S&P Global
Market Intelligence

The Hartford Financial Services Group, Inc. NYSE:HIG

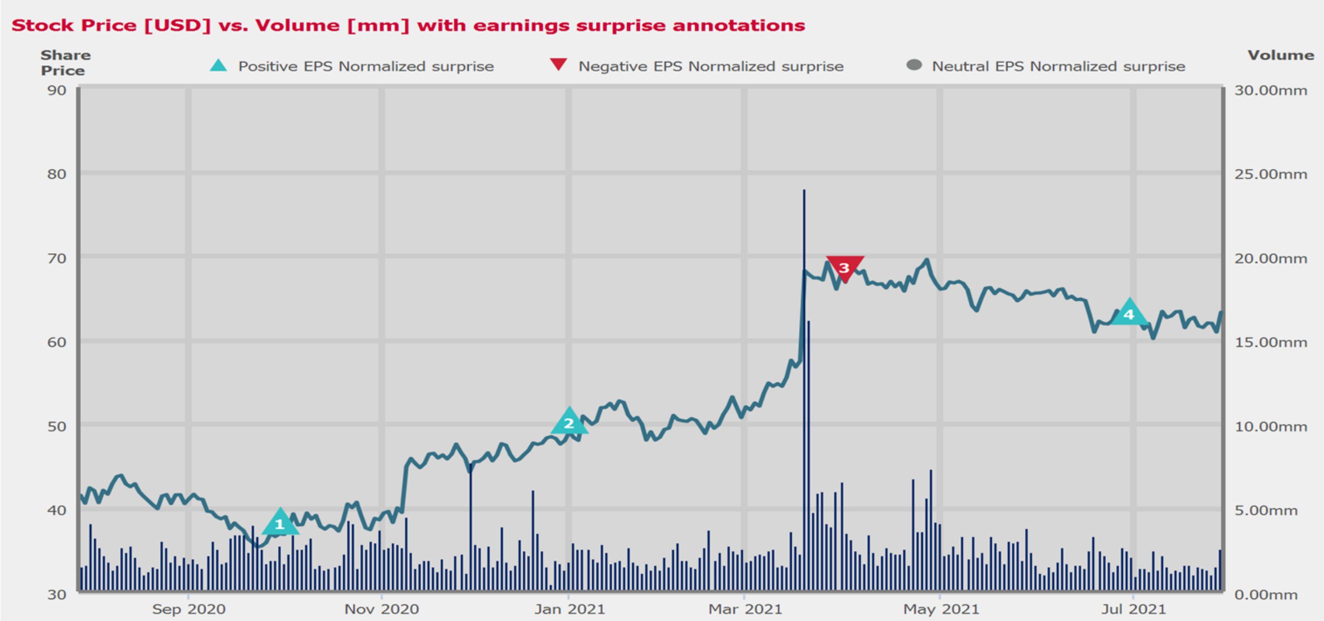
FQ2 2021 Earnings Call Transcripts

Thursday, July 29, 2021 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.34	2.33	▲73.88	1.42	5.61	NA
Revenue (mm)	5205.00	5589.00	▲7.38	5187.00	20927.00	NA

Currency: USD
Consensus as of Jul-30-2021 12:01 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.91	1.46	▲1 60.44 %
FQ4 2020	1.32	1.76	▲2 33.33 %
FQ1 2021	0.57	0.56	▼3 (1.75 %)
FQ2 2021	1.34	2.33	▲4 73.88 %

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Call Participants

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Presentation

Susan Spivak Bernstein
Senior Investor Relations Officer

Good morning, and thanks for joining us today for our call and webcast on second quarter 2021 earnings. Last night, we reported results and posted all of the earnings-related materials on our website. For the call today, our speakers are Chris Swift, Chairman and CEO of The Hartford; Beth Costello, Chief Financial Officer; and Doug Elliot, President. Following their prepared remarks, we will have a Q&A period.

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

Our commentary today 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 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 it over to Chris.

Christopher Jerome Swift
Chairman & CEO

Thank you for joining us this morning. Last quarter, I shared that I had never been more excited about the future of The Hartford. Our second quarter results support that optimism. All the components of our strategy are coming together to deliver growth, margin expansion and operating efficiencies.

In the second quarter, we reported core earnings of $836 million or $2.33 per diluted share; 8% growth in year-over-year diluted book value per share, excluding AOCI; and a trailing 12-month core earnings ROE of 13.1%. In addition, we returned $694 million to shareholders in the quarter from share repurchases and common dividends. The outstanding financial performance of The Hartford reflects strong execution and success of our strategy to focus on high-return businesses where we have market leadership and sustainable competitive advantages.

Economic growth, as measured by GDP, reached a record level in the second quarter. And while moderation is expected, the overall trend will remain elevated through 2021. This economic expansion will grow the premium base of our employment-centric businesses and other lines as they benefit from job creation and new business formations. Meanwhile, we are closely monitoring the recent elevated inflation data and remain confident that our loss ratio assumptions are sufficient against this backdrop in 2021. At the same time, we are considering pricing actions as we gauge inflation trends going forward.

