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Hartford Financial Services Group, Inc. (HIG) CEO Christopher Swift on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-04-19 Earnings Summary

Press Release *Slides*

EPS of $1.5 beats by $0.27 | Revenue of $5.35B (10.43% Y/Y) beats by $126.5M

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Hartford Financial Services Group, Inc. (NYSE:HIG) Q3 2019 Results Conference Call November 5, 2019 9:00 AM ET

Company Participants

Susan Spivak - Investor Relations

Christopher Swift - Chairman and CEO

Doug Elliot - President

Beth Costello - Chief Financial Officer

Conference Call Participants

Elyse Greenspan - Wells Fargo

Paul Newsome - Sandler O'Neill

Brian Meredith - UBS

Jimmy Bhullar - JPMorgan

Ryan Tunis - Autonomous Research

David Motemaden - Evercore

Mike Zaremski - Credit Suisse

Amit Kumar - Buckingham Research

Gary Ransom - Dowling & Partners

Yaron Kinar - Goldman Sachs

Operator

Good day, and welcome to the Hartford Financial Services Group Inc, Third Quarter Financial Results Conference Call and Webcast. All participants will be listen-only mode. [Operator Instructions] After today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference call over to Susan Spivak of Investor Relations. The floor is yours ma'am.

Susan Spivak

Thank you and good morning and thank you for joining us today for our call and webcast on third quarter 2019 earnings. We reported our results yesterday afternoon and posted all the earnings-related materials, including the 10-Q on our website.

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

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

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

Finally, please note that no portion of this 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 will now turn the call over to Chris.

Christopher Swift

Good morning and thank you for joining us today. Hartford had an excellent quarter with strong financial results across all our business lines. Third quarter earnings rose 31% over prior year to 548 million or $1.50 per diluted share with lower catastrophe losses and continues to solid investment results.

Our businesses are performing very well. Book value per diluted share excluding a AOCI was up 8% to $42.55 from year-end. The consolidated 12 months core earnings ROE was 12.3% in impressive results in the current market environment.

The strong execution of our strategy is demonstrated by our consistent operating performance quarter-to-quarter delivering on key integration milestones and continuing to invest in our business to enhance customer experience in efficiency.

Dough and Beth will cover results in more detail, but I wanted to touch briefly on a few items. Commercial lines highlights in the third quarter include core earnings of 303 million up 14% over prior year. Solid top-line growth with and without Navigators and renewal pricing rate acceleration compared to the first half of the year.

When we announced the acquisition of Navigators more than a year ago, an important part of our strategy was to broaden our underwriting in product capabilities as a global specialty player and added benefit was the expansion of our distribution relationships into the wholesale channel to serve more risk needs of customers.

Nearly six months have passed since we have closed the Navigators transaction. The progress to-date is on-track and I'm very pleased with collaboration amongst the teams and the positive reception from distribution partners.

Our book is benefiting from the strong pricing tailwinds in the market, providing the opportunity to restore certain product lines within global specialty to targeted financial returns. Personal lines core earnings were 87 million up 85% benefiting from lower catastrophe losses in favorable prior year development.

While up slightly from prior year the underlying combined ratio of 92.3 for personal lines was a strong result. Our primary focus in this business has been returning to growth with new business up 34% in the quarter.

Overall net favorable reserve development for property and casualty was 47 million in the quarter, there were both favorable and unfavorable development in various lines. Our experienced actuarial and claims teams have demonstrated the ability to identify emerging trends within our data, which is used to update our estimates each quarter. Overall, I'm confident in our last reserve estimates.

Group benefits delivered another excellent quarter with core earnings of 141 million up 38% the increase versus per year was driven by favorable loss ratio, higher net investment income and lower amortization of intangibles. This was partially offset by increased investments in technology, claims management and higher commissions related to our voluntary products.

Our total loss ratio improved 4.4 points, driven by favorable disability results partially offset by a deterioration in the life loss ratio. The improvement in the disability continues to come from favorable incidence trends.

Results also benefited from updates to our claim recovery assumptions and the recognition of an experience refund related to New York paid family leave product or accident year 2018. In group life severity was elevated in the quarter however, we don’t see any consistent trend other than normal volatility.

On the top-line, fully insured ongoing premiums were just off slightly versus prior year. Persistency is running slightly below historical trends as we adjust pricing on targeted segments of the Aetna book.

Importantly earned premium on the Aetna book of business is in-line with our deal assumptions and conversions of cases continues to go very well from both the platform and pricing perspective. Overall, we are very pleased with the operational execution and financial performance of group benefits.

Before I turn the call over to Doug, wanted to make a few comments on the microenvironment. The property and casualty industry is facing a number of challenges that have been well documented. Net investment income is under pressure in what is likely a prolonged period of low interest rates effecting new money in overall portfolio yields.

The frequency of severe weather related storms as well as other catastrophic events such as wild fires are elevated, pressuring rates to keep up with CAT trends. Social inflation related to larger claim settlement continues to put pressure on loss cost trends.

However, social inflation is not a new phenomena, we have been monitoring these trends for years taking the appropriate actions to ensure our pricing models in underwriting reflect these realities. To conclude with one quarter left in the year, our experience through the first nine-months is generally consistent with the outlook we provided with no major surprises.

