



# **The Hartford Financial Services Group, Inc.** NYSE:HIG

## *Earnings Call*

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## Call Participants

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# Presentation

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## Operator

Hello, and welcome to the First Quarter 2023 of the Hartford Financial Results Webcast. My name is Alex. I'll be coordinating the call today. [Operator Instructions]

I'll now hand over to your host, Susan Spivak, Senior Vice President of Investor Relations. Please go ahead.

## Susan Spivak Bernstein

*Senior Investor Relations Officer*

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

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

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

I'll now turn the call over to Chris.

## Christopher Jerome Swift

*Chairman & CEO*

Good morning, and thank you for joining us. Today, I will begin with a summary of the Hartford's first quarter results. Then Beth will dive deeper into our financial performance and key metrics after which we and our business leaders, we'll be happy to take your questions. So let's get started. We are pleased to begin the year with exceptional results in our Commercial Lines businesses and continued strong results in Group Benefits. While industry-wide trends such as elevated catastrophe losses and persistent inflationary pressure in personal auto, impacted our results. The first quarter also saw top line growth in Commercial Lines of 11%, including double-digit contributions from each business with an underlying combined ratio of 88.5%, double-digit renewal written price increases across both auto and home in Personal Lines.

Group Benefits fully insured premium growth of 8%, combined with strong first quarter sales and a core earnings margin of 5.2%. Solid investment results with increasing fixed income portfolio yields and strong reinvestment rates and a core earnings ROE of 14.3%, while returning \$484 million of capital to shareholders in the quarter. Now let me share first quarter highlights from each of our businesses. We have strong momentum across Commercial Lines, and I expect continued topline growth at highly profitable margins.

In addition, accelerating pricing in several lines, combined with enhanced underwriting execution, bolsters my confidence in our ability to deliver margins consistent with the 2023 outlook I provided back in February. In Small Commercial, written premiums of \$1.3 billion and new business of \$242 million set new records for the Hartford.

Three years ago, we completed the launch of our enhanced best-in-class package product which we call Spectrum. Over that 3-year period, Spectrum written premium has grown significantly. For example, this quarter's written premium is nearly 40% higher than the same period 3 years ago, and new business premium is almost double over that same period. In addition, with expanded wholesale broker relationships, our excess and surplus lines finding product continues to gain momentum delivering robust growth.

Written premium approximately doubled from a year ago, fueled by a substantial increase in new business. In short, Small Commercial continues to deliver exceptional results with industry-leading products and digital capabilities and is on track to exceed \$5 billion of annual written premium in the near term.

In Middle & Large commercial, written premiums grew 10%, driven by new business growth of 23%, sustained exposure growth and solid renewal written price increases. New business submissions and hit rates were both up an average premium on sold accounts continues to increase. We are particularly pleased by the growth in property lines, a key area of focus, and we will continue to capitalize on favorable market conditions. We are committed to getting paid for the CAT and non-CAT risk reunderwrite, setting appropriate terms and conditions in ensuring proper valuations.

Our investments in data science capabilities, industry-leading risk segmentation and exceptional talent have contributed to healthy margins and position us well to continue driving profitable growth in this business. In Global Specialty, results were outstanding with nearly \$4 billion of annual gross written premium. Our competitive position breadth of products and solid renewal written pricing drove a 10% increase in net written premium with significant contributions from global reinsurance. We are excited about our position in the wholesale market and the ongoing benefits from our broadened product portfolio.

Execution has never been stronger and our enhanced underwriting capabilities are driving market share gains. Turning to pricing. Commercial Lines renewal written pricing was 4.5% compared to 5.2% in the fourth quarter. Excluding workers' compensation, U.S. Standard Commercial Lines renewal written pricing rose to 8.1%, with middle-market property pricing in excess of 10%, in standard commercial auto near 7%. Workers' compensation pricing remained positive, continuing to benefit from a stronger-than-expected average wage growth.

Within Global Specialty, property, auto, primary casual and marine all generated strong pricing results well in excess of loss cost trends. In excess casualty, pricing is becoming more competitive while public D&O pricing remains under pressure. Within financial lines, we have been shifting our focus to private companies and management and professional liability, where market pricing and margins are more attractive while maintaining underwriting discipline in the public space.

Across Commercial Lines, long-term loss cost trends in our book remains stable. And excluding workers' compensation, the margin between renewal written pricing and aggregate loss cost trends has expanded modestly.

As we continue to execute our strategy across Commercial Lines, I want to reiterate my confidence in our ability to manage the book through a variety of economic and market conditions with superior underwriting margins and continued premium growth while maintaining a strong balance sheet. Moving to Personal Lines. The auto loss cost environment is very dynamic. Across market participants, the level of continued severity increases has had a meaningful impact on industry results.

