S&P Global
Market Intelligence

The Hartford Financial Services Group, Inc. NYSE:HIG

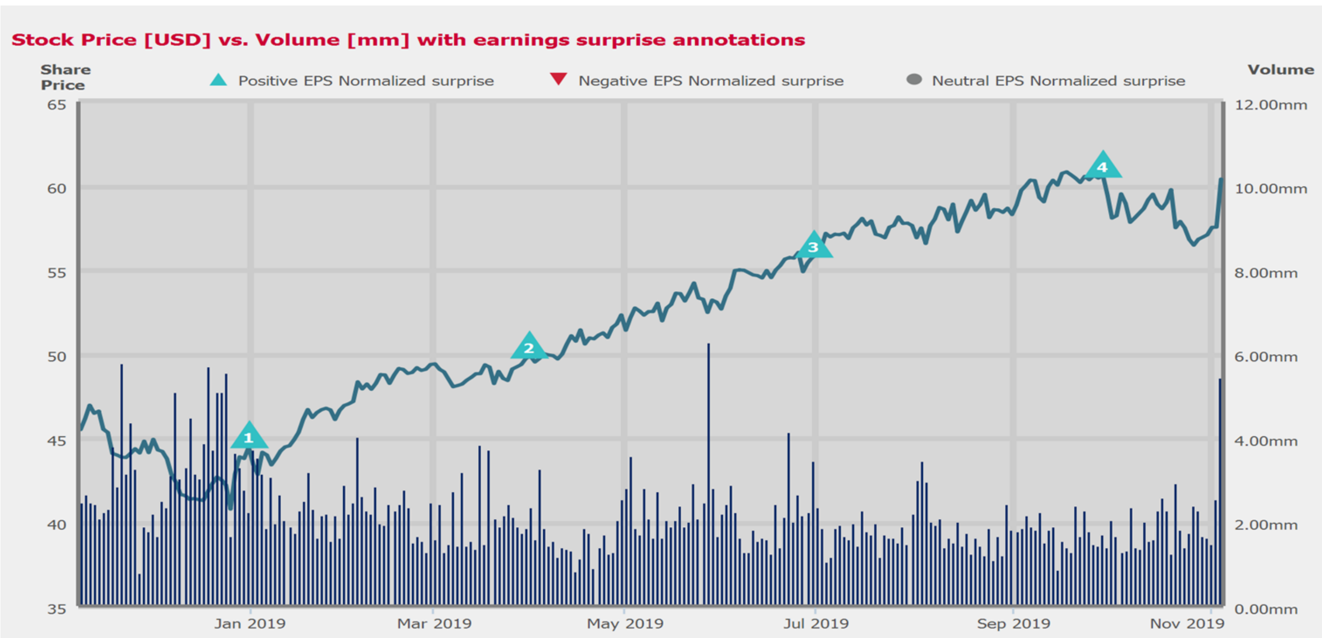
FQ3 2019 Earnings Call Transcripts

Tuesday, November 05, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.23	1.50	▲21.95	1.38	5.41	5.55
Revenue (mm)	5220.50	5347.00	▲2.42	-	-	21434.29

Currency: USD
Consensus as of Nov-05-2019 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	0.57	0.78	▲36.84 %
FQ1 2019	1.24	1.39	▲12.10 %
FQ2 2019	1.14	1.33	▲16.67 %
FQ3 2019	1.23	1.50	▲21.95 %

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Presentation

Operator

Good day, and welcome to The Hartford Financial Services Group, Inc. Third Quarter Financial Results Conference Call and Webcast. [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 Bernstein
Senior Investor Relations Officer

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

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

Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for 1 year.

I'll now turn the call over to Chris.

Christopher Jerome Swift
Chairman & CEO

Good morning, and thank you for joining us today.

The Hartford had an excellent quarter with strong financial results across all our business lines. Third quarter core earnings rose 31% over prior year to $548 million or $1.50 per diluted share with lower catastrophe losses and continued solid investment results. Our businesses are performing very well.

Book value per diluted share, excluding AOCI, was up 8% to $42.55 from year-end. The consolidated 12-month core earnings ROE was 12.3%, an impressive result 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 and efficiency.