The successful integration and execution of our two recent transactions, strong financial results and capital management demonstrate our strategy is working. It is an exciting time at the Hartford for all our stakeholders, customers, employees, distribution partners and shareholders. I’m confident in our ability to produce consistent results contributing to shareholder value creation.

Now, I will turn the call over to Doug.

Doug Elliot

Thank you, Chris and good morning everyone. The Hartford's property and casual results for the quarter were strong. Top-line growth was fueled by the Navigators acquisitions, while underlying organic growth and commercial lines was a solid 4%.

In personnel lines, new business growth is up significantly from third quarter 201,8 but is moderated from earlier in the year. We are pleased with the underlying returns across all of our Property and Casualty businesses as each continues to execute effectively.

With a relatively benign quarter for catastrophes, as losses were below third quarter 2018. Current year CAT losses in the quarter total $106 million, $63 million less than a year ago.

In aggregate Property and Casualty reported favorable prior year development of $47 million this quarter improving severity trends across workers compensation, small commercial package business and personnel line auto all drove favorable reserve releases.

Partially offsetting these releases was a reserve strengthening and commercial auto liability and general liability driven by some large loss activity.

As Chris has already mentioned, there has been a fair amount of commentary during the quarter regarding social inflation and we are certainly not immune to these unfavorable tort trends. However, keep in mind our Hartford book is made up primarily of smaller customers with lower limit profiles.

In addition, the adverse development cover we purchased on the Navigators wants development provides another layer of protection. Over the past few years, while we have observed higher loss trends, we have also adjusted general liability and commercial auto reserves accordingly. At the same time, we have made underwriting and pricing adjustments to our book in response to these trends. We actively monitor these trends and will continue to take appropriate actions as necessary.

Let me now shift into the results for our business segments. The underlying combined for commercial lines which excludes catastrophes and prior development was 93.9 deteriorating two tenths of a point from last year but a strong performance nonetheless.

As expected the Navigators' book generated approximately one point of increase on the combined ratio. This was partially offset by favorable non-CAT property results. I'm encouraged by the pricing environment in the quarter.

Our renewal written pricing and standard commercial lines was 2.8% up 40 basis points sequentially from second quarter and up 90 basis points from prior year. This positive pricing change remains somewhat depressed by the current workers compensation pricing environment.

Middle market pricing excluding workers compensation was 5.6% in the quarter up 130 basis points from second quarter and up 180 basis points from the prior year. The strong improvement reflects the rate actions we are taking across our core lines. Given industry loss trends and operating performance in these non-workers compensation lines, I expect this pricing trend to persist.

Let's now take a look inside our commercial line business units. Small commercial continued it is excellent performance with an underlying combined ratio at 87.9. The margin improvement versus last year was driven primarily by lower non-GAAP property losses and lower underwriting expenses.

Written premium was flat to prior year due to renewal written pricing decreases in workers compensation and the completion of the new business rollover from the Foremost renewal rights transaction. Excluding Foremost new business premium growth was up a very strong 13% for the quarter driven by workers compensation and package business.

We expect continued new business growth to come from the launch of our next generation package offering we call Spectrum. This is much more than just a new product release. With this modular policy and the enhanced platform that supports it, we have taken our industry leading capabilities to a new level, making buying small business insurance easier than ever.

A consumer buying small business insurance from the Hartford now receives tailored recommendations for their coverage or the ability to customize their own. Their agent is able to view real time pricing much the same way an online retail shopper can see a running total of the costs or products placed in their cart.

As of today, we are live in 32 states and will be in 45 by year-end. We are already seeing increases in quotes and additional optional coverage selections. This game changing product launch only adds to our excitement about our long-term prospects for growth in this segment.

In middle and large commercial, the underlying combined ratio of 99.6 improved 1.6 points from 2018 driven primarily by the lower non-cap property losses. Notably, in the marine losses which were elevated in the second quarter have moderated.

Written premium was up 12% over last year due impart to the addition of certain legacy Navigators businesses within middle and large commercial. Ex-Navigators written premium was up 7% with strong production in national accounts, large property and programs as well as in verticals such as construction and energy.

We are achieving rate increases across middle and large commercial, our property and auto rate increases are up sequentially in the quarter over a 100 basis points with liability not far behind. In global specialty the underlying combine ratio of $96.2 deteriorated 6.4 points primarily the result of including the Navigators book this quarter.

Since the acquisition, we have been aggressively re-underwriting and reprising portions of the Navigators book. In the third quarter, we achieved double-digit rate increases on both the Navigators U.S. and international business with significant rate acceleration during the quarter and since the first quarter of this year.

In the U.S., we achieved strong underwriting results in our management and professional liability and surety lines. We are also pleased with both renewal pricing and new business generation from our wholesale distribution channel in the U.S.

In international, we have taken significant actions to address two plus years of sub-par returns in our Lloyd syndicate and London Market portfolio. In addition to the aggressive pricing actions, we are taking on this book we have exited certain underperforming lines and reduced significantly the number of binders, MGAs and line slips across the portfolio.

We have also materially reduced the overall limits deployed in several lines including DNO, ENO and casualty. Our global specialty team is off to a terrific start they are active addressing opportunities in the book as well as taken advantage of favorable market conditions where appropriate.

Integration efforts continue including expertise sharing and data science, technology, product design, claim and many other areas, executing across core risk functions will play an important role in improving the financial performance of this business. We fully expect global specialty to be a significant contributor to commercial's premium growth as profit returns to target return levels.

