitive, complex environment. So all the guidance that we've provided or drivers, we still feel very good about. And in fact, if you saw on certain drivers, whether it be combined ratios in Personal Lines or Commercial Lines, we're outperforming. But there will be a little bit of a reversion to the mean over the next 9 months. But I'm really pleased with the team, how we're standing up new capabilities, new product sets and being disciplined while we're pushing for more business with our distribution partners. But Doug, what would you add technically?

Douglas Graham Elliot
President

A few things. Start with, very pleased with the way the first quarter pricing trends ended. So Brian, a bit disappointed in our January performance on pricing. Made some adjustments, looked at our book harder and feel really good about progress we made in February and March, and I expect that progress to continue into the second quarter. Secondly, I would always ask you to continue to think about Small Commercial versus Middle versus our other markets. So different dynamics, different pricing issues across those books and different mixes for us in those areas. And then obviously, there's a workers' comp versus a non-workers' comp. So we're pleased with our February, March pricing and see some lift in property, GL, continued in auto, and I expect that to continue. I expect that to continue over the next 3 quarters. Particularly, as I said in my script, in Middle Market, we need rate in that book. Our non-Specialty Middle book needs more rate, and we intend to go after and chase it and do the right things. Relative to comp, our numbers across our markets but especially in Small Commercial and workers' comp are very good, very good. And they're also very good across the industry in general. And so this is leading to the pressure on your rates. It's leading to experience factors for insurers that are looking more favorable. And because of that, I think we have a more competitive marketplace. The other thing, just in closing, we are watching loss trends very carefully, and they have been consistently in a very good spot for an extended period with workers' comp. A little bit of frequency uptick, back to more 0 range in the last couple of quarters. And clearly, there are inflationary pressures around it. We're watching medical carefully. So when I put them together, yes, I think there are some things that probably will cause some compression in the workers' comp line. But relative to where we are, I feel like we are working our levers, being thoughtful about our territories and doing everything we can to understand the dynamics of the line and make good choices going forward.

Operator

Your next question comes from the line of Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

My first question is on personal auto. You have made great improvements in the margin side. Is that increased spending to show your confidence you'll fill your margin at the target levels, you want to grow top line a little bit faster? And will that spending, not just you but also some of your peers as well as the potential state mandate reductions post the tax reform, actually erode some of the margin improvement you have made?

Douglas Graham Elliot
President

Kai, thanks for the question. We are feeling good about the progress we're making in Personal Lines auto. And yes, you see the impact of some of our leaning in on the marketing side because our expense ratios are up in the quarter. So our loss improvement is greater than the aggregate, the sum total of the change in the line of auto. So feeling very good about that. Still more work to be done, and we think we will improve our close ratios over the latter half of the year as our pricing moderates because our rate adequacies are getting better and better by the month. So we finished 2017 with roughly 2/3 of our book in a very solid position relative to rate adequacy. And as we move through the next 4 quarters, we'll complete that journey and are going to feel very good. So you'll see more moderated rates in our pricing profile with Personal Lines auto. And as such, I expect our new business levels to grow accordingly.

Kai Pan
Morgan Stanley, Research Division

Great. My second follow-up question, probably for Chris. Thank you so much for very clear on the -- your capital management priorities. I just want to drill down a little bit more specific. With the closing of Talcott, there are some investor anxieties on potential large deal. Could you discuss under what circumstances you would use stock to do acquisitions? What are the financial hurdles you would meet for large deals versus the small cash acquisitions?

Christopher Jerome Swift
Chairman & CEO

Yes. Thank you, Kai. That's complex. I hope we have enough time to talk through it. But what I would share with you is, as I said in my commentary, capital management is important. You know our priorities as far as organic growth, M&A and then returning deployable capital to shareholders. But as it relates to M&A, I would share with you a couple of themes that we've talked about in the past. We tend to think in terms of more bolt-on activities or extensions into adjacent markets. We talked about premium levels in the $1 billion, maybe even up to $2 billion of premium that a target would have. We have a good team. We have models that watch market activities. So I could tell you, as we sit here today, we don't think about using stock in a transaction because generally, a lot of the things that we think about that could be actionable at some point in time in the future are probably less than the $4 billion range. So that tends to be our sweet spot. And as I said, we're patient about exploring opportunities. We're thoughtful about exploring opportunities. There's a lot of things that we see that -- where just the numbers don't work, the math can't work based on expectations of value. So all I could tell you is that we'll continue to be thoughtful and disciplined about deploying capital to create shareholder value.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question. There's been some headlines about the NCCI pushing for basically price cuts within comp following on tax reform. How does that factor into your pricing and margin outlook on your comp business for this year as -- also and as you think into 2019?