Finally, our investment portfolio is well diversified and positioned for the evolving macroeconomic environment. As we enter the second half of '21, while watching developments with COVID-19 and inflation, I am very confident that The Hartford franchise has never been better positioned to continue to generate industry-leading returns and enhance value for all our stakeholders.

Let me now make some high-level comments about the results within the business. In Property & Casualty, improved results were driven by higher investment income and a very strong contribution from Commercial Lines with double-digit top line growth, underlying margin expansion and reduced COVID impact. For nearly 40 years, we have been a leader in the Small Commercial market and have consistently generated highly profitable margins.

Results continue to be exceptional. Our differentiated products and digital capabilities are driving a superior customer experience, which contribute to higher written premium levels as we capture more profitable market share. For the second consecutive quarter, our next-gen Spectrum, new sales reached record levels.

In Middle & Large Commercial, our team has done a tremendous job improving margins while growing the top line as demonstrated by new sales and written premium levels. As the country invests in new infrastructure over the next decade, our specialized verticals are well positioned as a go-to-market for risk products and services.

In Global Specialty, we are growing in targeted lines that provide very attractive risk-adjusted returns. Cross-selling within The Hartford's retail distribution has been very successful, and the feedback from our distribution partners has been exceptional regarding product breadth and teamwork. As Doug will discuss further, we expect to exceed our cross-sell targets a year ahead of plan.

I am extremely pleased with what the team has accomplished in a short period of time since the strategic transaction of Navigators closed. The timing was ideal given the growth in this market segment and the robust pricing environment. Just 2 years ago, this business was generating combined ratios above 110%. We thoughtfully developed a plan to improve the financial performance and the results are self-evident, and we believe there is more improvement to come. We have nearly $2.5 billion of annual premium in Global Specialty, and I am very optimistic about the future as we realize the full potential of the products and capabilities of this business.

Across Commercial Lines, our technology investments have improved the speed and effectiveness of the underwriting process. We continue to further leverage data and analytics to make more informed underwriting decisions and respond to the needs of our distribution partners and our customers. Overall, our Commercial Lines businesses are well positioned to compete and win in the marketplace.

Turning to Personal Lines. We are the fifth largest direct writer of personal auto through our partnership with AARP, one of the largest affinity groups in America. Over the next decade, this mature market demographic is estimated to grow 3x as fast as the rest of the U.S. population. To capitalize on this growing segment, we are modernizing our products in both home and auto and further enhancing our already strong digital capabilities. This transformation provides greater ability to grow in the 50-plus demographic that has become more reliant on digital technologies in the way they live and work.

Before turning to Group Benefits, I would like to briefly comment on the bankruptcy of the Boy Scouts. Earlier this month, the Boy Scouts filed an amended plan, which included a request to be released from its settlement agreement with The Hartford. We are vigorously contesting this request and have filed strong opposition with the bankruptcy court. That said, and consistent with our policy regarding active litigation, I am not going to comment further on this matter.

Turning to Group Benefits. We posted solid results for the quarter, driven by excellent investment returns as well as continued favorable disability trends, offset by elevated excess mortality. Higher year-over-year earned premiums, excluding buyouts, reflect expanding payrolls as well as new sales and strong persistency.

The group life industry has been impacted by excess mortality over the past 5 quarters. During the second quarter, our excess mortality losses have dropped significantly versus the first quarter. U.S. COVID-19 deaths have declined rapidly since peaking in January, but continue to drive elevated mortality in our book of business and across the industry.

Consistent with U.S. trends, the average age of our COVID-19 life claimant has decreased. Since younger age cohorts tend to carry higher face amounts, the average claim severity has increased relative to earlier periods in the pandemic. We are optimistic about the efficacy of vaccines. However, we are closely monitoring the variant strains and the slowing rate of vaccinations, particularly among the younger age cohorts. That said, we do expect lower excess mortality in the second half of '21 compared to the first half of this year.

We are a top 3 carrier in the group benefits industry with strong market share, a diverse product portfolio and capabilities across customer segments from small business to national accounts. We continue to invest in our technology platform to extend our service offerings, including digital access for employers and employees to improve the overall customer experience.

The workplace remains an important access point for many people to obtain desired protection products, and we see that relationship growing stronger in the years ahead. In addition, the pandemic created new focus on the products and services we provide. We are confident that our innovative mindset positions us well to maintain our competitive advantages and grow in Group Benefits.

To conclude, we are executing with confidence and precision. Our top line is benefiting from strong macroeconomic tailwinds. Margins are expanding with a positive renewal rate environment, and excess mortality losses are expected to decline. With enhanced underwriting capabilities, broad product offerings and strong distribution partnerships, we are positioned to grow and capture more profitable market share.

Last quarter, we shared our target of a core earnings ROE of 13% to 14% in 2022 and into 2023 driven by top line growth across the businesses, margin improvement with strong earned pricing trends in excess of loss costs, operating efficiencies and proactive and prudent capital management. I am optimistic and confident we will continue to deliver on our financial objectives and enhance value for all stakeholders.

Now I'll turn it over to Beth.