Moving to personnel lines, the underlying combine ratio of 92.3 deteriorated 50 basis points from the third quarter of 2018, but still a very good overall result. The expense ratio increased nearly one point due to the impact of lower earn premium while the loss ratio will improve 40 basis points. The loss ratio improvement is reflected in both our auto and homeowner results driven by earn pricing increases and non-CAT homeowner experience.

New business growth was up 34% compared to prior year, this is another positive new business quarter as marketing spend and product adjustments continue to gain traction. In ARP direct auto, our critical production levers including flow, close ratios and new sales all improved compared to prior year. Importantly, we are pleased with the underlying profile of this growth and encouraged by the improving trends.

Despite continued strong improvement in direct new business growth, total written premium was down 4%, though we have made progress to improve the profitability of our ARP book, more work is needed on retention and new business to return to positive growth.

In summary this is a very strong quarter across our Property and Casualty businesses, we are executing effectively against our plans while responding to last class trends and competitive market dynamics. We are taking appropriate pricing actions and making disciplined underwriting decisions. This is driving clear progress in-lines and accounts that need to improve overall profitability.

Meanwhile, we remain extremely encouraged by the product breadth and depth of the underwriting talent that the Navigators acquisition is contributing and we are already seeing the impact of these additions in our businesses and with our distribution partners. The positive progress on key milestones drive my bullish outlook on our future. I look forward to updating you all in another 90 days.

Let me now turn the call over to Beth.

Beth Costello

Thank you Doug. Today I'm going to cover third quarter results for the investment portfolio, Hartford Funds Incorporate and provide an update on capital management. Our investment portfolio continues to perform very well with strong limited partnership returns and generally stable investment yields.

Net investment income was 490 million for the quarter up 46 million or 10% from the prior year. Excluding Navigators net investment income was 462 million or 4% higher than the prior year. The annualized limited partnership return was 15.3% in the quarter due to higher valuation than underlying funds.

Lower interest rates and tighter credit spreads increased net unrealized gains on fixed maturities after tax to 1.8 billion at September 30th up from 1.4 billion at June 30th. Unrealized and realized gains on equity securities classified and realized capital gains in the income statement were 19 million before tax in the quarter and 181 million before tax through September 30th.

The credit performance of the investment portfolio remains very strong. Net interments in the quarter totaled one million flat with third quarter 2018 given the increasing likelihood of sustained low interest rates, I wanted to touch on how we manage the portfolio in this environment and the impact of the portfolio yield due to lower rates.

We have a broad range of investment capabilities and a well diversified portfolio. Our strategy does not pursue lower credit quality for the purpose of making up for lower yields and we will continue to invest in a diversified manner. For the quarter, our current yield before tax excluding limited partnerships was 3.6% equating to 425 million.

Taking into consideration potential lower reinvestment rates projected using the forward curve, we could see the portfolio yield excluding limited partnerships declined by close to 10 basis points in 2020 reducing the quarterly run rate of net investment income by approximately 10 million before tax.

Turning to Hartford Funds. Core earnings of 39 million were down 5% from last year, but up one million sequentially. Daily average AUM was 2% from second quarter 2019 reflecting strong market performance partially offset by net outflows.

Investment performance remains very strong, as of September 30th about 70% of Hartford Funds outperformed peers on a one, three and five year basis. Corporate core losses of 37 million improved by eight million from third quarter 2018.

The principal driver of the improvement this quarter was 11 million of income after tax from our retain equity interest in Talcott compared to one million in third quarter 2018. During the quarter, we continue to repurchase shares, year-to-date through November 1st, we have repurchased 2.2 million shares for 126 million, with strong capital generation and financial flexibility, we are pleased to be able to both invest in our businesses and return capital to shareholders.

During the third quarter, we issued 1.4 billion of debt comprised of 600 million 10 year 2.8% senior notes and 800 million, 30 year 3.6% senior notes. We used the proceeds to redeem approximately 1.65 billion of debt with the weighted average coupon of 5.3%.

The redemption resulted in the loss on extinguishment of debt of 90 million before tax. We continue to plan to repay our 500 million, 5.5% senior notes maturing in March 2020, which will put us in-line with our leverage target.

Book value per diluted share excluding AOCI was $42.55 up 8% year-to-date and 9% to September 30, 2018. Core earnings ROE over the last 12 months was 12.3% well in excess of our cost of equity capital. A few other items to comment on before I close. We have included disclosure in the 10-Q about the potential for subrogation recoveries on PG&E related to losses incurred uncertain 2017 and 2018 California wild fires.

Given uncertainties with respect to approvals of the PG&E bankruptcy plan, we have not recognized any subrogation recoveries to-date. Based on subrogation claiming submitted all insurers to PG&E and the terms of the proposed settlement which is contingent upon approval of the bankruptcy plan, we would expect growth subrogation recoveries to be approximately 325 million, although the actual amount we collect is subject to uncertainty.

The 116 million of any such subrogation recoveries would reduce reinsurance recoverable we have recorded under CAT reinsurance treaties. Accordingly, any benefit to income would be for subrogation recoveries in access of 116 million.

Turning to fourth quarter, it has already been an active quarter for catastrophe related events. Our budget for cash in the fourth quarter is approximately 80 million pre-tax. Before considering any losses from the current California wild fires, we are approaching 80 million of catastrophe losses in the month of October including losses from Tornados in the Dallas area and other wind events.

