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The Hartford Financial Services Group, Inc. NYSE:HIG

Earnings Call

Friday, October 27, 2023 2:00 PM GMT

Call Participants

EXECUTIVES

Adin Morris Tooker
EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution

Beth A. Costello
Executive VP & CFO

Christopher Jerome Swift
Chairman & CEO

Jonathan Ross Bennett
Executive VP & Head of Group Benefits

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

Susan Spivak Bernstein
Senior Investor Relations Officer

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Francis John Matten
BMO Capital Markets Equity Research

Joshua David Shanker
BofA Securities, Research Division

Michael Augustus Ward
Citigroup Inc., Research Division

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

Tracy Dolin-Benguigui

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Good morning, ladies and gentlemen. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2023 The Hartford Financial Results Webcast. Today's call is being recorded. [Operator Instructions]

Thank you. And I will now turn the conference over to Susan Spivak, Senior Vice President, Investor Relations. You may begin.

Susan Spivak Bernstein
Senior Investor Relations Officer

Good morning, and thank you for joining us today for our call and webcast on third quarter 2023 earnings. Yesterday, we reported results and posted all the earnings-related material 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 & 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 or forward-looking statements provided on this call. Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings.

Our commentary today include non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial supplement. Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for 1 year.

I'll now turn the call over to Chris.

Christopher Jerome Swift
Chairman & CEO

Good morning, and thank you for joining us. The Hartford's third quarter financial and operational performance builds upon the momentum achieved in the first half of the year. Once again, Commercial Lines and Group Benefits which, in aggregate, represent over 85% of earned premium delivered exceptional results. We continue to expand our strong competitive position, successfully executing on priorities and delivering superior returns for shareholders.

Let me now call your attention to highlights from the third quarter. Top line growth in Commercial Lines of 8% with an underlying combined ratio of 87.8%. Strong pricing across P&C, including double-digit increases in commercial property, Personal Lines auto and home. Group Benefits fully insured premium growth of 8% with a core earnings margin of 9.8%. Strong investment performance with reinvestment rates climbing to 6%, driving higher portfolio yield and the trailing 12-month core earnings ROE of 14.9%.

These results are outstanding and keep us on track to deliver a full year core earnings ROE in the range of 14% to 15%.

As I look across the markets, the U.S. economy has remained resilient and recent data points including robust payroll, strong retail sales and solid levels of industrial production point to an environment which continues to be supportive of The Hartford's businesses.

Now let me dive deeper into the third quarter performance by business. In Small Commercial, written premiums were $1.2 billion with 16% growth in new business and another sub-90 underlying margin.

Our best-in-class package product, which we call Spectrum, continues to outperform in a competitive marketplace, contributing new business premium of approximately $100 million, up 20% over prior year. In addition, written premium for excess and surplus lines grew 34% in the quarter with new business growth of over 50%. We expect E&S premium to approach $200 million for the full year.

I am incredibly pleased with the overall performance in Small Commercial, which continues to deliver outstanding results with industry-leading products and unmatched ease of conducting business and unrivaled pricing accuracy. This business is poised to exceed $5 billion of written premium this year.

Middle & Large Commercial had another great quarter. Written premiums grew 5%, reflecting strong rate execution and new business growth in our excess lines. Our general industry's property book grew 13% while large property grew 15%. Looking across Commercial Lines, we are taking a thoughtful and disciplined approach to grow property premium within favorable market conditions to a level approaching $2.5 billion for the full year or a 25% increase. We are focused on managing our CAT exposure as evidenced by our year-to-date CAT losses, which were lower than our market share.

Coming back to Middle & Large Commercial, underlying margins were exceptional, reflecting the advancements made in data science capabilities, pricing and underwriting tools. Margins also benefited from favorable property losses. Those advancements, combined with our best-in-class talent, position us well to sustain profitable growth in this business.

Global Specialty continues to deliver outstanding results with net written premiums up 11%, driven by new business growth and strong renewal written pricing in a number of key lines. Submission flow in the U.S. was up 11% in the quarter, including 15% growth in wholesale, and international saw strong new business growth in marine and energy. Within renewal written pricing momentum has been building in the wholesale excess market. Property pricing has been above 20% all year, and international casualty is above 10%.

In addition, we remain excited about the ongoing benefits to the top line from our expansive product portfolio. Our underwriting discipline, along with enhanced capabilities developed over the past few years in Global Specialty, are driving targeted market share gains with a stellar underlying combined ratio that has hovered in the mid-80s for the past 6 quarters. In short, our execution has never been stronger.