Beth A. Costello
Executive VP & CFO

Thank you, Chris. Overall, we are very pleased with the results for the quarter and our progress on our priorities to enhance value creation for shareholders.

Second quarter core earnings were $836 million or $2.33 per diluted share and up 91% from last year. We had strong performance across all our businesses, excellent investment results and significantly lower COVID losses as compared to the prior year period.

In P&C, the combined ratio of 88.5 improved 8.4 points from the second quarter of 2020, including improvements in both the loss and expense ratios. The expense ratio in the quarter improved by 220 basis points to 31%, reflecting earned premium growth as well as cost savings from Hartford Next and a lower provision for doubtful account.

In Commercial Lines, we produced an excellent underlying combined ratio of 89.4, which included ex COVID loss ratio improvement in Middle & Large Commercial and in Global Specialty and expense ratio improvement across all businesses. Results in Commercial Lines also improved year-over-year due to lower direct COVID losses of $3 million compared to $213 million or 9.9 points in second quarter 2020. Written premium was up 15% with growth in all lines of business, including the effect of higher audit and endorsement premiums reflecting the economic rebound.

Personal Lines generated an underwriting gain of $96 million and an underlying combined ratio of 88.2%. Results were down from second quarter 2020 as last year benefited from significantly lower auto frequency due to the pandemic.

Across Property & Casualty, catastrophes were $128 million in the quarter, $120 million lower than second quarter 2020, which included $110 million for civil unrest. P&C prior accident year reserve development within core earnings was a net favorable $188 million, including an $82 million reduction in catastrophe reserves as well as decreases in workers' compensation, personal auto liability, package business and bonds. This compared to $322 million of net favorable reserve development in second quarter 2020, which included a $400 million decrease in catastrophe reserves, including the subrogation benefit from PG&E.

In second quarter 2021, we ceded an additional $39 million of unfavorable Navigators reserve development to the adverse development cover primarily related to U.S. financial lines. Although these losses are economically ceded, the reserve development resulted in a deferred gain, representing a charge against net income in the quarter.

Group Benefits core earnings were $149 million, up 46% over prior year. Earnings for the quarter reflect strong investment results, the lessening effect of excess mortality related to COVID-19 and an increase in fully insured ongoing premium as our customers emerge from the pandemic. Sales were nearly $100 million in the quarter, and we experienced a continuation of strong persistency at 91.1%.

All-cause excess mortality in the quarter was $25 million, which includes $88 million for second quarter death dates, offset by $63 million of favorable development for prior period excess mortality estimates, predominantly related to the first quarter. Through the first 6 months of the year, our results include excess mortality of $210 million.

As Chris mentioned, although we were encouraged by the trend of declining excess mortality from first quarter to second quarter, we continue to watch a variety of factors, including vaccination rates and the impact of variants. While uncertainty remains, we would expect excess mortality trends in the second half of 2021 to improve significantly.

Disability loss trend for the quarter remained favorable, though up slightly from the prior year quarter. The disability loss ratio for the quarter was 64.2%, up 1.6 points as the prior year benefited from favorable short-term disability claim frequency due to the deferral of elective medical procedures at the beginning of the pandemic. Long-term disability claim incidence was favorable to prior year. And claim recoveries, although down from the prior year, remain strong.

At Hartford Funds, core earnings for the quarter were $51 million compared with $33 million for the prior year period, reflecting the impact of daily average AUM increasing 36%. Mutual Fund net flows were very strong at $2.4 billion of net inflows for the quarter.

The Corporate core loss was higher at $52 million in second quarter 2021 compared to a loss of $6 million in the prior year quarter due to income from our investment in Talcott in the second quarter of 2020 of $68 million before tax. On June 30, 2021, we received $217 million from the sale of our ownership interest in Talcott, resulting in a realized capital gain of $46 million before tax in the quarter. As a reminder, within core earnings, the Corporate category primarily includes interest expense on debt and investment management fees and expenses related to managing third-party business, including management of the invested assets with Talcott.

Turning to investments. Net investment income was $581 million for the quarter, up 71% from the prior year quarter, benefiting from very strong annualized limited partnership returns of 33% driven by higher valuations and sales of underlying investments within private equity funds. The total annualized portfolio yield, excluding limited partnerships, was 3.1% before tax compared to 3.4% in the second quarter of 2020.

The portfolio credit quality remains strong with no credit losses on fixed maturities in the quarter and a $10 million gain from the partial reduction of the valuation allowance for credit losses on mortgage loans due to improved economic scenarios. Net unrealized gains on fixed maturities before tax were $2.8 billion at June 30, up from $2.3 billion at March 31 due to lower interest rates and tighter credit spread.

Improving operating efficiencies and a lower expense ratio from Hartford Next have been a contributor to margin expansion. The program delivered $195 million in pretax expense savings in the 6 months ended June 30, 2021, compared to the 6-month period in 2019. We continue to expect full year pretax savings of approximately $540 million in 2022 and $625 million in 2023.