While it is still too early to make an estimate of losses we may incur from the current California wild fires, we are monitoring the fires closely in the areas we have ensured properties and businesses at risk. As a reminder, in the fourth quarter we will complete our annual study of asbestos and environmental reserves.

Under the average development we purchased in 2016, we have $977 million of remaining coverage available for increases in these reserves. Also, we did not feed any additional net loss reserves in the third quarter to our adverse development cover for Navigators, so we continue to have 209 million of coverage available on that book of business.

To summarize, the execution of our strategy is generating strong results across our business lines. The integration of Navigators is on-track and we look forward to continuing to update you on our progress.

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

Susan Spivak

Thank you, Beth. We have about 30 minutes for questions. Operator, can you please repeat the instructions for asking a question.

Question-and-Answer Session

Operator

Yes. We will now begin the question and answer session [Operator Instructions] And the first question we have will come from Elyse Greenspan of Wells Fargo. Please go ahead.

ElyseGreenspan

Good morning. First off that they do, you know depreciate the new kind of stream line disclosure within the press release that was helpful this quarter. My first question for you is on capital. Just following up on some of your prepared remarks, it seems like you guys got the majority of the tax attributes you are expecting this year as the end of the third quarter just looking at the 10-Q disclosure. So I just wanted to walk through that and get a sense of repurchases for the fourth quarter and then for next year and then capital side could you just give us a sense of the dividends you could upstream from the PNC sub in 2020 and also there is any change in the tax attributes you expect as well?

BethCostello

Sure. So first of all, thank you for the comment on the press release. I'm glad that you like the new format. So as it relates to holding company cash, I would say overall, we are on-track with what we expected at the beginning of the year. Yes, the timing of the tax benefit we received from AMT refund did come in a little bit earlier than we anticipated.

We were anticipating that this year. So we took all of that into consideration, as we have projected kind of our view of share purchases over the course of this year and into next year and we continue to target for this year about a total of 200 million in share repurchases then the remainder of our billion dollar authorization would be used in 2020.

As it relates to then dividend streams as we go into 2020. Again, as a reminder we did not take any net dividends from PMC in 2019, but we do you anticipate going back to our normal cadence in 2020. As we talked about in the past we see dividends sort of in the 850 to 900 million range, obviously it will depend on actual results from our group benefits, business typically in the 300 to 350 range obviously results group benefits have been very strong. So, we have seen some increases in those dividends through the years.

And then mutual funds usually isn't that 100 and 125 million. And then we do still have some remaining tax benefits that we would expect to receive in 2020 so when we look at 2019, we are probably a little bit over $700 million in tax benefits that will come through.

And as we look to 2020 we would be just slightly under 600 million. So again, very much in-line with what we have laid out previously. And then again, I will just remind you as I said, in my prepared remarks, we do still anticipate paying our maturing debt of 500 million in March of 2020.

ElyseGreenspan

Thanks that is very helpful. And then my second question on, if we want to kind of keep track of how Navigators is trending, you guys highlighted some earnings projections for that business going a couple years out. So just trying to get a sense can you kind of set the stage or give us a sense how much earnings came through in the quarter or is it best way for us just clearly look at the global specialty margin to get a sense of, you know how Navigators is tracking.

ChristopherSwift

Elyse, thank you for your question. I would say what we have commented on the past as far as our goals related to the financial performance of Navigators are really unchanged. I think we did say the slope of it might be slightly different the components might be, slightly different.

But we still see a path to earnings $200 million of core earnings prior to amortization of intangibles in that four to five year period of time and still excited. Obviously there is a lot of rate being taken in the specialty space broadly defined, but Doug that is what I would say over the long-term, but what would you say in the near-term.

DougElliot

Just to add that this quarter we made very few adjustments to the prior Navigators loss ratios across fair line, either prior year or in the current action year. We tweaked on a liability slightly in the quarter, but other than that is a pretty quite quarter relative to actuarial assumptions.

ElyseGreenspan

Okay. And can you give us a sense of the rate that you are getting just within their book of business?

ChristopherSwift

Yes. I mentioned in my commentary Elyse, there was double-digits and in the quarter essentially the U.S. book was right on top of 10, internationally they were getting closer to 16, and when you put two together we are talking 12ish, 11 to 12 points of price. I also said that it was accelerating in the quarter, so we are quite pleased about that as you think about the run rate July through September and an early peak of October keeps me optimistic, October looks a lot like September. So, I think we are off to a really good start I'm very pleased with progress, Vince and his team is working hard to change the outcomes here.

ElyseGreenspan

Okay. Thank you very much. I appreciate the color.

Operator

Next we have Paul Newsome of Sandler O'Neill.

PaulNewsome

Good morning. Thanks for the call. I was hoping you could way in a little bit more on some of the auto trends that we have seen at other companies, both the commercial auto trend and the severity and frequency seems to be a little bit different by company and kind of how you vary that. What you experiences have and so what you think is behind it. And then sort of second question, the private passenger and ask kind of the same question about frequency and severity in all see a little bit of the spike in their frequency physical damage and you have seen same thing. Those are my two questions.

DougElliot

Paul, let me just clarify personnel and commercial both do you want me to…

PaulNewsome

Yes.