Turning to pricing. Commercial Lines' renewal written pricing was 5.4%, flat with the second quarter. Excluding workers' compensation, renewal written pricing rose to 8%, up 4/10 sequentially and with strong pricing in property, auto and general liability. Across commercial, property pricing is over 10%, with auto and general liability nearing that level as well. Pricing and other liability in casualty lines also remained strong, while public D&O is still pressured.

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 on top of loss cost trends, reinforcing my confidence in achieving our margin expectations for the year. In summary, momentum persists in Commercial Lines, where I expect top line growth at highly profitable margins to continue.

Moving to Personal Lines. I am pleased with our continued response to elevated loss cost in both auto and home. In this challenging environment, our focus, objectives and execution are unwavering. During the quarter, we achieved auto renewal written price increases of nearly 20%, which we expect to continue at that rate into the fourth quarter. Current accident year loss trend expectations for the third quarter, as updated in June, held a promising development as we finish the year.

In homeowners, renewal written pricing of 14.1% comprised of net rate and insured value increases, outpaced underlying loss cost trends. This is the fifth consecutive quarter of double-digit pricing increases in this book. Our focus on the preferred market within Personal Lines business is a competitive advantage with our modern, innovative and digitally enhanced offering, Prevail.

This product will be available in 39 states by the end of this month, and we are optimistic about future prospects for growth.

In the fourth quarter, we expect to achieve auto new business rate adequacy in over half the states, representing 2/3 of new business premium. I am confident in the pricing actions we are taking will return this business to targeted profitability in 2025.

In Group Benefits, premium growth of 8% and a core earnings margin of 9.8% were both outstanding. Core earnings of $170 million was a quarterly record, reflecting focused execution, improved mortality trends and continued strong disability results. This quarter's disability loss ratio reflects historically low long-term disability incident trends and favorable claim recoveries. In group life, mortality trends have improved both sequentially and year-over-year but remain above pre-pandemic levels.

Looking at the top line. Growth was driven by book persistency above 90% plus strong year-to-date sales. Overall, the strength of our Group Benefits' diversified product portfolio as well as our commitment to outstanding customer experience through the use of data and technology resonates in this marketplace, cementing our leadership position.

Before I turn the call over to Beth, let me share some takeaways from the recent Council of Insurance Agents and Brokers Annual Conference. Throughout the course of the 60-plus meetings and touch points at CIAB, we heard a consistent acknowledgment of the strength of our franchise. Partners called out our unique digital tools, broad product set, the strength of our innovation agenda and the consistent execution of our strategy over a number of years. They also expressed their desire to grow their business with us and have come to view our team as best-in-class with relationships that have never been stronger.

Confirmation from distribution partners that we are delivering on our strategy is strong validation of our leading position in the market. Through those relationships, combined with enhanced capabilities, state-of-the-art technology and digital tools, we are taking market share while delivering industry-leading returns. With that track record, I am confident in our ability to consistently deliver core earnings ROEs in the 14% to 15% range.

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 $708 million or $2.29 per diluted share. Commercial Lines had a very strong quarter with core earnings of $542 million and an underlying combined ratio of $87.8. Small Commercial continues to deliver excellent results with premium growth of 9% and an underlying combined ratio of 89.7%, which includes some elevated non-CAT property losses. This is the 13th consecutive quarter with an underlying combined ratio of below 90.

Middle & Large Commercial delivered another quarter of written premium over $1 billion and an exceptional underlying combined ratio of 88.1. This was a 5.6 point improvement from the prior year, including favorable non-CAT property losses and expense ratio improvement. Global Specialties underlying margin was a strong 84.3%, a 20 basis point improvement from a year ago, primarily due to lower loss ratios in global reinsurance and international lines partially offset by higher loss ratios in U.S. financial lines due to public D&O rate pressure and marine driven by a couple of large losses as well as higher policyholder dividends in bond due to the strong profitability of the book.

In Personal Lines, core loss for the quarter was $8 million with an underlying combined ratio of 99%. Homeowners underlying combined ratio of 78.1% was in line with expectations. The auto underlying combined ratio was 108.5% for the quarter, which is consistent with our expectation from second quarter. Importantly, we made no adjustments to loss picks from the first half of the year and 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 8% over the prior year, driven by steady and successful rate actions. In auto, we achieved written pricing increases of 19.7% and earned pricing increases of 11.7%. In homeowners, pricing increases were 14.1% on a written basis and 13.7% unearned. The expense ratio improved by 2.9 points, primarily driven by lower marketing spend.

With respect to CAT, P&C current accident year catastrophe were $184 million before tax, which compares to catastrophe losses of $293 million in the prior year quarter, which included Hurricane Ian losses of $214 million. Although CAT losses were elevated for the industry again this quarter, our results were in line with our expectations as we believe that our effective aggregation management and underwriting discipline has helped to limit our losses from the increased number of convective storms.