Book value per diluted share, excluding AOCI, rose 8% since June 30, 2020, to $49.01. And our trailing 12-month core earnings ROE was 13.1%. During the quarter, The Hartford returned $694 million to shareholders, including $568 million of share repurchases and $126 million in common dividends paid. For the 6-month period, we returned $933 million with $691 million of share repurchases and $242 million in common dividends paid. From July 1 to July 27, we repurchased 1.9 million shares for $116 million.

There remains $1.7 billion available under our $2.5 billion authorization through 2022. Resources at the holding company as of June 30 included a total of $1.7 billion in cash and investments. During the quarter, we received $337 million in dividends from subsidiaries and expect approximately $725 million to $900 million over the second half of 2021. All in all, we had very strong results this second quarter, which puts us well on our way to achieving the financial goals we shared with you in April.

I will now turn the call over to Doug.

Douglas Graham Elliot
President

Thanks, Beth, and good morning, everyone.

6 months into the year, I couldn't be prouder of our performance. Within Property & Casualty, we're meeting or exceeding expectations on nearly all our key financial metrics. In the second quarter, Property & Casualty produced an outstanding underlying combined ratio of 89.2. Premium growth accelerated in commercial. Pricing remained strong and ahead of loss trends for most product lines and early results from the launch of our new Personal Lines product were encouraging. As Beth mentioned, Commercial Lines produced a stellar underlying combined ratio of 89.4, with year-over-year improvement in both the loss and expense ratios.

Before providing more color on commercial pricing and loss trends, let me spend a few minutes on top line performance. Small Commercial written premium increased 11%. As anticipated, we are benefiting from an improving economy with increases in payroll and wages contributing to the quarter's top line result. New business of $170 million was up 44% as we had our second consecutive exceptional quarter. Our BOP product, Spectrum, continues to drive our new business success. This industry-leading contemporary offering achieved record new business of $75 million or 52% growth over prior year.

In addition, Small Commercial achieved an important underwriting efficiency milestone during the quarter. In June, 75% of quotes were bindable with little or no-touch underwriting, a material increase over just 2 years ago. This is a key driver of growth as yield on bindable business is particularly strong, and the efficiency leverage is equally important. The sophistication of our proprietary pricing model gives us confidence in the quality of our bindable business and is reflected in Small Commercial's underlying profitability.

Middle & Large Commercial accelerated into the second quarter, producing superior written premium growth of 20%. Middle Market new business of $147 million, up 48%, was at its highest level in 2 years. I'm particularly pleased we achieved this result while maintaining underwriting discipline as measured by our pricing metrics and risk scores.

Policy retention in Middle Market increased 4 points to 82% while maintaining disciplined risk-by-risk underwriting decisions using our increasingly refined segmentation tools. Like Small Commercial, increased payroll and rising wages contributed to the second quarter Middle & Large Commercial written premium growth of 20%.

Global Specialty produced another strong quarter with written premium growth of 16%. New business growth of 27% was equally impressive, and retention is up significantly from prior year. In the quarter, the breadth of our written premium growth was led by 25% in wholesale and 18% in U.S. financial lines. Global Reinsurance also had an excellent quarter with written premium growth of 26%.

As I've mentioned previously, cross-sell activities are important component of our growth strategy. During the quarter, cross-sell new business premium between Global Specialty and Middle Market was $28 million or 11% of related new business sold by these segments. Since the Navigators acquisition, this effort has delivered $185 million in new business and is on pace to eclipse our initial goal of $200 million a year early.

We now have close to 2,500 accounts with policies that record premium in both Middle Market and Global Specialty. We're also particularly encouraged by the success of our industry specialization strategy built both organically and through the Navigators acquisition. For example, the acquired retail excess and U.S. financial lines are significant contributors to our cross-sell execution. The combined new business growth from these 2 lines has increased more than 50% since the acquisition. After years of development, we view our product breadth as a competitive strength.

Let's move on to pricing metrics. U.S. standard lines and Global Specialty commercial pricing, excluding workers' compensation, was 9.2% in the quarter. Middle Market ex workers' compensation price change of 8.2%, although down 1.1 points, continues to exceed loss cost trend and reflects improved profitability performance.

In workers' compensation, renewal written pricing was 1% in the quarter. A key indicator of future pricing includes the impact of the 2020 pandemic trends on 2022 bureau loss cost filings. We will be closely monitoring these filings in the coming months on a state-by-state basis. Global Specialty renewal written price remained strong in the U.S. at 11% and international at 24%. All in, I'm very pleased with our pricing this quarter.

Turning to commercial loss trends. The second quarter current accident year loss ratio was largely in line with expectations. We are intensely watching inflation and have been particularly dialed in to recent building repair costs and rising wage trends. Within Large Commercial property, Small Commercial recorded a few large fire losses in the quarter. And in Global Specialty international, we incurred a large offshore energy loss. Both were within a normal range of expected volatility.

Overall, Middle Market property loss ratios were slightly favorable to expectations in the quarter. Favorable claim frequency was partially offset by an increase in severity related to labor and material costs. While we believe property severity trends may be slightly elevated for the rest of the year, we remain confident in our initial full year Middle Market property loss ratio expectation.