DougElliot

Okay. Let's start with personnel. We continue to be pleased by the trends we see in our personnel lines auto book, frequency has been in good shape for several quarters now and severity we are mindful of collision severity. But essentially a lot of trends are within our expectations and feel good about our progress and overall performance of the personnel line auto line.

In commercial, a bit of different story and the sense that our small commercial book, much smaller vehicle, we have been working right now for five to six years, we have transformed that book. We are essentially not on mono-line players acceptance certain circumstances improvement there, but more improvement necessary in the commercial auto, small commercial space.

In the middle, again, this is not a specialty auto sector, this is essentially commercial auto fleets attached to our middle market accounts, slightly heavier than the small commercial. We also have been chasing rate here over the last six to seven years. We have made progress, but not at all acceptable relative to our operating performance in the line today.

So, we continue to make underwriting adjustments, we will continue to work hard on rate, very pleased that our rate was up over 10 points in Q3 and auto will continue to work at that in Q4 and into 2020. When I think about loss trends, they look to us like during the mid single-digits maybe plus a little bit in that five to six, 6.5 range commercial auto we are mindful that which means our pricing needs to be on top of that plus some to make appreciable progress in combined ratio. Chris or Beth anything.

PaulNewsome

Do you have any particularly theory about the commercial business that might be different from other folks why we are seeing the severity trend and whether or not it is recovered?

ChristopherSwift

I would just offer that our book of business on the commercial side ex-Nav is largely primary auto, so we are not a significant player in the excess space. I do think the excess layers have had some pressure over the past, three to four years.

Navigators has especially auto book we are very mindful that, we are working closely with them sharing our trends working actuarial assumptions, et cetera and taking quite a bit of right there. So our rate change in the Navigators auto book is substantial. But I don't have any greater insight, because I don't have insight into other competitor books like I do our own.

PaulNewsome

Okay. Congratulations for the quarter. Thank you.

ChristopherSwift

Thanks Paul.

Operator

Next, we have Brian Meredith of UBS.

BrianMeredith

First, I'm just curious. In the commercial lines segment, the expense ratio declined year-over-year only around 17% growth G&A expenses as expected to be a little bit higher than that was there anything unusual there is as a decent run rate with respect to kind of G&A expense growth than what we are seeing with the expense ratio?

ChristopherSwift

Yes, good question, Brian and there are some things happening in both Q2 and Q3 that make that compare a little bit challenging. So let me do my best to unpack it. In three quarter, we actually had some credits that ran through from Texas licenses and fees and also some bad debt credits. And when you kind of laser them in you basically get a quarterly expense ratio more like 34.5.

In Q2, we had some one timers that put some upward pressure on the expense and I would also point out to you as the Navigators book comes into our expense ratios, as a typical specialty company sometimes they have got slightly higher expense base.

So between the U.S. and certainly the international, there is a little bit of inflation on the expense coming in from NAB that we work our way through over the next couple of years. As we meet, we earn our way toward those profit targets we have talked about. So I look at the run rate to Q3 more in the 34.5 range. I think that is kind of where we will be Q4 as I look out.

BrianMeredith

Great, thanks and then my second question, in a small commercial area, maybe you talked about how it is a little bit more insulated from the social inflation environment, given the limits profile of that business. I'm curious, have you seen any increasing competition in that area as a result of what is going in the loss cost inflation environment.

ChristopherSwift

In response to I would say again across many of our businesses there is always competitive pressure, there is new entrants, there is things FinTech related or EsnureTech related activities, but I wouldn't say it is rapidly changing in a more competitive environment where everyone is piling in.

I would say and you have heard us talk about this before. We have a 30 year history here with a lot of data, a lot of capabilities, a lot of deep trusted agent relationships that does provide an element of advantage to us.

But we are really tuned in on the emerging trends in our own mindset of what do we need to continue to get better every day, whatever we need to do to continue to differentiate ourselves as one of the top go-to-market. So that is our mindset and Doug if you would add anything.

DougElliot

Yes. So, maybe just a couple of comments about our new structure and then I will comments on what we work on the last couple of years. So, very excited Brian about this launch of NexGen spectrum, we have been kind of in the design and building stage for a couple of years now.

And I think it is going to be a terrific product in the market much in the way the digital experiences that we are all use to on our personalize. Because of that launch we have been laser focus these last couple of years to get our rate adequacies on our spectrum product where they need to be because is very difficult if your profit challenge in the current line and then go to launch new product.

So as we think about loss trends over these last couple of years, we continue to make sure we are on top of those trends with pricing, we see liability trends in that spectrum area still in the mid single-digits and our pricing has been matching that overtime and we feel good about our balance sheet in terms of the reserves that are recorded on our ledger. So, yes we have been very focused on loss trends here, I think good progress and now exciting that we launch our new effort into the latter half of the 2019 into 2020.

BrianMeredith

Great. Thank you.

Operator

Next we have Jimmy Bhullar of JPMorgan.

JimmyBhullar

Hi, good morning. I have a couple of questions for Doug and first on commercial line. How do your ability to take advantage of improving pricing and the overall market, especially given that you have got a big exposure to workers comp your prices are actually obviously under pressure.

DougElliot

Well, we are optimistic that our non-workers compensation pricing continues to improve as I suggested that certainly was the case in Q3 and I expect that to continue into Q4. Yes, we recognized we have some headwinds on a worker's comp environment. I would again point out the profitability those books is excellent particularly small commercial.