Total net favorable prior accident year development was $43 million, with $46 million in Commercial Lines as reserve reductions in workers' compensation and package businesses were modestly offset by reserved increases in general liability.

Moving to Group Benefits. Core earnings in the third quarter were $170 million with a core earnings margin of 9.8%, reflecting strong premium growth and long-term disability results. Group disability continues to deliver strong results with a loss ratio of 67.3% for the quarter down 1.1 points from prior year. The group life loss ratio of 80.2% improved 2.9 points versus prior year, reflecting an improving mortality trend.

The expense ratio improved 1.4 points and reflects strong top line performance and expense efficiencies, somewhat offset by continued investments to meet our customers' evolving needs and drive greater efficiency. Fully insured ongoing sales in the quarter of $143 million contributed to a year-to-date sales total of $768 million. This, combined with excellent persistency at above 90%, resulted in fully insured ongoing premium growth of 8% for the third quarter.

Our diversified investment portfolio produced strong results. For the quarter, net investment income was $597 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 4.1% before tax, slightly higher than the second quarter. We expect the full yield excluding LPs will be about 80 basis points higher than the prior year.

Looking forward to 2024, we anticipate another 25 basis points of improvement based on the current yield curve, which will contribute to about a $200 million before tax increase in investment income excluding LPs. Our annualized LP returns were 6.3% in the quarter. Results during the first 9 months of 2023 reflect the resiliency of our private equity return and the absence of any real estate equity sales.

The overall credit quality of the portfolio remains high with an average credit rating of A+. This maturity valuation decreased as a result of higher interest rates. Net credit losses, including intent-to-sell impairments remain insignificant, along with an 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 management. During the quarter, we repurchased 4.8 million shares under our share repurchase program for $350 million, and we expect to remain at that level of repurchases in the fourth quarter. We were also pleased to announce yesterday an 11% increase in our common quarterly dividend payable on January 3. This is the tenth increase in the dividend in the last decade and another proof point of the consistent capital generation of the company.

Our third quarter results demonstrate that our franchise continues to deliver consistent, sustained industry-leading results. We believe that we have the strategies, talent and technology in place to continue to succeed. I will now turn the call back to Susan.

Susan Spivak Bernstein
Senior Investor Relations Officer
Thank you, Beth. We have about 30 minutes for questions. Operator, we will now take our first question.

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Chris, about a couple of questions here. First one, I just want to dig in a little bit on the Commercial Lines premium growth. I was a little surprised at the slowdown that we saw in the Middle Market's premium growth considering which some other companies have been reporting this quarter. And then the Small Commercial side, I know you had a difficult comp there but also a slowdown. Maybe we can unpack it a little bit, and anything unusual going on?

Christopher Jerome Swift
Chairman & CEO

Brian, thanks for the question. I think just the context here, just if you look at sort of year-to-date results just on written premium in small, up 10.3%; middle, 8.8%. New sales in small, 21%; middle, 12%. So those are results we're really proud of and pleased with, particularly at the highly profitable margins that they're producing.

I would say in the second quarter, there's 2 main themes that we discussed as a management team, and I'll let Mo add his color, is we're remaining disciplined on price and underwriting. And if we're not going to get the terms and conditions that we expect, we'll let the business go. And I think that happened more times than not in the -- particularly in the July time period. And then I would say that the overall exposure growth is still positive, but it is moderating, evidenced by lower audit premiums on a sequential first half of the year basis. So again, still positive exposure growth, but not as robust as it was early in the year. But Mo, what would you add?

Adin Morris Tooker
EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution

Yes, Brian, I would say that just to reiterate, we feel really good about the year-to-date growth of the 12% on new. But as you see in the quarters, can be lumpy. And maybe a little bit of context there. We equip our underwriters with tools by product, by specialty area and then they are in the market executing on those. And sometimes, in some quarters we do -- and especially periodically see months where the market is just going further than we would go.

So I feel like our underwriters made really good decisions in the quarter and you especially see those months at the beginning of the quarter when the market really heats up a little bit periodically. But broadly, I think the underwriting team did a nice job. And right now, these months are more of an exception, but we're watching that closely.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then, Chris, second question. I know we've chatted about this before on conference calls, but a fairly large TPA out there talked about medical cost inflation and workers' comp of 7% to 9% is what they're seeing in their business right now. Is that what you're seeing? I don't believe that was the case. And how would that kind of play into your comp results?

