S&P Global
Market Intelligence

The Hartford Financial Services Group, Inc. NYSE:HIG

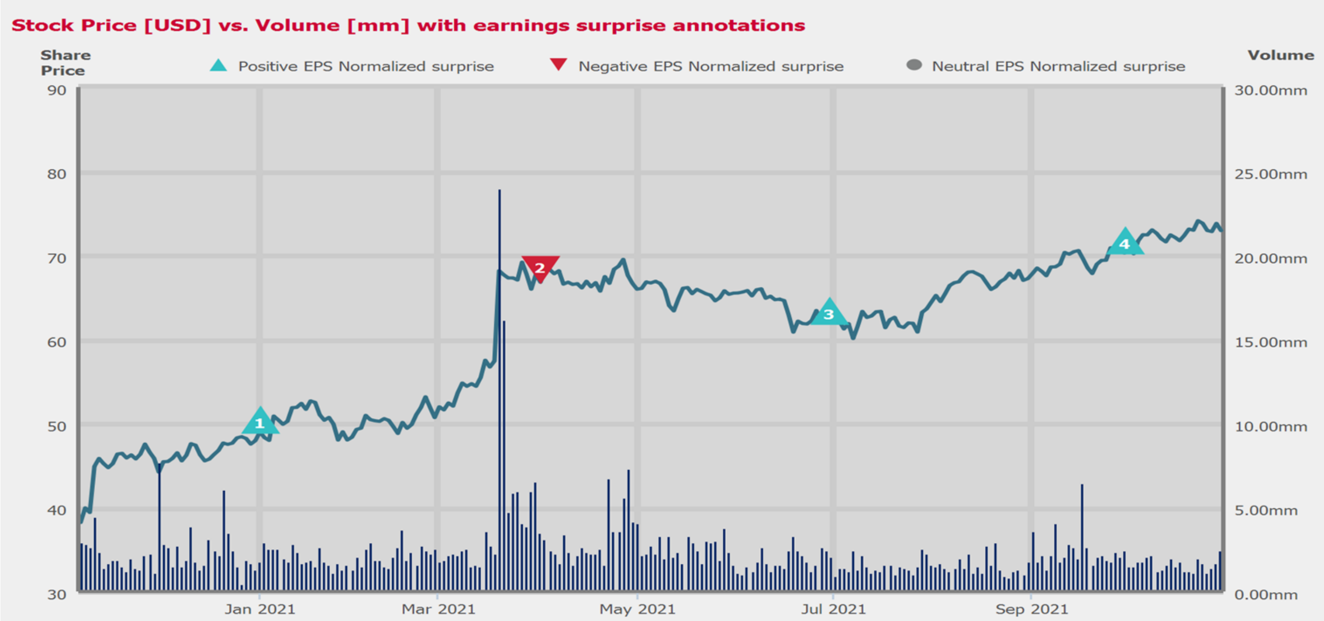
FQ3 2021 Earnings Call Transcripts

Friday, October 29, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.86	1.26	▲46.51	1.58	5.65	NA
Revenue (mm)	5254.00	5686.00	▲8.22	5289.00	21411.54	NA

Currency: USD
Consensus as of Oct-30-2021 12:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	1.32	1.76	▲33.33 %
FQ1 2021	0.57	0.56	▼(1.75 %)
FQ2 2021	1.34	2.33	▲73.88 %
FQ3 2021	0.86	1.26	▲46.51 %

Table of Contents

Call Participants

EXECUTIVES

Beth A. Costello
Executive VP & CFO

Christopher Jerome Swift
Chairman & CEO

Douglas Graham Elliot
President

Susan Spivak Bernstein
Senior Investor Relations Officer

ANALYSTS

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Joshua David Shanker
BofA Securities, Research Division

Michael David Zaremski
Wolfe Research, LLC

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Presentation

Operator

Good day and welcome to The Hartford Third Quarter 2021 Financial Results Webcast and Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Susan Spivak. Please go ahead.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you. Good morning and thank you all for joining us today for our call and webcast on third quarter 2021 earnings. Yesterday, we reported results and posted all of the earnings-related materials on our website.

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

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

Our commentary today includes non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial supplement.

Finally, please note that no portion of this call can be produced 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

Thank you for joining us this morning. Once again, our outstanding underwriting capabilities and consistent execution on strategic initiatives becomes increasingly evident with each quarterly earnings report and reinforces my confidence about the future for The Hartford.

In the third quarter, we reported core earnings of $442 million or $1.26 per diluted share; 8% growth in year-over-year diluted book value per share, excluding AOCI; and a trailing 12-month core earnings ROE of 12.5%. We returned $634 million to shareholders in the quarter from share repurchases and common dividends and $1.6 billion for the 9 months ended September 30.

The confidence we have in our business is also evidenced by the announcement that we have increased our share repurchase program by $500 million, bringing the total authorization to $3 billion through the end of 2022. And we increased our quarterly dividend by 10%, payable in January of 2022. With strong cash flow generation, we will continue to have a balanced capital deployment approach to support growth and investments in the businesses with capital return to shareholders.

Looking through to the underlying results. The positive momentum continued with written premium growth, margin expansion, operating efficiencies and a significant return on alternative investments. However, results were impacted by Hurricane Ida, higher pandemic-related excess mortality in Group Benefits and the Boy Scouts of America settlement. Commercial Lines reported stellar margins with an industry-leading 87.2 underlying combined ratio and another double-digit top line growth, reflecting higher new business levels, continued strong retention and solid renewal price increases. Our teams continue to execute exceptionally well.

In Personal Lines, we are in the midst of a transformation to provide a more contemporary experience in product. Through a modernized platform, in partnership with AARP, one of the largest affinity groups in America, we see the opportunity to capitalize on the growth in the mature market segment as this demographic is expected to grow 3x as fast as the rest of the U.S. population over the next decade. I am pleased with the progress being made with the introduction of the new platform, and Doug will provide more commentary.

