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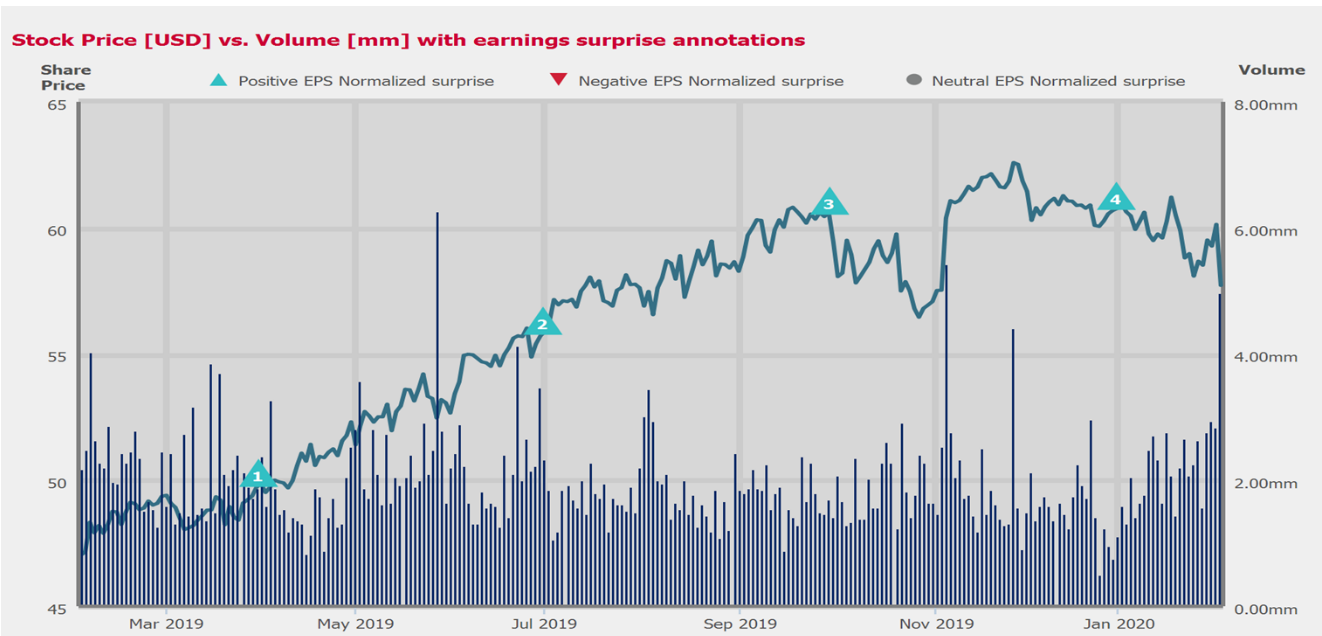
FQ4 2019 Earnings Call Transcripts

Tuesday, February 04, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.33	1.43	7.52	1.38	5.55	5.65
Revenue (mm)	5230.00	5361.00	2.50	5293.00	20574.27	20740.00

Currency: USD
Consensus as of Feb-04-2020 10:33 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.24	1.39	1 12.10 %
FQ2 2019	1.14	1.33	2 16.67 %
FQ3 2019	1.23	1.50	3 21.95 %
FQ4 2019	1.33	1.43	4 7.52 %

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Presentation

Operator

Good morning. My name is Alyssa, and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford's Fourth Quarter 2019 Financial Results Conference Call and Webcast. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Ms. Susan Spivak, Head of Investor Relations. Ms. Spivak, you may begin your conference.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thanks, Alyssa. Good morning, and thank you for joining us today for our call on fourth quarter and year-end 2019 earnings. We reported our results yesterday afternoon and posted all the earnings-related materials on our website.

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

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

Our commentary today 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 call can 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. 2019 was an excellent year and a pivotal year for The Hartford. We set ambitious goals and delivered on strategic objectives while achieving strong financial results. Fourth quarter core earnings were $522 million or $1.43 per diluted share, an 84% increase over prior year driven by significantly lower catastrophe losses, exceptional results in Group Benefits and strong investment performance.

For the year, core earnings were $2.1 billion or $5.65 per diluted share, up 31% from 2018. Book value per diluted share ex AOCI rose $43.71 (sic) [rose to $43.71], an 11% increase for the year. And the 12-month core earnings ROE was 13.6%, an impressive result in the current market environment. Hard work by talented employees across The Hartford enabled us to perform at this high level.

Turning to our results. In Commercial Lines, the underlying combined ratio of 94 is a strong result particularly in a year where we have incorporated Navigators. Just as impressive has been the speed with which the 2 organizations have come together as a focused team able to strongly position The Hartford in the marketplace and capture new business opportunities in firming market conditions.

As the integration progresses, we are seeing more opportunities to improve underwriting profitability, cross-sell products, improve claim processes and leverage all the capabilities of The Hartford platform.

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These activities, coupled with continued rigorous execution on renewal pricing and retention, will contribute to our goal of achieving $200 million of incremental core earnings from the acquisition.

In Commercial Lines, I am pleased with achieved rate increases across the portfolio with a focus on margin improvement. In Middle Market, renewal pricing excluding workers' compensation accelerated through each quarter of the year, culminating with a 7.1% increase during the fourth quarter. Personal Lines core earnings improved to $285 million as we benefited from much lower catastrophe losses with an underlying combined ratio of 91.9. New sales for auto and home were up 36% over prior year with improving retentions, all contributing towards the goal of future net written premium growth.

Group Benefits had an outstanding year with core earnings of $539 million, up $112 million from 2018, with a core earnings margin of 8.9%. This performance was largely due to a 3-point loss ratio improvement over prior year, reflecting continued favorable disability incidence trends and strong disability claim recoveries, partially offset by elevated life severity experienced earlier in the year.

On the top line, fully insured ongoing premiums were flat to prior year. Fully insured ongoing sales for 2019 were $647 million, down $57 million as prior year included first year sales related to the new Paid Family Leave product in New York.