Christopher Jerome Swift
Chairman & CEO

Yes. Happy to sort of comment on that, but there's a -- not going to be anything new I'm going to share with you. I think again in the context that our workers' comp is a highly profitable line of business. We haven't made any changes in frequency or medical assumptions since we set them at the beginning of this year. So things are actually running almost exactly as we predicted. Medical severity, as we've talked about it, what we price for and collect and put up on the balance sheet is 5%.

Actually, what's emerging for the first 9 months is slightly less than that in the 2% to 3% range. I would say though that if I look at trends last year 9 months, this year 9 months, medical severities is probably up a little bit, say, a point. But I don't think there's any trend to call out other than just sort of maybe normal volatility. We watch all our components of price, whether it be hospital stays, whether it be physicians, whether it be pharmaceuticals. And generally, things are behaving as we expect. So I don't know what to tell you other than it's steady as she goes from our perspective as we sit here today.

I think the impact on the longer term is still to play out. But as we've talked about before, Brian, I mean, our claims team is world-class. We have fee schedules in place, networks in place that sort of provide a buffer. And if long term, things continue to be elevated, the reaction function within our system, I think, will allow us to raise prices and deal with it appropriately. So I don't think we're going to get surprised in any way, shape or form on medical severity running away from us.

Brian Robert Meredith
UBS Investment Bank, Research Division

And I would expect your loss control probably helps you relative to the industry as well, right?

Christopher Jerome Swift
Chairman & CEO

Yes. Clearly, we've got a lot of capabilities embedded in claims, embedded in our engineering group, so yes. And again, being the second largest rider, you would expect us to have those capabilities.

Operator

And we'll take our next question from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I wanted first to start with the response to Brian's first question. You guys said that you just saw some competitive forces in July. And it sounds like that corrected over the rest of the quarter. I want to confirm that. But then can you give us a sense of what lines, I guess, specifically within the middle market you were seeing folks become more competitive in July?

Christopher Jerome Swift
Chairman & CEO

Elyse, I might have no comment on that.

Joshua David Shanker
BofA Securities, Research Division

Yes, Elyse, I would just say that July was the month we felt it the most. And then it was on the larger end. I won't get into specific areas. I'll just say the larger account segment is really where we felt the most competition during the month.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then with the reserve development in the quarter, we saw total favorable development was driven by comp. There was a little bit of adverse development in GL. Anything you want to highlight there? Any specific years or anything you guys are seeing? I know it's a small number, but just looking for some color there.

Beth A. Costello
Executive VP & CFO

Yes, Elyse, it's Beth. Nothing in particular I'd call out. A couple of large losses that we saw on umbrella and one large national account that's spread over several years. So again, as you pointed out, relatively small impact in the quarter and nothing that's indicative of a new trend or anything like that.

Operator

And we will take our next question from Mike Ward with Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

I was wondering just with the growth in property, how should we think about your non-CAT property volatility going forward? And it has the range of outcomes on your underlying loss ratio, why didn't it change materially?

Christopher Jerome Swift
Chairman & CEO

Mike, thanks for the question. As I said in my prepared remarks, I mean, we're trending towards $2.5 billion of commercial property premium across our businesses, which would be about a 25% increase from prior year. And we feel very good about how we're executing both from a growth and pricing side. I'll give you just a couple of numbers for the third quarter here. In our Spectrum property component, our growth was 13%, and pricing 11.5% up; in our general property in Middle Market, growth was 13% and pricing was up 12.9%; large property grew 16% with pricing up 16% also.

So I think, in total, we're executing very well. We grew property 12% this quarter with pricing up 14%. And as I said before, I mean, this isn't a CAT strategy. I mean, we'll obviously take on a little CAT, but we're looking at other perils, particularly the fire, to build a national book of more property exposure. And I think we're getting paid for that incremental volatility from quarter-to-quarter. I would say the story line this quarter, particularly with non-CAT commercial property losses were, in total, at expectations and about 1 point better than prior year with elevated losses in small commercial, offset by lower losses expected in Middle & Large.

So I think our strategy is well. And Mo, I don't know if you would add anything as far as the execution or any color from the marketplace overall, please.

Adin Morris Tooker
EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution

Yes. We just continue to build a talent base. We're attracting people just based on how we're going about going after property. The tool set continues to improve. And we're talking retail and wholesale here. We continue to see an opportunity. Rates generally hanging in there. Terms and conditions are hanging in there. Deductibles are improving. So I think broadly, we feel really optimistic about our ability to continue to chase the market.

Christopher Jerome Swift
Chairman & CEO

Stephanie, what would you add in Small Commercial property and any E&S color?