Douglas Graham Elliot
President

Elyse, as we shared last quarter, we largely see tax reform kind of working its way through the P&L in '18. But over time, we, and others, I'm sure, are adjusting inside our pricing models for the new tax rates. And as such, as we go through filings, we'll appropriately make sure that we have the right tax rates in our filings as well. I look at the last 3 to 4 years of comp experience, and I think of how favorable basically the aggregate environment has been for comp as a line. And I think that's the real fuel driving this loss cost trend that is dropping through these filings. So we have worked and continue to work hard on our claim competencies, our underwriting profile, understanding our segments, et cetera. But I wouldn't sit here today and suggest to you that there isn't downward pressure on pricing in workers' comp; there is. I would say to you that when I think about it relative to our markets, we have a bit more flexibility at the risk level in Middle. And so based on the characteristics of the risk, there's a bit more underwriter judgment involved. Clearly, our Small Commercial world is a bit more slot rated. So there are a number of competing dynamics across, but the line in total had a good first quarter for us. We're watching our trends, but it wouldn't surprise me if there's some compression in the line over the next latter half of the year into '19.

Beth Ann Bombara
Executive VP & CFO

Yes. And I think, Doug, the only thing I'd add to that is I always -- you always start with the fact that overall, we see workers' compensation as a very profitable line for us. So even with some of that pressure, we're still very comfortable writing business in that line and growing in comp.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And my second question. Chris, in terms of your M&A comments, very thorough. You did say that you guys would, depending upon the deal and what it could bring to you, be willing to take on a small amount potentially of reinsurance exposure. Just wanted to clarify that comment. Would that mean small amount in terms of the pro forma business when you think about Hartford after a deal? Or do you mean you would consider a deal of acquiring something, and the property that you would acquire would only have a small amount of reinsurance?

Christopher Jerome Swift
Chairman & CEO

Elyse, more of the latter.

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Two questions, but they're interrelated. I promise no follow-ups. First, the 10-Q used some materially different language to talk about buybacks compared to the 10-K. The 10-K from February said that The Hartford does not expect to authorize an equity repurchase plan in 2018, while the 10-Q filed yesterday merely says the company does not have an equity purchase plan yet in 2018. Have you changed your stance on 2018 buybacks? Which, of course, I think you should do. And secondly, the press and investors have sort of commented that you appear to have been interested in XL. I'm not going to ask about that, but the ultimate buyer of XL told everyone a year earlier that they were only interested in smaller bolt-on deals and did a large transaction that surprised the market. How much flexibility are you giving yourself in regards to deviating from your self-imposed rules around acquisitions?

Beth Ann Bombara
Executive VP & CFO

So Josh, I'll take the first question then I'll leave the second question for Chris. But yes, the language that is in our 10-Q was an intentional change. And as Chris said, share repurchases can be an effective use of excess capital. So stating the fact that we do not have an authorization in place today does leave open the possibility that we could have an authorization in place at some point in 2018.

Joshua David Shanker
Deutsche Bank AG, Research Division

And the second part about rules and flexibility?

Christopher Jerome Swift
Chairman & CEO

Yes. Josh, thank you for the question. I would say, again, here, as we sit here today, we are focused in on the bolt-on category. I can't predict what may or may not develop in the future. So as long as there is an understanding about the strategic and the financial hurdles and discipline that we have with our shareholders, if we flex up in size in any way, just know that we'll continue to have high bars for performance, high bars for alignment on strategy. But yes, I can't foreshadow a scenario right now where we would do something in that major transformational area. It just -- there's not that much that's actionable.

Operator

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

Randolph Binner
B. Riley FBR, Inc., Research Division

I wanted to ask about sales in group, which were good and kind of better than expected. And one of the risks of the integration with Aetna is kind of losing the shelf space with distribution. So the question is, kind of how is that distribution, communication and interaction process going? And is there a potential here for you not to have these premium lapse assumptions kick in if sales continue to kind of trend better than expected?

Christopher Jerome Swift
Chairman & CEO

Randy, let me just -- and I'll -- then I'll ask Doug to add his color. Again, the strategic logic of putting these 2 benefit business together has never been stronger or more confirmed with our activities over the last 4 or 5 months, whether it be feedback from distributors, whether it be using their claims system, whether it be in creating a team that is really motivated to lead the market and create new opportunities to serve customers. I think we got great alignment around the organization. I would also tell you that our distribution partners, what they share with us is they have a high degree of confidence in our ability to integrate and continue to serve their existing customers. And Doug, I think you and I see that we're being shared a lot -- we're being shown a lot of new opportunities that maybe in the past, a stand-alone Hartford would not have seen. But Randy, that's my perspective. Doug, what would you share?