Persistency, as expected, was slightly below historical trends as we adjust pricing on targeted segments of the Aetna book. Overall, earned premium on the Aetna book is in line with our deal assumptions, and case conversions continue to go well from both a platform and pricing perspective. We are very pleased with the operational execution, integration and financial performance of Group Benefits.

Looking ahead to 2020. We are expecting a core earnings margin in the range of 6.5% to 7.5%, which assumes moderate premium growth over 2019 driven by sales and improved persistency, a lower expected investment yield driven by a 7% limited partnership return assumption and normalized claim incidence risk and recovery trends in long-term disability. January sales were solid in a competitive market but were down slightly from 2019 due to fewer large case sales.

Before turning the call over to Doug, I'll provide my perspective on a couple macro themes. First, social inflation continues to dominate industry conversations as the current hot topic. Last quarter, I said that social inflation was not a new phenomenon. A quarter later, my view hasn't changed. But there are a few points to make. I expect some level of social inflation will be felt by many carriers, if not all, across the industry. However, the impact on loss costs will vary by company. Variation depends on several factors, including the line of business and coverage limits; type of coverage, such as primary, umbrella or excess; specific contractual terms; and reinsurance programs. Each company's ability to react to social inflation will be impacted by the quality of data and analytics supporting product pricing and loss reserve estimates. At The Hartford, I feel confident that we are -- that our analytical capabilities, along with our talented claims and legal professionals, have allowed us to build a track record of making timely adjustments to loss cost assumptions reflected in our financial results over the past 4 to 5 years.

The second topic is interest rates. For several quarters, we have discussed the impact of a persistent low interest rate environment on the ability to grow net investment income. Currently, our portfolio continues to perform well, but it is clear that the interest rate environment is becoming more challenging. This will impact the investment returns on new cash flows, reinvestment rates and our overall portfolio yield. The implication is that net investment income will likely become a headwind to core earnings growth, requiring higher levels of underwriting income to support earnings and ROE. This, coupled with loss cost trends, leads me to believe the firming cycle we are experiencing will likely continue for the next 18 to 24 months.

In closing, when I look out to 2020 and beyond, I think about how far our businesses have evolved over the past decade and how well positioned The Hartford is as a market leader. We have expanded underwriting capabilities and provide a broad range of products delivered through multiple distribution channels to meet customer needs in a dynamic market environment. We are focused on execution, integration, innovation and maximizing our enhanced capabilities to organically grow the business.

In Small Commercial, we are a top industry player and have demonstrated consistent financial performance and innovation over the years with a focus on the customer experience. We are growth

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orientated with a multichannel distribution strategy and expansive underwriting appetite to serve more classes of business.

In Middle & Large Commercial, we aim to improve margins and leverage new product breadth. Pricing is improving, and we have identified attractive opportunities to cross-sell specialty products.

In Global Specialty, we are newly positioned with a broader product portfolio and expanded distribution. In the wholesale and Lloyd's market, we will focus on integration and improving margins.

In our Personal Lines business, we have enjoyed a unique relationship with AARP for over 35 years. We continue to look for opportunities to drive top line growth.

And finally, in Group Benefits, we are nearing the completion of integration activities. Our focus now is on future growth stemming from new products and services designed to complement existing risk products while improving the customer experience.

We enter 2020 well positioned in the market. Moreover, we remain committed to making a sustainable and positive impact on society as an essential element of our ongoing success. Across The Hartford, we're making this happen by always doing the right thing, fostering a workplace where everyone is welcome and respected, using our resources and influence to address the challenge of changing climate and helping to make our communities where we live and work be safer and more successful. I'm very proud that these sustainability efforts are widely recognized as industry-leading.

In summary, I'm confident our enhanced capabilities in a firming market, combined with ongoing capital management, provide the opportunity for The Hartford to enhance value for all our stakeholders.

Now I'll turn the call over to Doug.

Douglas Graham Elliot
President

Thank you, Chris, and good morning, everyone. 2019 was a very good year for Property & Casualty. We're pleased with the underlying financial performance of our business units and the achievement of important initiatives we established for 2019.

In Small Commercial, we continue to outperform with another sub-90 underlying combined ratio for the year and early new business momentum from the launch of our next-generation Spectrum product. In Middle & Large Commercial, we're maintaining positive traction across our industry verticals while we work to improve profitability on our core book. In Global Specialty and across Commercial Lines, we're leveraging the product breadth and underwriting expertise arising from the Navigators acquisition to deepen relationships with customers and distribution partners. Through year-end, we've delivered approximately $50 million of incremental sales across Middle & Large Commercial and Global Specialty that would not have been possible without the acquisition. This positive start provides confidence that we will outpace our 3-year incremental revenue goal of $200 million.

In Personal Lines, the business had an excellent earnings year. We continue to work on driving new business growth, while moderating renewal written price increases have helped to improve policy retention levels for the year.

Let me now pivot to summarize our financial performance for 2019, and then I'll conclude with some thoughts about 2020. Commercial Lines core earnings were $1.17 billion for the year on a combined ratio of 97.7. This includes catastrophe losses of $323 million or 3.9 points. Net favorable prior year development for the year was $112 million or 1.4 points excluding Navigators prior year development recorded at the acquisition date.

In the fourth quarter, we reported $37 million of net favorable prior year development, which primarily consisted of favorable experience in both Small Commercial package business and the workers' compensation 2016 and 2017 accident years. This was partially offset by $16 million of unfavorable development primarily on Navigators international reserves.

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The Commercial Lines underlying combined ratio was 94 for the year, increasing 2.5 points from 2018. The Navigators underlying combined ratio is higher than our legacy commercial book and contributed approximately 1 point of the increase. The remainder of the increase was from non-CAT property, workers' compensation and higher commissions.

Consistent with our expectations, the underlying loss ratio for workers' compensation increased 1 point from 2018, reflecting the competitive market and pricing declines. Loss trends were modest with negative frequency, while medical and indemnity severity trends were in the mid-single digits.

Renewal written pricing in Standard Commercial Lines was 3.5% for the quarter, up 50 basis points from third quarter. Fourth quarter 2019 renewal written pricing was up 1.9 points from the fourth quarter of last year. Middle Market renewal written pricing in the U.S. excluding workers' compensation increased 5.2% for the year, up 2.2 points from last year. In the fourth quarter, the rate increase was 7.1%, up 1.8 points from the third quarter 2019 and up over 4 points from fourth quarter 2018. We have now seen increasing renewal written price increases in these lines for 4 consecutive quarters.

