The Hartford Financial Services Group, Inc. NYSE:HIG

Earnings Call

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Presentation

Operator

Hello, and welcome to The Hartford Q1 Earnings Release and Webcast Conference Call. [Operator Instructions] Please note, today's event is being recorded.

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

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Good morning, and thank you for joining us today for our call and webcast on first quarter 2020 earnings. We reported our results yesterday afternoon 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; Doug Elliot, President; and Beth Costello, Chief Financial Officer. 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 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 welcome to our first quarter earnings call. While The Hartford started 2020 with significant momentum, since our last call on February 4, all aspects of society and the global economy have been fundamentally changed by COVID-19. In light of that, I plan to spend the bulk of my time today focused on the pandemic, including how we are responding and how we are preparing for what comes next.

I want to begin by recognizing the human toll the pandemic is taking. On behalf of The Hartford and our more than 19,000 employees, my heart goes out to those who are affected by the virus. I pray for a full recovery for those who are sick and extend my deepest gratitude to the health care professionals caring for them, along with all the other workers on the frontline of this crisis. I also want to acknowledge the millions of people who are struggling in other ways, including those who have lost jobs and livelihoods, those who are trying to balance working from home with child care and homeschooling and those already vulnerable or suffering from the isolation brought about by physical distancing.

People and businesses are facing circumstances they've never encountered before. Now more than ever, they seek strong leadership at all levels across all sectors of our society to navigate through this crisis in a way that protects public health and safety and steer us towards economic and social recovery. At the Hartford, we are committed to doing our part.

The company took quick and appropriate action in response to the pandemic. Our first priority was to ensure the health and safety of our employees and their families. Thanks to the investments we've made in our capabilities over the past several years and the extraordinary recent work of our technology team, we were able, in mid-March, to immediately and seamlessly transition more than 95% of our employees to a virtual environment. Since then, our team has continued to provide uninterrupted support and outstanding service that our customers expect. I'm incredibly proud of the resiliency demonstrated by our employees and their commitment to our stakeholders during this crisis, which speaks to The Hartford's character.

We have also taken a number of steps to help our policyholders navigate through this crisis, including providing payment flexibility, refunding personal auto customers and making premium adjustments for changes in exposure, all of which Doug will comment upon further. We have also significantly increased our communication efforts with agents, brokers and customers in the hopes of reducing some of the uncertainty they face during this unique time.

To support our communities, The Hartford has donated in excess of $1 million to several organizations on the frontline of this crisis, including the CDC and the Center for Disaster Philanthropy. And we have enhanced and accelerated our annual campaign supporting regional food banks like Foodshare.

As we have reacted to the immediate impacts of the pandemic on our customers and operations in the world around us, we've maintained a strong focus on preparing for the next normal. We've entered 2020 in a position of strength, focused on execution. And in the first quarter, we continued to generate an industry-leading 12-month core earnings ROE of 13.3%. First quarter results in our Property & Casualty business benefited from pricing momentum, lower catastrophe losses, favorable non-catastrophe weather and lower auto claim frequency. As The Navigators integration progresses, underwriting actions to improve profitability, coupled with rigorous execution on renewal pricing and rate increases, are driving an improvement in underwriting margins compared to the second half of 2019.

The business impact from COVID-19 was approximately $50 million pretax in the first quarter, including $16 million of increased claims in short-term disability and from expanded benefits under New York's revised Disability and Paid Family Leave legislation; a $10 million reduction in estimated audit premiums receivable; and a $24 million increase in the allowance for current expected credit losses on premiums receivable, reinsurance recoverables and other balances. Doug will provide additional details on our Property & Casualty results.

Before I return to the topic of COVID-19 and how we are thinking about the next normal, I'll spend a few moments addressing our first quarter Group Benefits performance. For the quarter, Group Benefits posted core earnings of $115 million with a margin of 7.8%. These results were above expectations and reflect the strength of our book of business. Persistency on the combined employers' block of business was approximately 88%. It was a solid sales quarter across market segments and product lines with fully insured ongoing sales of $385 million. The overall loss ratio improved by 2.8 points driven by favorable life and voluntary results, which were partially offset by increased disability loss ratio.

Excluding the effects of COVID-19 previously discussed, disability underlying trends remained favorable with strong recoveries in recent accident years. Incidence trends were consistent with recent experience, albeit slowing year-over-year improvement. As we look forward, we anticipate increased claims activity from COVID-19, primarily in short-term disability and life insurance as well as statutory paid family leave benefits in certain states. The virus has proven so far to be less acute for individuals under the age of 65, which is the vast majority of our business. However, it is clear that people of all age groups and demographic profiles are at some level of risk. We expect higher claim volumes in all these lines throughout the second quarter. Beyond that, the variables driving elevated losses are highly dependent on how well the virus is contained and ultimately treated. More broadly, the economic impacts of efforts to contain COVID-19 is also a factor to be considered as we look forward.

We are facing a recessionary environment that was triggered by a very unique circumstance, and historical correlations may not prove to be predictive. Nonetheless, disability incidence levels may increase over the next 12 months. We had been anticipating some increase previously. However, COVID-19 may accelerate and deepen that trend. We are adapting rapidly to all these changes operationally and in pricing and underwriting. Our most important priority is to meet the needs of our customers and their employees during the crisis.

The Group Benefits business is a market leader and enters this period of uncertainty with a strong operational and financial foundation. I am confident we will emerge from this pandemic in a continued strong position.