As a result, active management of rate filings in response to the changing landscape is paramount. We achieved renewal written price increases of 10% in the first quarter and expected to accelerate into the high teens later this year. In the first quarter, approved rate filings averaged 18.3%, more than double than the fourth quarter result of 8.3%.

Given the vast majority of our book has 12-month policies, it will take time for the rate increases to fully earn in. With continued elevated loss trends reported in the fourth quarter of 2022 and the first quarter of this year, we have adjusted our rate execution plan. And as a result, new business rate adequacy will build throughout the year as filings are approved.

We expect new business rate adequacy in most states by year-end. Overall, I am confident we have the right strategy and with focused execution, expect to achieve auto profitability targets in 2024 across the book. In homeowners, results were quite strong with renewal written pricing of 13.9% in the quarter, comprised of net rate and insured value increases, outpacing loss cost trends. Turning to Group Benefits. We're off to a strong start.

Core earnings reflect a significant improvement we have seen in mortality trends versus prior year, including decreasing impacts from pandemic-related losses. Lower pandemic-related mortality is a welcome and encouraging trend. While it is still too early to reach firm conclusions on long-term mortality trends, we expect they will settle above pre-pandemic levels in our pricing business accordingly.

We continue to measure the effects of the pandemic and believe we are well prepared to adjust course as necessary. In disability, our capabilities are market-leading, and we remain positive on the performance and outlook of our book. Looking at new business. Sales of \$474 million were up \$85 million over prior year. This was our second highest sales quarter ever. Importantly, we are competing effectively across all market segments from small business to the largest U.S. enterprises.

As a group benefits market leader, we are well positioned to capitalize on rapidly evolving customer requirements for absence management, group life and supplemental health products and services. We continue to strengthen our reputation for customer service with an extensive suite of tools for HR platform integration, member enrollment, process simplification and analytics.

Employers are more focused than ever on the needs of their employees and our products and services are a key component of that value proposition. Moving now to investments. The portfolio continues to support the Hartford's financial and strategic objectives while performing well across a range of asset classes and economic cycles.

Stephanie will provide further details, and I would highlight that it was another quarter of solid net investment income with negligible impairments. Recognizing that commercial real estate is topical, let me take a minute moment to comment on our approach to that market. We have dedicated teams of experienced professionals with a long and successful track record of investing in the commercial real estate sector. We believe the market provides attractive yields and risk-adjusted returns while providing a source of diversification to our investment portfolio.

We have approximately \$6 billion of commercial mortgage loans, primarily consisting of multifamily and industrial holdings with less than 10% invested in commercial office. We regularly review our property valuation for the impact of lower occupancy levels, higher cap rates, and the impact of rising interest rates. These assessments give us confidence the portfolio will continue to perform well through the economic cycle. While perhaps a bit distinct from other property and casualty peers, we believe these holdings are an attractive alternative to investment-grade corporate credit as they provide approximately 80 to 100 basis points of additional spread over like rated corporates.

In closing, as we look ahead, we anticipate continued growth and strong margins across our businesses. Our financial performance demonstrates the power of the franchise, the depth of our distribution relationships and our commitment to superior customer experience, and excellent execution by our 19,000 employees. With these competitive advantages, I remain confident that we can continue to deliver superior results. The Hartford has never been better positioned to deliver industry-leading financial performance, highlighted by a core earnings ROE range of 14% to 15%, while creating value for all stakeholders.

Now let me turn it over to Beth to provide more commentary on the quarter.

**Beth A. Costello**  
*Executive VP & CFO*

Thank you, Chris. Core earnings for the quarter were \$536 million or \$1.68 per diluted share with a 12-month core earnings ROE of 14.3%. In Commercial Lines, core earnings were \$436 million with an underlying combined ratio of 88.5%, in line with our expectations for the first quarter which was embedded in the full year outlook provided in February. Small Commercial continued to deliver excellent

results with an underlying combined ratio of 89.5. The first quarter included higher non-cat property losses compared to unusually low losses in the prior year quarter and a modestly higher loss ratio in workers' compensation as expected.

This is the 11th straight quarter of an underlying combined ratio of below 90. Middle & Large Commercial delivered a record 89.9, a 1.6 point improvement from the prior year due to favorable non-cat property losses and expense improvements.

Global Specialties underlying margin improved 3 points from a year ago to an outstanding 85.2, which benefited from lower international losses and an improved expense ratio. In Personal Lines, core loss for the quarter was \$187,000 with an underlying combined ratio of 97. Homeowners underlying combined ratio of 78.9 was in line with expectation. Auto results reflected continued liability and physical damage severity pressure driven by, among other things, elevated repair costs, increased used car valuation and a modest uptick in attorney representation rate.