Additionally, in the quarter, we entered into a new agreement in principle with the Boy Scouts of America. This agreement now includes not only the BSA, but local counsels and representatives of the majority of sexual abuse claimants who have now been asked to officially vote on the BSA bankruptcy plan. The Hartford settlement becomes final upon the occurrence of certain conditions, which we expect to occur in early 2022.

Now turning to Group Benefits. Core earnings for the quarter were $19 million, reflecting elevated life and short-term disability claims, partially offset by strong investment returns, improved long-term disability results and earned premium growth. Throughout the year, we have been reporting earned premium growth over prior year, and this quarter's positive trends continues. Fully insured ongoing premium is up 4%. This reflects growth in our in-force book and continued strong sales in persistency. Persistency was above 90% and increased approximately 1 point over prior year.

The group life industry has been impacted by excess mortality over the past 6 quarters. During our July earnings call, we were optimistic that trends would lead to an improvement in COVID-related mortality. Our optimism was short-lived as the number of U.S. deaths started increasing in August due to the Delta variant and continued through September. As of this week, U.S. COVID deaths for the third quarter now exceed 112,000, and this number is likely to continue to increase in the weeks ahead due to reporting lags in the data.

The rapid increase in COVID deaths in the third quarter drove elevated mortality in our book of business and across the industry. Additionally, the mortality experience from the Delta surge has a higher percentage impact on the under 65 population compared to prior periods. Approximately 40% of U.S.-reported COVID deaths in August and September were of individuals under age 65 compared to approximately 20% of COVID deaths in December of 2020 and January of 2021.

Since younger age cohorts tend to carry higher face amounts, the combination of increased deaths and higher amounts of insured values resulted in a significant increase in total dollar levels of mortality claims. In addition, we experienced higher levels of non-COVID excess mortality during the quarter, representing approximately 30% of reported excess mortality loss. This is directionally consistent with the broader U.S. trends that saw elevated non-mortality (sic) [non-COVID mortality] in the third quarter.

As we look to the fourth quarter, forecasting excess mortality is a challenge. What we do know is that vaccinations are saving lives, and higher levels of vaccination rates should help mitigate mortality claims. Bottom line, the fundamentals across the Group Benefits business remains solid, and we are confident and optimistic about our performance in the future.

Turning to the economic backdrop. While there are conflicting signals, I remain encouraged on the '22 macroeconomic outlook and believe the environment will be one in which The Hartford's businesses perform well. Headline inflation remains elevated, but core inflation is on the decline. I do not expect inflationary pressures to go away overnight. The focus of global governments and the private sector on supply chain solutions as well as the normalization of hard-hit pandemic sectors causes me to believe inflationary pressure will begin to ease in the second half of 2022.

While employment gains stalled in the last couple of months as the U.S. was impacted by the Delta surge, vaccination rates, therapeutics and growing levels of natural immunity provide confidence that COVID will become less of a deterrent for individuals to seek employment and return to the workforce. Unemployment is expected to continue a downward trend as borders increasingly reopen and pandemic-related benefits fully roll off. This bodes well for The Hartford's business mix.

As I reflect on my tenure with The Hartford, I'm extremely proud of the progress we've made. Over the years, we fixed core businesses, exited underperforming or noncore segments, successfully integrated the new operations we added, positioning the company to capture even more opportunities in the marketplace going forward. This is a direct result of our performance-driven culture and the significant investments we have made to transform the organization into one with exceptional underwriting tools and expertise, expanded product depth and breadth and industry-leading digital capabilities, complemented by a talented and dedicated employee base.

However, the journey is not complete. We will continue investing for the long term to become an even more differentiated competitor in the customer experience, all while producing superior financial results.

At our November 16 Investor Conference, I look forward to sharing how the business is positioned for continued outperformance and highlighting the talented senior leadership team. With a high-quality franchise, growing revenues, strong margins, prudent capital management, I am very confident that The Hartford has never been better positioned to continue to deliver on our financial objectives and enhance value for all stakeholders.

Now I'll turn the call over to Beth.

Beth A. Costello
Executive VP & CFO

Thank you, Chris. Core earnings for the quarter of $442 million or $1.26 per diluted share reflects excellent investment results with a 40% annualized return on limited partnership investments and continued strong underlying results, offset by $300 million of catastrophe losses with $200 million from Hurricane Ida and excess mortality of $212 million in Group Benefits.

In P&C, the underlying combined ratio of 88.3 improved 2.3 points from the third quarter of 2020, highlighted by excellent performance in our Commercial Lines segment. In Commercial Lines, we produced an underlying combined ratio of 87.2, a 6.5-point improvement from the third quarter of 2020, and 15% written premium growth for the second consecutive quarter. In Personal Lines, an underlying combined ratio of 91.8 compares to 81.4 in the prior year quarter, which reflects higher auto claim frequency from increased miles driven and higher severity. Doug will provide more detail on these results in Commercial and Personal Lines in a moment.

P&C prior accident year reserve development within core earnings was a net unfavorable $62 million, driven by the new settlement agreement with BSA, partially offset by reserve reductions of $75 million, including decreases in workers' compensation, personal auto liability, package business and bond.

In the quarter, we ceded an additional $28 million of Navigators reserves to the adverse development cover primarily related to wholesale construction. Although these losses are economically ceded, the reserve development resulted in a deferred gain, representing a charge against net income in the quarter.

Group Benefits core earnings of $19 million decreased from $116 million in third quarter 2020, largely driven by higher excess mortality losses in group life, partially offset by increase in net investment income. All-cause excess mortality in the quarter was $212 million before tax, which includes $233 million for third quarter deaths, offset by $21 million of net favorable development from prior periods, predominantly from the second quarter of 2021. The percentage of excess mortality not specifically attributed to a COVID-19 cause of loss is more significant this quarter than it has been in the past and represents approximately 30% of the total.