Now I'd like to make some general comments about the challenges we face as a country, the role of the insurance industry and how I think about The Hartford's future.

The economic challenges we face are truly unprecedented: the shelter-at-home mandates shut down entire sectors of the economy, leading to a projected 25% decline in GDP in the second quarter; a 25% drop in our estimated new business start-ups in the last 6 weeks; unemployment rates above 10%; and historically low interest rates. We applaud the Federal Reserve, the Trump administration and Congress for taking quick and necessary steps to assist the capital markets and support local businesses and individuals. These early steps have provided critical assistance to our economy and the American people. Only the federal government has the tools and resources to address the extraordinary threat posed by this fast-moving global pandemic and the economic fallout from the necessary orders closing businesses across the country.

That said, it will take significant partnership and coordination between federal, state and local governments, along with help from the private sector, not-for-profits and the American people, to defeat this virus and safely reopen the economy.

As always, the insurance industry will play a critical role in helping the country return to growth and prosperity. As an industry, we are actively paying claims resulting from COVID-19. The property and casualty sector entered the year in a strong position, but the sharp downturn we are experiencing will pressure growth and profitability. While the industry is prepared to meet its current obligations, it cannot accept retroactive changes to its policy obligations. There's been a lot of debate and discussion in the media and various legislatures across the country about business interruption. The vast majority of The Hartford's property policies that include business interruption and civil authority coverage require losses to be caused by direct physical damage or loss to property. Any effort to retroactively rewrite these contracts, presume coverage or remove exclusions would threaten the very foundation of the insurance industry, the sanctity of contracts under our constitution and the principles of a free market economy. Doing so would threaten the ability of carriers to pay losses rising out of everyday-covered perils our customers will inevitably face in the months and years ahead.

We understand that policymakers and regulators are under extraordinary pressure to provide even more assistance to businesses they represent. But unlawfully and unconstitutionally, shifting those losses from one industry to another is not the answer. The industry has an obligation to vigorously defend the terms and conditions of its insurance contracts and preserve the principle that premiums are paid for specific risks covered by the insurance policy.

Turning to The Hartford. Some of our businesses will be impacted more significantly than others. The size and duration of the impact will depend on the pandemic's ultimate effect on the economy. We expect elevated claims activity in such lines as workers' compensation, short-term disability, surety and D&O. We also expect to see some exposures decline. And while it's still very early, we anticipate corresponding declines in claims. We also expect additional pressure on net investment income. In short, we believe this to be an earnings event, not a capital event.

While these days are certainly the most turbulent of our generation, I remain confident about The Hartford's ability to manage the uncertainty of this crisis over the coming quarters. We have a strong and well-capitalized balance sheet with ample liquidity. When we defeat this pandemic, there will be inevitably significant shifts in consumer spending habits, forcing businesses to change how they operate. We will be ready with products to meet the changing needs of our customers. Small business is the backbone of the U.S. economy and will play an integral part in the eventual recovery. The Hartford, as the leading insurer of small business, will continue to protect our customers against the covered losses they face every day, allowing them to return with confidence to financial self-sufficiency and growth.

We will continue to work with the federal government to create innovative tools the administration can use to provide assistance to those who need help. We will work alongside our peers, policymakers, elected officials and public health experts to develop a national solution for managing pandemic risk going forward in support of a resilient and well-functioning economy.

My optimism for the future of society, the economy and our company is grounded in The Hartford's history. For more than 2 centuries, we have navigated through a host of global crises, including multiple recessions, 2 World Wars and the 1918 influenza pandemic. Based on the resiliency that is core to who we are, I believe we will emerge from this crisis even stronger.

As we have always done, we will continue to leverage our expertise, capabilities, experience to deliver on the promises set forth in our policies. This means prudently managing our business to ensure we are able to meet our financial obligations many years into the future. Most of all, it means approaching every customer interaction with transparency, speed and empathy.

Our company's purpose is clear. We underwrite human achievement. We know who we are and what we stand for. Circumstances have changed, and we must remain agile in response. We are unwavering in our commitment to our customers, our partners, our communities and our people. With the combination of our heritage, talented and dedicated employees and our strategy for future success, I'm confident that we have what we need to thrive.

Now I'll turn the call over to Doug.

Douglas Elliot

Thank you, Chris, and good morning, everyone. I echo your sentiment for those individuals and families impacted by COVID-19 as well as our deep appreciation for frontline workers who are protecting and supporting all of us. Against that backdrop, let me share commentary on the first quarter as well as perspective on our business in the face of this pandemic.

Property & Casualty had a solid first quarter. Core earnings were slightly better than both last year and our expectations. I'm pleased with the continued pricing momentum that is critical to improving the financial performance of both Middle Market and Global Specialty. Let me get right into our business results.

Commercial Line's first quarter combined ratio was 99.1%, increasing 3 points versus 2019. The underlying combined ratio was 94.9, increasing 2.2 points. The deterioration was primarily due to expected compression in workers' compensation margins in Small Commercial, higher expenses and the inclusion of Navigators, partially offset by favorable non-CAT property results.

For the quarter, renewal written pricing in Standard Commercial Lines was 3.8%, up 30 basis points from fourth quarter. Excluding workers' compensation, pricing was 7.4%, up nearly 1 point over fourth quarter, including incremental monthly progress over the past 3 months. In Middle Market, renewal written pricing in the U.S., excluding workers' compensation, increased 9.4%, up 180 basis points from fourth quarter and 570 basis points from first quarter of 2019. Both property and general liability pricing improved over 2 points since the fourth quarter and are now each in the high single digits. In Middle Market, excluding workers' compensation, we've now achieved incremental pricing gains for 5 consecutive quarters.