Douglas Graham Elliot
President

Thanks, Chris. Super sales quarter for us, and I would first comment that both The Hartford and Aetna had very strong sales quarters. So on a stand-alone basis, HIG would have had a terrific start to the year. But also, Aetna likewise, particularly in the face of what they were going through last year, had a good sales quarter. So you put the 2 together, and we really started 2018 strong. Secondly, our pipeline has never been stronger. So we are active in working on proposals now. Obviously, there's a lot of activity around the latter half of '18 effective and '19 deal dates. So Chris and I participate in many of them, but our team upstairs is fully engaged, number one, on the sales side, new sales, and secondly, I think there was a piece of the end of your question about retention. So we're also working on our renewal strategy, and we are out in market with several renewal quotes on our 1/1/19 National Account jumbo deals as well. So feel very good about it. I will be with the team in Colorado in a few weeks at EBLF, engaging locally. I love what our sales and support teams are doing. We have a lot of work in front of us, but we feel really good about the last 100 days of progress.

Randolph Binner
B. Riley FBR, Inc., Research Division

All right. Then -- and so I guess my follow-up on those bullish comments, I guess, I'd characterize them as the -- is new products. So does this new platform position you to introduce new and different products into the group market, maybe move more towards supplemental? Is that something that this might enable?

Douglas Graham Elliot
President

Yes. There was a word at the end of one of my sentences in the script that I want to make sure I highlight here. We're very pleased with our growing momentum in voluntary products. So we've worked hard to build out our voluntary suite and, in 1/1/19, had terrific success. And if you look in our supp, you can -- you look at the other sales row below disability and group life and see a little bit of that momentum. Now it's small, so we're just starting against a $5-plus billion base. It's not something that is going to be huge anytime soon. But the interest in that product, our ability to launch and service the generation of new demand, we're very excited about. And I think it'll be an opportunity across both books of business, including Aetna's.

Christopher Jerome Swift
Chairman & CEO

Randy, just the simple fact is, again, we have 20 million customers in the book of business now. So what we've talked about and as Doug referred to, what we've been building patiently, voluntary products, additional A&H products, other services that we could bring to that product set, including leave management on a more integrated basis, know all of that has been on our vision, and we're really beginning to execute to it, that I think will really accelerate our growth and our profitability.

Operator

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

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

Two quick questions. First, obviously, P&C results were very strong, but I'm wondering whether you also saw some adverse impact from non-catastrophe weather in the quarter.

Douglas Graham Elliot
President

Meyer, this is Doug. Our non-CAT weather, pretty consistent with prior trends. So we didn't have the same dynamic maybe others have spoken to. But there was clearly a lot of weather in the month of March. And we've looked across our footprint, we feel good about our CAT calls, but nothing that I would call out extraordinarily right now.

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

Okay. And then second, sort of bigger picture, can you walk us through the strategy for getting the underlying combined ratio in specialty down? Is that an expense issue, a scale issue?

Douglas Graham Elliot
President

Largely, it's a mix issue, Meyer, because our National Account book is in that segment. The duration on our liabilities on our workers' comp excess product, they're in the 12 to 15 category. So that book is going to tend to run at very different combined ratios than our normal Middle and Small. So it's all about mix. Our National Account book is performing well, strong ROEs. I just think you have to keep in mind what's in the segment, very different than the other markets.

Operator

Your next question comes from the line of Jay Gelb with Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

A couple of clarifying questions. First, on M&A, I believe the range of premium volume mentioned was $1 billion to $2 billion. Would that be gross or net?

Christopher Jerome Swift
Chairman & CEO

I think, again, when we think about it and look at it, we think in terms of gross because then we think of our own reinsurance strategies and appetite, Jay.

Jay H. Gelb
Barclays Bank PLC, Research Division

All right, that's helpful. And then I think it might be helpful just to understand The Hartford's excess capital position. Given the net of announced acquisitions versus dispositions, how much excess capital does Hartford currently have, adjusted for deals that are about to close?

Beth Ann Bombara
Executive VP & CFO

Yes. So Jay, a couple of things. When you look at sort of holding company resources, at the end of the quarter, we've got about $1.1 billion of resources there. I'll remind you, we are planning on paying down $500 million of hybrids in June. We then have the net proceeds that will come in from the Talcott sale, which is about $1.7 billion, as I said in my remarks. And so that's sort of in the short term. Again, when we did the acquisition of Aetna last year, we had talked about the fact that we expected lower dividends this year from our operating subsidiary, so no dividends from the group business. So really, as we go into 2019, we'd expect to see dividends increasing, again, both from P&C and from Hartford Life and Accident, which is the group business. And then the other thing to keep in mind is that we will be generating cash flows at the holding company as it relates to monetizing our tax assets. Then we'll start to see some of that in '19 as we get refunds of our AMT credits and then utilize those NOLs. So those are like the sources that I think about kind of over time, if that's helpful.

