THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HIG - Hartford Financial Services Group Inc at Goldman Sachs US Financial Services Conference

EVENT DATE/TIME: DECEMBER 09, 2015 / 4:30PM GMT

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

Chris Swift *Hartford Financial Services Group Inc. - Chairman and CEO*

Beth Bombara *Hartford Financial Services Group Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Mike Nannizzi *Goldman Sachs - Analyst*

PRESENTATION

Mike Nannizzi - *Goldman Sachs - Analyst*

All right, we'll get started here with our next presentation. Mike Nannizzi, I cover property and casualty insurance for Goldman. We're pleased to have The Hartford joining us here. Representing The Hartford is Chris Swift, Hartford's CEO. Hartford is a leading domestic insurance company with a market cap of about $19 billion and a franchise focus on Commercial Lines, particularly on the small Commercial side as well as in Personal Lines led by its exclusive affiliation with the AARP.

Chris joined the Hartford in 2010 as Executive Vice President and CFO, was named CEO in June of last year. Beth Bombara is also going to be up here with us. She is the Company's CFO and is -- aside from everything financial -- the go to for all questions Talcott. Beth was the President of Talcott since its formation in 2012 and prior to that acted as Controller for The Hartford since 2004.

And with that, I'll turn it over to Chris for a few opening comments and then we'll sit down and ask some questions.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Thank you, Michael. Great to be here. Good to see everyone. It's always nice to get an invitation to speak to your investors and discuss some of our activities at The Hartford.

But I thought I'd start with just a review -- a little bit of 2015 in that from an operational and financial side we're very pleased with our overall performance in spite of maybe a challenging economic environment of continued low interest rates and increasing competition, we think we executed well on our strategies.

Our strategic direction of the Firm I think has been set over the last two years and even somewhat prior with Liam's leadership in transforming The Hartford but we're focused on five major pillars as we call them.

The first pillar would be ultimately becoming a broader risk player, expanding our risk appetite. Second pillar would be maximizing our great distribution system that we enjoy today. Third pillar would be putting the customer at the center of everything we do so that we become an easier Company, whether it be for our agents or the ultimate customer to interact with, more digital capabilities in particular.

Fourth area would be we're making investments in our capabilities and that's really code for technology and data and analytics. We've been on that path a while and we're going to continue on that path going forward because there is more to do. And lastly, from a talent side we think we have 17,000 very talented employees throughout the organization but we're looking to acquire additional talent to fill in those skill gaps that we need to be a broader risk player, to make the investments that we need in our platform.

Our goals remain fairly consistent. We are focused on expanding our margins to improve our ROE over time and we're focused on growing book value per share year-over-year.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

If I just flip to a little bit of some recent activities before maybe I touch upon the fourth quarter and full year, but a lot of the recent activities and discussions that I think are on a lot of investors' and analysts' minds is Personal Lines frequency. I think everyone is well aware that we reported third-quarter results and we saw a little bit of a blip for the first time in July and August in Personal Lines frequency. Frequency was up about 3%.

As we looked at our data through October and November, I am pleased to report that our trends have gone back to more normal expectations for 2015. And we can talk about some of the drivers maybe in Q&A but I would say that what we see in our data is a little bit of a regional pressure in the Southeast and West with higher frequencies compared to other territories and I think the primary driver, at least for our book of business, is we see consistency in frequency no matter if it's a newer customer to us, if it's a seasoned renewal customer for us, if it's and our AARP book or if it's in our independent agent channel book. So those trends are consistent no matter what type of segment you look at.

What's different, and I think it bodes well for us, is that the primary driver at least in our data that we're seeing right now is that for drivers older than 60, there is lower frequency, in drivers under 60, we tend to see higher frequency across the country. So as our book is 70% AARP related, I think that bodes well for us.