Shifting to workers' compensation, the economic recovery is driving wage growth for our worker population. This wage growth translates into higher premiums and wage replacement benefits. Generally speaking, the net impact is a minor improvement in the workers' compensation loss ratio. Combining earned pricing and loss trends, I'm pleased with the continued strong current accident year performance. In the quarter, the Commercial Lines underlying ex COVID loss ratio was 57%, 1.3 points better than Q2 of last year.

Let's now turn to Personal Lines. As expected, the second quarter underlying combined ratio rose 7.5 points to 88.2. Auto frequency is elevating with increasing vehicle trips and miles traveled, but our book is still favorable to prepandemic levels. As expected, home losses were higher versus a very strong prior year. Overall, we had favorable claims frequency in the quarter, which was offset by higher claim severity driven by modestly higher-than-expected large ex CAT fire losses and a provision for elevated building material and labor costs.

Written premium declined 5% after adjusting for both the second quarter 2020 extended billing grace period and the $80 million -- $81 million refund. According to J.D. Power, auto shopping rates amongst the 50-plus age segment are down approximately 5% from third quarter 2020 when they first initiated the survey. Persistency of this shopping trend may continue to pressure new business growth for our customer base. However, increased marketing spend in the quarter drove June new business premium above expectations, and policy retention was up 1 point as compared to prior year.

We're also encouraged by the early results from the launch of our new contemporary Personal Lines auto and home product, Prevail. Through the second quarter, yield, average issued premium and policy counts all met or exceeded expectations. Both products are now available in Arizona and Illinois. Seven additional states, along with advanced capabilities, will be online by year-end. And we remain confident in our long-term growth plan for Personal Lines.

Before turning the call back to Susan for questions and answers, let me conclude. Property & Casualty achieved another outstanding quarter. Our top line outperformed, providing confidence we will achieve our Commercial Lines 4% to 5% multiyear CAGR guidance. Strong pricing is earning into the book driving lower current accident year loss ratios, and the expense ratio continues to benefit from our ongoing Hartford Next initiatives.

We are seeing the positive results of our multiyear road map with deeper and broader products, improved risk selection and outstanding execution. I'm thrilled with our continued progress and look forward to updating you in 90 days.

Let me now turn the call back over to Susan.

Susan Spivak Bernstein
Senior Investor Relations Officer
Thanks, Doug. Operator, we'll take questions now.

Question and Answer

Operator

Our first question comes from Greg Peters from Raymond James.

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

Can everyone hear me?

Christopher Jerome Swift
Chairman & CEO

Yes, we can. Greg, welcome. Greg, can you hear us?

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

Yes, I can hear you. Sorry about that. I don't know what was going on. The first question is the outlook for growth in Commercial Lines. You provided a lot of detail around pricing and retention and the new business successes you've had in the different areas of Commercial Lines. But Chris, I think in your comments, you said growth, you said moderation is expected. So I guess I'm trying to reconcile what was a really strong second quarter and a positive outlook with those comments.

Christopher Jerome Swift
Chairman & CEO

Yes. I think the context of that, Greg, was in relation to GDP. So I was speaking that GDP is running, what, 8%, 9%, probably 9% here. And then I do expect some moderation in, I'll call it, the macro numbers. But as Doug said in his comments, and I'll let him also comment here, is that we're still very bullish on our ability to grow in that 4% to 5% compounded written premium growth over the outlook period through 2022. So we're not backing off from that. In fact, we're probably even a little bit more bullish as we sit here today than we were 90 days ago.

But Doug, what would you add?

Douglas Graham Elliot
President

I would just add, Greg, that when you look at small, and I'll do small and middle separate, we had nice PIF growth in the small segment. So you see 2.5 to 3 points of PIF growth quarter-to-quarter. We've been on a positive pricing trend for a couple of months. What we had the benefit of in the quarter is a little extra win behind us relative to audit premium. So that's driving inside the 11, several extra points of boost, but I don't want to minimize at all the PIF and the pricing movement and the new business success we're seeing in small.

And then on the middle front, probably have a little bit more boost from audit premium. So the 20 is a bit outsized relative to longer-term expectations. But still, a terrific new business quarter. Pricing is strong. We expect pricing trends to remain solid and strong. And so I'm bullish about where we're headed going forward. I just would point out that we had a compare to second quarter 2020 that probably won't repeat itself in Qs 3 and 4.

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

That makes sense. I guess my follow-up question would be in the Personal Lines business. Obviously, inflation is high on everyone's list. The courts are reopening. There's cost pressure. And then there's the added pressure from increasing miles frequency. And I was just wondering if you could comment, in the context of your second quarter results, were you seeing sequential deterioration in some of these buckets as you move through the quarter so that when we get to the third quarter, we might see some continued erosion on -- as a result of some of the factors I mentioned?

Douglas Graham Elliot

President

So specifically to Personal Lines, what I shared in my comments, and I can elaborate a little bit more here is that our auto book is seeing increased miles driven, but not yet at pre-COVID, prepandemic levels, right? So we're still slightly better than we were in 2019. As we look through the COVID period, we are conscious of repair costs. We're conscious of all of the dynamics that go into our cost of goods sold. And we think we've made appropriate provisions in our recording of reserves for second quarter. But yes, we are watching that intensely relative to inflation pressures.