Excluding losses from short-term disability related to COVID-19 and excess mortality, the core earnings margin was 12.6%. The underlying trends in disability remain positive with lower long-term disability claim incidents and stronger recoveries related to prior year reserves. The disability loss ratio in this year's quarter was 3.1 points higher as the prior year loss ratio benefited from favorable short-term disability claim frequency due to fewer elective medical procedures during the early stages of the pandemic.

As Chris commented, the incidence in excess mortality claims going forward is hard to predict as it is dependent on a number of factors, including the vaccination rate, the potential spread of new COVID variants, the percentage of those infected who are in the workforce and the strain on the health care system impacting the treatment of non-COVID-related chronic illnesses.

Improving operating efficiencies and a lower expense ratio from Hartford Next have contributed to margin expansion. The program delivered $306 million in pretax expense savings in the 9 months ended September 30, 2021, compared to the same period in 2019. We continue to expect full year pretax savings of approximately $540 million in 2022 and $625 million in 2023.

Turning to Hartford Funds. Core earnings for the quarter were $58 million compared with $40 million for the prior year period, reflecting the impact of daily average AUM increasing 27%. Total AUM at September 30 was $152 billion. Mutual fund net inflows were approximately $300 million compared with net outflows of $1.3 billion in third quarter 2020. Hartford Funds continues to produce excellent returns, with growth in assets under management driven by net inflows and market appreciation. As a low-capital business, its return on equity has been outstanding, consistently over 45% since 2018.

The Corporate core loss was lower at $47 million compared to a loss of $57 million in the prior year quarter, primarily due to a $21 million before tax loss in third quarter 2020 from the equity interest in Talcott Resolution, which was sold earlier in 2021.

Turning to investments. Our investment portfolio delivered another outstanding quarter of results. Net investment income was $650 million, up 32% from the prior year quarter, benefiting from very strong annualized limited partnership returns of 40%, driven by higher valuations and cash distributions within private equity funds and sales of underlying investments in real estate. Limited partnership returns continue to exceed expectations. We continue to manage the investment portfolio with a focus on high-quality public investments while leveraging our capabilities to take advantage of attractive private market opportunities.

The total annualized portfolio yield, excluding limited partnerships, was 3% before tax compared to 3.3% in the third quarter of 2020, reflecting the lower interest rate environment. We expect pressure on the portfolio yield to continue in the fourth quarter. The portfolio credit quality remains strong with no credit losses on fixed maturities in the quarter.

Net unrealized gains on fixed maturities before tax were $2.5 billion at September 30, down from $2.8 billion at June 30 due to higher interest rates and wider credit spreads. Book value per diluted share, excluding AOCI, rose 8% since September 30, 2020, to $49.64, and our trailing 12-month core earnings ROE was 12.5%.

During the quarter, The Hartford returned $634 million to shareholders, including $511 million of share repurchases and $123 million in common dividends paid. Yesterday, the Board approved a 10% increase in the common dividend and increased our share repurchase authorization by $500 million. With this increase and the $1.2 billion of repurchases completed through September 30, there remains $1.8 billion of share repurchase authorization in effect through 2022. From October 1 through October 27, we repurchased approximately 1.5 million common shares for $108 million.

Cash and investments at the holding company were $2.1 billion as of September 30, which includes the proceeds from the September issuance of $600 million of 2.9% senior notes. These proceeds will be used to repay our $600 million 7.875% junior subordinated debentures, which are redeemable at par on or after April 15, 2022. During the third quarter, we received $443 million in dividends from subsidiaries and expect approximately $445 million in the fourth quarter.

With top line growth, improving underlying margins, operating efficiencies, strong cash flow and ongoing capital management, we are positioned to consistently generate market-leading returns and enhance value creation for shareholders.

I'll now turn the call over to Doug.

Douglas Graham Elliot
President

Thanks, Beth, and good morning, everyone. Across Property & Casualty, I continue to be extremely pleased with our execution and performance. In the quarter, the underlying combined ratio was an outstanding 88.3. Commercial Lines achieved double-digit written premium growth for the second consecutive quarter. Written pricing remained strong, largely consistent with second quarter, and our new Personal Lines product launch is accelerating with 5 new states rolled out in October.

As Beth mentioned, Commercial Lines produced a terrific underlying combined ratio of 87.2, with over 5 points of improvement coming from the loss ratio and another point from expenses. I've been doing these calls for a long time, and this is one of the stronger underlying quarters I have presented.

Before providing more color on commercial pricing and loss trends, let me spend a few minutes detailing another quarter of exceptional top line performance. Small Commercial written premium of just over $1 billion was a third quarter record, increasing 14% over prior year. Policy count retention was strong at 84%, and in-force policies grew 6% versus prior year. As anticipated, we continue to benefit from an improved economy, with increases in payroll and wages contributing to the quarter's top line result.

Small Commercial new business of $165 million was up 28%, the fourth consecutive quarter of double-digit growth. Our workers' compensation and market-leading BOP product, Spectrum, contributed equally to the result. I'm particularly pleased with the growth we're achieving across each of our Small Commercial distribution channels. New business from agents, payroll programs, alliances and direct all delivered double-digit growth and will meaningfully contribute to continued top line performance. The breadth and depth of this distribution balance is unmatched by competitors.

In Middle & Large Commercial, we produced a second consecutive excellent quarter with written premium growth of 18%. Middle Market new business of $139 million was up 6% in the quarter driven in large part by our industry verticals. Policy retention increased 8% -- or 8 points to 87%, one of the strongest retention quarters in quite some time. We continue to balance the rate and retention trade-off while maintaining disciplined risk underwriting and leveraging our segmentation tools to drive profitable growth.