The auto underlying combined ratio was approximately 12 points higher than the prior year quarter, which is about 5.5 points above our expectations. As we progress through the first quarter, we began to see indications that there was a pronounced step change in loss activity. The first signal of this was in our February data. And at that time, we did not view this as a sustained trend but an area to watch. As we monitored loss activity in March, claim frequency remained in line with our expectations but we observed additional pressure on claim severities for both the current accident quarter and accident year 2022.

For example, with respect to our physical damage coverages, we observed a lengthening time to repair vehicles and an increase in the mix of total losses versus repairable. For bodily injury coverages, we continue to experience a mix shift to more severe accidents. Taking all this data into consideration, we booked the current quarter at an underlying combined ratio of 105.1. We also recorded prior year development of \$20 million related to accident year 2022 auto physical damage losses, which was primarily related to fourth quarter activity.

For auto liability, we recorded no net increase in prior year reserves as elevated activity in 2022 was offset by improvement in accident years 2021 and prior. As Chris indicated, the team continues to file for rate increases to offset the loss cost trends we are experiencing. Written premium and personal lines increased 6% over the prior year, driven by steady and successful rate actions.

The expense ratio decrease of 1.1 points was primarily driven by lower marketing spend. With respect to CAT, there were over 20 PCS-designated events this quarter, resulting in Property & Casualty current accident year CAT losses of \$185 million which includes the impact from significant winter storms along the East and West Coast and tornado wind and hail events across several regions of the United States.

Total net prior accident year development was essentially zero as reserve reductions in workers' compensation and package business were offset by reserve increases in auto physical damage and general liability. Workers' compensation reserves were reduced primarily in Small Commercial, driven by favorable claim severity experience and a \$20 million reduction in COVID-related reserves from the 2020 accident year.

Turning to Group Benefits. Core earnings in the first quarter of \$90 million and the 5.2% core earnings margin reflect lower group life and disability loss ratios and growth in fully insured premiums. As a reminder, from a seasonality perspective, we tend to experience higher underlying loss costs in the first quarter, so we would expect the margins lower than our full year estimate.

Earnings for the quarter benefited from a 12-point reduction in the group life loss ratio, reflecting improvement in the mortality trend as the prior year loss ratio was significantly impacted by the pandemic. Also positively impacting earnings for the quarter was a 2.8 point improvement in the disability loss ratio due to favorable long-term disability incidents.

Fully insured ongoing premium growth was 8%, reflecting growth from existing customers as well as strong persistency and new business sales. Premium growth also benefited from continued strong employment trends as well as our focus on enhancing the enrollment experience of our customers. Our

diversified investment portfolio produced solid results amidst financial sector volatility. For the quarter, net investment income was \$515 million.

Our fixed income portfolio is continuing to benefit from higher interest rates. The total annualized portfolio yield, excluding limited partnerships, was 3.8% before tax, modestly higher than the fourth quarter. Our annualized limited partnership returns were 2.5% in the quarter. These returns were slightly better than we had estimated as private equity annualized returns of 9% partially offset negative returns in our real estate portfolio, given fund valuations and the absence of underlying property sales as we expected. Looking forward, while it is still early in the quarter, we believe second quarter LP results will be similar to first quarter.

The overall credit quality of the portfolio remained high with an average credit rating of A+. Given the interest in real estate holdings and banking exposure, we have provided additional information in the appendix of our earnings slide deck. We had less than \$600,000 in holdings in the 3 failed regional banks primarily through index investing, and we had no Credit Suisse AT1. As you can see in the disclosures provided, we own approximately \$6 billion of commercial mortgage loans, which are concentrated in multifamily, industrial and grocery-anchored centers with limited office exposure.

Our portfolio is focused on high-growth geographic areas. Average LTV is 52%. And importantly, we have stressed our properties for lower valuations and are comfortable that the '23 and '24 maturities are manageable. We also own \$3.3 billion of commercial mortgage-backed securities. These holdings are secured by a diverse pool of properties with significant levels of subordination. We complete underlying loan level analysis for these holdings and also expect '23 and '24 maturities will be manageable. Turning to capital management. During the quarter, we repurchased 4.7 million shares for \$350 million. As of the end of the quarter, we have \$2.4 billion remaining on our share repurchase authorization through December 31, 2024. We recognize the macroeconomic backdrop remains uncertain, but we are well positioned to deliver consistent, sustained industry-leading results. Our success is a direct result of our steadfast operational excellence. I will now turn it back to Susan.



## Question and Answer

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### **Susan Spivak Bernstein**

*Senior Investor Relations Officer*

Thank you. We are now ready to take your questions. Operator, if you could repeat the process for asking a question.

### **Operator**

[Operator Instructions]

Our first question for today comes from Brian Meredith from UBS.

### **Brian Robert Meredith**

*UBS Investment Bank, Research Division*

First question on guidance. I'm just curious, your Personal Lines obviously running pretty elevated above kind of where your range on guidance is. What gives you confidence you're going to be able to make your guidance number for the year in personal auto? And then also on Commercial Lines, you're running above kind of the midpoint of the range. Should we see the underlying combined ratio to continue to improve here going forward in commercial?