So we are mindful of those headwinds and navigating in the middle of account-by-account and being thoughtful about class selection and state and geography and small commercial. And so, yes it is a tale of two where we are working hard to improve our core pricing while we understand is a very competitive worker's comp dynamic that matters greatly to us.

JimmyBhullar

And then on the personnel line, I think you have hope that at some point over the next few quarters you will start to see stabilizing premium and maybe an improvement in premium. But it seems like more and more companies are sort of shifting their focus from revolving margins to accelerating growth. Just comment on competition whether it is still rationale and your expectation when you can sort of get to flat deposit of premium growth in that market?

ChristopherSwift

Yes. Jimmy, we are not going to give any guidance there on a specific drivers, but the overall focus is both organize comment or has been a growth orientation. But you are right, I mean it is a dynamic marketplace just because we want to grow and there is a lot of other competitors that are shifting to that same mindset.

So the trick in that environment at least in my judgment is we got to remain discipline you got again segment appropriately your new business by states or territories that make sense for you compared to where your pricing is and the team is executing very well. It is just we are getting that the responses just not converting as many in new business opportunities as feasible. But, Doug that is what I would said.

DougElliot

I agree, Chris and I think we lay out a supplement, you can see we have made very good progress on the retention front, I still think there is a little more work to be done there. And it is a little bit more list. And then absolutely, we are focused on adjusting and thinking carefully about what we do on the new business front, because we want to raise those levels of new business successes.

JimmyBhullar

Okay. Thank you.

Operator

Next we have Ryan Tunis of Autonomous Research.

RyanTunis

First question to Doug on I guess on commercial auto, just thinking about it seems like over the past decade I was talking about commercial auto development and it was like we have been talking about a probably more hardcore competitors, maybe not so much over the past year, but I'm just curious to maybe hear your thoughts on the extent to which maybe you feel like you got ahead of some of these trends maybe in 15, 16, 17. And to the extent you are seeing something new what is new in this 2019 environment that you potentially had reserved for contemplated prior to this?

DougElliot

Ryan thanks. Let us just start on the quarter and then I do want to come in because I think you are onto something relative to the prior trend. So in this quarter, we made an adjustment to our prior year development based on some large losses we had seen in our national account book.

So it is largely national accounts, I would say almost all national accounts 80% of the changes national accounts, and it's something that we had not adjusted in the last several years. So really excited our national book.

If you go back over five to six years, correctly stated we have been adjusting auto. I would say back in the 12 to 13 time period, we had a broader specialty auto book, transportation vehicles that caused some of the adjustment and actually raised our attention to this commercial auto dynamic that we have been working hard on for five or six years.

So I would agree with if you have looked at what we have done in the commercial auto space on our reserves, and our current next year underwriting and pricing. This has been an ongoing work in process for us.

We did some tuning in the quarter, more importantly, we continue to leverage the findings in our book of business to do the best job we can at underwriting and profitability book going forward and we are sharing them with Navigators as we come together.

RyanTunis

Perfect and then maybe for Chris, just on the benefit obviously we are seeing some very favorable trends there. And I guess what surprises a P&C analyst is how well pricing seems to hold off. So I’m curious in your view, how does the pricing cycle kind of work for group benefits. Have you seen any increasing competition in that area as a - group beneficial. I'm seeing this transition to workers comp over the next couple years?

ChristopherSwift

Sure, Ryan. I would say yes we are performing very well and I said in my commentary, I think we provided enough data to say that there were a couple of one timers in this quarter. So I look at it that the quarter was roughly more in-line with 120 million earnings and an 8% margin.

But clearly above our long-term views that we have guided here, which is still six to seven. I think the thing that you just have to keep in mind is a lot of the results that are emerging today are based on pricing and commitments we have made two, three years ago that are just outperforming.

So unlike P&C, we generally make three year rate guarantees, we are very thoughtful and discipline in making those three year rate guarantees, because that is the commitment. So, we are just outperforming the expectations both on incidences and recoveries that is contributing to that current outperformance. So hopefully that helps you.

RyanTunis

It does. Thanks.

Operator

Next we have David Motemaden of Evercore.

DavidMotemaden

Hi. Thanks, good morning. Just a question for Doug, just wanted to get a bit more detail on the changes that you guys made to reserves and GL and also just talk about what you are assuming on severity going forward and in your loss picks and what sort of rate you are seeking in the market right now?

DougElliot

Yes that was a multiple component question. So let me do my best to working away through. In other liability, general liability we made some tweaks really across years, across businesses, I would say a series of small tweaks couple in the product area, a couple umbrellas, et cetera.

Nothing significant in any one pocket, but largely across our middle market book of business. Construction included a little bit of our specialty, general liability book. So that really is the basis for the tweaking we did in the quarter for general liability.

In a broader sense, we think about loss trends, overall our loss trends are somewhere in that mid single-digit range when you combine all our lines and I'm thinking primarily about auto liability and GL which is two lines that really form the basis for most of your questions.

So, they may move a bit between small and middle and some of our specialty lines with the global specialty book. But we are talking about trying to be on top of mid single-digit trends and now our pricing across various lines is either on top of slightly advancing on or - on top of in the case of some of our specialty access area.

So, I share with you, we are really pleased about some of the specialty areas that we have had substantial movement in pricing double-digit moves in pricing where I feel like we are going to see the benefits of that kind of working into our book in 2020 and beyond.