Global Specialty produced another strong quarter with written premium growth of 14%. New business growth of 26% was equally impressive, and retention remains strong in the mid-80s. In the quarter, the breadth of our written premium growth was led by 14% in wholesale and 19% in U.S. financial lines. Global Reinsurance also had an excellent quarter with written premium growth of 39%.

Execution to fully leverage our expanded product portfolio these past 2 years has been excellent. Across our franchise, we continue to further develop our operating routines with broader risk solutions to meet customer needs. As a proof point, third quarter cross-sell new business premium between Global Specialty and Middle & Large Commercial was $15 million. With this result, we have now exceeded our initial transaction goal of $200 million, more than a year early. After years of development, our product portfolio has become a competitive strength, and our execution will only get stronger.

Let's move to pricing metrics. U.S. Standard Commercial Lines pricing, excluding workers' compensation, was 6.5%, consistent with the second quarter. Middle Market ex workers' compensation price change of 8.1% was essentially flat to quarter 2 and continues to exceed loss cost trend. In Standard Commercial workers' compensation, renewal written pricing was in line with quarter 2 at 1.2%. Global Specialty renewal written price remained strong in the U.S. at 10% and international at 17%.

Turning to commercial loss trends. Our casualty current accident year loss ratios are in line with expectations. It was a pretty quiet non-CAT weather quarter in Small Commercial property. In addition, we continue to monitor the adverse impacts of supply chain disruptions on loss costs and expect property severity trends to be elevated for the rest of the year and into 2022. Earned pricing is still exceeding loss trends within most lines, and we remain confident in our full year 2021 loss ratio expectations.

Before I move to Personal Lines, let me comment on the commercial pricing environment over the past 2 to 3 years. There's no question we've experienced a healthy pricing environment and in several lines, one of the hardest markets I've experienced. The combination of these rate actions and disciplined underwriting decisions are central drivers of our strong performance. Continued pressure from weather, supply chain and inflation lead me to believe that the current pricing environment will remain healthy well into 2022.

Moving to Personal Lines. The third quarter underlying combined ratio rose 10.4 points to 91.8. Auto frequency is up with increasing vehicle trips and miles traveled but still modestly below prepandemic levels. Auto severity is elevated, driven in part by the rising cost of used cars, parts and labor. These inflationary factors will continue to be an industry headwind as we expect them to persist into 2022.

In home, we continue to experience favorable frequency versus our initial expectations, more than offsetting higher claim severity from elevated building material and labor costs.

Turning to the top line. Written premium declined 2%. Policy retention was relatively stable at 84%, and new business premium was up 6% in the quarter. This new business uptick occurred despite J.D. Power's survey results concluding that auto insurance shopping rates among the 50-plus age segment remains 6% below a year ago. Our new business growth was driven by higher marketing spend and improved conversion rates. I'm pleased with this quarter's momentum.

We're also encouraged by the early results from the launch of our new contemporary Personal Lines auto and home product, Prevail. Through the third quarter, written premium responses and issue counts are exceeding expectations. Both products are now available in 7 states.

With our latest launch in early October, we also enhanced our auto and home bundling and telematics capabilities. On the latter, we're excited to be partnering with the industry leader, Cambridge Mobile Telematics. This is an important change as we continue to augment our models based on driving behavior. The Prevail product will be in 2 more states over the next 90 days.

Before turning the call back to Susan for Q&A, let me conclude with a few final thoughts. Property & Casualty had an incredible quarter. Our commercial top line produced a second consecutive quarter of superior performance. Strong pricing is earning into the book, driving lower current accident year loss ratios. Global Specialty is delivering strong execution and underwriting performance, and we continue to be excited about the launch of Prevail in Personal Lines.

We're clearly seeing the positive results of our multiyear road map with deeper and broader products, improved risk selection and outstanding execution. This quarter is another demonstration of those capabilities. Our technology invest agenda has been significant, and the results are clear and sustainable. I'm thrilled with our continued progress and look forward to sharing more details with our business heads in November at Investor Day.

Let me now turn the call back over to Susan.

Susan Spivak Bernstein
Senior Investor Relations Officer
Thank you. We'll now take questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the incremental $500 million of buyback. I know it's a 2-year capital plan. So is that expected to come this year or next year? And then is that being funded just with higher dividends to the holdco? Or are you holding a little bit less of a buffer or maybe a combination of both?

Christopher Jerome Swift
Chairman & CEO

Elyse, I'll start and then I'll ask Beth to add her commentary. So yes, as we sit here today, it's a sign of, obviously, increased confidence in our business performance. Our cash generation capabilities coming out of our opcos, that will eventually flow to the holding company. We haven't relaxed any of our standards as far as holdco liquidity. We still want to hold generally 1x interest in -- future interest in dividends. But it's more -- as we sit here today and look at the performance of our businesses here in '21 heading into '22, we're highly confident in their performance, and we took the action we did. But Beth, what would you add?

Beth A. Costello
Executive VP & CFO

Yes. So what I would add is as we think about the timing of the share repurchases, if you recall, under the $2.5 billion authorization, we had said that we anticipated $1.5 billion in '21 with $1 billion in 2022. So increasing by $500 million gives us the opportunity in '22 to be relatively consistent with '21. So not looking to significantly change the timing of what we had already laid out for '21. But again, as Chris said, as we look at underlying business performance and levels of capital at the holding company, we felt this was the appropriate action.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, within your accident year underlying loss ratio improvement within commercial, how much paid from rate over trend within your commercial book? And then can you update us on what you're assuming for loss trends across the commercial book? And has that changed recently?

Douglas Graham Elliot
President

Sure. Elyse, let me start, and Beth will fill around the edges for sure. So as I mentioned, over 5 points of commercial loss improvement. You've got to adjust for COVID, right? So COVID is 1.5 points of that change year-over-year.