Doug 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 a 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 and product capabilities as a global specialty player. An added benefit was the expansion of our distribution relationships into the wholesale channel to serve more risk needs of customers. Nearly 6 months have passed since we've closed the Navigators transaction. The progress to date is on track, and I'm very pleased with the 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 and 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 & 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 am confident in our loss reserve estimates.

Group Benefits delivered another excellent quarter with core earnings of $141 million, up 38%. The increase versus prior 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. The 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 for 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 a 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, I wanted to make a few comments on the macro environment. 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 affecting new money and overall portfolio yields. The frequency of severe weather-related storms as well as other catastrophic events such as wildfires are elevated, pressuring rates to keep up with CAT trends. Social inflation related to larger claims settlement continue to put pressure on loss cost trends. However, social inflation is not a new phenomenon. We have been monitoring these trends for years, taking the appropriate actions to ensure our pricing models and underwriting reflect these realities.

To conclude, with 1 quarter left in the year, our experience through the first 9 months is generally consistent with the outlook we provided with no major surprises. The successful integration and execution of our 2 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 am confident in our ability to produce consistent results contributing to shareholder value creation.

Now I'll turn the call over to Doug.

Douglas Graham Elliot
President

Thank you, Chris, and good morning, everyone.

The Hartford's Property & Casualty results for the quarter were strong. Top line growth was fueled by the Navigators acquisition, while underlying organic growth in Commercial Lines was a solid 4%.

In Personal Lines, new business growth is up significantly from third quarter 2018 but has moderated from earlier in the year. We're pleased with the underlying returns across all of our Property & Casualty businesses as each continues to execute effectively.

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

In aggregate, Property & Casualty reported favorable prior year development of $47 million this quarter. Improving severity trends across workers' compensation, Small Commercial's package business and Personal Lines auto all drove favorable reserve releases. Partially offsetting these releases was reserve strengthening in commercial auto liability and general liability, driven by some large loss activity.

As Chris has already mentioned, there's been a fair amount of commentary during the quarter regarding social inflation, and we're 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 loss development provides another layer of protection.

Over the past few years, while we've observed higher loss trends, we've also adjusted general liability and commercial auto reserves accordingly. At the same time, we've 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 ratio for Commercial Lines, which excludes catastrophes and prior year development, was 93.9, deteriorating 0.2 point from last year, but a strong performance nonetheless. As expected, the Navigators book generated approximately 1 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 in 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're taking across our core lines. Given industry loss trends and operating performance in these nonworkers' compensation lines, I expect this pricing trend to persist.

Let's now take a look inside our Commercial Line business units. Small Commercial continued its excellent performance with an underlying combined ratio of 87.9. The margin improvement versus last year was driven primarily by lower non-CAT 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've 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 of products placed in their cart. As of today, we're 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 & Large Commercial, the underlying combined ratio of 99.6 improved 1.6 points from 2018, driven primarily by lower non-CAT property losses. Notably, inland marine losses, which were elevated in the second quarter, have moderated. Written premium was up 12% over last year, due in part to the addition of certain legacy Navigator businesses within Middle & 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're achieving rate increases across Middle & Large Commercial. Our property and auto rate increases are up sequentially in the quarter over 100 basis points, with liability not far behind.

In Global Specialty, the underlying combined ratio of 96.2 deteriorated 6.4 points, primarily the result of including the Navigators book this quarter. Since the acquisition, we've been aggressively reunderwriting and repricing 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're also pleased with both renewal pricing and new business generation from our wholesale distribution channel in the U.S.

In international, we've taken significant actions to address 2-plus years of subpar returns in our Lloyd's syndicate and London market portfolio. In addition to the aggressive pricing actions we're taking on this book, we've exited certain underperforming lines and reduced significantly the number of binders, MGAs and line slips across the portfolio. We've also materially reduced the overall limits deployed in several lines, including D&O, E&O and casualty.

Our Global Specialty team is off to a terrific start. They're actively addressing opportunities in the book as well as taking advantage of favorable market conditions where appropriate. Integration efforts continue, including expertise sharing in 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 Personal Lines. The underlying combined 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 1 point due to the impact of lower earned premium, while the loss ratio improved 40 basis points. The loss ratio improvement is reflected in both our auto and homeowner results, driven by earned pricing increases and non-CAT homeowners experience.