DavidMotemaden

Got it. Great. Thanks. And a question for just for Chris on the group business and top-line specifically sales were down a decent amount year-over-year. Just sort of wondering what you are seeing competitively and also more specifically what you are outlook would be for top-line earned premium growth here over the next few years as Aetna is more fully integrated?

ChristopherSwift

Sure, David. I was trying to explain that, I mean it is still a competitive environment out there, but there is still an element of rationality that I see most of our competitors exhibiting. You might have an account or two where new business opportunity where someone does something more aggressive, but generally competitive but balanced.

So we would say the year-over-year numbers that you are looking at does look down, but really when you adjust for the New York Family Paid Leave product that launched in 2018, you really have sort of $40 million delta between year-to-date, 2019 compared to year-to-date 2018.

So, really you can consider it slightly down to flattish. So again I think we are still performing at a high level from our sales side, which is still some contributions to sales in that $40 million to $50 million range from Edna's medical staff that is still referring business and jointly selling. So we feel good about the overall sales performance.

So I said in my opening comments, your premiums are slightly down 1% on a earned basis, primarily due to just higher lapses, lower persistency on the Aetna book as we are taking targeted actions, since to re-price in those books.

So everything is according to plan, but as we look forward, I still see modest growth in top-line for group benefits, really supported by some of our ancillary lines anchored in ANH and voluntary.

DavidMotemaden

Great. Thanks for the answers.

Operator

Next, we have Mike Zaremski of Credit Suisse.

MikeZaremski

Hey good morning. I wouldn't mind maybe trying to get more color on next gen spectrum, in terms of maybe you can isolate what the major changes are, from the commentary is it easier for your - the business owners to self service. I'm just curious, is there a direct selling component to potentially for small businesses and then also is there ultimately to measure the success you expect sales to accelerate or better profitability just anymore color would be great, it seems like it is a big deal?

ChristopherSwift

Good question Mike and thank you for asking it. I would start by saying yes, this is a sales tool that essentially will sit on the desktop of our CSRs, Customer Service Reps around the country and all the agents and brokers we do business with.

It is a tool that will allow them to be faster, more insightful and help their customers make choices, I would say inside the tool you should think about, good, better, best type dynamics. All the coverages, very tuned to what a certain customer or SIC class would require, what types of optional coverages are there et cetera.

So, yes I think it is a best-in-class selling tool with advice that either comes out of the box with a terrific offer for a customer or offers additional coverages that a CSR will work with a potential customer to purchase. So that is the basis of this exciting innovation for us.

And then secondly, yes we do expect overtime our new sales and spectrum to lift. It is hard to predict, but our expectations over the next couple of years is that we will see some change in our new business sales and we will watch that carefully and report on that as we go through time.

MikeZaremski

Okay, that is helpful. Lastly, if we step back and kind of talk about in a broader sense about commercial pricing versus loss cost trend. Is it fair to say that - if there is a gap, it hasn't changed much quarter-over-quarter taking into account workers comp and so it sounds like there hasn't been any meaningful, notable changes over the last quarter?

ChristopherSwift

And is your question more in the loss trend area or the pricing areas?

MikeZaremski

It is on both, it is kind of seems like pricing is moving north and trend might be moving a little bit north. So net-net kind of similar to last quarter?

ChristopherSwift

Yes, I would agree with your statement in the aggregate and then I think we would have to parse it apart by specialty by excess, by primary financial lines, spectrum et cetera. So in the aggregate, yes, we see lifting and pricing across middle, non-workers comp as we have examined our loss trends, I would say largely in the primary space pretty consistent with Q2.

Yes maybe we are a little careful to make sure we are catching some uptick in the social inflation dynamic. But I don’t think material in any given way. And then in the specialty book, yes we are spending a lot of time inside our excess, our umbrella, our specialty areas and we are mindful of where trends are expecting a little bit of upward lift in those trends and therefore our pricing has been pretty aggressive there. So, pleased with progress on both front, but I think you have it about right.

MikeZaremski

Thank you very much.

Operator

Next we have Amit Kumar of Buckingham Research.

AmitKumar

Thanks. And good morning. Two quick follow ups maybe going back to Mike's question on rate versus loss trends. So if you blend I guess all the moving parts and look at small commercial. As we head into 2020, is your sense that the loss trend will end up running harder than what we expected hence the rate versus loss trend metric does not expand or is it more of a function of the book?

DougElliot

So, Amit let me start and Beth and Chris can go over the top. We are not prepare today that to take into 2020 - what I'm very pleased about is if you look at our metrics and our access combine across commercial and you see in for our segments. I think we have done a nice job at dealing with loss trend, getting improving rate performance and across both our most profitable segment, which is small commercial kind of holding in margins that are terrific.

And we are mindful that we need to make more meaningful change in the middle and large commercial areas. So, I look at all-in Q3 number on top of Q2 and feel pretty good about it and as I mentioned in my earlier commentary, we know there was a little bit of upward pressure from NAV book coming in, we will work our way through that and at some point that will be a positive, because we will starting turning the tide on that number as we move into 2020.

AmitKumar

Okay. Then on Chris or anyone had to add something to that.

ChristopherSwift

Again, I think Doug is accurate as always. I think the tricks is going to be here everything is sort of more granular right these days, whether it be states, products, accounts so when you add it all up I think what Doug says makes perfect sense.