### **Christopher Jerome Swift**

*Chairman & CEO*

Brian, it's Chris. Thanks for joining us. I think you're asking questions about personal lines and commercial and probably the implications of all -- so what I would say on personal lines is clearly, we're facing more headwinds than we anticipated a quarter ago. We've run various scenarios. And I would share with you again, personal auto is that -- if the elevated inflation severity pressures we feel in the first quarter continue in the second and third quarter and then begin to revert in the fourth quarter, that probably puts about 4 to 6 points of loss ratio pressure on the auto expectations we had for the full year.

I think then on your Commercial Lines question, I remain highly confident, highly that we'll achieve the objectives and the targets set out for a couple of reasons. One, the earned premium impact is increasing, and it will increase over the next 3 quarters based on what we've written second half of last year and then into this year.

I think also we've talked to you and others about the business mix that we're trying to shift to obviously more casualty, more property, and that will have the opportunity to contribute to overall margin improvements. And then third, something we don't maybe talk enough about is just our underwriting initiatives to improve risk selection, improve our overall margins that is happening in all the businesses, whether it be Middle Market and Global Specialty or Small. So I think we have all the initiatives in place that will build throughout the year, both on our loss ratio and our expense ratio as we get additional leverage to that demonstrates, and I see it in our numbers that we will achieve the goals that we set out for the year.

### **Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Great. That's really helpful. And then Chris, I'm just curious, the reinsurance business, you talk about a lot of much, but it's becoming a decent-sized business. Maybe you can talk a little bit about what's in that reinsurance book? Is it a property book? Is it a Cozy book? How should we think about it? Will it create some additional volatility here going forward?

### **Christopher Jerome Swift**

*Chairman & CEO*



Yes, I would -- I'll have -- maybe add this color. But I would say it's a diversified book. So a diversified book of property and casualty. We've been in it, obviously, since we've acquired Navigators. It's a very thoughtful team a very thoughtful approach. But it does contribute to growing our property, which I think we shared with you is a key initiative.

And Global Re this quarter basically grew its premium base over last year, about 21% with 30% pricing improvement in property. So -- it's a U.S. book. It does have a little bit of global exposure, but I think it's performing very well, and it's going to contribute.

**Operator**

Our next question comes from Yaron Kinar from Jefferies.

**Yaron Joseph Kinar**

*Jefferies LLC, Research Division*

My first question is with regards to global specialty pricing. Maybe you can talk about where you see that going over the course of the year. And also, is it still ahead of loss trends? Because it just seems like, I think one of your competitors on the specialty side was talking about 8% loss trends in specialty. So I would just want to verify that.

**Christopher Jerome Swift**

*Chairman & CEO*

Yes. Yaron, I would say in Global Specialty, you just got to take public company D&O out because it's such an outlier. And I give you a couple of data points, both in our international in domestic public company D&O public company books, which is about \$200 million of gross premium. I mean rates are negative 20% or greater. So when I think of sort of our book and business mix in total, I mean, I'll give you another stat. And it's in our investor slides that we put out there. But Commercial Lines ex comp. Pricing is up 6.8%.

But if I exclude the public company D&O, that 6.8 goes to 7.7, and that 7.7 is well in excess of our long-term cost of goods sold increases that we're expecting. So we still have a meaningful healthy margin. If you include it, it's meaningful about 100 basis points. And if you exclude public company D&O, yes, that probably goes up to 200 basis points of spread. So you put it all together, and it is a pressure point. It's a small line of business, but that's why you probably see that we're being very sensitive on how much we write. We're willing to let business go that doesn't meet our hurdle rates will impact the top line, but it will protect the bottom line.

**Adin Morris Tooker**

*EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution*

Maybe just to add -- this is Mo. I Just -- I think we feel particularly good about the lines outside of public D&O. I think we're growing the Marine book at nice rates the wholesale auto, wholesale property books. Those are all really additive to the margin expansion that Chris was talking about.

**Yaron Joseph Kinar**

*Jefferies LLC, Research Division*

And then maybe a quick one on Florida reform. Do you see that having any impact on your businesses, whether on the personnel side or commercial?

**Christopher Jerome Swift**

*Chairman & CEO*

Well, I mean, the Florida Tort Reform is obviously a welcome development to help contribute to making Florida more in trouble stage of state, whether it be some of the statutes that were provided there one-way attorney fees being limited, contributory negligence, shortening sort of the period that you could file suit.

So all that is positive. I think if you're -- if you're really asking the question, is there any short-term impacts on potential elevated litigation in suits being filed, we don't think so. And if it is, it's controlled and contained within our loss picks, particularly in our BI bucket.

**Operator**

Our next question comes from Elyse Greenspan from Wells Fargo.

**Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

My first question is on personal auto. So Chris, you mentioned that you guys still expect to get back to your target margins in that business in '24. Obviously, you and everyone else in the industry is still seeing elevated trends to start this year. So -- why are you still convinced you can get there next year? Or is it just that in response to the trend you guys are pushing for more price than previously expected.

**Christopher Jerome Swift**

*Chairman & CEO*

Yes. I would just add my high-level commentary and then ask Stephanie to add hers. But -- yes, I think, Elyse, what you described in my words is simple math, right? We got loss trends that are remaining elevated, inflation is sticky. There's some severity pressure on totals versus repairables as Beth mentioned. But at the end of the day, even though it works on a lag effect, the data will support raising rates.

And as we said, we've got 10 points of written rate in the book this quarter on filed basis on a proved basis in the states. We've gotten 18.3%. So the cumulative effect of rate increases, pruning the book gives us confidence that we can achieve our target margins in 2024. But Stephanie, what would you add?

**Susan Spivak Bernstein**

*Senior Investor Relations Officer*

Chris, I think you framed it well. Elyse, our strategy remains unchanged. It's rate adequacy focused towards achieving profitability in 2024 and our prevail launch. So the 10 points, which you see sequentially over the prior quarters is a meaningful step change.

And again, the rate, the 18 plus that we have approved those filings, it's truly a reflection of the rate that we're getting, and how that will work its way through the book. And as Beth and Chris alluded to in the prepared remarks, what we observed in the first quarter has already been contemplated and put into our rate filings. So it's a dynamic process and one that we're working hard on every single day, but that gives us confidence.

**Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

And then my second question is on Commercial Lines. So you guys, in response to a prior question, right, pointed to earning in rate and there are some expenses that are going to flow through as well. Should we expect that the year-over-year improvement that you're looking for will pick up as we go through the next 3 quarters, meaning be the greatest in the fourth quarter as the rate continues to earn in, or is there any other seasonality we need to pay attention to when thinking about the back 3 quarters of the year?

**Christopher Jerome Swift**

*Chairman & CEO*

Yes. I don't think there's any seasonality you need to pay attention to explicitly. But I do believe over the next 3 quarters, you'll see improvement in the loss ratio and the expense ratio given what we've talked about earned rate coming in business mix shifting for us. So all those will contribute to that improvement. And Elyse, I think we have talked with you and others about our guidance.

Remember, we guided to 87 million 89. We finished last year at 88.3. We believe, based on the first quarter and the data that we're seeing for the next 3 that we will be able to improve from that 88.3 last

year, whether it be 3 times of a point, 5 times of point. We don't have to debate that today, but it will improve. And it's again, fundamentally driven by loss ratio improvement, expense ratio improvement offset by some of the headwinds that we feel in workers' comp. So those are the 3 main components of how we get to combined ratio improvement on an underlying basis from last year to this year.

**Operator**

Our next question comes from Alex Scott of Goldman Sachs.

**Alexander Scott**

*Goldman Sachs Group, Inc., Research Division*

First one I had is a little bit of a housekeeping item. You guys mentioned higher non-CAT losses in commercial relative to the depressed level last year, how those non-CAT losses this quarter compared -- I guess somewhere normal expectation. I just wasn't sure whether to interpret that as higher than normal or not?

**Christopher Jerome Swift**

*Chairman & CEO*

I'll add my color and then I'll ask Beth to add hers. But I would say between small and middle right on expectation, right, for the year. small ran a little hot in middle and larger and better than expected. But is there anything else there, Beth, that you would add?

**Beth A. Costello**

*Executive VP & CFO*

No. I think you captured it well as we, again, look at both small and middle, a little bit offsetting relative to a little elevated in small commercial and a benefit in Middle market.

**Alexander Scott**

*Goldman Sachs Group, Inc., Research Division*

Got it. And then my follow-up is on workers' comp. I guess -- when you guys are thinking about loss trend there, it seems like you probably maintained a pretty high loss trend in line with sort of the 5% positive loss trend. You've been booking. I just wanted to get some thoughts on the way that you're thinking through like frequency versus severity within that? And I mean, are you giving yourself credit for the lower frequency post pandemic, the way that we've seen some of your larger peers do?

**Christopher Jerome Swift**

*Chairman & CEO*

Alex, I think we've talked at year-end about frequency and severity trends. I would just reiterate they're right in line with our expectations, maybe even slightly better on the severity side.

And I think we've talked about that. The trend on severity, what we price for initially reserved for is 5%. But last year and then continuing into this year, we're outperforming that. And we do have a frequency expectation that it will improve or a negative frequency. But we're not providing that data on a granular basis.

**Operator**

Our next question comes from David Motemaden from Evercore ISI.