On our last call, I provided quite a bit of texture to the pricing story in Global Specialty. Let me provide a few updates. We continue to experience strong pricing gains in both our U.S. wholesale book as well as the international portfolio, which is primarily written in Lloyd's. The U.S. wholesale book achieved 21 points of rate in the first quarter, over 2 points better than the fourth quarter. Several lines continued to achieve in excess of 20%, including property, auto and excess casualty.

The international portfolio also had equally strong pricing gains with continued emphasis on professional lines and energy. Additionally, considerable portfolio reshaping continues, including shifting industry and geographic mix, raising attachment points and reducing policy limits. Combining these actions with our sustained pricing work, I'm pleased with the improving profit trajectory.

Let me pivot to Property & Casualty's loss results. Catastrophes were relatively modest. And outside of the unfavorable development on U.S. ocean marine and Lloyd's syndicate reserves that were covered by ADC, prior year development on all other lines was insignificant in the quarter. COVID-19 loss trends were immature at March 31 and, therefore, had a limited impact on our results.

Let me share a few more details on our commercial businesses, beginning with Small Commercial, which had another very strong quarter, posting an underlying combined ratio of 89.3. The current accident year loss ratio improved 0.8 point as favorable non-CAT property results more than offset the margin compression in workers' compensation. As discussed in the past, this expected compression was driven by negative workers' compensation pricing.

In addition, as you'll see across Property & Casualty segments, expense ratio deterioration was driven by lower 2019 state tax assessments and a higher bad debt allowance recorded this quarter. The bad debt allowance increase was $12 million in Small Commercial and $18 million across Property & Casualty, reflecting the expected impacts of higher customer defaults.

Small Commercial written premium was flat to last year. Our new business sales for the quarter were $157 million, down 10%. This decrease was driven by the new business written in 2019 from the Foremost renewal rights transaction.

Middle & Large Commercial reported an underlying combined ratio of 100.4 in the first quarter, an increase of 2.3 points. In addition to the expense items mentioned earlier, approximately 1 point of the increase related to a higher current accident year loss pick for general liability. Written premium increased 5% driven by strong growth in loss-sensitive construction and the addition of The Navigators' retail excess casualty business. Retention and new business production in Standard Commercial Middle Market business both declined due to rate and underwriting actions we're taking across the book.

In Global Specialty, the underlying combined ratio was 96.4, improving 2.1 points from the second half of 2019. As I mentioned earlier, pricing and book re-underwriting actions are drivers of the improved results. In addition, Global Specialty delivered $217 million of direct new written premium in the quarter. We remain very encouraged about the breadth of our new product offerings and the long-range core earnings forecast for Global Specialty.

Shifting over to Personal Lines. We're pleased with the performance, producing an underlying combined ratio of 86.6, improving 2.5 points from a year ago. In Personal Lines auto, the underlying combined ratio of 90.9 was 2.7 points better than 2019. Favorable frequency trends driven by the relatively mild winter and shelter-in-place guidelines contributed to the improved results. Severity was largely in line with expectations.

Now let me step back from our business results and reflect on the new challenges that COVID-19 will bring over the coming quarter and into the rest of the year. Operationally, we executed flawlessly. In a matter of days, from decision to execution, almost our entire team moved to fully remote status without missing a beat. The resiliency of our employees and their dedication to brokers and customers during the past 7 weeks has been inspiring.

As we look ahead to the next few months, I would offer a few key points as it relates to the global pandemic. First, we communicated adjustments to normal business practices, including providing additional time to pay premium and offering flexible payment options, extending billing grace periods through May 31 and the waiver of any late fees that would otherwise apply; relaxing policy renewal requirements and deadlines as well as premium audit obligations; and adjusting policy conditions to be responsive to extended vacancies caused by shelter-in-place guidelines. In addition, since mid-March, we've endorsed more than 80,000 policies and returned over $15 million of premium to customers. We've also announced a 15% refund of April and May's personal auto premium due through a reduction in miles driven and lower reported claims.

Second, we expect that COVID-19 will have an impact on our premium flows. Let me start with Small Commercial. We expect our normally strong retentions to be impacted by both reductions in exposure as well as business closures. Reductions in exposure will likely be driven by lower customer payroll and sales primarily impacting workers' compensation but also our business owners policy, Spectrum, to a lesser degree.

Our new business activity clearly slowed in the latter half of March and into April, consistent with U.S. Census Bureau statistics that point toward an approximate 25% decline in national new business applications. We expect a similar drop in new business premium for the full second quarter. Written premium could be down approximately 15% in the second quarter.

Relative to Middle, Large and Specialty, we expect retention and pricing trends during the second quarter to remain generally consistent with prior quarters. Risk managers are juggling many priorities, and I expect customers will change carriers less often in this environment. This obviously means that new business levels will be off. Exposure reductions by way of endorsement will continue but not to the extent of small business.

Finally, there's been much written about losses related to the virus, much of it misinformed. We continue to pay claims according to our contract terms and conditions. As Chris said, we will vigorously defend against any and all attempts to unfairly disregard or broaden the terms and conditions of our policies. These contracts have formed the foundation for our industry over decades. We will contest retroactive changes at every corner.