I think the other important factor that I would just point out is we developed our 2015 plans last year at this time. We did plan for a modest uptick in frequency and a little bit more in severity and those plans we've been executing to, whether it be in pricing actions or whether it be in rate filing, whether it be in underwriting or improving our class plan capabilities, we have been on an expectation of slightly higher frequency this year compared to prior years which frequencies were tending to be more negative and a little bit more severity. So we feel good about what that means for us to maintain our margins and potentially expand them going forward.

As we head into the fourth quarter and all of 2015, what I'll just say is that we are going to end the year in good fashion. If I look back at what we've guided to from an overall core earnings perspective for full-year 2015, I think we'll be right at the midpoint of that guidance range. And as we head into 2016 our practice -- and Beth will talk more about it -- is when we do our fourth-quarter earnings call, we'll update you on -- I'll call it key drivers and expectations for core earnings in early February.

So any questions on 2016 outlook, I'm just going to ask you to wait until we talk through it in February.

I think the other fourth quarter items maybe we just touch upon is our variable net investment income partnership and hedge fund. We saw a little bit of a decline in third-quarter and as we sit here today, we probably are going to be in the 2% yield area for the quarter on an annualized yield basis. So again a little bit lower than even our third-quarter numbers and that's just the environment, particularly with hedge funds and partnership valuations coming down a little bit.

I think those are the key points I would highlight for the fourth and full year, Michael.

Mike Nannizzi - *Goldman Sachs - Analyst*

Great, well thank you for that. Well certainly you did steal my thunder on the frequency question but let me dig into that --

---

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

How did we know?

Mike Nannizzi - *Goldman Sachs - Analyst*

Yes, that's right, that's right. You must have been clairvoyant on that one. But I guess could you just dig in a little bit. So is the trend that you saw in July and August as you've come through the data, does that feel more like just summer driving with maybe a lift for some environmental factors that maybe magnified that trend in the summer or is there maybe something else?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

I think we commented upon it and Beth could explain it a little bit more from her perspective because we look at the data together and if Doug were here, he'd be also explaining what we're seeing.

I think again, summer activity, driving, highway activity, we probably saw more, I'll call it, high-speed incidences than we had in the past, so whether that be highway or freeway type of activity which tends to imply people traveling longer distances during the summer months. And again, maybe with low oil, people taking advantage of driving as opposed to flying or taking the train. So it was -- at least what we're seeing again through November data, a blip in July and August.

Mike Nannizzi - *Goldman Sachs - Analyst*

Got it.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Would you add anything else?

Beth Bombara - *Hartford Financial Services Group Inc. - CFO*

No, I would agree with that. As Chris said, we spent a lot of time looking at the data and as he said in his introductory comments really trying to see if it was into a particular cohort. Obviously you always worry about new business. Is there something there? And as he said, when we looked at it it's kind of across the board and it does appear that primarily July and August it did have this uptick and, as Chris said now, sort of back in line with our expectations.

One thing to keep in mind when you think about that and think about trends is that fourth quarter typically is a higher frequency quarter for us. We just tend to see more accidents as it relates probably to weather and things of that sort. So our trend for fourth quarter is kind of, as Chris said, in line with what we were expecting but that typically is one of our higher quarters.

And we've been following, as others have in the industry, with what people have been seeing on a frequency, so we've been looking for when we might see an uptick which is why we reacted the way we did when we saw it in the third quarter and took the actions that we did take.

Mike Nannizzi - *Goldman Sachs - Analyst*

So, and I guess you talked on the quarter about those actions, some rate taking and commencing more of a rate taking cycle. So how should we think about that? Should we expect that at this point that you will reverse some of that rate taking activity or do you expect that you will just continue along the path that you were on?

Beth Bombara - *Hartford Financial Services Group Inc. - CFO*

Yes, so again, we saw the blip in July and August and the way we talked about that is not as if you can all of a sudden get that into your rate filings. As Chris said, we entered the year expecting there to be some uptick in frequency and that was already built into our plan. What we were really saying on the third-quarter call is we needed to watch this trend because if this trend continued, we would have to take more action in those rate filings. Now what we're seeing is it's kind of in line with what we were expecting and that's kind of been our process as we've been looking to --

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

That trend affected your loss pics for that quarter's results.