But then across our core lines, essentially, all of our lines are earning in positive rate. And so as I think about that, the adjustments and the variables that drive those changes are all coming from that positive earned rate change. So I think it's sustainable as we look into the fourth quarter. We had a little bit of good news on non-CAT weather property, primarily in Small Commercial. But the other lines, comp GL, our specialty lines, it's basically earned rate driving the improvement.

Operator

Our next question will come from Derek Han with KBW.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

My first question is on workers' comp. One of your competitors talked about the competitive environment kind of driving rates to not really inflect until year-end 2022. Can you just talk about what kind of frequency and severity trends that you're seeing with wage inflation and the potential for medical inflation to pick up as well?

Douglas Graham Elliot
President

Yes. A few pieces to that question. I'd start by saying that the competitive environment to us in quarter 3 into 4, not a lot different than what we saw earlier parts of the year. So I think a fairly consistent competitive environment.

The comment about the '22 extension toward the end of the year, I think, is a fair comment that we see based on the filings that are moving through state regulatory bodies now. I do think we're looking toward the end of '22 to see a turn towards that positive sign that people have been expecting now for a couple of years.

I'll remind you that our performance in these lines across our businesses, particularly small, excellent. So our workers' comp performance continues to perform. And then relative to trends, yes, the long-term trend of frequency, favorable variances, we expect long term to continue. We had a little bit of a period that will be unlike any other period prior because of pandemic.

And yes, medical inflation has been rather tame the last couple of years, but our long-term expectations have not come off, right, which are in that 5-plus range for medical inflation. We see that long term, and we've not adjusted our picks because of that expectation.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's really helpful. And then my second question is on the reserves. How are you feeling about the Navigators reserves given that you're a quarter away from maybe going through the top of the adverse cover? It looks like you had $400 million of average development over the last few years.

Christopher Jerome Swift
Chairman & CEO

Yes. Derek, I'll start and just remind you that we purchased that adverse loss to cover for a reason. And it was part of our views of how we were going to finance the acquisition that, again, I think, turns out to be an absolute home run. As you heard from Doug, the improvement in our combined ratios, the improvement in product, the ability to cross-sell all those additional capabilities that are now in the house, I think, is tremendous. So again, it was part of how we view that we were going to finance it. And obviously, it takes some tail risk off.

But Beth, what would you add?

Beth A. Costello
Executive VP & CFO

Yes. So as I mentioned, the changes that we made this quarter were in wholesale construction and really just increase some of the tail factors that we had in that book. And overall, when I think about the Navigators reserve and even think of the action that we took this quarter, with or without the ADC, a relatively small movement when you think about the overall balance sheet and reserves that we have.

Operator

Our next question will come from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Regarding the aggregate CAT reinsurance cover, I was wondering if you could help us understand where you are in terms of reaching the attachment point and how that might affect fourth quarter or [limit fourth quarter.]

Beth A. Costello
Executive VP & CFO

Yes. So Gary, great question. So yes, we do have an aggregate cover that kicks in when losses that get ceded to that cover exceed $700 million. It provides $200 million of protection. And so when you look at the CAT losses that we've had through September 30, we probably have about a little less than $50 million to go before we would start to hit that $700 million attachment point.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. And then I believe -- this is probably for Doug. On the tone of the market and how rates are more or less stabilizing, it's -- if I compare how I was thinking about it, and maybe even you were thinking about it earlier in the year, that we would see some deceleration of those rates. It actually seems to have leveled out a bit more. And there may be a lot of different factors involved in that. But do you have a view on what is causing that? And I assume that's part of the reason you think it's going into '22 or deeper into '22.

Douglas Graham Elliot
President

Gary, I agree with you, right? So if we're looking at the core of our guaranteed cost, nonspecialty book, I would describe Q3 as very stable compared to earlier in the year and within our expectations for the reasons you suggest. We look at property drivers and the weather. We think about the inflation risk, supply chain. I mentioned them in my script. I think that those types of factors will be further drivers to make sure that we as underwriters are covering our cost of risk. And so that would be my commentary around the core guaranteed cost, nonspecialty book.

And then in the specialty area, where we've seen rather dramatic changes in the pricing the last couple of years, dramatic in the sense of positive, yes, there's been some moderation. But I think that's correlating to improve price adequacy in those books of business in those particular lines. So I think in total, not major surprises, but I do think these threat factors relative to, particularly weather in the property area and supply chain, there's -- will keep prices kind of where they are. We see a steady as you go for a period of time now.

Operator

Our next question will come from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

So looking at the growth rate in Global Re and international, when you talk about the Navigators acquisition, you want to increase your shelf space in a lot of your producing agents and whatnot. But international and Global Re kind of fall out of the silo of having a complete shelf of products. What are the strategies in those 2 subsegments? What do you hope to achieve? And how do they fit in with your business model?

Douglas Graham Elliot
President

I'd start with Global Re. It's really a niche segment for us. It's a small group of very seasoned, thoughtful underwriters, selective in their portfolio matching. It's -- this is a smaller quarter for them. So the 39%, you have to put in context. But it's been a successful group. They have added to our risk expertise here within the place. And we're very pleased about their approach and their success. So I see them very much a part of our strategy but a little bit separate from our primary focus on Global Re.

And then relative to international, our stated mission the first couple of years was absolutely to regain our contribution to shareholder success, if you will, right? We have had a very disappointing couple of years of performance internationally, not unlike others in the Lloyd's marketplace. And so we've worked on at that and now feel much better about our financial performance. And as we look forward, we're exploring and debating amongst ourselves about how we grow that portfolio. So I'm bullish about the future, really pleased that we have the past behind us. And I think we have a very solid platform to work from.

And obviously, it is a specialty platform, not unlike most of our competitors in the Lloyd's marketplace. But we were talking across our product families about what we can do there and I think an area that we'll talk more to you about over time.