Our Global Specialty book is experiencing even stronger pricing gains in both our U.S. wholesale book and the international portfolio, which is primarily written in the Lloyd's market. Our U.S. wholesale book achieved an 18% rate increase in the fourth quarter. Several lines were in excess of 20%, including property, auto and excess casualty.

Our international portfolio also had strong pricing performance in the quarter with particular emphasis on professional lines and onshore energy. Ongoing underwriting actions, coupled with sustained rate increases in this book, will drive profitability improvement in 2020 and beyond.

We continue to monitor loss trends in our book, especially liability. We expect 2020 primary liability and commercial auto loss trends to be in the mid-single digits. Excess liability loss trend will be a few points higher than primary. While our book is certainly not immune to the ongoing unfavorable tort trends, we continue to take underwriting, pricing and reserve actions to address this liability trend. Our teams actively monitor these claim trends and currently do not see significant shifts in either representation or litigation rates. This will continue to be a critical watch area for us in 2020.

Overall, I'm very pleased with how effectively our team is balancing growth and profitability along with our pricing progress in the second half of 2019.

Moving to our individual business units. Small Commercial had another strong year. The underlying combined ratio was 89.1 for the year, up 2.4 points from prior year, reflecting the workers' compensation pricing environment, higher property, fire severity and higher supplemental commissions. Total Small Commercial written premium increased 2% for the full year, with fourth quarter written premium relatively flat to 2018.

Policy count and premium retentions remain strong, both up 1 point from prior year. And new business increased to $646 million for the full year, up 8%. In the fourth quarter 2019, new business declined from prior year primarily reflecting the increase in new business last year from the Foremost renewal rights transaction. Excluding Foremost, new business premium increased 9% in the quarter.

Moving to Middle & Large Commercial. We posted an underlying combined ratio of 99 for the year, up 0.6 point from 2018 primarily due to higher commissions and technology spend. Total written premium increased by 9% for the full year, 6% if you exclude the impact of Navigators acquisition. We are achieving positive top line results from our investments in new industry verticals, particularly large property, construction, programs and energy. We're also growing our National Accounts business with written premiums up over 6% last year.

The efforts to improve the profitability of our Middle Market book through rate and underwriting actions have intensified in the second half of the year. Middle Market retention levels were up slightly year-over-year, and new business premium of $584 million for the full year was up 8% versus 2018. However, Middle Market new written premium declined 11% in the fourth quarter compared to last year primarily in workers' compensation and auto. Premium retention was also up 3 points from a year ago. We remain

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disciplined with our pricing methodologies as competitors have been willing to write at more aggressive levels.

In Global Specialty, the underlying combined ratio was 96 for the full year, up nearly 8 points over 2018 almost entirely due to the inclusion of the Navigators business. We continue to deliver strong underwriting results in our legacy, management and professional liability and surety lines.

In the second half of the year, the underlying combined ratio was 98.5, 2 points above the upper end of our guidance we provided on the second quarter call. In the fourth quarter, we had several large losses written from our international desk, including a $6 million loss related to a Texas oil refinery explosion and a $4 million property and business interruption loss from a Florida tornado.

The significant rate and underwriting actions we're taking across the Navigators book is pressuring retention in some U.S. business lines. Retentions are generally stable in the international book. With these actions, I'm confident we've established a path to meet our profitability goals over the coming years.

Shifting to Personal Lines. Core earnings for the year of $285 million with a combined ratio of 95 improved from a 2018 core loss of $28 million. This improvement was largely driven by a $321 million after-tax decrease in catastrophe losses between years. The full year underlying combined ratio increased modestly to 91.9 driven by higher expenses, partially offset by slightly improving results in auto.

The Personal Lines auto underlying combined ratio improved slightly to 97.9 for the full year. We've been able to stay ahead of loss trends. Year-over-year frequency continues to decline, while severity increased in the low to mid-single digits. Higher underwriting expenses due to increased marketing efforts combined with lower earned premium drove the Personal Lines expense ratio up 1.7 points for the full year.

Before I turn things over to Beth, I'd like to share a few thoughts about 2020. In Property & Casualty, we're focused on several priorities. First, we intend to fully leverage the combined product breadth, talent and distribution capabilities we now have at The Hartford. We will drive growth in Global Specialty and Middle Market with deep product sets and broader distribution across both retail and wholesale channels.

Second, we continue the underwriting journey to improve financial returns across Middle Market and Global Specialty. We intend to achieve strong financial performance as we drive higher written pricing in both domestic and international property and liability lines while actively adjusting our limit profiles and class mix.

Finally, we're focused on growth initiatives with both Small Commercial Spectrum as well as our AARP new business. Specifically in Middle Market commercial, we expect renewal written pricing to remain strong during 2020. In Global Specialty, we expect renewal written rate increases to remain in the double digits. We'll continue to lean into this rapidly firming market to improve the profitability of both our Middle Market core lines and Global Specialty book. In workers' compensation, we expect continued pricing headwinds.

As a result, we expect the 2020 Commercial Lines underlying combined ratio to be between 92 and 94, slightly better than our performance for 2019. Contributing to this improvement are improved results in liability and property lines partially offset by margin compression in workers' compensation as negative rates earn through our book.

Personal Lines will continue to drive new business growth in AARP Direct. We are fine-tuning our product segmentation and expect new written premium growth in the low double digits for the year. For 2020, we expect to achieve an underlying combined ratio of 91.5 to 93.5.

Reflecting back, 2019 was a very good year for our business units across Property & Casualty. Our results demonstrate a disciplined underwriting organization committed to achieving strong margins and seeking growth when it meets our profit targets. We're pleased with the progress of integrating Global Specialty and its positive impact with our customers and distribution partners. I look forward to updating you all on our progress throughout the year.

Let me now turn the call over to Beth.