Mike Nannizzi - *Goldman Sachs - Analyst*

Okay.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

So that's why we highlighted it and that's why, if you look at it year-over-year, that was a contributor to a little bit of the increase in higher loss ratios. And to Beth's point, and that's what I forgot to say in my opening comments, if you look at our fourth quarter, that's always our highest seasonal month as far -- or quarter as far as activity. If you go back to last year's combined ratio or loss ratios for personal lines, I would expect a slight improvement from last year's for auto. If you look at home though, home last year was extremely favorable from a weather-related activity, so on a comparable basis, if we have a normal quarter in home which we're expecting this quarter, that trend might look like it ticked up a little bit but you've got to dive a little bit deeper into the underlying trends between year-over-year.

Mike Nannizzi - *Goldman Sachs - Analyst*

I see.

Beth Bombara - *Hartford Financial Services Group Inc. - CFO*

And then the only other item that I'll point out that we talked about again on our third-quarter call is that from a marketing perspective and how we can direct the flow of business with our direct channel, if we start to see certain areas that are running a little hot and we're seeing activity, we can pull back on that spend and kind of control the flow. And Doug talked a little bit about that as well.

So as you start to see potentially higher frequencies in certain parts of the country you can kind of react to that and that's the things that we have been doing.

And then lastly as it relates to our personal lines book in general and in auto, we've been really focused on agency actions as well. Because when you parse through our book and you look at our AARP talk and then you look at our agency book, we like others have been focused on improving the profitability on the agency side and so that's where we been taking actions to really look at what agents are we doing business with.

We really want to do business with agents that are selling the same value proposition that we think -- we believe it's not just about price and those actions I think are also starting to take place as well.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Why that's important is because again we have a great partnership particular with AARP so we have a direct model through AARP and an agent model through AARP and we can differentiate by channel pricing and trends.

So what I would want investors and analysts to know is that we don't have the peanut butter -- I'll call it trend in our direct channel versus our agency channel. We could be more targeted in those actions that I think really allows us to be more stable and predictable, particular for an AARP member.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Mike Nannizzi - *Goldman Sachs - Analyst*

And -- so if you were to look at those two cohorts in exactly that way, so the agency channel and then AARP is -- how has the rate taking been different? Or how has the loss experience or frequency impact been different across those two cohorts or has it really not been?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

From a frequency side, that's what I'm saying, there really hasn't been.

Mike Nannizzi - *Goldman Sachs - Analyst*

There really hasn't been?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

There is similarities across all those channels. Now there is a basis difference, as I always like to say, between direct and agent as far as overall loss costs. But we price for that and expect that difference.

Mike Nannizzi - *Goldman Sachs - Analyst*

Okay. Maybe we'll shift topics and if others have in the audience have more questions on that we can pick that back up later.

Maybe we talk a little bit about the commercial auto book and some adverse trend that you guys have been seeing there? Can you talk a little bit about what are the underwriting actions that you've taken and maybe give us a little bit of an update on what you're seeing now in the commercial auto book and where do you sort of expect that to shake out?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Sure. I think the commercial auto, just to give you a couple data points -- the prior development we've been seeing as we reported on our third quarter is primarily 2010 through 2013. It really related to, I'll call it loss costs or medical costs that have been sort of accumulated without our knowledge meaning without being reported to us which implies there is some type of activity that's happening in the marketplace where someone is fronting medical costs and then reporting us -- to us usually four years to five years out and we're seeing a blip in our triangles.

So really what we've been doing, if you think about it over the last four or five quarters is we've been beefing up our prior year reserve estimates. Third-quarter we did take a $30 million pretax charge in commercial auto. If we look at our data through October/November, we feel pretty good about that. Our assumptions are holding as it relates to that book and particularly that cohort, 2010 through 2013.