As I close, let me again express my confidence in my teammates here at The Hartford. We've built a strong foundation for our future. Our insurance and risk management platform is poised for greater success as both organic and new capabilities blend together. We will be thoughtful with our decisions dealing with this pandemic, and we will continue to be the company our customers, agents and shareholders can count on.

Let me now turn the call over to Beth.

Beth A. Costello
Executive VP & CFO

Thank you, Doug. I will review results for the investment portfolio, Hartford Funds and corporate and cover a few other items before turning the call over to Q&A.

Before I begin with a discussion of our investment results, I'd like to point out that we have included new supplemental information on our investment portfolio this quarter in the appendix of our earnings slide presentation.

Our investment portfolio is broadly diversified and high-quality with an overall average credit rating of A +. As the business cycle aged over the last couple of years, we were active in reducing the risk profile of the portfolio and as a result have relatively small allocations to below investment-grade securities, equities and limited partnerships. The fixed maturity portfolio is 96% investment-grade, with nearly 3/4 of that rated A or better. The corporate exposure to higher-risk industries, including energy, leisure and entertainment and airlines, is very manageable and largely investment-grade with a significant percentage in private placements that offer covenants to better protect our investment.

We deliberately seek to diversify our corporate and municipal risks through our allocations to structured products and commercial mortgage loans. Our structured product holdings are very high-quality with an average rating of AA+ and 95% rated A or higher. Our commercial mortgage loan portfolio is diversified with a loan-to-value ratio of 52% and debt service coverage of about 2.5x coming into this crisis with no exposure to hospitality or retail malls. In addition, since the end of March, we reduced our equity exposure, taking advantage of the bounce in equities to further reduce risk, investing the proceeds primarily in high-quality fixed income investments.

Net investment income was $459 million for the quarter, down $44 million from the fourth quarter of 2019 driven in part by lower income from make-whole payments and mortgage loan prepayments and valuation declines on equity fund investments in first quarter 2020.

For the quarter, the current yield before tax, excluding limited partnerships, was 3.3%. For the second quarter, we would expect the yield to be flat with the first quarter. We have taken actions to increase liquidity to offset the expected decrease in premium receipts due to COVID-19, including the effect of the billing relief that we have provided to our policyholders. For the second quarter yield outlook of 3.3%, the impact of this increase in liquidity is roughly offset by the assumed absence of the valuation declines in equity fund investments experienced in the first quarter.

The annualized limited partnership return was 13.2% in the first quarter primarily due to strong private equity valuations and distributions. As a reminder, LP returns are reported on a quarter lag, so we would expect to see second quarter results negatively impacted by the market decline in the first quarter.

The net unrealized gain position of $600 million after tax on fixed maturities decreased by $1.1 billion from year-end driven predominantly by significantly wider credit spreads, partially offset by lower interest rates. Unrealized and realized losses on equity securities, net of gains on equity derivatives, which are recorded within net realized capital losses in the income statement, were $311 million before tax in the quarter, reflecting the impact of the equity market decline.

During the quarter, we recorded impairments of $17 million pretax in our fixed maturity portfolio, consisting of $12 million of credit impairments and $5 million of intent-to-sell impairments.

Turning to Hartford Funds. Core earnings of $44 million were up 57% from first quarter of 2019 and up $4 million from the fourth quarter of 2019. Core earnings in the quarter included a benefit of $12 million pretax driven by a reduction in the contingent consideration payable related to the 2016 Lattice acquisition.

Assets under management for our exchange-traded products on which the contingent payment is based are down significantly due to market declines. Excluding this adjustment, first quarter core earnings would have been $35 million compared to $28 million in the 2019 first quarter, reflecting higher average AUM of 7% despite the decline in AUM at the end of the first quarter, which was down 20% from December 31.

Gross sales were up significantly in the first quarter from prior periods. However, net flows were a negative $1.4 billion in the first quarter driven by redemptions compared to net positive flows in first quarter 2019 of $874 million.

The corporate core loss was $64 million in the quarter compared to a core loss of $15 million in the first quarter of 2019. The retained equity interest in Talcott, which is reported on a 1-quarter lag, generated a $3 million loss after tax in first quarter 2020 compared with income of $22 million after tax in first quarter 2019. In addition, net investment income in corporate was down $15 million before tax from the prior year period due to a decline in invested assets at the holding company primarily due to the acquisition of Navigators in the second quarter of 2019 and the impact of lower short-term investment yields.

Book value per diluted share excluding AOCI was $44.07, up 1% from year-end 2019. Core earnings ROE over the last 12 months was 13.3%. We ended the quarter with approximately $800 million in holding company resources. In March, we repaid $500 million of maturing debt with a coupon of 5.5%. In the first quarter, we repurchased 2.67 million shares for $150 million.

We have assessed our capital and liquidity positions under a number of stress scenarios and are very confident in our ability to manage through this period. Nonetheless, in light of the uncertainty in the current environment, we have paused our share repurchase activity, and we'll evaluate the appropriate time to resume repurchases as the impact of COVID-19 become more known, including loss cost trends, potential reduction in written premium and the impact of extending payment terms to our policyholders.

Since March, we have focused as a company on managing the dynamic conditions of this pandemic. We have taken action to increase liquidity on our balance sheet, further reduce risk in our investment portfolio and proactively support our customers in this difficult time. We will continue to monitor the external environment, including economic developments, and take appropriate actions as we navigate through this changing landscape.

I'll now turn the call over to Susan so we can begin the Q&A session.