New business growth was up 34% compared to prior year. This was another positive new business quarter as marketing spend and product adjustments continue to gain traction.

In AARP Direct auto, our critical production levers, including flow, close ratios and new sales, all improved compared to prior year. Importantly, we're 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've made progress to improve the profitability of our AARP book, more work is needed on retention and new business to return to positive growth.

In summary, this was a very strong quarter across our Property & Casualty businesses. We're executing effectively against our plans while responding to loss cost trends and competitive market dynamics. We're 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're 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
Executive VP & CFO

Thank you, Doug. Today, I'm going to cover third quarter results for the investment portfolio, Hartford Funds and Corporate 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 valuations on underlying funds. Lower interest rates and tighter credit spreads increased net unrealized gains on fixed maturities after tax to $1.8 billion at September 30, up from $1.4 billion at June 30. 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 30.

The credit performance of the investment portfolio remains very strong. Net impairments in the quarter totaled $1 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 to 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, decline 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 $1 million sequentially. Daily average AUM rose 2% from second quarter 2019, reflecting strong market performance, partially offset by net outflows. Investment performance remains very strong. As of September 30, about 70% of Hartford Funds outperformed peers on a 1-, 3- and 5-year basis.

Corporate core losses of $37 million improved by $8 million from third quarter 2018. The principal driver of the improvement this quarter was $11 million of income after tax from our retained equity interest in Talcott compared to $1 million in third quarter 2018.

During the quarter, we continued to repurchase shares. Year-to-date through November 1, 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 a weighted average coupon of 5.3%. The redemption resulted in a 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 targets.

Book value per diluted share, excluding AOCI, was $42.55, up 8% year-to-date and 9% since 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 from PG&E related to losses incurred on certain 2017 and 2018

California wildfires. Given uncertainties with respect to approval of the PG&E bankruptcy plan, we have not recognized any subrogation recoveries to date. Based on subrogation claims submitted by all insurers to PG&E and the terms of the proposed settlement, which is contingent upon approval of the bankruptcy plan, we would expect gross subrogation recoveries to be approximately $325 million, although the actual amount we collect is subject to uncertainty. The first $116 million of any such subrogation recoveries would reduce reinsurance recoverables we have recorded under our CAT reinsurance treaties. Accordingly, any benefit to income would be for subrogation recoveries in excess of $116 million.

Turning to fourth quarter. It has already been an active quarter for catastrophe-related events. Our budget for CATs in the fourth quarter is approximately $80 million pretax. Before considering any losses from the current California wildfires, we are approaching $80 million of catastrophe losses in the month of October, including losses from tornadoes 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 wildfires, we are monitoring the fires closely in the areas we have insured 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 adverse development cover we purchased in 2016, we have $977 million of remaining coverage available for increases in these reserves. Also, we did not cede 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'll now turn the call over to Susan so we can begin the Q&A session.

Susan Spivak Bernstein
Senior Investor Relations Officer
Thank you, Beth. We have about 30 minutes for questions. Operator, can you please repeat the instructions for asking a question?

Question and Answer

Operator

[Operator Instructions] And the first question we have will come from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

First off, Beth, I do appreciate the new kind of streamlined 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 were expecting this year as of the end of the third quarter just looking at the 10-Q disclosure. So I just kind of wanted to walk through that and get a sense of share repurchases for the fourth quarter. And then for next year on the capital side, is -- could you just give us a sense of the dividends you could upstream from the P&C subs in 2020 and also if there's any change in the tax attributes you expect as well?

Beth Costello
Executive VP & CFO

Sure. So first of all, thank you for the comment on the press release. I'm glad that you like the new format. So yes, as it relates to holding company cash, I would say, overall, we're on track with what we expected at the beginning of the year. Yes, the timing of the tax benefit we received from our AMT refund did come in a little bit earlier than we anticipated, but we were anticipating that this year. So we took all of that into consideration as we have projected kind of our view of share repurchases 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, and then the remainder of our $1 billion 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 P&C in 2019, but we do anticipate going back to our normal cadence in 2020. And as we've talked about in the past, we see dividends sort of in the $850 million to $900 million range. Obviously, it will depend on actual results. From our Group Benefits business, we're typically in the $300 million to $350 million range. Obviously, results in Group Benefits have been very strong, so we've seen some increases in those dividends through the years. And then Mutual Funds usually is in that $100 million to $125 million. And then we do still have some remaining tax benefits that we'd expect to receive in 2020. So when we look at 2019, we're probably a little bit over $700 million in tax benefits that will come through. And as we look to 2020, we'd be just slightly under $600 million. So again, very much in line with what we have laid out previously.