**David Kenneth Motemaden**

*Evercore ISI Institutional Equities, Research Division*

So Chris, you spoke about the components of improving the underlying combined ratio in commercial in 2023 versus 2022. And we can see the expense ratio. So I wanted to look at the underlying loss ratio here in the first quarter in line with expectations with what you guys have let out. Wondering if you could talk about the different dynamics there between comp and then excluding comp, was the year-over-year deterioration just all workers' comp? Or was there anything else in there? And it sounds like you're

expecting the noncomp to pick up and improve over the rest of the year, but just wanted to get a little bit more color on that.

**Christopher Jerome Swift**

*Chairman & CEO*

Yes, David, happy to talk through that the best way we can. I would start by saying year-over-year, and compared to our expectations are generally right in line, right? So if you want to quibble about 0.1 of a point or 0.2 of a point okay, but I'm not. And so again, there's always going to be puts and takes. But from the year-over-year, we're offsetting the headwind in comp with other margin expansion and other lines of business, and it's sort of across the board. It's ones and two tens here and there. But again, that gives us confidence that we have the ability to continue that throughout the rest of the year. And again, I would just point out, particularly in property, we are really focused on growing our property book.

And I think we've talked about it. We've got about \$2 billion of commercial lines property book. We grew that first quarter over first quarter, as I said, 18%. And if I look at pricing, particularly in our standard commercial lines, that pricing is up 12%. Wholesale is up 24%, Global Re is up 30%. So we are getting a meaningful lift in property, and that's going to mix in and will help the overall margins. I would say, again, our general liability and casualty and specialty casualty lines or industry verticals in certain areas are also running high single digits to low double digits with price increases, which will contribute.

We are feeling a little pressure, as I said, in public company D&O and also a little pressure in our excess casualty book, primarily construction. And I would say there's 2 primary reasons for that pressure, both top line and then a little bit on pricing is competition is moving in there. And then there's fewer projects that's taking longer to get financing lined up for it. So it's a little bit of a perfect storm for some pressure there, but we're going to remain disciplined and try to protect our margins there. So those are the components I put together, David, and we're able to follow that.

**David Kenneth Motemaden**

*Evercore ISI Institutional Equities, Research Division*

Yes. That was great. I appreciate that color. And then maybe just a follow-up. It sounded like loss trend, roughly stable inclines in the quarter. Obviously, a very dynamic environment, especially on the liability line side. Have you thought about any -- your expectations going forward? I think last quarter, you had spoken about some expectation for property severity moderating towards the second half of the year. And then also just maybe talk about sort of thoughts on liability loss costs as we head through the rest of the year.

**Christopher Jerome Swift**

*Chairman & CEO*

Yes. I don't think there's anything new to add. I don't actually -- I don't think I follow exactly what you're getting at. But all I would say is our property book is \$2 billion. I think it performs well. We're trying to grow it. As we grow it, we might have a little bit more volatility from quarter-to-quarter just as fortuitous events happen -- still feel good about our reinsurance protection and all our property, either per risk or aggregate basis. So there's nothing new to talk about in property, Mo, unless you would add anything?

**Adin Morris Tooker**

*EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution*

Okay. No, I just say on liability, we continue to -- and this is going back 2 or 3 years now. We've been working really hard on segmentation and making sure we're looking at the right jurisdictions, thinking about attachment points thinking about our limits management. So I think there's a pretty aggressive strategy that we used over the past couple of years to stay ahead of some of the trends that we're seeing now, which refers back to when Chris talks about underwriting initiatives, those are the types of things that he's talking about.

**Operator**

Our next question comes from Greg Peters of Raymond James.

**Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

I want to go back to your comments around D&O and the pricing being down 20%. And -- maybe Chris or Mo, you can talk about are there barriers to entry in D&O? I would have imagined for public companies there's some component of switching costs if they go from one carrier to the next. And just as it relates to your position in the market, do you have the flexibility to come and go based on underwriting conditions or does the business require you to stick with customers but perhaps at a reduced level of participation?

**Adin Morris Tooker**

*EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution*

Yes, Greg, it's Mo, I'll start. Yes. No, I think what we've seen, and I know some of our competitors have talked about it, is the number of new entrants into the space, especially on the excess basis. At the same time, exposures have dropped away, whether that be spacks or despacks or just IPOs in general. I think it's important to note also that we -- as Chris talked about earlier, it's a relatively small part of our Financial Lines book is the D&O is the \$200 million that Chris referenced.

And I don't think there's anything holding us in that market. We have been really working hard on risk quality day by day on risk by risk to make decisions as we decide which ones we will stay with and which ones we won't. But at the same time, we are also pivoting resources towards other parts of the financial lines book. I think management liability, I think professional liability, small commercial, middle market types of customers.

So I think we're trying to be fairly nimble in the face of what is a precipitous drop in the public D&O market, but we see opportunities throughout that portfolio in other ways.