My particular point of view is that this could be a dynamic environment for the next couple of years for sure. Because I don't think it is you know realistic at least in my expectation that 15 points of rate in the specialty book in aggregate is going to get back to targeted returns.

As I said, particularly as it relates to Navigators we are taking a multiple year journey to get to targeted earnings and returns. And I think a lot of others are going to be in that same position where just one year of feeling good about high single-digit or low double-digit rates in certain lines primarily specialty isn't going to cut it and that is going to require a multi-year approach.

AmitKumar

Got it. The only other question is on the last call. I guess we have fine tuned Navigators a bit and Chris on that call you had said one 10ish was sort of the number for 2020. Are we still in the ballpark or based on what has evolved, are we somewhere in the middle or not?

ChristopherSwift

Yes. Obviously I'm not going to give you any really specific details. But the ranges that we put out, I still think are valid as I said I would anchor in the low end of that range. And I'm not changing our views right now at this point in time.

AmitKumar

Got it. Thanks for the answers. And congrats on the print.

Operator

Next, we have Gary Ransom of Dowling & Partners.

GaryRansom

Good morning, most of my questions have been answered. But I did want to follow-up on the new spectrum policy and I wondered specifically whether there is a little bit of leapfrogging going on with other competitors in their own system. Can you actually detect when someone else has something, a new star offering and see a little bit of lowering of your quote volume then you put something out, you see a little bit of higher, and if you do, does that last for a while does it have some duration. I'm just trying to get a sense of the growth components and how this might play out.

ChristopherSwift

Yes, thanks Gary. We do watch all those statistics carefully. So we are able to watch quote volume we are able to watch yield. So the number of hits or successful quotes against total quotes I would say relative to competitors rollout, we watch what they put out publicly and normally there is a little bit of a buzz or discussion about enhancements or innovations in the marketplace, I'm sure very similar to what is happening with our next generation spectrum offering right now.

I think that is the easier way to find out about things. But we study the numbers, we are mindful of even the statistics I quoted in my script right, we are watching optional purchases - optional coverage purchases right now we are watching number of quotes. And we have an expected trajectory that we expect to see over the next three or four quarters and so we will be right on top of that.

GaryRansom

Is this something that will roll out to all the renewals or is it just something for new business?

ChristopherSwift

Yes, we are quoting new business right now. As I said, we are in mid-30 states and by year-end we expect to be essentially 45 and then we will deal with the last couple of states next year, but new business I think Gary today.

GaryRansom

Okay. alright. Thank you very much.

ChristopherSwift

Thank you.

Operator

The next question we have will come from Yaron Kinar with Goldman Sachs.

YaronKinar

Hi good morning everybody. I want to start with going on the reserve development in commercial lines and making another one on group benefits. So with reserve development I think in recent years we have seen kind of initial aspects in both general liability and commercial auto come in a bit below most recent picks for our prior years. Can you maybe talk about that dynamic and how comfortable you are with your picks for the more recent years considering the fact that you have an increasing the initial aspects there and is it just pricing that you have achieved that has offset some of the weaker picks in prior years?

DougElliot

Let me start and then Beth can work over the top. I would say over the past six plus years, we have been working both pricing and underwriting. So we have been adjusting our offerings across the marketplace, in classes, monocline grouped with other accounts, et cetera. So multiple different options that we have been working.

In general, I would agree with you that we have been light on our [XM] (Ph) picks at 12 months, which is the reason that if you look at our trend line, we have made adjustments to those prior year picks over the last six, seven years and I think we do a nice job of disclosing that in our in our supplement.

So the disappointment is that last year obviously has been higher than we expected, and we didn't get the punch that we expected on the underwriting side. And so we are doubling down now, I think we continue to make progress again. I would separate some of this discussion by class of vehicle whether we are talking small commercial with primarily private passenger and light vans or middle market with some heavier or the specialty area.

And I think that our success are like thereof is not very different than the overall marketplace. But what we have tried to do is when we see something in the book, we have addressed it both on our reserve levels and also on the underwriting. And that is why I don't think there is anything new here, we just need to dive even harder. Beth.

BethCostello

I think that summarizes it very well Doug.

YaronKinar

Okay. Thanks. And then on the group benefit side, the experience in claims recovery that you have seen for recent vintages, as you expect that kind of continue, is that baked into your estimate today or do you expect some of the version back I mean?

DougElliot

You know I would say Yaron that obviously we update our statistic and views periodically that is what we did this quarter. So, that reflects our best views of trends going forward that in essence we price product on and book reserves on. So, it is our best thinking from here.

Now, we have always talked about it, changes in incidence and/or recoveries is somewhat employment centric related. So as long as we don't have any big shocks into the system I would expect our estimates here to hold, but as I have said it is a dynamic world out there and when things change, we just have to reevaluate our assumptions and we would change accordingly.

YaronKinar

Got it. Thanks so much. And thanks for sneaking me in.

Operator

That is all the time we have for today's questions-and-answer session. I would now like to turn the conference call back over to Susan Spivak for any closing remarks.

Susan Spivak

We appreciate all you joining us as well as your question. Please do not hesitate to reach out if you have any follow-up and if we didn't get to your question within the time period, I'm available on, so please just give me a call. Thank you.

Operator

The conference call is now concluded. We thank you all for attending today's presentation. At this time you may disconnect your lines. Thank you again everyone.