And then again, I'll 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.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's very helpful. And then my second question. 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 of 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 the best way for us just to really look at the Global Specialty margins to get a sense of how Navigators is tracking?

Christopher Jerome Swift
Chairman & CEO

Elyse, thank you for your question. I would say what we've commented upon in the past as far as our goals related to the financial performance of Navigators are really unchanged. I think we did say that the slope of it might be slightly different, the components might be slightly different, but we still see a path to earning $200 million of core earnings prior to amortization of intangibles in that 4- to 5-year period of time, and still excited. Obviously, there's a lot of rate being taken in the specialty space broadly defined. But Doug, that's what I would say over the long term. But what would you say in the near term?

Douglas Graham Elliot
President

Just to add that this quarter, we made very few adjustments to the prior Navigators loss ratios across their lines, either prior year or in the current accident year. We tweaked auto liability slightly in the quarter. But other than that, Beth, it was a pretty quiet quarter relative to actuarial assumptions.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Douglas Graham Elliot
President

Yes. I mentioned in my commentary, Elyse, that it 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 the 2 together, we're talking 12-ish, 11 to 12 points of price. I also said that it was accelerating in the quarter. So we're 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're off to a really good start. I'm very pleased with the progress. I know Vince and his team working hard to change the outcomes here.

Operator

Next, we have Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I was hoping you could weigh in a little bit more on some of the auto trends that we've 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 your experiences have and sort of what you think is behind it.

And then a sort of second question, just flip over to the private passenger and ask kind of the same questions about frequency and severity. Allstate saw a little bit of a spike in their frequency for physical damage and I don't know if you've seen the same thing.

Anyway, those are my -- essentially my 2 questions.

Douglas Graham Elliot
President

Paul, let me just clarify. Personal and Commercial both, do you want me to go...

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Yes, both.

Douglas Graham Elliot
President

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

In Commercial, a bit of a different story in the sense that our Small Commercial book, much smaller vehicle. We've been working rate now for 5 to 6 years. We have transformed that book. We're essentially not a monoline player, except in 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 Small Commercial. We also have been chasing rate here over the last 6 to 7 years. We've made progress, but not at all acceptable relative to our operating performance in the line today. So we continue to make underwriting adjustments. We'll continue to work hard on rate. Very pleased that our rate was up over 10 points in Q3 in auto. We'll continue to work at that in Q4 and into 2020.

When I think about loss trend, they look to us like they're in the mid-single digits, maybe plus a little bit, in that 5 to 6, 6.5 range commercial auto. We're mindful of 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?

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Do you have any particular theory about the commercial business that might be different from other folks about why we're seeing the severity trend and whether or not it's accelerating?

Douglas Graham Elliot
President

I would just offer that our book of business on the commercial side ex Nav is largely primary auto. So we're not a significant player in the excess space. I do think the excess layers have had some pressure over the past 3, 4 years. Navigators has a specialty auto book. We're very mindful of that. We're working closely with them, sharing our trends, working actuarial assumptions, et cetera, and taking quite a bit of rate there. So our rate change in the Navigator 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.

Operator

Next, we have Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here. First, I'm just curious, in the Commercial Lines segment, the expense ratio declined year-over-year, only around 17% growth in G&A expenses. I was expecting it to be a little bit higher than that. Was there anything unusual there? Is that a decent run rate with respect to kind of G&A expense growth and what we're seeing with the expense ratio?

Douglas Graham Elliot
President

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 Q3 quarter, we actually had some credits that ran through from taxes, 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'd also point out to you, as the Navigators book comes into our expense ratios, as a typical specialty company sometimes has, they've got slightly higher expense base. So between their U.S. and certainly their international, there's a little bit of inflation on the expense coming in from Nav that we will work our way through over the next couple of years as we earn our way toward those profit targets we've talked about.