**Christopher Jerome Swift**

*Chairman & CEO*

Greg, only I would add is -- there are differences in relationships on the primary side versus the excess side. We're primarily excess players and towers. You do have a little bit more flexibility to come and go. -- which, as Mo said, creates the opportunity for new capital and new entrants to come in. I see a little bit more stability on the primary side, but that's just my point of view.

**Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

Makes sense. I'm going to switch gears. The group benefits business. In your comments, you look at the results. I think you said second best quarter for new sales. Is this coming across the spectrum? Or are you gaining more share in a different component of is it smaller business, middle-sized businesses? And I guess as I think about the outlook, is there a step change in the market and your position in the market? Or is it just -- or is there something going on with your distribution network that's giving you an advantage over your peers?

**Christopher Jerome Swift**

*Chairman & CEO*

Yes, Greg, I'm going to ask Jonathan to comment. But I would say, as I said in my prepared remarks, I mean, we're growing in all segments. Clearly, we're still recognized as a market leader in national accounts, that's probably 60% of our book. But we do want to continue to focus and grow in the other segments and improve our offerings there. But I think it's just a cumulative impact of what our brand stands for in this space. And it's terribly important today, we're investing in, as I said before.

And you're right. I think we're recognized as one of the premier organizations in the benefits space, both disability, life all our supplemental products, and we're trying to take advantage of it while remaining disciplined to get appropriate rates and returns for this book. But Jonathan, what would you add?

**Jonathan Ross Bennett**

*Executive VP & Head of Group Benefits*

Chris, all the right points to start with on the conversation for sales. The national account business is fortuitous. Every year is a bit of a different market. Not every customer comes to market every year. And so opportunities present in different ways at different times. We had a nice run on some national account business, which we're excited to add to our books. So that continues.

And we feel like we are a strong player in the large case market, and we'll continue to compete there. But we are focused very much as we work ourselves down into what we call regional accounts and in the smaller and midsized enterprises. And I think we're seeing good success through our distribution channels there. A number of our initiatives have hit pretty well.

We've been focused on things like enrollment had a strong season last year. I think it's an intersection of benefits awareness and interest from employees and employers to add new lines, new coverages and to access those along with our improved enrollment capabilities coming online, really at a great time to take advantage of that interest in helping us to drive more new sales and overall top line. So those things coming together, along with a market cycle that worked well for us in national, I think, has produced a great result here in the first quarter of '23.

**Operator**

Our next question comes from Mike Zaremski from BMO.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

I guess first question, thank you for the additional commercial real estate disclosure. I mean I'm sure you and most analysts have gotten a lot of questions on that asset class. Just curious, is there a scenario and appreciative that it's been a very profitable -- remains a very profitable asset class.

But is there a scenario where it would make prudent sense to that we are hold back on capital management a bit if stress and pockets of that asset class were to persist or get worse? Or is that just -- you guys have the granularity? Is it just not -- does that does not make sense given maybe the headlines are worse than the reality.

**Christopher Jerome Swift**

*Chairman & CEO*

Yes. Mike, all I would say, and I'll ask Beth to add her color is details matter, location matters, property-type matters, experience with lenders -- or excuse me, borrowers and developer matters. So we're pretty confident in our ability to manage this through cycle here that we're approaching and still have optimal flexibility with our balance sheet capital. But Beth, what would you add?

**Beth A. Costello**

*Executive VP & CFO*

Yes, I would agree with that. I mean, we regularly stress all aspects of our business and evaluate our overall capital levels and take that into consideration when we execute and on our share repurchases and so forth.

And sitting here today, as you can see from our results, we're continuing on the path that we've been, and we feel very good with the overall strength of the balance sheet.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

Okay. Great. And my follow-up, you guys have touched on this in a lot of prior calls, but the small commercial new business momentum has continued. And any changing dynamics there that have allowed Hartford to win even more? Is this just kind of the normal box that you guys are known for doing so well? Any change in dynamics there would be helpful.

**Christopher Jerome Swift**

*Chairman & CEO*



I'll let Stephanie add it, but I'll just repeat what I said in my prepared remarks, consciously, I mean, we -- we built a new product with new technology, Amazon-like features, easy to use, intuitive both for CSRs and then our direct customers. So it doesn't happen by mistake.

It's very intentional as far what we're trying to achieve, investing in, particularly some of the latest developments in the excess and surplus lines that we're going to attack quite aggressively in the marketplace. But Stephanie, what would you say?

**Beth A. Costello**

*Executive VP & CFO*

Yes. It's a terrific question. It's a phenomenal franchise. It's best stated 11 quarters in a row with a sub-90 underlying combined ratio, record-breaking new business growth, all lines growing, stable retention, strong pricing export comp, and we're incredibly skilled at the workers' compensation line, successfully navigate historically through multiple economic scenarios. We really are the standard for ease, accuracy and consistency in this space.