Joshua David Shanker
BofA Securities, Research Division

All right. And then on Personal Lines, obviously, it's a real tough period for auto right now with the reopening and the used car prices. How should I think about the loss ratio content on new business being written under the new underwriting model, where you're not as stuck with the business compared to the previous relationship with AARP where you kind of had to be sure in order to pick up a customer? Should the new business have a lower loss ratio than the legacy business or a higher loss ratio?

Douglas Graham Elliot
President

Well, I would start by answering your question saying we have spent a lot of time with our pricing approach state by state as we've launched these new products. And probably slightly different answers by state based on where we are and what we see as the opportunities in a given state. So I would not jump to the fact that we see and expect lower loss ratios in the new than we do in our current book. We have a very solid seasoned book that continues to season out. And over time, that has been and will continue to be a significant contributor to our earnings.

But we're excited about what we can do with this new product platform. It is much more contemporary. It's got features as underwriters we like a lot. And obviously, I've talked to you about what we're doing with the auto space with our telematics program.

So as I think about the new launch of Prevail, in time, that will continue to be a key driver of our profits that will be increasing as we roll through the rest of the country in 2022 with rollout. At the moment, it's rather immature and we're watching the early stages. And so I think it's too early to call but excited about early progress.

Christopher Jerome Swift
Chairman & CEO

Josh, it's Chris. Again, Doug described it well. I would just add, again, remember, part of the inherent strategy there is to serve more AARP members in the 50s, particularly in the 50- to 65-year-olds. So our base plans -- our base rates in the various states that we roll out do expect a broader population set to underwrite. But again, given the flexibility we have with 6 months' policies, lifetime continuity agreements, meaning they're not guaranteed renewable, it does give us, I think, added flexibility to experiment in various states.

Joshua David Shanker
BofA Securities, Research Division

And is the new product direct or multichannel?

Christopher Jerome Swift
Chairman & CEO

It's direct right now, AARP-dedicated. I mean you've seen our agency business. It's very small compared to where it was years ago, but this is our direct-to-consumer channel.

Operator

Our next question will come from Mike Zaremski with Wolfe Research.

Michael David Zaremski
Wolfe Research, LLC

I guess just sticking -- as a follow-up to Josh's questions, since your portfolio mix is still -- is a little different than many of the peers we follow in terms of demographics and your results in auto are still good, just curious, are you looking to push a lot more rate there? Or is it given kind of the inflationary trends? Or just how should we kind of think about kind of rate versus potential loss trend over the coming year or so? I think in your commentary, it sounded like we should be kind of baking in some continued pressure.

Douglas Graham Elliot
President

Mike, that's fair, right? I would say that we are satisfied with our financial return in that business, very solid rate adequacies, basically strong across the board. But we're not immune from the risks in supply chain and used auto prices, et cetera, that the industry is facing. So we are active on the pricing front. We are working state by state across the country, have more flexibility, as Chris enumerated relative to Prevail.

But even in our current product construct, I would say it's an active product area upstairs, working what we think are the supply chain issues that we're going to be facing into 2022 as we work through that year. So yes, active on the actuarial front.

Michael David Zaremski
Wolfe Research, LLC

Okay. Great. Switching gears maybe just kind of to workers' comp and maybe stepping back to see the forest for the trees a bit because some investors have focused on kind of the soft pricing environment for a while, which might be improving. But I guess workers' comp results have really been excellent. It looks like much better than expected for years now despite the pricing. Maybe you can kind of talk to what's been driving the loss cost trends. What specifically has been much better than expected over the recent years, especially for some of the older vintages?

Douglas Graham Elliot
President

Yes. I can't give you all of our secret sauce away. That would be a good day for other people listening. But I will share this with you, right? We have a very sophisticated series of pricing modules across our markets. I think we work workers' compensation and think about strategy and think about segmentation in deep geographic cells, industry cells, et cetera. So what we do down in the valves of our business, really strong fundamentals relative to workers' compensation.

I will share with you, and you know this well, that the trends have been rather moderate over the past 5 to 6 years, right? So understanding that, as we talked before, medical severity has been pretty moderate these last 3 to 5 years. Generally, the long-term frequency numbers are in good shape. But our performance has, I would say, exceeded those tailwinds.

And when I think about our execution on the front lines and the combination of data science, data analytics inside this company, the use of third-party data, there's just a lot of competitive strengths that we think drive our success in workers' comp, and I think those are here for the long term and getting better every quarter.

Christopher Jerome Swift
Chairman & CEO

Doug, again, I know we talk about it internally. I would just add, Mike, our ability to interface with our agents and brokers in just a more efficient way these days given our digital capabilities that we've built, I think, does provide a competitive advantage for agents or other forms of distributions to interact with us on an easier basis with great data, fast turnaround time. So the competitive advantage that Doug talked about from the analytical side, I think, is equally matched with our go-to-market digital capabilities.

Operator

Our next question will come from Tracy Benguigui Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Your underlying margin expansion in Commercial Lines is quite impressive, and I appreciate the color of earned rate ahead of trend. Just another question there. Could you comment on the direction of your 2021 accident year loss pick? How does that compare to 2020 and your 5-year average?

Douglas Graham Elliot
President

So Tracy, let me start. Our -- when we think about current accident year picks, and maybe I would just refer you to the supplement because we've got a year-to-date in the supplement. Our numbers underlying on the loss side are really strong. So if you look at 9 months of '21 versus 9 months of '20, I think they're very healthy, and that really does guide back to the thoughts that Beth and I shared a bit ago about strong earned pricing as a result of written pricing in 2020 and 2021. So we're encouraged.

The other thing that we have not talked about on the call this morning is there's still a number of actions we're taking relative to segmentation and industry focus across our businesses that are contributing to that number. So I know in our Middle & Large Commercial book, Mo Tooker and his team have a number of initiatives that are also drivers of improving performance. So a lot's happening in the core underwriting, but some of those drivers are in addition to what I would describe very positive pricing trends.