So I look at the run rate Q3 more in the 34.5 range, and I think that's kind of where we'll be Q4 as I look out.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second question, in the Small Commercial area, I mean you talked about how it's a little bit more insulated from the social inflation environment given the kind of limits profile of that business. I'm curious, have you seen any increasing competition in that area as a result of what's going on in the loss cost inflation environment?

Christopher Jerome Swift
Chairman & CEO

Brian, as Doug -- he'll respond, too. I would say again, across many of our businesses, there is always competitive pressure. There's new entrants. There's fintech-related or insurtech-related activities, but I wouldn't say it's rapidly changing in a more competitive environment where everyone is piling in. I would say -- and you've 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're really tuned in on the emerging trends and our own mindset of what do we need to do to continue to get better every day, what do we need to do to continue to differentiate ourselves as one of the top go-to market. So that's our mindset. And Doug, if you would add anything?

Douglas Graham Elliot
President

Yes. So maybe just a couple of comments about our new Spectrum and then comments on what we've been working on the last couple of years. So very excited, Brian, about this launch of next-gen Spectrum. We've been kind of in the design and building stage for a couple of years now, and I think it's going to be a terrific product in the market, much in the way the digital experiences that we're all used to are now personalized. Because of that launch, we've been laser-focused these last couple of years to get our rate adequacies on our Spectrum product, where they need to be, because it's very difficult if you're profit-challenged 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've continued to make sure we're 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 over time and we feel good about our balance sheet in terms of the reserves that are recorded on our ledger. So yes, we've 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 2019 into 2020.

Operator

Next, we have Jimmy Bhullar of JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I have a couple of questions for Doug. And first, on Commercial Lines, how do you think about your ability to take advantage of improving pricing in the overall market, especially given that you've got a big exposure to workers' comp, where prices are actually obviously under pressure?

Douglas Graham Elliot
President

Well, we're optimistic that our nonworkers' 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 recognize we have some headwinds on the workers' comp environment. I would again point out, the profitability of those books is excellent, particularly Small Commercial. So we're mindful of those headwinds and navigating in the middle account by account and being thoughtful about class selection and state and geography in Small Commercial.

So yes, it is a tale of 2, where we're working hard to improve our core pricing while we understand is a very competitive workers' comp dynamic that matters greatly to us.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then on Personal Lines, I think you would hope that at some point over the next few quarters, you'll start to see stabilizing premiums and maybe an improvement in premiums. But it seems like more and more companies are sort of shifting their focus from revolving margins to accelerating growth. Just comments on competition, whether it's still rational, and your expectation of when you can sort of get to flat to positive premium growth in that market.

Christopher Jerome Swift
Chairman & CEO

Jimmy, obviously, we're not going to give any guidance or specific drivers, but the overall focus, as both Doug and I have commented upon, has been growth orientation, but you are right. I mean it's a dynamic marketplace just because we want to grow and there's a lot of other competitors that are shifting to that same mindset. So the trick in that environment, at least in my judgment, is you got to remain disciplined. You got to 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 just -- we're getting the responses, just not converting as many new business opportunities as feasible. But Doug, that's what I would say.

Douglas Graham Elliot
President

Yes. I agree, Chris. And I think we lay out in the supplement, you can see we've made very good progress on the retention front. Still think there's a little more work to be done there. I think there's a little bit more left. 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.

Operator

Next, we have Ryan Tunis of Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

First question for Doug on, I guess, keeping it here on commercial auto. And just thinking about -- it seems like over the past, call it, half decade, we've been talking about commercial auto reserve development, and it feels like we've been talking about it probably more at Hartford than a lot of competitors. Maybe not so much over the past year, but I'd just be 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 and '17. And then to the extent that you're seeing something new, what is new in this 2019 environment that you potentially had the reserve for contemplated prior to this?

Douglas Graham Elliot
President

Ryan, thanks. Let's just start on the quarter, and then I do want to comment because I think you're 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's largely National Accounts, I would say almost all National Accounts. 80% of the change is National Accounts. And it's something that we had not adjusted in the last several years. So really exclusively our national book.