Our agents have come to expect a seamless digital experience that values their time and provides the right coverage for their clients. So -- we just really believe we have the winning formula for this space. Our greatest competition is ourselves. And we're off to a tremendous start. And as Chris mentioned, we're pacing towards another milestone of \$5 billion.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

If I could, just a direct follow-up on this. You've mentioned E&S a couple of times I think the last couple of calls, in regards to Small Commercial. Is that a new initiative? Like is that a-- does that open up a new TAM that for Small Commercial E&S that you know that the lights of Kyndryl are in? Or just any color there would be great.

**Beth A. Costello**

*Executive VP & CFO*

Sure. E&S binding and small business is a terrific story. It's a wonderful and attractive addition to our overall franchise. And candidly, it's opened up another \$7.5 billion of addressable market for us. And we're focused on growing the property and liability lines. We're very pleased with the results. It's a growing and accretive portion of our business and expect that to grow meaningfully over time. So it's a terrific offering. We have tremendous wholesale relationships -- and it's just allowing us to be -- to create more capability and offering in the total small business universe.

**Operator**

Our next question for today comes from Tracy Benguigui from Barclays.

**Tracy Dolin-Benguigui**

*Barclays Bank PLC, Research Division*

One of your competitors mentioned that California workers' comp is showing signs of firming which is ahead of the rest of the market. Are you seeing that too?

**Christopher Jerome Swift**

*Chairman & CEO*

Yes, I read that. I would say we're probably a little more sanguine and cautious. That's all I'll say.

**Tracy Dolin-Benguigui**

*Barclays Bank PLC, Research Division*

Or is there any other tougher states that are showing early signs of firming at this stage?

**Christopher Jerome Swift**

*Chairman & CEO*



I would say we're watching for green shoots very closely. We'll report if we see any green shoots.

**Tracy Dolin-Benguigui**

*Barclays Bank PLC, Research Division*

Got it. Chris, you mentioned that the auto headwind should add 4 to 6 points of loss ratio pressure on your auto expectations that you had for the full year. So how should that influence your Personal Lines underlying combined ratio guide of 93% to 95% for '23, which is auto and homeowners?

**Christopher Jerome Swift**

*Chairman & CEO*

Yes, what is expected you be able to do the math on that. But that's all I'm prepared to say at this point in time. You could see the premium weighting. You could see the history. I think you can make a reasonable estimate.

**Operator**

Our next question comes from Josh Shanker from Bank of America.

**Joshua David Shanker**

*BofA Securities, Research Division*

Yes. Maybe I'm doing this wrong, but I look at the commercial segment and last year in the first quarter, you had \$1.2 billion of claims payments. And in the first quarter of '23, you had \$1.4 billion, but you paid the Boy Scout settlement this quarter, which is \$787 million, which maybe I'm doing this wrong, it substantially reduces your claim payments in commercial and your claim payments overall to a number that's astonishingly low. I mean I don't have the full time series in front of me but I don't think it's been that low in a decade. Am I doing this wrong? Or it's really...

**Beth A. Costello**

*Executive VP & CFO*

Yes, Joshua, you're doing it wrong. Yes, Josh, you're doing it wrong. We -- yes, we'll help you out. We paid the Boy Scout settlement last week in April. So the Boy Scout settlement is not in the first quarter numbers that you're looking at. And we have that disclosed in our 10-Q.

**Joshua David Shanker**

*BofA Securities, Research Division*

That said March 28 in the Q, maybe I read it wrong. Okay. That's my only question.

**Operator**

Our next question comes from Derek Han from KBW.

**Dong Yoon Han**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Just going back to small commercial new business premiums. I'm just curious if you're benefiting at all from the smaller regional mutual companies that really can't stand increase in property-related volatility and whether you think that's going to have an impact on growth maybe throughout '23 as well?

**Beth A. Costello**

*Executive VP & CFO*

Our growth comes from a variety of sources, both organic new business starts and various industries we track prior carrier and current carrier where we're getting the business from and it's pretty widespread. So we are -- we find those opportunities and we capitalize on them.

**Dong Yoon Han**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it. And then just a quick numbers question. I think, Chris, you said the margin between pricing and loss trend has improved modestly. I think previously, it was about 100 bps. So is that kind of growing to 120 bps. If you can kind of quantify that, that would be helpful.

**Christopher Jerome Swift**

*Chairman & CEO*

Derek, I would say in that 10 to 20 bps in the area.

**Operator**

At this time, I will hand the call back over to Susan Spivak for any further remarks.

**Susan Spivak Bernstein**

*Senior Investor Relations Officer*

Thank you all for joining today. And as always, please reach out with any additional questions. If we didn't get to your questions on the call today, we are available this afternoon, and have a great day.

**Operator**

Thank you for joining today's call. You may now disconnect your lines.

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