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

Yes. I think you framed it well from the Spectrum perspective, is that we experienced some volatility. But as you referenced, we've taken rate not just recently, over many years, to stay at or ahead of loss trend for the property portion of our BOP product. And as Chris stated, it's double digits in terms of what we accomplished in the third quarter, which is higher than our longer-term property trends. And I will remind everybody that we did have our 13th quarter in a row with an underlying combined in the under [90%].

From an E&S perspective, E&S binding, which continues to be a growing and profitable portion of our book of business, strong risk selection, achievement of 30 points of property rate in the quarter and growing. So all in, really proud about the team's execution.

Michael Augustus Ward
Citigroup Inc., Research Division

Awesome. Maybe on Personal Lines real quick and the seasonality. Just wondering, should we expect the typical pressure in 4Q? Or do you think the rate that you're pushing can actually maybe mute that seasonality?

Beth A. Costello
Executive VP & CFO

Yes. So I'll take that, and this is Beth. In Personal Lines and if we break it out between auto and home, in auto we'd expect fourth quarter to be higher than what we've seen year-to-date and probably in that sort of 6 to 8-point range. Where it comes out will really be impacted by just where loss trend goes. On the other hand, home, typically fourth quarter is more favorable than the year-to-date usually by 5 to 6 points. And we'd be expecting that again this quarter.

Operator

We will take our next question from Alex Scott with Goldman Sachs.

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

First one I had is just a follow-up on the workers' comp. I hear you on how you feel about the profitability of the business, and certainly, the reserve development has been great. I guess just helping us think through the NCCI sort of indications are pointing down another mid-single digits. And you mentioned, I think, the 5% loss cost trend.

So how should we think about the margin drag that, that creates going into next year? I mean, can you help us think through -- like even just relative to the headwind that you got from that this year, does it get worse? I mean, there's also a sort of a moving target in terms of the baseline that you sort of start off with when you do that math. So I just -- any help would be great.

Christopher Jerome Swift
Chairman & CEO

Alex, I hate to disappoint you but we're not going to talk about next year at this point. We'll talk about next year once we finish this year and what we see. But you're right, I mean, there is going to be continued pressure coming from pricing. But I think the setup is going to be very similar to this year. As much as there's pricing pressure, frequencies will, I believe, continue to improve. We'll pick our same medical severity most likely in that 5% range but knowing that it's performing better.

We've been able to out-execute on our rate plan this year, which is providing a modest benefit. So there's always the opportunities to outperform a rate plan in spite of what the NCC is putting out. And again, you still put all the math and the mechanics together, it's still going to be a profitable line of business for us in the industry. And I think it's very manageable from our point of view, at least heading into 2024.

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

Got it. Second question I had for you is just on the ROE range you all talk about. I mean, you're sort of hitting the upper end of it right now. And Personal Lines isn't making money right now, and with the rate you're taking, it should start to again. And then investment income, you talked about being a bigger contributor next year.

So when I think through all that, I hear the ROE guide and I'm sure -- look, you're not going to adjust your long-term targets. It's going to be periods that you're earning more or less than the target potentially. But is that the right way to think about it that, that is a longer-term ROE guide and that you're not suggesting that there's some offset to those things necessarily and that we may go through a period where you're over the top end of it?

Christopher Jerome Swift
Chairman & CEO

I think you got it right. We've said about our franchise, we're becoming more consistent, more predictable in all our businesses, whether it be Property & Casualty, whether it be group benefits. Personal Lines is going through a tough slog, but we do see a return to profitability in 2025 there. So yes, the range is the range. We've added the word consistently to that range. It's not a limit. We'll try to overachieve and outperform that.

But I think that is -- that 15 is particularly a good anchor point, plus or minus. And we're going to always try hard to outperform and do our very best. We are sensitive just to a little bit of rate fatigue that may or may not be happening in the marketplace with customers and agents and brokers. I think we've educated people well enough over the years, Alex, at least from our perspective, on the components of loss cost trends and why we need to continue to be disciplined with rate, whether it be commercial auto, whether it be property, whether it be GL, with all the factors that have been discussed by many over a long period of time.

So I think that still puts the industry in a conducive place, particularly as we head into 2024 with particularly a rising yield environment and investment returns coming through the portfolio. So yes, you put it all together, and I still think that's a good range, but it's not a limit for us to try to outperform.

Operator

And we will take our next question from Greg Peters with Raymond James.

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

I'm going to pivot to the Group Benefits business. If I look at Page 21 of your supplement, a nice step-up in ROE over the last several quarters. Can you remind us of what kind of economic sensitivity that business has? Because there's obviously some noise in the marketplace about what the economy might look like next year.

And then secondly, when I look at the results in -- particularly in the third quarter, wondering if there's anything you want to call out, unusual good guys that helped that boost the number higher.