Beth Costello

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Executive VP & CFO

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

Our investment portfolio continues to perform very well with strong limited partnership returns and generally stable investment yields despite lower reinvestment rates. Net investment income was $503 million for the quarter, up $46 million or 10% from the prior year. For the year, net investment income was about $2 billion, up 10% over 2018 due to the growth in asset levels primarily from the Navigators acquisition and higher partnership income. The annualized limited partnership return was 11.9% in the quarter due to higher valuations on underlying funds and real estate property sales.

Net unrealized gains on fixed maturities after tax decreased to $1.7 billion at December 31 from $1.8 billion at September 30. Unrealized and realized gains on equity securities classified in the income statement were $73 million before tax in the quarter and $254 million for the full year.

The credit performance of the investment portfolio remains very strong. There were no impairments in the fourth quarter. For the quarter, the current yield before tax excluding limited partnerships was 3.8%, up 10 basis points from fourth quarter 2018 due to higher make-whole payments and mortgage loan prepayment fees. Before limited partnerships and nonroutine income items, we expect a before-tax average portfolio yield of 3.4% to 3.5% in 2020 driven mostly by lower reinvestment rates and the projected decline in short-term rates based off of today's forward curve.

Turning to Hartford Funds. Core earnings of $40 million were up 5% from fourth quarter last year and up $1 million sequentially. Daily average AUM rose 2% from third quarter 2019 reflecting strong market performance. Net flows were a positive $218 million in the fourth quarter driven by exchange-traded products and fixed income funds compared to net outflows in fourth quarter 2018 of $1.7 billion.

Investment performance remains very strong. As of December 31, about 62% of Hartford Funds outperformed peers on a 1-year basis and about 72% of peers on a 3- and 5-year basis.

Corporate core losses of $39 million in the quarter improved by $7 million from 2018. The retained equity interest in Talcott generated $17 million of income after tax compared to $6 million in fourth quarter 2018.

During the quarter, we completed our annual study of asbestos and environmental reserves, which resulted in a $117 million increase in reserves, which was ceded to National Indemnity under our adverse development cover, resulting in no impact to net income. Of the $117 million, $65 million related to asbestos, which is significantly less than the development we have seen in recent years as the number of mesothelioma claim filings was favorable to our previous projections. The increase in asbestos reserves was largely driven by an increase in average settlement values. Environmental reserves increased by $52 million in part due to an increase in estimated cost to remediate sites as required by state regulators.

As of December 31, 2019, the company has incurred a cumulative $640 million in adverse development on A&E reserves that have been ceded under the ADC, resulting in $860 million of coverage available for any future net reserve development.

As Doug noted, in the fourth quarter, we recognized $16 million of unfavorable development on prior accident year reserves related to Navigators' international business. While adverse development on prior year reserves is economically reinsured to National Indemnity under the reinsurance we put in place at closing, that benefit is deferred under retroactive reinsurance accounting since cumulative losses ceded exceed the premium paid of $91 million. This deferred gain will be recognized in earnings in future years when we will start recovering cash from National Indemnity. After the actions this quarter, we have $193 million remaining capacity on this ADC.

As of January 1, 2020, we completed the renewal of the property catastrophe reinsurance program. For the per occurrence treaty, the overall coverage and per occurrence retention of $350 million remain the same. Within the per occurrence program, we renewed coverage for $200 million of per event losses in excess of $150 million for catastrophes other than named storms or earthquakes. Our co-participation on the $200 million layer is 30%, up from 20% in 2019. We renewed our property catastrophe aggregate

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treaty and lowered the attachment point to $700 million of aggregate covered losses with a fully reinsured layer of $200 million above the attachment point. Effective with this renewal, catastrophe events from Navigators business other than from the assumed reinsurance business are covered by the program. A summary of the details of the catastrophe reinsurance program is included in the appendix to the slide deck.

In the fourth quarter of 2019, we repurchased 1.8 million shares for $110 million. Since inception through January 31, we have repurchased 4.3 million shares for $254 million. In addition, yesterday, the Board increased the quarterly common stock dividend by 8%. With strong capital generation and financial flexibility, we are pleased to be able to both invest in our businesses and return capital to shareholders.

Book value per diluted share excluding AOCI was $43.71, up 11% in 2019. Core earnings ROE over the last 12 months was 13.6%, well in excess of our cost of equity capital.

In summary, 2019 was a very successful year for The Hartford. We generated strong earnings, closed on the acquisition of Navigators, and we are confident in our ability to continue to generate shareholder value.

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. Can you please repeat the instructions, Alyssa, for asking a question?

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Question and Answer

Operator

[Operator Instructions] And the first question today comes from Jimmy Bhullar of JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So I had a question first just on the workers' comp line, if you can sort of quantify how much you're -- what you're seeing in terms of rate pressure in the business. And then on commercial auto, you're one of the few companies that has not seen sort of continued adverse reserve development. I think you had some last quarter, but this quarter, your results were better than some of your peers. So if you could just talk about what's going on there.

Douglas Graham Elliot
President

Sure, Jimmy. Let's take each of the pieces. On the workers' comp side, 2 different dynamics, one with our small commercial sector where we're seeing negative pricing and have very little ability to do anything about it relative to underwriting. So those rates -- those negative rates flow through. On the Middle Market side, largely a flattish environment. And so that means we're dealing with account experience sector, performance and doing our best to work against the negative file trends across the various states. So that's the workers' comp situation.

Relative to auto, I would describe auto as an ongoing work in process here over the last 8 years. We've been working on auto, which is why I think you don't see the surprises in the quarter. We have strengthened auto over the last 6, 7 accident years. We strengthened a little bit in the third quarter but felt very good about where our position was for Q4. So that's the reason there was no activity in Q4.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then if I could just ask one more on Group Benefits. Your margins, along with everybody else, in disability have been very strong. How much of this are you seeing companies begin to reflect in their pricing as you went through renewal season? And is there any reason to believe that, at least in the near term, that the trend in terms of margins will reverse?