What we've done in our reserving actions for 2014 and 2015 has made an assumption that that was late reported claims beginning at month 48 and continuing through month 60 do continue. I think our early read on development and reported activity in 2014 and 2015 is we feel pretty good about the trends that we're seeing. But this is a longer developing line so it will take a little bit of time to really know if we've captured those trends correctly.

I think from an underwriting side, what we've really been focused in on is a little bit of our class plan, a little bit on drivers, really looking closely at all drivers on a commercial book as opposed to just a sampling or a population, looking more closely at vehicles, age of vehicles and obviously past driving records. So we've made tweaks in our underwriting approach over the last two or three years that we think will enable a better result going forward.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Mike Nannizzi - *Goldman Sachs - Analyst*

And have you talked about what sort of rate increases you are pushing through there at this point?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

I think last quarter, Doug would have said high single digits.

Mike Nannizzi - *Goldman Sachs - Analyst*

Okay.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

So that 8, 9-ish and we continue to push that going forward.

Mike Nannizzi - *Goldman Sachs - Analyst*

And is there a subsection of the book? We've heard sort of long-haul trucking delivery as areas that are relatively more problematic than others. Is there -- can you give us a little bit of -- maybe of color in terms of those areas and I guess with long-haul trucking being more economically sensitive, sensitive to fuel prices -- etc.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Yes, that's an easy one. We don't do long-haul trucking.

Mike Nannizzi - *Goldman Sachs - Analyst*

Okay, there we go.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

So if you look at our commercial auto book in total, round numbers, it's about $500 million I would say split somewhat half-and-half between small commercial and middle market. The small commercial book is performing as expected. The real issue with prior year development and this 48 month in development is in middle market and that middle-market book is roughly $250 million.

And its -- I'll call it mainstream commercial middle-market business. We're not doing anything with a high hazard, trucking. We're not doing anything in the commercial trucking area. It is vehicles used in our middle-market customers' business that we're insuring.

Mike Nannizzi - *Goldman Sachs - Analyst*

Got it. okay.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Beth Bombara - *Hartford Financial Services Group Inc. - CFO*

And I just want to emphasize what Chris said, as we look at the -- our loss pics for those years where we're seeing that development in that 2010 to 2013 year, we are assuming that -- for that trend continues and Chris is right, it can take 40 to 60 months to kind of see the ultimate view. We start to get -- start to see the late reporting in like the 24 to 36 months for more current years.

We're watching those very closely to see if that trend changes. And as Doug I think said very well on our last call, we want to see that happen before we would change our view on loss pics but feel very good with what we're seeing in the fourth quarter that things are holding.

Mike Nannizzi - *Goldman Sachs - Analyst*

Got it, got it. Maybe we can broaden out a little bit more sort of talking about -- looking at a business from two different perspectives. On the first side, the profitability side, on the second side just from a revenue or growth perspective. So from a profitability perspective, it would seem that the areas where improvement is most plausible, middle markets and the homeowners book. If that's fair, and maybe the non-AARP auto business and maybe lastly the specialty commercial.

I mean how would you sort of rank those in terms of the most salient opportunities to drive margins? And secondly, when you look at the top line, where are the places -- and I'm guessing they're different than those -- but where are the places that you look at plausibly for growth from here?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Yes, so let's sort of bifurcate the question. One is a growth orientation and then one is an improvement in orientation. So I think the way I would describe it is our small commercial franchise is our most profitable business. It is a high ROE business and it is a growth orientation. What we're trying to expand a risk appetite in how we use our technology to ultimately bind on the glasses we save. So that's one.

I think in middle market, from an improvement opportunity, I think it's fair to recognize and acknowledge the significant improvement that we've made in that book over the last three years really again led by Doug Elliot and Dave Carter, who has really improved the business. So whether it be in our comp book, whether it be all the changes that we're making in commercial auto, whether it's building on our property capabilities, we feel good at underlying loss ratio of 92 in our key account area. That performance is good, but we still need a little bit more rate particularly in commercial auto.

If you bifurcate it just a little bit more, I would say that our specialty or national account business has a higher loss ratio because it's an access book so the economics of that business still work for us even with a combined ratio in excess of 100, even in a low interest rate environment.