Christopher Jerome Swift
Chairman & CEO

Greg, I'll start and then I'll ask Jonathan to add his commentary. Yes, you're right to point out the 13.8% ROE. Very proud of that. Obviously, mortality is trending back to normal, which is providing a tailwind. I would say, though, mortality on a year-to-date basis is still maybe slightly ahead of our expectations but again trending in the right way. And we've talked about it for a while that we're trying to put additional rate into that life insurance book. And the team, I think, is executing well in the marketplace.

The other thing I just always like to convert is that 13.8% GAAP ROE probably translates into a 17% tangible ROE on a tangible basis just given some of the goodwill that we've added with acquisitions over the year. So on a tangible basis, it is a meaningful contributor. Earnings power is getting back to what I think would be somewhat normal. The investment performance will contribute. So I think it's a stellar business for us. It's one of the industry leaders.

It's growing nicely in conjunction generally with economic conditions, whether it be employment, payroll gains. The disability claims function that we have is, I think, world class. We've added new capabilities with our voluntary product suite and the number of paid family leave components, I could go on and on because I think it's a valuable business that people should look at maybe a little differently than it's valued today. But Jonathan, what would you add from an overall performance side and a trend?

Jonathan Ross Bennett
Executive VP & Head of Group Benefits

That is a terrific overview, Chris. So a lot of agreement with all of that. I think, Greg, you asked a bit about some of the economic drivers, and that often gets ascribed to the LTD line and linked with employment levels. Obviously, right now, unemployment is at very low levels. Certainly, that is contributing, we think, to some of the performance of the business.

The outlook right now around unemployment, not something that we see as being a real negative drag into the future. Even if levels were to increase, there's always a bit of a delay between when we see that and if there is going to be any effect on LTD. But even that effect, we would say, is pretty loose in terms of its linkage. It's not a hard connection. And we think that even if unemployment levels were to increase moderately, we're probably still operating at attractive levels. So things seem to be in good shape on the LTD side.

Your other point about in the third quarter, as Chris outlined, solid net investment income, pleased with that result. The mortality is probably one of the more notable things for us. We've had sequential improvement over the last 4 quarters, that's been terrific on mortality. But this quarter, we got down to a level that we think of as being more in line with endemic state post pandemic. And so we're pleased to see that. We'll watch that one again in the fourth quarter, but that bodes well for the business moving forward.

And then on the disability side LTD, again, incidence levels pretty attractive at this moment and our claims team is doing a phenomenal job around recovery. So we think our expertise there is really coming through. One of the things about The Hartford is we understand medical management whether that's comp or LTD, and we think that comes through in our execution on both sides of the organization. So really pleased with that outcome.

Where that trends in the future, I think we'll continue to monitor and obviously adapt ourselves quickly as necessary, but we're pretty pleased with the performance of the business year-to-date.

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

That makes sense. I guess as my follow-up, I'll pivot to the Personal Lines business. And what I was interested in is that if I look at your prior accident year development table, where we're seeing other companies report adverse development inside personal lines, we're not really seeing it at The Hartford. So maybe you could spend a minute and just talk to us about why your trends are maybe a little bit different from some of the others that are reporting problems in terms of reserve development status?

Beth A. Costello
Executive VP & CFO

Yes. So I'll start. So first of all, in Q3, as we said in our remarks, we did not make any adjustments to prior accident years for the auto line, for auto liability or auto physical damage. If you -- I'll remind you, if you go back to the first half of the year, in the first quarter, we did record about $20 million related to physical damage for the 2022 year. And also in the first quarter and second quarter, we increased our estimates for auto liability for the 2022 year, but those were offset by releases for years '21 and prior.

So that's why that development on a net basis is not showing up in that table. So we were experiencing some of the same trends that others were seeing. We reacted to them. As I said, we are very pleased that in the third quarter, our loss picks for prior accident years as well as the first half of the year did remain unchanged. And the last thing that I'll just point out on that, because I know some have looked at sort of our year-over-year results in auto.

And I'll just remind you that because we have booked prior year development for the 22 year in '23, when you look at that third quarter reported underlying loss ratio for auto, it would probably be about 4 to 5 points higher reflecting some of that PYD we've seen. So hopefully, that helps some people who are looking at sort of that year-over-year comparison in the underlying auto ratio.

Operator

And we will take our next question from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I'm looking at all this auto stuff. One thing that was a big change in your is the GEICO really improved a lot in their margins and, at the same time, they churned a significant portion of their book of business. One of the things that you're looking for to improve profitability long term in the AARP business was the opportunity to nonrenew customers who shouldn't renew. To what extent do you think there's a solution in your profitability, a combination of nonrenewing customers as opposed to achieving through rate alone?