Christopher Jerome Swift
Chairman & CEO

Well, Jimmy, thanks for the question. I would say the market is competitive, no doubt about it, but largely still rational but competitive. And you're right. I mean we've been enjoying a pretty good run particularly with incidences and getting people back to work that have been out. How long this continues, I'm not sure I could predict. Obviously, we gave you our guidance for what we think is going to happen next year. And if I really sort of do a step change on where our margin is today to where we think it is next year on a normalized basis, I would say 0.7 decline due to net investment income, 0.8 of a decline due to again normalized loss ratios. And we're going to spend some incremental dollars in our infrastructure there. So there's a little bit of expense pressure.

So we still see a good earning business in that 7-ish percent margin. And we'll try to compete with our competitors the best way we can on differentiating our services, our skills and our capabilities.

Operator

The next question today comes from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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My first question, when you guys had announced the Navigators deal, the goal was about $200 million of income over like a 5-year period. And so kind of half a year into the transaction, seems like margin's a little bit weaker. And now we also have the headwind of lower interest rates on investment income. So can you just walk us through, I guess, bridge us to kind of what the offsets are and why you still think you can get -- what would help you get to that $200 million target?

Christopher Jerome Swift
Chairman & CEO

Sure. Well, again, thank you for joining. I think you have the components that we've talked about. And the major ones are obviously net investment income, improved loss ratio performance and, to a lesser extent, expense savings.

I think we also talked about, Elyse, on a short-term or near-term basis, we still see approximately $110 million of core earnings in 2020. And for the Navigators business, that will flow through the new Global Specialty segment. So that's again at the lower end of our range primarily due to the interest rate environment.

But equally, in the path to the $200 million, and quite frankly, we think it's getting shorter than that 5-year period of time primarily due just to the rate environment and the improvement of possibilities that we are planning for and seeing in the book. Really pleased with the entire team, and Doug could give you more insights and analysis on it. But we're expecting significant rate with what we think is realistic loss cost trends that we're planning for. And eventually, those will cross and start to really improve.

In fact, Doug, I think just my calculations and our analysis would say we're looking for a 5- or 6-point loss ratio improvement in the Navigators book next year, Elyse, based on activities that we're seeing today.

Douglas Graham Elliot
President

Chris, I would just add, absolutely that we are bullish about what we think we'll achieve in 2020. The other thing is that the accumulation of underwriting actions that were taken across the book between change in limit profile, attachment points, exiting classes, adjusting MGA capacity, underwriting limits, et cetera, are also going to be a core driver of that performance change. And I'm very encouraged by the actions that not only we've taken but will continue to take into 2020. So I think Vince Tizzio and the team have done a terrific job at resetting the book. Yes, we're encouraged about the pricing, and that provides an awful lot of our tone. But I also think we'll see the benefits of the labor inside our underwriting activities also play out meaningfully in our $200 million run.

Beth Costello
Executive VP & CFO

Yes. And the only thing I'd add to that, and I think Chris touched on this, but your point about our original projections on investment income are obviously correct. The rate environment is different. But we're also seeing more expense benefit than we originally anticipated, and the offset of those 2 pretty much wash each other out.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question, as we think about capital return in 2020, is there any timing to think about in terms of when you can get some of the dividends from the subs or the tax attributes? Or should we just think about kind of even share repurchase throughout the 4 quarters?

And then second question there, Beth, are there any tax attributes that we should think about for 2021 as we think about capital return beyond 2020?

Beth Costello
Executive VP & CFO

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Sure. So a couple of things. So as we think about the cash flow to the holding company over the year, I really see those building over the year. Some of the tax benefits come in over the course of time, but a big chunk of that comes in with the AMT refund, which is really predicated on when the IRS accepts our tax return and when that's filed. So from a pace of share repurchase, I would expect that to be increasing over the year and not necessarily ratable throughout the year.

And then as far as tax attributes, when we look towards 2021, based on our expectation of utilization this year, I expect that when we get to 2021, we'll probably just be in sort of the normal course of tax benefits coming to the holding company related to the deduction we get on interest expense through our normal tax sharing arrangement. So it would be significantly lower than what we're expecting this year and probably slightly under $100 million.

Operator

The next question comes from Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could expand a little bit more on the Personal Lines operation and give us a little sense of kind of where we are from a pricing versus underlying claim cost environment.

Douglas Graham Elliot
President

Paul, sure, let me tackle that one. This is Doug. We're obviously pleased about our financial performance in 2019. You see the pricing is down a bit. I think it's down a bit commensurate with where we see loss trends. So as I've commented, frequency has been in very good shape for now an extended series of quarters. And we're watching carefully severity. We're watching physical damage in particular. But the aggregate of both frequency and severity put the loss trend in the low single digits, and I think that's where we are from a pricing perspective. So I feel like we're right on top of it.

Now we also have goals to move our new business north. So we will address pricing and new business targets, et cetera, as we move through 2020 because we'd like to further stimulate new business growth. But I think we've done a nice job at getting the book healthy from a profit perspective, and we'll continue to balance both growth and profit as we go through 2020 and beyond.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then my second question is, I'd like to know a little bit more about persistency, particularly just across the property/casualty businesses. And normally, in a harder market, you have decreases in persistency. Do you think that's going to happen prospectively as well until the market flattens out?

Douglas Graham Elliot
President

Paul, there are so many pieces to the marketplace. If we talked about it on the extremes, you could move to Small Commercial, and I would say that that's just a very competitive world, not a lot of change from where we've been in the last couple of years. And then you could move into either public D&O or the excess casualty world that is going through enormous amount of change, and the dynamics around pricing and retention are very different across those sectors. So yes, where you see capacity shortage and people are driving rate because of their performance, which I think is where the market is and some of these challenged financial classes, there may be some dynamics across the retention element, but we are determined to get rate where we need it in our book.

And so I think we have got a very good sense of where that rate need exists across our various products. And if we have to give up a little bit on the retention side to get what we need to do on the pricing, I'm willing to make that trade, particularly in Middle Market and Global Specialty where our returns have to get better. And you saw that in the fourth quarter. I shared with you that our new business was down

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slightly in Middle Market in the fourth quarter, but I was also really encouraged by our pricing advances. And I'm willing to give a couple of points of retention to do that, which is exactly what happened in the quarter.