If you go back over 5 to 6 years, correctly stated, we have been adjusting auto. I would say back in the '12, '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've been working hard on for 5 or 6 years. So I would agree with you. If you've looked at what we've done in the commercial auto space, on our reserves and our current accident year underwriting and pricing, this has been an ongoing work in process for us. We did some tuning in the quarter. But 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're sharing them with Navigators as we come together.

Ryan James Tunis
Autonomous Research LLP

Perfect. And then maybe for Chris just on Group Benefits. Obviously seeing some very favorable trends there. And I guess what surprises a P&C analyst is how well pricing seems to hold up. So I'm curious, in your view, how does the pricing cycle kind of work for Group Benefits? Is -- are you seeing more competition there? What insulates Group Benefits from seeing, I guess, some of the same trends we've seen in workers' comp over the next couple of years?

Christopher Jerome Swift
Chairman & CEO

Sure, Ryan. I would say, yes, we are performing very well, as I -- and I said in my commentary, I think we've 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 that $120 million earnings at an 8% margin, but clearly above our long-term views that we've guided to, which is still 6% to 7%.

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've made 2, 3 years ago that are just outperforming. So unlike P&C, we generally make 3-year rate guarantees. We're very thoughtful and disciplined in making those 3-year rate guarantees because that's the commitment. So we're just outperforming the expectations, both on incidences and recoveries, that is contributing to that current outperformance. So hopefully that helps you.

Operator

Next, we have David Motemaden of Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

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

Douglas Graham Elliot
President

Yes, that was a multiple-component question. So let me do my best to work our way through. In other liability, general liability, we made some tweaks really across years, across businesses. I would say a series of small tweaks, a 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, as 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 are the 2 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 specialty -- Global Specialty book, but we're 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 appreciably on top of, in the case of some of our specialty excess areas. So I shared with you we're really pleased about some of these specialty areas that we've had substantial movement in pricing -- double-digit moves in pricing, where I feel like we're going to see the benefits of that kind of work into our book in 2020 and beyond.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Great. 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're seeing competitively and also more specifically, what your outlook would be for top line earned premium growth here over the next few years as that now is more fully integrated.

Christopher Jerome Swift
Chairman & CEO

Sure, David. I would say as I was trying to explain that, I mean, it is still a competitive environment out there, but there's still an element of rationality that I see most of our competitors exhibiting. You might have an account or 2 or a new business opportunity where someone does something more aggressive, but generally, competitive but balanced.

I would say that the year-over-year numbers that you're looking at does look down. But really, when you adjust for the New York Family Paid Leave product that launched in '18, you really have sort of a $40 million delta between year-to-date '19 compared to year-to-date '18. So really, you can consider it slightly down to flattish. So again, I think we're still performing at a high level from our sales side. We do still get some contribution to sales in that $40 million to $50 million range from Aetna's medical staff that is still referring business and jointly selling. So we feel good about the overall sales performance.

As I said in my opening comments, premiums are slightly down 1% on an earned basis, primarily due to just higher lapses, lower persistency on the Aetna book as we're taking targeted actions to reprice 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 A&H and voluntary.

Operator

Next, we have Mike Zaremski of Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

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

Douglas Graham Elliot
President

Yes. Good question, Mike, and thank you for asking it. I'd 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's 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 attuned to what a certain customer or SIC class would require, what types of optional coverages are there, et cetera. So yes, I think it's a best-in-class selling tool with advice that either comes out of the blocks 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 at the basis of this exciting innovation for us.

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's 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 there's -- that if there is a bit gap, it's not -- it hasn't changed much quarter-over-quarter taking into account workers' comp? Any -- so it sounds like there haven't been any meaningful, notable changes over the last quarter.

Douglas Graham Elliot
President

And is your question more in the loss trend area or the pricing area? Just so I'm...

Michael David Zaremski
Crédit Suisse AG, Research Division

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

Douglas Graham Elliot
President

Yes. I would agree with your statement in the aggregate. And then I think we'd have to parse it apart by specialty, by excess, by primary financial lines, Spectrum, et cetera. So in the aggregate, yes, we see lifting in pricing across middle nonworkers' comp as we've 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're 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're spending a lot of time inside our excess umbrella, our specialty areas. And we're 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 the progress on both fronts, but I think you have it about right.