Relative to homeowners, I did comment that we also made applicable provisions for labor and material costs. We saw some of those spike earlier in the year, particularly in the early part of the second quarter into the mid-second quarter. As we listen to inflationary expectations, we expect some of those trends will be with us into the third quarter, fourth quarter. But I think that given our trends, our expectations of the year haven't changed materially, and we're on top of our selections. And I think we're in good shape as we move into Q3.

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

Just as a follow-up on that, Doug, when you talk about homeowners, a lot of the premium levels are set off of replacement costs. Is this -- did the inflationary pressures, are they causing you to go back and reset what the replacement costs are for your existing in force? Or maybe you can walk me through how you approach that.

Douglas Graham Elliot
President

Yes. We have an estimator that deals with replacement costs. And we now, on a state-by-state basis, are going back, resetting that, building that into our pricing going forward. So the book does work 60, 90 days in advance, but we have been working on those discussions since earlier part of the summer as these spikes were not going to go away. So yes, we are moving insured to value adjustments across our homeowners base of policies.

Operator

Our next question comes from David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I just had a question for Doug on the Commercial Lines underlying loss ratio ex CAT. Solid improvement in the quarter. The 1.3 points kind of slowed a bit versus the level of improvement we saw last quarter, which was over 2 points. I guess could you sort of walk through why, obviously still impressive margin improvement, but why it decelerated? And how you're feeling about reaching the 2 points of underlying loss ratio improvement target for 2021?

Douglas Graham Elliot
President

Yes. I would say consistent, favorable direction moves on loss ratio. I did mention a couple areas we had volatility in properties. So if you think about Small Commercial and international Global Specialty, a little bit in the quarter volatility that was working against that improvement. But yes, I'm still confident in the long-term trend and feel like our actuaries are all over our reserve picks.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. That's helpful. And then maybe just a follow-up question on Personal Lines. So good to see some of the initiatives here. I'm just kind of looking at the PIF growth, and I don't think we've seen PIF growth in the last 5 or 6 years. I guess I'm wondering if you can share with us some milestones you have for growth and things that we can track and maybe how you're thinking about potential alternatives for that business if some of the growth initiatives don't translate to higher growth.

Douglas Graham Elliot
President

Yes. So why don't I start, and then Chris and Beth, however you want to come over the top. I'd start by saying that we had concluded several years back that we had to go through a major upgrade of our contemporary product, right? So that is now just dropping into marketplace. The early signs are positive as expected. The reason we moved with 2 states is we wanted to test heavily 2 states before we drop the next tranche.

So in terms of major milestones, by year-end, an additional 7 states, as I talked about. And then by the end of '22, we'll be in all states. So pretty aggressive next 15-month rollout program. We will watch state-by-state to make corrections as we go forward, but we're very excited about the components.

I mean we have basically rebuilt every bit of this chassis from the product to the way it's delivered to the digital capabilities that we service. We think we've listened hard to our customers, which primarily are in that plus-50 set. They have helped us design that. Again, the early reaction and results are positive. So long way to go, but we think this leads us to a track of profitable growth. We shared those expectations, and I sit here today and don't feel any different about our long-term path.

Beth or Chris?

Christopher Jerome Swift
Chairman & CEO

Yes, I think you summarized it well. David, I think strategically, we're giving ourselves at least a couple of years after we're fully rolled out in all 50 states to really make an assessment. Can we compete with our differentiated product offerings? Our hypothesis going in is yes. We have a strong brand in Personal Lines. We have a wonderful endorsement from AARP. We have unique features in how we serve this market segment. It's a demographic that's growing. As I said in my commentary, we have a new 10-year contract with the AARP that really modernizes the whole relationship and how we go to market. So I think it's an investment worth making. Obviously, that's why we did what we did. But I think the post '22, when we're really more proactive, Doug, in all 50 states, would be the ultimate time period to watch our PIF count start to grow.

Operator

Our next question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Regarding the gap between rate and loss trend, I wanted to ask not so much about the size of the gap, but where we are in the cycle of that gap? And looking at small, middle, specialty separately, how many years do you think we're into the period where rates has been ahead of loss trend? I realize it might be a better answer by line, but I was kind of thinking about the 3 segments that you have as well.

Douglas Graham Elliot
President

Yes. Gary, I actually do think about the answer by segment, right, I think that Small Commercial pricing curve is very different, at least it is different in our book of business. We've had an extended period of outstanding returns. So the rate need has not been as clear there. We basically have been rate adequate for an extended period. We want to stay upward trend, but Gary, a much more moderated cycle in small.

The other side of the coin will be to flip into some of these specialty areas that have had significant rate need. And I would call that we're entering, to me, Q9, Q10 of that. This really started picking up pace in the second quarter of 2019. And it had some positivity before that. But really 8 very strong quarters, from my opinion, in areas that drastically needed that. And we've talked quite at length about some of those drivers of that.