Susan Spivak Bernstein
Senior Vice President of Investor Relations
Thank you, Beth. We have about 30 minutes for questions. I'd ask if you could please repeat the instructions, operator, for asking a question.

Question and Answer

Operator

[Operator Instructions] And today's first question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. First, Chris and Doug, could you perhaps comment on the business interruption coverages? And specifically, how much of your business in the property and kind of bought business has a virus endorsement on it, so where your exposure there is? And then additionally, could you comment on what percentage of your policies actually has a specific virus exclusion with respect to the business interruption coverage?

Christopher Jerome Swift
Chairman & CEO

Brian, thank you. I hope you're well. So I would say a couple of things. One, I'm extremely confident in our underwriting and contractual terms. And we've really done an exhaustive review over the last 6, 7 weeks of all our policies, including Navigators. And I would just tell you straight up that the vast, vast majority of our contracts do have a virus exclusion and that there could be a handful of occasions where, in essence, we've offered business interruption coverage without tied to physical damage or property loss. But again, a handful, and those policies actually came from our Navigators acquisition. So I think we got our arms around our policies, our exposures. Our teams have really scrubbed everything over and over. But Doug, that's what I would share with Brian.

Douglas Elliot

I think that's a good summary, Chris.

Brian Robert Meredith
UBS Investment Bank, Research Division

Did you book those ones with the endorsement in the quarter?

Christopher Jerome Swift
Chairman & CEO

What I would say, when we closed out the quarter, obviously, we booked what we knew. And that's why we took the actions that you saw where we did from a receivable side, a credit side, from the Group Benefits side. And that's what we booked. We booked what we saw, what we were aware of. And I would say specifically, no, there was no specific provision for a handful of those policies that I referred to that do have BI. But relatively, I'll call it, modest in totality.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then second question, could you comment on the impact of the expanded kind of coverage presumption we're seeing in workers' comp in various states? Lots of numbers being thrown out there by some of the kind of industry, NCCI, et cetera, et cetera. What are your thoughts on that? What's the potential impact on The Hartford, et cetera?

Christopher Jerome Swift
Chairman & CEO

Yes. Well, it's -- as you said, it's been active. And again, as I said in my prepared comments, I understand that people are trying to take care of people in their states, employees and things like that. But if you really study the history of the workers' comp environment over the last 50 years, it's a well-functioning, well-understood business activity that I think fairly compensates people that have been injured or obviously get sick at work. And we've had some prior experience with this, particularly with Ebola.

So I think the rules of the road are generally understood. And to expand presumptions, to relax documentation, to sort of change the equation, I think, as you see, it can be very disruptive to the industry. That said, yes, I do have some personal sensitivities and for frontline health care workers and those that are treating the sick out of this virus, and maybe there's combinations or things that we could do there. But broad-based presumptions for many classes of business, Brian, just doesn't make sense to me.

Douglas Elliot

Brian, the only thing I would add is that several states are talking about this presumption dynamic of workers' comp. I'm not sure there are any 2 states that are the same. So it's a variety across states. And secondly, we're working with our trades to come together as a group to try to figure out responsible answers as we step forward in this crisis.

Operator

And the next question comes from Meyer Shields with KBW.

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

A couple of questions, one big one. Doug, in your prepared remarks, you mentioned that there is some, I guess, misinformed commentary. I was hoping you could -- would talk about what commentary you're seeing out there that doesn't match your perception.

Douglas Elliot

Yes. I don't think it's appropriate for me to comment, Meyer, about specifics. We treat each and every claim on its own merits. We're looking at all the claims as they come in. We've been responsive. We're working through all the variety of lines and coverages, et cetera. So I think our claim group has done an outstanding job. It just frustrates me at times when I feel like sometimes the press looks at us and doesn't give us the credit that I believe we deserve for what we do and how we support the marketplace.

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

Okay. Understood. The second question, can you give us some insight in terms of changes to commercial auto claim frequency that you've seen over the last 6 weeks or so?

Douglas Elliot

We have our -- I'll say this, our claim counts have been down both across personal and commercial. When it was clear by the end of March that they were down for that 2-week period and expect it to continue into the second quarter, Beth and I and Stephanie Bush, our entire group sat and worked through and ended up with the 15% refund for April and May. That approximates $50 million, plus or minus, in money going back to customers.

And in Commercial, we've also seen -- to a lesser degree, but we've also seen fewer claim notices. We will watch that carefully. We're discussing and debating our Commercial book as we speak. And as we come to any conclusions, we will certainly share it with you and all other parties.

Operator

And the next question comes from David Motemaden with Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question for Chris and Doug. I guess just wanted to dig in a little bit just thinking about the potential reserves that you may need to take heading into next quarter. Is there any way you can help size the limit at risk in Navigators for the policies that don't require the property damage from the virus?

And then in your 10-Q, it sounds like you do expect to get reinsurance coverage on the occurrence treaties, but it sounds like you expect limited recoveries given your current estimates of losses. Should I take that to mean that you expect the losses in 2Q to be under $150 million?

Christopher Jerome Swift
Chairman & CEO

Yes. David, thanks for joining us. I think what you're reading and interpreting in the Q is really off base, just fundamentally off base. I think how we've always prepared our Qs is -- I mean we try to describe risk factors. We try to describe conditions so that there is a level of clarity. You should not read anything in the Q as predicting a loss, an attachment point, a session that we expect at this point in time. I think all we were pointing out, though, is like any property loss, we do have certain levels of reinsurance on an aggregate and per risk basis. But do not, do not interpret that as a loss limit or us trying to signal anything. That's just good disclosure.