Christopher Jerome Swift
Chairman & CEO

I would add just to Tracy's comment. There's nothing fundamentally that's changed in our philosophy of how we'd like to be thoughtful, predictable, consistent with loss picks, with anything related to our business. So Tracy, I mean, we have a great deal of pride in being very consistent and predictable. So that's the only color I would add.

Douglas Graham Elliot
President

Yes. I would agree with that, Chris. And maybe just as a closer, in 2 weeks, when we're together at Investor Day, one of the initiatives of that day is to take you inside and to give you a sense of how different our competing engine is today than it was 5 years ago. And there are a lot of things we've done organically, which we will highlight on the 16th, and there are things that we've been able to do with the addition of some more product on the specialty side.

So it's hard. I know we go quarter-to-quarter with you folks. We're going to attempt to spend some time on the 16th to look back and give you a sense of why our optimism is as strong as it is with our company going forward.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yes. Looking forward to seeing that journey at Investor Day. I also have a follow-up on the auto pricing front comment. I guess in those efforts with rate filings, I just wanted to get a better sense of when you think earned rates will be meeting higher loss trend in those efforts. Would we see that inflection point next year, in 2022, or 2023?

Christopher Jerome Swift
Chairman & CEO

Tracy -- well, Doug, thanks. Is that a Commercial or Personal Lines comment?

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Personal auto. Yes, personal. But I just understand there's a delay with some regulators and actually getting those filings through since it wasn't that long ago. They were thinking about rebates. So just that process of getting the rate filings approved. And in the meantime, you just have accumulation of loss trends. So I just wanted to know when you think that will all come together.

Douglas Graham Elliot
President

Yes. So the exact date is going to be hard to predict, but let me just start with where we were 15 months ago. One of the things we did not do was to tinker with our new business pricing in the second quarter of 2020. So when we returned money to customers, we did that based on kind of an in-force rate of return and did not change our appetite or our pricing on new going forward. I think that has provided a much more stable profitable base that has not changed a little bit.

We -- obviously, because of driving habits changing radically in the second quarter of 2020, we returned monies appropriately given that. But I'd start with the premise that our book remains intact and feeling very healthy about it.

Second point I'd make is that, to answer that question, you'd have to talk about and predict the supply chain dynamic. And that is very difficult to do, right? So we suggested, we think some of the [Kingston] supply, the pressures we're feeling, the labor dynamic, unemployment, et cetera, are all feeding into this. We think those trends will continue into '22. I hope they will ease as we get into the middle part of this '22, but that is an ongoing component.

And then lastly, really is a state-by-state dynamic. So it's so hard for me to suggest. We look across our states. There's some states that we're filing in, in the next 30 days. There's some states we have filed in the last 100 days that we won't be filing for another 3, 6 months. So it is a very active process.

And we do think supply chain will ease a bit, but we don't think that will happen in the short term. So we expect to kind of live on through the current conditions as we see them. And as we move into the latter half of '22, we'll get to a better spot.

Operator

Our next question will come from Andrew Kligerman with Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Question around -- well, first, it's great to see the repurchase authorization go up. But also curious with the M&A environment. Are you seeing any opportunities? Any areas where you'd like to get bigger? Could that eventually preclude some of this upward authorization? What are you thinking about M&A and how that might play out over the next 2 years?

Christopher Jerome Swift
Chairman & CEO

Andrew, thanks for the question. Yes, we've, I think, been pretty consistent of late that it's just a low priority, principally because I think our portfolio of capabilities, products is robust. And we want to mature that, grow it organically and focus on the activities more from an organic mindset as opposed to M&A. So I just consistently shared with you and others, it's just a low priority. So -- and that's why, again, we feel it appropriate to make a repurchase commitment through the end of '22 with that $500 million increase.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

And then just moving over to the Group Benefits business. It looks like you had a real solid ongoing premiums growth of 4% in the third quarter. It seems to be steadily moving up. What products are driving that? Are you seeing movement in voluntary products? And can you sustain that growth rate? Because it's very compelling if we could just kind of get out of the COVID and just continue to see these really nice underlying benefits ratios.

Christopher Jerome Swift
Chairman & CEO

Yes, I believe we can, Andrew. We've, I think, demonstrated that consistently during the year as we have been recovering from COVID. So I think the opportunity, particularly as more people come back into full-time employment or part-time employment with a little wage inflation that's occurring in most industries, I think that sets up well. And that's what I was trying to say in my commentary, that the environment for Group Benefits broadly defined is very healthy.

Our highest-growing product line is our voluntary product set that we've built over the last 5 years. So really pleased with all the critical illness, hospital sub products that we have at our disposal now. So that is a deep growth area.

And then I would just give you one last point, Andrew. I think people's attitude, meaning employees' attitudes, to benefits has changed. I think they're more focused on it given what we're living through. I think they're more thoughtful about thinking about risk and protection they need for themselves or their families. So I think there's a broad awakening of benefit-type products and voluntary products that is occurring across America.

Operator

Our next question will come from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

I had a couple of questions, both on workers' comp. And I think first on pricing and workers' comp. Everyone's sort of been expecting prices to go up next year for the last couple of years, but it hasn't happened yet. So -- and wondering if you could comment on if that's because of competitor behavior or is it because of the pushback from the states. And what gives you the confidence that things might actually turn at some point in 2022?

Douglas Graham Elliot
President

Jimmy, so I'll start by saying that the overall performance line is pretty solid, and that would be my place to start. Secondly, you now have a COVID year entering its way into, in most states, a 3-year experience period. So accident year '20 is now becoming part of the experience period, and accident year '20 has a period of time relative to frequency where people were home and frequency rates were very favorable.