And then in the middle, our Middle Market, where you have the cross-section of auto, GL, property, each of those lines has their own story. We've had, as an industry, very disappointing property results over an extended period, and weather hasn't been a part of it and so other dynamics. You've had a commercial auto loss ratio in the industry that's been very stubborn. So those lines also have been on 7, 8 quarters of positive rate movement. I think there's still more work to be done in that Middle Market area, and I don't think that's a HIG comment. I think that's a market comment. I can only see what I can see.

But -- so I answer your question in 3 ways. I still think this market has some legs. And as we look at our book, yes, we are much more rate adequate in general across segments of our book. But we also have smaller segments that need some work, and we intend to get after that work as we move through the latter half of 2021.

Christopher Jerome Swift
Chairman & CEO

Gary, you of all people know, given your views and writings, the impact, particularly in casualty lines of social inflation is real. So as we talk internally, the need to continue to push for more rate, just knowing that the long-term trends have not been in our favor, whether it be in courts, whether it be in financial lines, whether it be in other casualty-related exposures. And then you can't forget the 10 years at 1.3% these days. So clearly, we've been talking about it for a long time. We're in a lower for longer period of time. We just need a greater contribution from our underwriting component to fuel our returns, and that's what we intend to do.

Gary Kent Ransom
Dowling & Partners Securities, LLC

If I could ask a question on a different topic. In group, where you showed the excess mortality, and if I put back the excess mortality that you said developed from Q1, I can revise the trend to about $125 million roughly in Q1 of excess going to $88 million in Q2. And when I look at the CDC data, it looks like it's just falling off a lot more than that. And maybe that's apples -- not apples and apples, but can you comment about what's going on there? Is it your decline -- you're not really seeing that as much decline there?

Christopher Jerome Swift
Chairman & CEO

Yes. In the dollars, I would say you're right. I mean if you look at it from dollars. But if you are tracking deaths, which I know you are, like we are, I mean, the drop is significant. It's, from its peak, I calculated, down close to 75%. What I said in my commentary, Gary, is that severity is up so that if you look at the number of death claims, the average amounts that we're paying, it's up from, one, the beginning of the pandemic fairly significantly and it's up from the second quarter.

I would say we probably had 8 or 9 large losses above $1 million this quarter. When anyone -- excuse me, we probably had more than that. That was just in June. So we probably have had 15 or 20 large losses when you really expect for a month. So you put it all together. And when the younger folks' mortalities increase significantly, working age, they tend to carry larger face amounts, and we're seeing that come through in the dollars.

But as I ultimately try to foreshadow is that, and we've been talking about this consistently, is that the first half of '21 and the second half is going to be dramatically different so that deaths -- daily deaths are continuing to be down, and we do feel a lessening impact of excess mortality in the second half of the year.

Beth A. Costello
Executive VP & CFO

The only thing I'd add to that, too, Gary, if you're looking at COVID deaths, just remind you that when we talk about excess mortality, it's all-in excess. It's not just deaths that have a cause of death that says COVID. And so when we look through our numbers, part of the reason for the -- a large part of the revision for first quarter is that that excess non-COVID came in much more favorably than we had anticipated. Our COVID losses came in a little bit better as well, but that was driving the revision. And when we provided our provision for second quarter, we're assuming some of that excess mortality that we anticipated in first quarter would be there. So when you look through it, the COVID losses that are truly coded as COVID are coming down. It's that excess piece which, as you know, has been hard to predict, not just for us.

Christopher Jerome Swift
Chairman & CEO

First, that's a great point, Beth. Thank you for the clarification. The theory could be, Gary, that we just had less flu deaths than we seasonally sort of expected in the numbers. But clearly, there was a first quarter benefit for all other excess mortality outside of COVID.

Operator

Our next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I want to go back, Chris, to some of your opening comments. You mentioned, well, recent elevated inflation data, but that you also thought your loss ratio assumptions were sufficient against this. But then you guys did mention considering taking pricing action. So if you're considering taking pricing actions, wouldn't that imply that inflation might be running higher than you expected? And I know we touched on this a little bit during the call, but I'm hoping just if you could flesh out like what areas of inflation you're most worried about in terms of impacting your profitability.

Christopher Jerome Swift
Chairman & CEO

Yes, happy to. And Doug and I will tag team here. So yes, I think the general comment that inflation is up, you've written about it and others have too. It's fairly self-evident. I think when we looked at our picks and our loss ratio picks, particularly in our property and the homeowners lines, as Doug described, there's activities that are positive, and there's activities that are headwinds. When we net out all the positives and negatives, positives being mostly frequency against the severity pickup, whether it be inflationary or large loss activity, it still nets out where we are picks for home and property on a full year basis, we think, are going to hold.

So -- and Doug, I think that the pricing actions that we've talked about are primarily in the homeowners line where we're trying to keep up with inflationary side, particularly on our insured values on Schedule As. And we have some programs in auto -- some new things that we've added to keep up with Schedule A values.