Second, on, I'll call it, the Navigator piece, Doug. Again, we're not going to get into the specifics. But all I would say, again, handful of policies and there's aggregate limits in all of them. For BI, we knew it's -- we knew about the program. It's a program geared towards the entertainment industry. And once we come up with final, final estimates, we'll tell you when we book them in the second quarter.

Douglas Elliot

I would just add to that, Chris. When I think about the Navigator property book, it is very insignificant compared to the size of our overall property book, so less than 0.5% relative to policy count. And their book is both primary and excess. In their primary book, generally, they do not have virus exclusions. But across our entire property base, again, I go back to the vast majority of our policies have the virus exclusion. And we will work through those claims during the course of the second and third quarters and come to our estimates as we close out next quarter.

Beth A. Costello
Executive VP & CFO

Yes. The only thing that I'll add to the first part of the question, and I agree with Chris' comments as it relates to things that we commented on in our risk factors, I think you may have been asking specifically about our property catastrophe treaty. And we did specifically say that pandemic is not excluded from that treaty. And obviously, given the level of losses that would have to be in order for us to hit that, we see that as very unlikely. So I think that, that was the specific disclosure that you were -- may have been referring to.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

That's right. Yes, that's right. Thank you for clarifying. I appreciate that, and then I appreciate the response from everyone. And I just wanted to also follow up just on -- just in putting the new money yields into cash or new money into cash. I guess how long do you expect this to continue? And what are you specifically looking for? What do you need to see to start deploying that back into appropriate duration bonds?

Christopher Jerome Swift
Chairman & CEO

Yes. David, thanks. I would just give you the context of what we did and why. It really is just a classic crisis playbook, right? I mean you have to admit, we're in the midst of a crisis. And when we started looking at things late February, early March, saw where spreads were going in the markets, just game theory-ing other conditions, we wanted as much liquidity and flexibility as possible. So we decided and took the action to not reinvest principal and interest coming off the portfolio into new credit exposures at that time because you saw, the Fed didn't act until at least 2 or 3 weeks later. And it was just a defensive cautionary position. And I think all Beth and I really wanted to do was just tell you what we did, why and the potential impacts on our run rate yield or NII from managing your expectations, Beth. But that's what I would say.

Beth A. Costello
Executive VP & CFO

Yes. I think that's a good summary. I mean, again, I think if you go back and look over what's happened over the last couple of months, as Chris said, when we looked at this beginning of March, it was really more a reaction of the fact that we saw markets and specifically credit markets were feeling stressed, and we didn't want to be investing into that. As we go through March and then we get towards the end of March into April, we have more shelter-in-place orders and so forth and some of the actions that we're taking to provide relief to our customers and the receipt of premium payments caused us to continue to want to build liquidity.

And so our view is as we go through the second quarter and we start to see some stability in what we're seeing relative to top line and those receipts, we'd look to start then reinvesting again. But I really characterize this as moving from a -- creating a position of strength rather than any sign of weakness as it relates to our overall balance sheet.

Operator

And the next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I was hoping within your workers' comp book, you can break down the exposure to health care and other frontline workers and then maybe more on [peripheral] industries like supermarkets, et cetera. And just give us a sense of the areas and the exposure within your book that you think were most likely to see losses within that line from COVID.

Christopher Jerome Swift
Chairman & CEO

Elyse, I think the only detail I'm comfortable sharing with you is for our Small Commercial and Middle Market book, how you would define health care or how we would define health care, which excludes dentists and optometrists, that we would ensure our health care exposure to those on the frontline basis is less than 5% of our premium. That's the only data point I'd like to give you at this point in time, and I'm not going to break down our entire book of business for you and give all our competitors opportunities to cherrypick it. So again, very little minor frontline health care worker exposure in our book of business.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question, in terms of Navigators, a couple of questions. Can you comment on what accident years the development that was ceded to the ADC came from in the quarter? And then second question related to Navigators. Can you just comment on how the margin was in Q1 relative to the 5 to 6 points of improvement that you guys had laid out that you had expected for 2020?

Christopher Jerome Swift
Chairman & CEO

Yes. I'm just going to wait for the team to respond.

Beth A. Costello
Executive VP & CFO

Yes. So on the Navigators piece, we really are looking at 2018 and prior. And I can't remember the exact year that was involved, but it's in that bucket. Obviously, that's covered by the ADC.

Christopher Jerome Swift
Chairman & CEO

Elyse, as far as the improvement, I'll look to Doug to add his color, too. But I'm pleased with the trajectory, the improvements. Again, we've talked about that 5 to 6 point combined ratio improvement, and I'm extremely confident we will achieve that in the time frames that we've talked about. But Doug, I thought we had good progress.

Douglas Elliot

We did. So if we look at our numbers into first quarter and compare them to a more normalized run rate, which Beth and I keep looking back at, I would say the improvement is in the 3.5% range, 3.5% toward 4% what we see into 2020.

I would also say to you that I'm very encouraged by our pricing progress and some of our book management programs as well. So as we work our way through 2020 into 2021, I feel like those goals are certainly attainable, and I feel like we've made really good strides down that path, Elyse.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one last question. I know you guys know and others in the industry have mentioned, right, the desire, right, not to have retroactive changes to policy language. We've also heard a lot of chatter about a potential perspective plan, government backstop to provide pandemic coverage on a go-forward basis. Do you have any thoughts there? And I guess do you think that that's -- in terms of a time frame, is that something -- I know there's a lot.