So with that entry into the experience period, we're going to see some downward pressure on pricing. That is why the later in '22, toward the end of the year into '23, we're going to feel those headwinds in workers' comp. And I think others have talked about it, but I -- it's just where the market is right now and why I'm so pleased that our performance continues to be strong. And we will make sure that we're working the levers that we have here to be thoughtful about our underwriting and risk-taking throughout '22.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then as you think about margins in workers' comp, I think in the past, there have been cases when the economy is running pretty hot, you see a pickup in losses sometimes. It doesn't seem like that's happened this time around. But if you could comment on what you've seen in that respect and whether that's a concern as you're looking at the economy overall.

Douglas Graham Elliot
President

We're certainly watching that carefully. We're watching frequency because, just as you described, sometimes when you see a pickup in the economy, you'll have less experienced workers on the job that may lead to injuries. And injuries, obviously, are a driver in workers' compensation. So as I reflected both in the second quarter and third quarter, our frequencies are in healthy shape, but it is a high watch item for us. And if we see something, we will share that with you and deal with that in our numbers. But right now, fairly quiet.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And just lastly, on the group business, on the non-COVID mortality being high, if you could talk about whether you think that's more of an anomaly. Or could that be a trend given that more younger people are being affected overall, which obviously affects your book more so than was the case initially?

Christopher Jerome Swift
Chairman & CEO

Yes. Jimmy, the non-COVID mortality has been very bouncy over the last 6 quarters. So I don't see a trend per se, just given what we've seen in the data. I think the anecdotal view is during COVID, particularly the early days, there might have been a lack of people seeing their health care providers for routine health care, whether it be annual physicals, normal checks and screenings. So we have seen, particularly in this quarter, with that elevated non-COVID mortality, a little bit more heart, stroke, cancer causes of death that seem to indicate maybe a second-order effect with COVID and people not taking care of themselves. But beyond that, I don't -- it's been very bouncy. That's all I'll say. So I don't think it's trendable at this point.

Operator

Our next question will come from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I wanted to also just ask about the Group Benefits, the adverse mortality this quarter. I was wondering if you could just give a breakdown how much of it was IBNR versus actual reported deaths in the third quarter. And then relatedly, and I know there's a lot of uncertainty here, it's hard to predict. But as of now, the IHME estimates that total COVID mortality will remain near 100,000 deaths in the fourth quarter. If it does, in fact, stay that high, would you expect similar sensitivity as in 3Q? Or I guess, how should we think about the puts and takes there?

Christopher Jerome Swift
Chairman & CEO

Yes. Happy to take your question, David. It's important to get you and Tom some answers. So let me just give you a context. One, on sort of mortality here, how we approach it is -- obviously, we have a great deal of data in history in this area that sort of complete our lag studies to make an estimate of sort of incurred but not reported deaths during the quarter.

Obviously, with the COVID happening, we've overlaid CDC data into our analysis to obviously see their trends both on a COVID and non-COVID factors. So that's -- the blending of those 2 came up in essence with our conclusions for this quarter.

At the end of the quarter, I would share with you, July was fairly developed, meaning you could have a higher degree of confidence on the ultimates that we see in July. A little less so in August and September as sort of the freshest month, and it's the one that's the most challenge to sort of predict the future. When you put it all together, though, for the quarter, of the incurred losses that we have, 53% of it is still held in IBNR. So -- if that's the data point you're looking for.

I think the other point that you referenced is -- I would share with you, the more deaths in under 65-year olds is really driving up our severity. And if you look at severity on a 9-month basis this year compared to 9-month basis last year, our severities are up 49%, which tells us again, younger age cohorts, higher insured value, active lives at work.

When we look at sort of regions, the region that sort of stands out for us is the Southeast. They are experiencing the most elevated ADE from a historical expectation side. So -- and as you say, the fourth quarter, IHME has got some data out there. There's a lot of data out there. I would just share with you in all my years in the life business, it's been most difficult to get our arms around a model that really effectively predicts this. Some models are high, some are low. You've seen our experience. Even this year, we're -- first quarter, we were significantly overestimated on our IBNR. So I'm going to refrain from making any predictions both on frequency and severity because there's a wide range of outcomes. What I would share, though, is that we do have some FD-friendly events coming up in December, and we'll provide our analysts and investors a view of where we see fourth quarter mortality going.

You might even ask, what about '22? '22 is even harder to predict. So when we're back together in February, we'll give you our best thinking. But as we sit here today, I think these next 2 quarters could still have some lingering COVID effects that will emerge in everyone's numbers.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. That's very helpful. I appreciate that detail. And totally understand there is a lot of uncertainty, and you're not alone in terms of predicting the impact, obviously. So if I could just switch gears and sneak one more in for Doug. I just wanted to ask, it looked like in Small Commercial, you talked about underlying loss ratios ex COVID actually improving. Could you talk about the drivers there? Because I had thought that was a place where pricing was under a little bit more pressure. So is that more a benefit of just wage inflation coming through or something else?

Douglas Graham Elliot
President

Yes. When I think about Small Commercial year-over-year in the quarter, I mentioned we had a pretty good non-CAT quarter, weather quarter. So we have some good news in loss ratio there.

And then, yes, to your question on workers' comp, our experience has been favorable there. We're slightly outperforming our expectations around pricing in Small. So that's against our -- where we thought we would be through the third quarter. Obviously, that's in the books right now. But in general, we still feel good about our calls. We've not come off our severity calls, our indemnity calls and encouraged by what we see in the performance of the line. So I don't think there's a major story there, but it's just another really solid performance by our Small Commercial comp team.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Susan Spivak for any closing remarks.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you, Matt. We appreciate you all joining us this morning for the review of the third quarter earnings. As a reminder, our virtual investor conference is on November 16 from 1 to 4 p.m., and you can register right on our website. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.