Operator

The next question comes from David Motemaden of Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just for Chris or Doug on the Commercial Lines outlook for 2020. Maybe -- I'm just wondering if you could elaborate a bit more on the 92 to 94 underlying combined ratio guide after the, call it, 94.5% to 95% that you guys printed in the second half of '19. And I think, Chris, you mentioned 5- to 6-point improvement on Navigators in 2020. Just wanted to talk about just timing in terms of getting there and some of the other moving pieces that get you confident that you can get there given the results this quarter.

Christopher Jerome Swift
Chairman & CEO

David, let me start, and then I'll ask Doug to comment. So it feels like it's like deja vu all over again. This time last year, a lot of our tone was -- is similar to this year, right? You have a workers' comp dynamic that we are going to face some pressure with price, but generally, loss costs there are behaving. And then you have, I'll call it, all the other lines that I think will contribute to margin expansion going forward, particularly the specialty line.

So sort of it's a tale of a coin there, 2 sides of the coin. But you put them all together and we do still see, at least from where our run rate ended in 2019, the ability to expand margins on an overall book basis, offsetting some of the pressure we see in comp with the strong pricing in liability, property, commercial auto and obviously our specialty line.

So Doug, that's what I would say as sort of a macro perspective.

Douglas Graham Elliot
President

Yes. I agree with that, Chris. I would also add that we saw a little bit of a bump-up in the quarter for some accruals on the expense side. So the expense piece also is running a little abnormally high in the quarter. But when I adjust for the expense piece, some noise with Navigators and then the encouragement of what's happening on the pricing side, I really do feel like 2020 is achievable. Yes, we have a lot of work to get done to make that happen, but I believe we will. And I think we're off to a terrific start as we closed '19 and entered 2020 to get our numbers moving.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Great. And if -- Doug, if I could just follow up, you had mentioned some adjustments to the limit profile that you were making for 2020. Just wondering if you could comment just in terms of what the average in limit size is for you guys ex workers' comp and what changes are you implementing.

Douglas Graham Elliot
President

When I talk about limit profile, I'm primarily talking about Navigators and our excess casualty book because, as you know, across the core HIG book, we're essentially talking about $1 million, $2 million limits, and we were not much of an umbrella player. Over the last 5 years, Navigators has been working on reducing its limits. So our average limits now are well down below $10 million and in very few places do we take limits greater than $10 million. So our normal book is in the $5 million, maybe in some cases, $10 million limit range. But that's where we play. And over the last couple of years, we've also been

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working hard at where we attach. So I would say that the profile of limit and the attachment point are keen in our focus, and we'll continue to adjust by class as we move through 2020.

Operator

Next question comes from Ryan Tunis of Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Doug, I guess first of all on workers' comp, did you say in the prepared remarks that that was a 1-point drag this year on the accident year combined ratio or just on the workers' comp picks?

Douglas Graham Elliot
President

I did, year-over-year, '18 and '19.

Ryan James Tunis
Autonomous Research LLP

On the overall commercial?

Douglas Graham Elliot
President

Just on comp itself.

Ryan James Tunis
Autonomous Research LLP

So that means the overall drag would be, what, maybe like 0.5 point on commercial here in '19?

Douglas Graham Elliot
President

That's a fair estimate to make, yes, Ryan.

Ryan James Tunis
Autonomous Research LLP

Okay. And I guess in the outlook for 2020, are you thinking about a similar type of drag from comp? Or do you expect that to accelerate?

Douglas Graham Elliot
President

The 0.5 point across our book is what we're expecting in 2020. So when I think about all-in workers' comp across our lines, I think that's a good approximate number to use.

Ryan James Tunis
Autonomous Research LLP

Got it. And then I guess just on Navigators, the 5 to 6 points, it sounds like that could come from 3 areas. It could come from, I guess, less unfavorable loss activity, it could come from rate, and it could come from underwriting improvement, remediation. If you had to think about those 5 or 6 points, how would you divvy it up between those 3?

Douglas Graham Elliot
President

Well, rate is going to be the easiest to measure for sure. And I think based on the high teens that we posted in Q4, we're very positive about progress we're making there. I would add expenses to your pile.

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I'm not sure I heard expenses in your group, but we are working expenses. And yes, there'll be some expenses that come out of the equation. So that is also a part of it.

The piece that will be most difficult to measure or quantify will clearly be the underwriting actions because they'll be embedded in losses and will be very difficult to know a loss that you've been able to either moderate or avoid versus an underwriting action taken. I don't think that's measurable. But the combination of those actions and our pricing activity against loss trend, to me, sets up the change that you talked about and that Chris and I referred to.

Ryan James Tunis
Autonomous Research LLP

Got it. And then I guess my last one, Doug, is just thinking about some of the large loss activity. I think you said that was in international. And obviously, this business mix is a little bit new to you guys. If you could maybe give us some perspective on why a $4 million loss and a $6 million loss is, in fact, something that you have a handle on that you wouldn't necessarily expect to recur.

Douglas Graham Elliot
President

I think we've shared with you from the beginning that the core of The Hartford businesses were more frequency-based, and there's a bit more severity in the Navigators book. We've worked hard over the last 9 months to understand that better by product. As we move into 2020, our metrics will get tighter. Again, we've made and continue to make underwriting adjustments, appetite adjustments, et cetera.

So as we looked at the fourth quarter and we looked at their property results, both domestically and also international, we just felt like there were a few losses that were beyond our expectations. And we booked them in the quarter and moved our accident year pickup accordingly. Again, as we roll into 2020, we still have to figure out what the right base is to launch from. But I feel like we have accounted for 2019 activity and know exactly what we need to get done in 2020 for us to make the plan that we've talked about.

Operator

The next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions. Doug, I just wanted to follow up a little bit on what David was talking about as far as limit profile at Navigators. Given the limit profile there is obviously a little bit higher, more property, should we expect this kind of large loss activity to be more frequent in your business going forward?