Christopher Jerome Swift
Chairman & CEO

Josh, it's Chris. I'll start and then I'll ask Stephanie to add her color. Again, we're very proud of the AARP relationship for over the last 35 years. I think you will recall, we did renew a contract and extended it to 2033. Part of that then, we launched the Prevail product and platform. But the in-force business, both auto and home, it does have lifetime continuity agreements still on, on the policy that prohibits us from just canceling a customer unless their risk profile, particularly in the homeowners line, really changed.

That's different with Prevail, but that's going to take some time to sort of work its way all into the in-force business because 90% of the business that we still have on the books, it relates to lifetime continuity agreements. So we have to be sensitive there. That's why we're pushing for rate as aggressively as we've had. And I think Stephanie and the team, the numbers and the results speak for themselves, and that will begin to earn in. But Stephanie, what would you add?

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

No, I think you framed it really well, Chris. When you think about really where our focus, Josh, is, it's responding to the loss trend environment. You see that materializing in our rate actions. We're also deploying our Prevail products, 39 states and market as of today. About 50% of our new written premium is on the Prevail product but that is a very small portion of our in-force.

So just to go back to underscore Chris' comment on the overall in-force, lion's share of that does have the lifetime continuation endorsement and then the preponderance of our in-force book being 12-month policies takes time for that rate to earn in. But wholly focused on bringing this book back to profitability.

Joshua David Shanker
BofA Securities, Research Division

And when we look at that new business, is the rate increases similar between what's going through on the Prevail book and what's going on in the lifetime continuity book?

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

Yes, absolutely. What I would share with you is that on the in-force book, you see the written rate. The rate has to earn in. But as we've shared in previous calls, we also look at new business rate adequacy. So when -- what is the rate level of new business? And we expect, based on all of our actions, that more than half of our states by this year, by year-end, will be new business rate adequate. And that makes up about 65% of our new business volume. And so again, that gives us a degree of confidence in terms of continuing to market to drive in new. So you have to think about new business being rate adequate given all of our rate actions. And then on the in-force, that book is going to earn in that rate over time.

Operator

And we will take our next question from Michael Zaremski with BMO Capital Markets.

Francis John Matten
BMO Capital Markets Equity Research

This is Jack on for Mike. Just one question on the commercial insurance competitive environment. Excluding workers' comp, are you surprised at all that commercial pricing has continued to increase? Any thoughts on how we should think about pricing into 2024 once higher reinsurance costs are through the system? And we're seeing some declines in certain core CPI gauges.

Christopher Jerome Swift
Chairman & CEO

Jack, thanks for the question. I'll start and I'll have Mo add. No, I don't think there's any surprise. I thought I tried to address it that just given the environment, I think the continuation of rate being disciplined, reinsurance costs are probably increasing. All points in to need to be disciplined on rate and work with our distribution partners and customers to make sure they understand why, so that there can be an element of explanation back to the end customer. So I see more of the same as we head into '24 at this point in time. But Mo, what would you add on the commercial side?

Adin Morris Tooker
EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution

Yes. No, I would say that the reinsurance market feels fairly stable, fairly predictable. So I think that's getting priced in ahead of renewal dates. I would say, second, the rate environment is still pretty conducive. We think it's constructive and we think that will continue. And then third, again, I talked before about we have months periodically where we just think the market is competitive. It just is lumpy that way. And oddly right now, October is feeling really good. And so just things bounce around a little bit, and that's just -- we're going to be really disciplined about it, but we're looking to grow in a really responsible fashion.

Operator

We will take our next question from Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui

There is a big debate on what is the best definition of pricing. Is it pure rate or exposure to acts-like rate. Your 19.7% pricing increase for personal auto is a great achievement. I'm not really hearing that pricing level from your peers. So just to get grounded, are you including exposure in there? And if you are, how does auto exposure act like rate?

Christopher Jerome Swift
Chairman & CEO

Tracy, I would add some commentary and then ask Stephanie. But my commentary is going to be more on commercial just so you have that. It's somewhat unique in Personal Lines auto, home. Home, we talk about the rate that we're achieving both includes pure rate and ITV, which we think works in tandem. But I think we disclosed -- I know I talked about it in my prepared remarks, ex comp, our renewal written pricing was 8% in the quarter, up 4/10. And I would say the component of exposure that acts like rate there, yes, I think you could think of it as basically 2.5 points, 2.6 points to be precise for 1/3 exposure and then 2/3 sort of net rate. That's on commercial. And I would ask Stephanie to explain to you the auto.