Christopher Jerome Swift
Chairman & CEO

Elyse, as I alluded to in my prepared comments, we are working with our trade group and across the industry to develop, if we can, a consensus view on options and solutions for the future. So I think it's premature to comment upon anything right now other than the desire to contribute to a solution going forward from the industry perspective. And I think I've talked quite a bit with my peers in the industry. And there is a desire to at least think creatively and come up with options and potential solutions.

Beth A. Costello
Executive VP & CFO

And then, Elyse, just to follow up, I was able to find the accident years. It's '17 and '18 is related to those marine losses.

Operator

And the next question comes from Mike Zaremski with CrÃ©dit Suisse.

Michael Zaremski

First question, I know we've talked about workers' comp a lot already, but maybe dig in a little bit more, if you can elaborate on your comments regarding the potential for elevated claims in that line. Maybe any broad comments on how this recession could maybe play out differently than the last. I know there was one commercial carrier which said last week, they maybe change their reserving policies a little bit and they release less reserves to be a little more conservative to take into account that the last recession kind of surprised them a little bit on the back end, which I believe may have also kind of happened industry-wide and to Hartford as well.

Douglas Elliot

Let me start with a few comments to frame this. I'd start by saying that our accounts are down. But as you know, we are also working day-by-day on exposure changes with our policyholders. So until we get that exposure base where it needs to be, it's very difficult to predict frequency. But I expect over the short term, we'll see improvements in claim counts. If nothing else, we understand across our manufacturing book, we'll see more experienced workers. As people thin their ranks, what we'll tend to see will be more experienced workers on those lines. And as such, they will get injured less frequently.

We're watching careful medical severity. We think there will be a little bit of pressure on duration and also medical severity. There's an awful lot of medical attention in this country right now dealing with COVID-19. And as such, we're slightly concerned that maybe all the people that need medical attention for other job-related injuries are stacking up in the queue. So there are assortment of things relative to workers' compensation we're keeping our eye on, some good and some pressure points to watch, even putting the presumption discussion to the side.

Christopher Jerome Swift
Chairman & CEO

Mike, I would just give you a larger-picture perspective in that. I mean if you're looking back to the Great Recession or other recessions that the U.S. economy has experienced, it is true that obviously unemployment and GDP is going to shrink. A lot of those other recessions were caused by structural issues, whether it be credit overextended or imbalances in the economy.

Remember, this was a shock to our U.S. economy. And the real hope and belief, at least I have, is with the great advances in the medical community and some of the things that everyone's talking about and working on, we can remove the shock factor and go back to a structurally sound consumer-orientated economy that isn't stretched financially, isn't out of balance in any way, shape or form. So -- but it's true. That might take some time to get the medical advancements necessary to relieve the shock that the economy is experiencing.

Michael Zaremski

Great. That's helpful. My last question is regarding more broadly commercial pricing. Do you feel that you've been seeing kind of pricing industry-wide continue to move north/higher given the kind of uncertainty surrounding a lot of issues? Or are top line contractions causing more broadly kind of pricing to move downwards a bit? And I'm speaking specifically to commercial pricing. But if you have views on also Personal Lines pricing given that seems to be a good area to be at, I'd be open to those as well.

Douglas Elliot

Tackle commercial first. I would suggest that the early look at April, April is not complete yet, it will be tonight. But the early look suggests consistency with what we saw in March. So the early part of the second quarter, I think, will exhibit similar patterns to what finished quarter 1. And we'll obviously continue to watch this and manage this on a month-to-month basis as we move into quarter 2.

Personal Lines, I think there are a lot of things going on in Personal Lines, including the fact that there's a fair amount of customer premium refunding going on in Q2 and a lot happening based on miles driven but also now the potential turn on -- turn back on of the economy. And one of the things we've debated amongst ourselves is I think we expect to see potentially a bounce back in miles driven over the course of the summer. As people return to more normal living conditions, we expect miles driven to go up as a result, maybe fewer airline miles traveled but more within their cars. So those are all thoughts over the ensuing 3 to 4 months. But at the moment, yes, miles are down, and we expect that to change.

Michael Zaremski

Okay. Great. We all hope you're right about the return to normalcy in the coming months.

Operator

And the next question comes from Ryan Tunis with Autonomous Research.

Ryan Tunis

I had a question for Doug and then a Group Benefits question, which I guess might also be for Doug. But I just recovered the property cat stuff on reinsurance. Could you give us some indication of how some of the per-risk reinsurance on the quota share, where might that respond to any potential COVID losses?

Douglas Elliot

Well, you're right. We do have per-risk insurance inside our core property book. And obviously, that would be on a risk-by-risk basis, so that will depend on severity of risk. And those plans are in place. And there are no virus exclusions attached to those programs. So that stands as is.

There are also an assortment of other programs, including Navigators has a quota share program across their property book heavily reinsured. So you'd almost need the specific circumstance of the loss, Ryan, to figure out how it applies. But number one, I would say, I believe we've got sound underwriting on our primary book. And number two, I think we've got a well-thought out reinsurance program that will respond if indeed it's called to.

Ryan Tunis

Okay. I think the other thing I wanted to hit on, I guess, was in Group Benefits. It seems like the short-term disability kind of dwarfs the impact of workers' comp, even though that's what everyone's been talking about. Is it safe to think that if conditions remain like this, that, that $16 million for half a month would have that type of proportional impact, I guess, on ensuing quarters?