Douglas Graham Elliot
President

I don't think so Brian. And I would actually suggest to you that we're spending a lot of time on their excess casualty portfolio as well. So their umbrella and excess limit product is certainly under enormous interest right now. The market is searching for capacity. And so I think we have deep experienced professionals in that space, a lot of interest on the part of many of our long-term Hartford retail brokers and agents. So the demand is up a lot for that excess casualty. We're using our capacity appropriate, and we're layering in actuarial, data science and all the capabilities that I think we bring as a firm. So encouraged about both opportunity, thoughtful about projections we're making, and we'll understand our book and adjust accordingly as we go through 2020.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. But the loss is sort of more property-focused, yes?

Christopher Jerome Swift

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Chairman & CEO

Brian, it's Chris. Can I just add to Doug's point, including the prior questions? We've worked hard to get our arms around this book, and I believe we have. I think we have a deeper understanding of all aspects of the book, whether it be domestic or international.

I'd remind you, we largely kept the Navigators reinsurance program in place that, again, on a closer-look basis, we think is well designed. And remember, part of the reason why we did the acquisition was because we like the people. We thought they were talented men and women that had immense capabilities in their own craft, in their own art. And we want to empower them obviously within a risk profile that we're comfortable with, we fully understand. But the execution day to day is -- was left obviously to Vince Tizzio and his team. And I think they're off to a great start in our environment, Doug. And we're growing and improving, and I think we're going to add a lot of value together.

Douglas Graham Elliot
President

Brian, maybe one other comment on the property side. I don't think -- and I'm not suggesting that what happened in the fourth quarter is this new trend to continue with every quarter, multiple exceptions to our P&L. Yes, they've had some noise in it. I think we are aggressively pricing the sector. I talked about an excess of 18 to 20 points of price in the quarter. We're also nonrenewing a series of accounts. And in some of our tech sectors, energy sectors, we have loss ratios that are not sustainable. So we're working on those as we speak and intend to get our property book in line with our expectations going forward.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second question, on the Personal Lines side. Just looking at the AARP Direct business, you talked about initiatives in place to drive double-digit new business growth. I guess my question there is are retentions -- are you happy where retentions are? And at what point do you think we could start seeing some actually growth in written premium in the AARP business again?

Douglas Graham Elliot
President

Yes. Good question. So generally, we are pleased with the recovery on the retention side over the last couple of years. I still think there's a little bit of lift inside that, maybe 1 point, 1 point plus. There's a lot of shopping activity in the environment overall in Personal Lines, so we're mindful of that. But we're both encouraged with progress and also hopeful that there's more to be had on the retention side.

Relative to new, we have just improved our capabilities both on the desk and with our people, I think, enormously over the last couple of years. We continue to dial in our marketing activities. So I feel pretty good about that. You saw a 35%-plus change for the year in sales. I'm not sure we're going to get there next year with that kind of number, but we certainly expect to be up next year, as I described in my script. So encouraged by that and think that as we move through the latter half of '20 into '21, we'll see that growth move into positive stage for AARP Direct.

Operator

The next question comes from Meyer Shields of KBW.

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

Within Personal Lines, I guess, looking at the guidance, can you give us a sense as to the expectations for non-CAT weather losses on a year-over-year basis?

Douglas Graham Elliot
President

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Beth, do you have the -- I'm not sure I have that handy. Meyer, we can -- let us go back and look at that one and see if we can help.

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

Okay. That's perfect. And then switching over to workers' compensation, we've seen recently, I guess, some signs of medical inflation and some signs of wage growth at least in broader macroeconomic data. Are we seeing any change in severity trends within your book?

Douglas Graham Elliot
President

Our book is generally stable. So as we look at our long-term picks and our severity estimates, I think we're essentially in line. Now the last couple of years, we probably outperformed slightly. But as we move forward '20- '21, we have not come off our mid-single-digits severity picks, both medical and, to a lesser extent, indemnity.

Operator

The next question comes from Amit Kumar of Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Two quick follow-up questions. The first question goes back to the discussion on the Standard Commercial Lines. If I look at the earned rate, the earned rate was 2.7% in Q4. And you're talking about the loss cost trends in mid-single digit in primary and higher in excess. So if I were to step back, is the thought process that earned rate will accelerate much faster than what you have seen and hence outpace the loss cost? Or how should that translate into margin expansion from here?

Douglas Graham Elliot
President

Yes, I think that's the right way to look at it. Our delivered written pricing in the fourth quarter extending into 2020 is going to move north the earned rate increases to get on top of the loss trends that I described. So yes, slightly disappointed that we have not been able to drive more pricing, and I'm talking primarily about Middle Market business U.S. And so we've been slightly behind, which is why you're seeing some deterioration in our margins in Middle Market. I expect that to turn in 2020. And the expectation is that we will improve our margins, as Chris noted, essentially in all our lines ex workers' comp.

Christopher Jerome Swift
Chairman & CEO

In fact, Doug, isn't it -- I think that the data that we have is ex workers' comp for Standard Commercial, which includes Small and Middle, ex workers' comp, our rate increase is actually about 6.4% during the quarter, which is that momentum that you talked about building and it's expected. And our execution is going to drive that continuation into 2020.

Douglas Graham Elliot
President

It is. The 6.5% is a pretty solid number. And actually, even in Small Commercial ex workers' comp, we've been at or around the 6% range now for about 8 quarters. So encouraged by that steady performance. And that's really been a good driver in terms of why our combined ratio, both underlying and total, have been in very good shape in Small.

Amit Kumar
The Buckingham Research Group Incorporated

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Got it. And then the second question I had was, in the opening remarks, you talked about social inflation. And you did mention it's not a new phenomena, et cetera. If we were to go back and compare today versus a year ago, based on the data you're seeing, would you say it's coming in, in line with expectations, slower than expectations or faster than expectations?

Christopher Jerome Swift
Chairman & CEO

Yes. Amit, I would say in line with expectations. There isn't anything outside of norm that we see. Doug talked about litigation rates and representation rates that have been generally stable for us over the last 3 or 4 years. So we've had to make some adjustments. We didn't get everything right over a 6-, 7-year period here, but I think we're on top of it. And we're managing the best way we can and being proactive, not only looking back at data but actually trying to think what can happen going forward.