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

Tracy, I think about personal auto is largely the rate, and I appreciate your comments. Really, our results that we were able to realize, and from a rate perspective, is largely driven by the loss results are evident and they're fully supportable in our filings. We have strong relationships with the regulators and then it was just truly outstanding execution by the team. But if I take you over to homeowners, how Chris described it, that is a combination of both rate and then what we're seeing in terms of the inflationary factors. And you bring those 2 together, and that gave us the 14.1%.

Tracy Dolin-Benguigui

Okay. Yes, but it was more on personal auto. I appreciate that. In Group Benefits, specifically to stability, could you see yourself being more competitive on pricing at 1/1 renewals, given what you said historically low long-term disability incidence trends and favorable claims recovery?

Christopher Jerome Swift
Chairman & CEO

I'm going to have Jonathan add his commentary, but the market is pretty competitive and pretty efficient. So I don't think we have to make a conscious decision to be more competitive on price. We have our targets. Obviously, we'll reflect new disability trends, both incidents and terminations for that cohort. We do expect a reversion to the mean there, Tracy. So that will put some upward pressure on pricing just from where we are today. But I wouldn't say there's a conscious mindset at 1/1/24 to do anything different than we've been doing in the past. But Jonathan, what would you say?

Jonathan Ross Bennett
Executive VP & Head of Group Benefits

I would agree with that, Chris. I think that's the outlook that we bring to the market. We can talk about when we look forward into 2024, we find the market to be competitive all the time. I don't feel as though there's any particular change in the nature of competition in the market. And for us, a fair portion of our book is upmarket, larger accounts, and there's credibility in the data often by account there. And so we're looking at those trends on an account-specific basis and have been doing that, continue to do that. That's the way we compete in the marketplace.

And so I think that we factor all of this insight into those selections. So I don't think there's any particular change. And if the underlying question is, is this a moment of drop pricing and to grow aggressively? That's not the outlook The Hartford brings really in any of its lines of business. So the discipline is there. It remains there. And our efforts are to continue to grow the book profitably and to make sure that we take care of our clients in a world-class fashion.

Tracy Dolin-Benguigui

You did mention reversion of the mean. If you had a crystal ball, when will you see that happening? .

Christopher Jerome Swift
Chairman & CEO

We'll tell you when we get there, Tracy. I mean, we price for a reversion. Obviously, we hope it's somewhat different given just the economic conditions. But I don't know when the realized reversion to the mean will actually happen, but we got to be prepared for it.

Jonathan Ross Bennett
Executive VP & Head of Group Benefits

Yes. I think that's a fair summary, Chris. And our pricing methodology includes a multiyear view of trend. And I think in that, Chris, as we're thinking about it, we see that incidence levels are likely to be increasing over time. But I think that horizon is always something that we're working on and debating here ourselves and thinking about the right way to position ourselves in the market from a pricing standpoint.

Operator

And we will take our final question from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I want to go back to some of the reserve commentary earlier on the call. Can you maybe talk a little more about accident years '16 through '19? I think a lot of investors are honed in on those years specifically, and what you're seeing there for lines like GL and like maybe financial lines as well.

Beth A. Costello
Executive VP & CFO

Yes. I mean, as it relates to the quarter, as I said, we have a very small amount of relative increases. I think if you go back and look at over the last several quarters, you've seen us take some increases in GL lines. And I'd say a lot of that has been in those years that you are indicating. And we take that experience into consideration as we think about our loss picks and pricing for those lines going forward. So I don't really have much more color to add to that, Yaron, unless there's something else specific you were looking at.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I guess, and maybe this is becoming a little too granular for a call, and I apologize if so. I'm just trying to hone in on specifically those years and understand maybe the net numbers that you're talking about are actually a larger gross loss from those years, offset by maybe some favorability from other years.

Beth A. Costello
Executive VP & CFO

Yes. I mean, there can be some back and forth. I wouldn't call out anything significant on that. I mean, on our more current years, especially on lines like GL, we do tend to hold our loss picks longer. We definitely through several quarters had seen some improvement that we recognized on the 2020 year. But again, nothing that significant that I would call out.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then the other question I had was on the Navigators book. So I think at the time of the acquisition, the U.S. casualty book was about 40% of the business. What does that come to as of today, either premium-wise or as a percentage of the overall specialty book?

Christopher Jerome Swift
Chairman & CEO

I'm going to disappoint you. I don't have those numbers in front of me and I'm not going to try to guess. So we'll just work through Susan to get you that number if that's important to you.

Operator

And ladies and gentlemen, that is all the time we have for questions. I will now turn the call back to Ms. Susan Spivak for closing remarks.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you, Abby. I just want to thank everyone for joining us today. And as always, please reach out with additional questions; if we didn't get to your question, I am available this afternoon and look forward to speaking with you then. Have a great day.

Operator
Ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.