Christopher Jerome Swift
Chairman & CEO

Ryan, it's Chris. I would say no. I would not do that, and I'll tell you why. If you sort of break down what we booked, $10 million was for paid family leave, $6 million was for STD. I would say, when we booked and made our estimates for the quarter, we had a claim count estimate, a duration estimate. And then it's simple math from there.

The claim count that actually emerged, and again, New York paid family leave primarily is our risk product there, is just significantly down from what we expected. So it's not to say it can't come back. It's not to say it couldn't spike as people look at all the benefits that are available to them. But that claim count projection was off by a factor of at least 50%.

On STD, I would share with you the view that we had, again, has changed a little bit as we got into April in that the impact that we booked was for increased COVID-19 STDs. And to remind you, there's usually a 7-day elimination period. And again, then if someone goes on STD because of COVID-19, generally, what we're seeing is a 10-day to 2-week benefit.

But there, again, the data that emerged in April is that, yes, COVID-19 claims are up, but everything else is down quite substantially. So the normal STD claims or the planned absence STD claims, everyone is sort of delaying normal activities as it would be related to STD coverages. So net-net, the total claim projection or the claims and how they're emerging in April is basically flat to slightly down with historical trends.

Now that, too, could reverse. But as it reverses, I think we would have less COVID-19 claims going forward. So I would not project it on a run rate basis, and we'll give you transparency to what we do in the second quarter. But at least right now, there's offsetting factors that should mitigate losses.

Ryan Tunis

Got it. And I guess the one follow-up I had is kind of a mechanical one, probably for Doug as well. But some of these comp studies we're seeing where -- whether it's the NCCI where you're coming up with a gross workers' comp loss estimate, what are some things we should be thinking about in terms of how deductible -- in reality, how that makes its way to a loss in an insurance company, right, the impact that a company deductible might have to mitigate that or the fact that it might not even make it to workers' comp, right? I guess it could become a short-term disability claim or maybe health insurance might cover it. I'm just trying to understand, like trying to net that down to those gross numbers, what are some things we should be thinking about?

Douglas Elliot

Just a few comments. It's so hard to project here. But yes, the national account customer segment, Fortune 2000 plus, many have some form of loss responsive program, where there's either a deductible attached, some kind of retention arrangement. So yes, that would not all just flow directly into comp losses.

In terms of Main Street America, much of Middle Market America, I think those contracts are largely guaranteed costs. So those are risk-transfer programs. And again, this is going to be a state-by-state dynamic. But I would think much of that content change would show up in the P&L of insurers over time.

And then the last thought I have for you is that the fundamental way we run this business is that we take historical losses and we run them through our actuarial model, and then we develop rates going forward based on all the risks we're taking. And I fully expect, whether we're talking workers' comp or property, as we come out of this COVID-19 experience, we'll be doing exactly that with those losses paid.

Operator

And the next question comes from Michael Phillips with Morgan Stanley.

Michael Phillips

Just, Chris, is it simply that it was just -- it's too early? Just curious on, I guess, the rationale for not putting out any kind of expected number on the P&C side for COVID losses right now.

Christopher Jerome Swift
Chairman & CEO

Yes. Again, we reacted to what we know and what we saw. If you really think about it, it was 2 weeks of the month. And really, what I'd like you to take away from it is there isn't any big surprises out there that we don't see or understand, meaning we're not in certain lines of business that people put up a lot of reserves. I mean we're not in the event cancellation business. We don't have material trade credit exposures or anything along those lines. We don't have a travel business. So we have our core products and our core capabilities. And yes, I mean, 2 weeks for -- into the virus to sort of make any type of adjustment. And the accounting is, I mean, we can't book second quarter events in the first quarter, right? I mean it's got to be sort of a known and exposed first quarter events. So we'll see what develops here in the second quarter, but we're not setting out anything big in my judgment.

Michael Phillips

Okay. And then I guess, lastly, any thoughts you could share on expectations for earnings over the rest of the year for the Talcott business?

Christopher Jerome Swift
Chairman & CEO

Yes. Well, let's get through the crisis and the immediate events here. I mean we're not going to re-project or give new guidance at this point in time. So...

Beth A. Costello
Executive VP & CFO

I'm sorry. Which were you asking for?

Christopher Jerome Swift
Chairman & CEO

Guidance for the rest of the year.

Beth A. Costello
Executive VP & CFO

For Talcott, he said.

Christopher Jerome Swift
Chairman & CEO

Oh, excuse me.

Beth A. Costello
Executive VP & CFO

So yes, so that's hard to predict obviously. As we said, we record Talcott earnings on a quarter lag. So we typically get their financial statements 45, 50 days after quarter end. I'd expect that given their -- the hedging profile of that entity that we're likely to see gains from the first quarter. And I'd point you to look at first quarter of 2019 when they recorded the impact of the fourth quarter of 2018 and the impact of hedging gains that we saw there.

And then as far as predicting dividends, I mean, that gets difficult to do. We were pleased to get a dividend last year. And we know that their plan is to continue to pay dividends. But until we get the cash in the door, we don't count it. It's not included in any of our holding company projections of cash flows.

Operator

And that does conclude the question-and-answer session. So I would like to return the floor to Susan Spivak for any closing comments.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Thank you. We appreciate all of you joining us this morning. Please don't hesitate to contact us if you have any follow-up questions.

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