Douglas Graham Elliot
President

Chris, and that's absolutely true for The Hartford book. What I would add on top of that is that probably in the excess area, we see a little bit more severity, a little bit more social inflation than maybe we expected a year ago. And that's also driving our price increases in the marketplace. So I didn't expect to be looking at a fourth quarter in '19, 12 months prior, in the mid-teens, but I think we need it. And as we better understand that book, we're driving the price increases that need to chase that loss trend. So I feel we're on top of it and pleased that our HIG book continues to perform about the way we expected.

Christopher Jerome Swift
Chairman & CEO

And Amit, that's why we did the reinsurance transaction with National Indemnity on Navigators was to really take that tail risk off until we got our arms fully around it. Obviously, we paid a premium for that, but I still like that trade we did given some of the uncertainty in the marketplace today on social inflation.

Operator

The next question comes from Mike Zaremski of Credit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question on Group Benefits. Clearly, phenomenal results. Curious, Chris, in your prepared remarks, I believe you said you're kind of assuming more normalized incidence and recovery trends. So in the 2020 guidance, has HIG changed its incidence trend or recovery assumptions to kind of reflect an improved trend line? Or are you just kind of thinking last year was more of an anomaly?

Christopher Jerome Swift
Chairman & CEO

I would say, Michael, that our assumptions and methodologies are generally consistent over the years. We haven't changed anything in how we think about setting reserves or pricing product, which generally uses, I call it, a mean average approach so that we're not using the most recent dot in an incidence report. We're taking more of a 5-year period of time. So there is a little bit of mean averaging going in there as far as our assumptions. So -- but it's been consistent between years.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful. Lastly, and I need to delve more into it, but it looks like the catastrophe reinsurance program might be purchasing a little bit more reinsurance. And if that's correct, that could be behind the CAT load guidance coming in slightly below last year's guidance. Is that correct? And if so is there -- should we be baking in any -- a higher underlying loss ratio from the increased spend?

Beth Costello

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Executive VP & CFO

Yes. So a couple of things. And I would say, relatively speaking, our program is very consistent. We did purchase down in the aggregate treaty. And overall, when we look at the spend for the whole program and the various changes we made, it's really not a significant delta from the prior year.

And as far as the CAT ratio guide at -- being in total kind of where we came at this year, that's not reflective of any changes in the reinsurance program. It's really just looking at underlying exposures and as we ran our models. And it's really, I think, only slightly down -- is down slightly from last year.

Michael David Zaremski
Crédit Suisse AG, Research Division

And Beth, if I could sneak one last one in. Did you -- is there -- did you comment on the -- on PG&E, whether that refund, has that come through? And if it does, would that be used towards capital management?

Beth Costello
Executive VP & CFO

Yes. So I did not comment -- update our comments on PG&E. We continue to watch as that activity continues. We have not booked any recovery associated with the plans that are underway. We'll continue to watch what the final program is that comes out of bankruptcy. And yes, I mean overall, that -- any benefits that we receive, net of what we would have to reimburse our reinsurers for, would improve the capital position in P&C. But I wouldn't make a direct link to that to an increase in share repurchases. It will just go into the mix relative to capital resources.

Operator

And the last question today comes from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

One more, if I could, on the outlook on commercial and from the expense side. I guess there's a lot of moving parts obviously on your expense ratio. You've talked about higher commissions defending your Small Commercial. I don't know when that ends, if you could talk about that. Investments, the benefits of which could accrue at some point, you're still making investments. So talk about the expense ratio there.

And then Doug mentioned some accruals or whatever that happened in this quarter that kind of bumped it up a bit, so I'm not sure the impact on that. But as we think about 2020 on the expense ratio side, kind of what's a good starting point? 34.5-ish looks like maybe for the year-end. Is that a bit high? And how do you expect that to move in 2020?

Christopher Jerome Swift
Chairman & CEO

Yes. Michael, it's Chris. I would say, again, the context to the number that I'm going to give you is we've been on a program to invest in our platform, whether it be, call it, technology, whether it be digital, whether it be product and underwriting. We've been on a journey. And we've talked about sort of the elevation in our expense ratio primarily due to the invest side.

I would say where we ended 2019 on a full year basis in that 32.5 to 33, Commercial and Personal Lines together, keep GB separate for the time being, is a good number for next year to maybe slightly down. I think we're coming to the point in that long-term program that we've put into place where the invest dollars are going to begin to slow down once we finish second half of 2020 heading into '21. I think we are a larger-scale organization or a growth-orientated firm that will continue to add premium, again, properly priced and good business.

So all that would point to, particularly as we get out into '21 and beyond, I'll call it, a stairstep back to a normalized and competitive expense ratio over time. So -- but again, we've been deliberate about what we

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needed to do as an organization, we think, to create value and be competitive long term. And we're not backing away from that, but we're at the tail end of the program. That's what I would say, Doug and Beth.

Michael Wayne Phillips
Morgan Stanley, Research Division

Great. Okay. Great. That's helpful. And then I guess my last one, kind of more higher level. Chris, in your opening comments, you talked about the momentum in pricing. You were talking about the overall market, not just you guys, I believe you were. And I think you said you expect it to continue for 18 to 24 months from here. I guess -- hopefully, I heard you right. If that's the case, kind of what's behind that to you? That's a pretty long extension. And so what do you think is going to keep driving pricing up for the next 2 years?

Christopher Jerome Swift
Chairman & CEO

Well, getting to ultimately target ratios that support an adequate return for the risk the industry is taking. I outlined low interest rates. That's going to be a little bit of a headwind. But if I look at product lines and where comp is headed, I mean -- and again, from managing the book of business, you never really want to shock your book of business and go to a 50% retention rate. So generally, what you try to do is be thoughtful on retentions but firm and disciplined and work through your distribution partners to talk through the actions that are going to be required in the near term and over a longer period of time. And I just think, given where we're starting from and given some of the pressure on social inflation and liability cost, commercial auto in general, it's going to take 2 years to get back to target margins.

Operator

This concludes our question-and-answer session. I'll now turn the call back to Ms. Susan Spivak for closing remarks.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you, Alyssa. We appreciate you all joining us today, and please do not hesitate to contact us if you have any follow-up questions or if we did not get to your question today. Talk to you on the next call. Thank you. Bye.

Operator
This concludes today's conference call. You may now disconnect your lines.

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