Operator

Next, we have Amit Kumar of Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

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 a function of the book?

Douglas Graham Elliot
President

So Amit, let me start, and Beth and Chris can go over the top. We're not prepared today to take into 2020 yet. What I am very pleased about is if you look at our metrics and our XX combineds across Commercial, and you see them for our segments, I think we've 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're mindful that we need to make more meaningful change in the Middle & Large Commercial area. So I look at an 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 upward pressure from the Nav book coming in. We'll work our way through that. And at some point, that will be a positive because we'll start turning the tide on that number as we move into 2020.

Amit Kumar
The Buckingham Research Group Incorporated

And I don't know if Chris or anyone has to add something to that.

Christopher Jerome Swift

Chairman & CEO

No. Again, I think Doug is accurate, as always. I think the trick's 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's realistic, at least in my expectation, that 15 points of rate in a specialty book in aggregate is going to get you back to targeted returns. As I said, particularly as it relates to Navigators, we're 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 1 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 it's going to require a multiyear approach.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. The only other question is on the last call, I guess, we had fine-tuned Navigators a bit. And Chris, on that call, you had said $110-ish million 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?

Christopher Jerome Swift
Chairman & CEO

Yes. Obviously, we're 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'd anchor in the low end of that range and I'm not changing our views right now at this point in time.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. Congrats on the print.

Operator

Next, we have Gary Ransom of Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Most of my questions have been answered, but I did want to follow up on the new Spectrum policy. And I wondered specifically whether the -- there's 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 strong 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 that have some duration? I'm just trying to get a sense of the growth components and how those might play out.

Douglas Graham Elliot
President

Yes. Thanks, Gary. We do watch all those statistics carefully. So we're able to watch quote volume, we're 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's a little bit of a buzz or discussion about enhancements or innovations in the marketplace. I'm sure very similar to what's happening with our next-generation Spectrum offering right now. I think that's the easier way to find out about things.

But we study the numbers. We're mindful of -- even the statistics I quoted in my script, right, we're watching optional purchase -- optional coverage purchases right now. We're watching number of quotes. And we have an expected trajectory that we expect to see over the next 3 or 4 quarters, and so we'll be right on top of that.

Gary Kent Ransom
Dowling & Partners Securities, LLC

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

Douglas Graham Elliot
President

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

Operator

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

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I want to start with one on the reserve development in Commercial Lines and sneak in another one on Group Benefits. So with reserve development, I think in recent years, we've seen kind of initial loss picks 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 been increasing kind of the initial loss picks there? And is it just pricing that you've achieved that's offset some of the weaker picks in prior years?

Douglas Graham Elliot
President

Let me start, and then Beth can work over the top. I would say over the past 6-plus years, we've been working both pricing and underwriting. So we've been adjusting our offerings across the marketplace in classes, monoline, group with other accounts, et cetera. So multiple different options that we've been working.

In general, I would agree with you that we have been light on our accident picks at 12 months, which is the reason that if you look at our trend line, we've made adjustments to those prior year picks over the last 6, 7 years, and I think we do a nice job of disclosing that in our supplements. So the disappointment is that loss trend obviously has been higher than we expected and we didn't get the punch that we expected on the underwriting side. And so we're doubling down now. I think we continue to make progress. Again, I'd separate some of this discussion by class of vehicle, whether we're 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 or lack thereof is not very different than the overall marketplace. But what we've tried to do is when we see something in the book, we've addressed it both on our reserve levels and also on the underwriting. And that's why I don't think there's anything new here. It's just we just need to dive even harder. Beth?

Beth Costello
Executive VP & CFO

No. I think that summarizes it very well, Doug.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then on the Group Benefits side, is the experience in claims recoveries that you've seen for recent vintages, do you expect that to kind of continue? Is that baked into your estimates today? Or do you expect some reversion back to mean?

Christopher Jerome Swift
Chairman & CEO

I would say, Yaron, that, obviously, we update our statistics and views periodically. That's 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've 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 said, it's a dynamic world out there. And when things change, we just have to reevaluate our assumptions and we would change accordingly.

Operator

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

Susan Spivak Bernstein
Senior Investor Relations Officer

We appreciate all of you joining us as well as your questions. 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 am available, so please just give me a call. Thank you.

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