Jay H. Gelb
Barclays Bank PLC, Research Division

It is. But based on my probably simplistic knowledge of this, how does that all translate relative to what Hartford would typically desire to have in terms of holding company resources? And what does that mean for excess?

Beth Ann Bombara
Executive VP & CFO

Yes. I mean, so as it relates to kind of our target at the holding company, we typically look to 1 to 1.5x sort of interest and dividend requirements. But we also want to maintain flexibility. So as we have in the past, we've used our excess capital kind of ratably over a period. So it's -- those are kind of parameters that we think about. But again, as Chris said, we do want to make sure that we maintain a strong balance sheet, and any capital that we would deploy, we would look at doing that over a period of time.

Jay H. Gelb
Barclays Bank PLC, Research Division

I appreciate it. And is there a tie-in to that in terms of when a decision may be made whether to resume share buybacks?

Christopher Jerome Swift
Chairman & CEO

Jay, I would decouple some things in terms of there's no bright line or date on the calendar to sort of say these are what we're trying to make decisions on. Some of it obviously, particularly as it relates to M&A, is the fluidity of the marketplace and the dynamics there. We want to be able to react to opportunities that make strategic and financial sense. But we also realize we're not going to be able to and should not hold excess capital forever. So I think what Beth was describing is we are going to build a healthy position of deployable capital. We'll continue to be aware of marketplace opportunities. But at some point in time, we would have to begin a return program in the form of either increased dividends or buybacks.

Operator

Your next question comes from Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

So one maybe nitpicky question with regards to commercial. So I think you've highlighted record new business growth in Small Commercial where you've also achieved more significant rate increases than in Middle Market, and yet net premiums in Small Commercial have actually slowed, which I'm taking to mean that maybe there's maybe some erosion in retention levels in that business. So would that mean that there's increased shopping behavior among customers as you push for rate and that there's still abundant capacity willing to offer lower, maybe even unattractive rates in order to win business out there in the market?

Douglas Graham Elliot
President

Yaron, I don't feel that yet. I feel 2 factors relative to the core of your question. One is that we've been rather aggressive on our auto repricing and reunderwriting. And so our auto retentions are down significantly, and that's definitely causing a bit of a drag on our overall top line in Small. And then the second thing is that, although we're positive on the pricing side for comp, we're slightly positive, and so we're not getting any significant list -- lift on a good segment of our Small Commercial book in our comp pricing. So all in, I'm more focused around the auto book that we've taken action that we think we needed to take to correct that. I see the progress in our loss ratios. That's why we're continuing to post terrific numbers there. I don't feel a lot different in the marketplace yet.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then the second question I have is with regards to the Group Benefits business. And I apologize if I missed that, but when you talked about the group disability improved incidence trends and better recoveries, is that across both the legacy Hartford business and the new Aetna block? Or is it coming more from one than the other?

Douglas Graham Elliot
President

Both disability books, Yaron, are exhibiting solid behavior. So we feel good on both disability sides.

Operator

Your next question comes from Amit Kumar from Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Two very quick questions. Number one, going back to the discussion on consolidation, would your answer on the business mix as it relates to reinsurance, would that have been different if the tax cut act would not have been passed and implemented?

Christopher Jerome Swift
Chairman & CEO

I don't think so. I mean, you think in terms of strategies first and alignment of businesses you want to be in, and then the finance and the math has to work. But pre- and post-tax reform, it would not -- we wouldn't have had a different view.

Amit Kumar
The Buckingham Research Group Incorporated

Because I was wondering about the re-domicile aspect, that's where I was going with the question. The second question -- I guess the final question I have is, again, going back to the comp numbers. If I look at the Schedule P and compare The Hartford Schedule P with the industry Schedule P and if you look at the development of loss picks, why has the development been lower? I guess why have you taken down the loss picks on a lower basis versus the industry? Is there something in the book? Or is it just conservatism here versus the industry trends?

Beth Ann Bombara
Executive VP & CFO

Yes. So as we've said before, as we think about our comp book and the long-tailed nature of that, we're very thoughtful about some of the trends that we build into the reserves, specifically around severity and medical cost severity. So we have seen, over the last few years, very favorable trends there, but we really think about it more for the long term. And so as we evaluate our reserves each quarter, we look at how things are developing and take action accordingly. But we're not prepared to take down our long-term view of those trends and those factors that affect the reserves.

Douglas Graham Elliot
President

And we have made some slight adjustments, Beth, but we've reacted, candidly, more to the frequency side of it over the last couple of years because we now feel like we've got a pretty solid look at those last couple of accident years, particularly '15 and '16. So Amit, thanks for the question.

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations

Thank you. Thank you all for joining us today. And if you have any additional questions, please don't hesitate to follow up with the Investor Relations team. Thank you for joining us today, and have a good weekend. Bye.

Operator
This concludes our conference call. You may now disconnect.