Douglas Graham Elliot
President

Absolutely. And in addition, we're also looking at insured values in our Small Commercial and our Middle Market properties. So in general, Elyse, we are on top of this property issue in terms of value replacement, what it will cost to repair facilities, buildings, et cetera, with what we're feeling through the cost of goods sold.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. So then auto inflation, you would say, this is really just property and home. So within your other Commercial Lines, everything is still in line with your expectations?

Douglas Graham Elliot
President

Yes. We're watching auto carefully because, I think, it's been well chronicled, auto parts, the timing to get the parts, the labor to put the parts in, a little bit of pressure there. That will obviously matter to severity, and we're watching frequency and severity together. So generally, we've had better frequency patterns that have offset some of these severity dynamics. But we are very tuned into what the inflation curve is going to look like on labor and material for all of our lines. And I think we're in a good spot, but we're -- I can't sit here today and say we know exactly how the fourth quarter will drop. It's going to take us several quarters to figure that out as data comes in.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my next -- my second question, you guys are running ahead of pace relative to the buyback plan you outlined for this year. And some of the dividend figures you provided from the subset, I think, are a little bit higher than you had expected. So is there a chance you could come in above the 1.5 for this year? Just depending upon what your stock is, if you guys look to take advantage, could more of the buyback program potentially be front loaded?

Christopher Jerome Swift
Chairman & CEO

Yes, I'm glad that you noticed that, Elyse. We have been, as I said in my comments, proactive and prudent in managing our capital. So yes, a lot of things are possible, but we're basically 6 months into our 2-year buyback program. I still think buying back $2.5 billion is, again, the right action to manage our excess capital. And from any one quarter or any one period of time, there could be acceleration or de-acceleration depending on what we're seeing happening in the marketplace.

But Beth, what would you say?

Beth A. Costello
Executive VP & CFO

Yes. I think we've characterized that well. I think on the dividends, Elyse, yes, the range we tightened primarily as it relates to P&C. So we had said that we expected $900 million to $1 billion and $1.1 billion, and now we're at $1 billion to $1.1 billion, so trending on the high side. But that's not a significant change there. And I think we're on a good pace. We had said when we announced the increase in the program in April that we weren't intending to do it ratably over the period. And I think that the actions we've taken have shown that. So that's all I would add.

Operator

Our next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, a couple of them here. First, just want to dig in a little bit on workers' comp, Chris and Doug. Doug, I know you mentioned that you're looking at kind of loss cost filings for 2022 and kind of is a key determinant of what pricing look like for workers' comp. Any early indications what those are going to look like? What's the NCCI saying with respect to that? Kind of what can we expect potentially here for workers' comp pricing going forward?

Douglas Graham Elliot
President

Brian, it is extremely early, but the next 30 days, we jump into that season. So I think maybe 1, maybe 2 states have hit in the last couple of days, but I don't have them pulled apart yet. But I do know over the next 30 to 60 days, most of the states will drop and how this 2020 year is treated from a COVID perspective, both frequency. And then we've been quite transparent with our workers' comp selections around COVID. The same is not true for all of our competitors. So I don't have a great lens into everybody's reporting actions, but we'll learn more through the NCCI data. And as you know, I think they handle the bureau loss cost for 47 states. So that is a very big component of this country's workers' comp system.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then the second question, I'm just curious, so some good growth in Small Commercial. I mean one of the things that people talk about is that if the economy reopens, it's really more beneficial for the E&S markets because new business formation typically doesn't fall in the Standard Commercial Lines market. Is that a true statement? Or are we kind of going to think about things in a little bit different way where you could really see some nice big growth in new businesses as we continue to see economic growth?

Douglas Graham Elliot
President

Well, economic growth is a good thing for our business, and I would say that is probably partially true. I think it's true by sector. So our pricing algorithms and our underwriting decision points do look at geography, they look at class, they look at sectors of class. So there are new business start-ups that we're interested in writing on a retail basis. And then I would also say there are probably sectors of Small Commercial that better fit E&S. I think that it will be a good thing for our economic engine. And I'm glad you raised the point because we saw some of that in the second quarter, which is why we adjusted our audit premium going forward. But I don't feel like the real labor unlock has occurred yet, and I think that will provide a further spring in the second half of the year.

Christopher Jerome Swift
Chairman & CEO

But Doug, you would also say that historically, in Small Commercial, we do have E&S offerings that we provide and that, obviously, Navigators is going to help us expand the product sets in the class of business that our 2 business leaders can partner on. So that's been part of the design to just capture more of small business needs, whether it be standard or in the E&S market.

Douglas Graham Elliot
President

Absolutely. It's been a growing capability both, obviously, in our wholesale sector in Global Specialty, but also our Small Commercial business has a core strategy around working with wholesalers in that E&S space.

I would also add, Brian, to your question, leadership and the people that run these businesses, so not all new start-ups are with first-time managers, right? Some of these new start-ups are where the experienced managers that we've known, we've insured in other places. So the start-up number can be a little misleading. And in general, we look at economic formation as a positive to our business.

Operator

That was our last question for today. So I will hand back to Susan to conclude.

Susan Spivak Bernstein
Senior Investor Relations Officer
Thank you, Harry. We appreciate you all joining us this morning. Please don't hesitate to contact us if you have any follow-up questions.