As far as the other opportunities to improve, I think you're right. If you look at agency, personal lines and homeowners, those are the businesses that we fundamentally still need to improve.

We could talk through some of the actions that we are taking in the agency area but view it as we're still committed to that channel but we know the Comparative Rater impact has on that channel and ultimately we want good distribution partners that can sell our value and not just sort of quote rate because we think our products have value for the customer and we can differentiate over, I'll call it, a longer period of time.

So ultimately what I think you'll see is continue to shrink in certain areas of that agency channel, so that won't necessarily be a growth area. Both -- I'll call it the independent agent or non-member as we call it internally, and a little bit even on the member AARP agent, we expanded it to basically 17,000 different -- excuse me, 7000 different independent agents that are a AARP licensed. And we're probably going to shrink back from that because that value proposition we don't think is all there.

That said, that is a very important channel, particular for AARP, the membership, so that they have -- their member is able to access our product and capabilities on a direct basis or if they want to seek advice, so very committed but it's probably a little bit of shrink to improve profitability and then a growth orientation going forward.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

And lastly on homeowners, what I would say is that is a critically strategic important product to any personal lines carrier, these days, particularly as autonomous cars come online. And we're committed to that, whether it be improving our direct capabilities or our agent capabilities in that channel.

But then if you step back and say, okay, how do you think in terms of profitability versus growth orientation? And clearly we're putting much more emphasis on profitability and margin expansion so we're not going to grow just for the sake of growing or getting larger. While we stress profitability which in this environment the strategy is relatively straightforward, we want to continue to lock up our best accounts on renewal in commercial. Be very selective on new business opportunities and find those opportunities and work with our distribution partners, work on our sales management and sales execution to identify those to grow.

I think the growth opportunities, if you dive deeper into our numbers that we really enjoyed over the last three or four quarters, involve commercial construction, marine, technology and healthcare and we're going to expand our risk appetites into other aspects of the US economy where we haven't had a big risk appetite.

So we think we have all the product sets. We just need to be able to apply those product sets in a broader array of industries or SIC codes in our US economy.

Mike Nannizzi - *Goldman Sachs - Analyst*

Got it. great. And then maybe just touch on homeowners for just a minute. What are you doing there to try -- you think in this environment, homeowners, even aside from the considerations that you mention on the bundling side, homeowners, a pretty decent business, today, rates are decent. Loss trends have been good, reinsurance costs remain inexpensive and you are in an exclusive channel with less competition at least direct competition.

What have been the obstacles that you've encountered there in order to get the profitability where you want it?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

I would say our niche within homeowners, particularly through AARP and even our Asian channel, is in the home values in the $300,000 to $600,000 range. When we get outside of that range, our risk appetite needs to be tweaked a little bit. We need to think about underwriting a little differently. But in that sweet spot, our capabilities are pretty good. I think the biggest obstacle that we still need to overcome is how we think about roofs and some of the features that we need to continue to roll out to manage roof exposures and again with our base, we tend to insure older homes and so I think there are some tweaks in our underwriting that we need to continue to make for an older home demographic also.

Mike Nannizzi - *Goldman Sachs - Analyst*

Got it, and you're in the process of going through that now?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Yes.

Mike Nannizzi - *Goldman Sachs - Analyst*

I'm going to shift if I could, just maybe Beth, obviously a lot of questions about capital deployment, capital generation. Maybe if you can give us an update on any expectations out of Talcott and I'm guessing we're still expecting the $500 million early next year. And then just thoughts on --

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

a lot of conversations about rising rates. If we do encounter a period of rising rates, can you just talk about how you think about the allocation of capital between debt and share repurchase?

Beth Bombara - *Hartford Financial Services Group Inc. - CFO*

Yes, sure. So a couple things on that as it relates to Talcott. As you know, we've taken out $1 billion in dividends this year, as we had said that we would and our plan is to take out another $500 million in the beginning of 2016. We've also talked about needing to see how 2015 ends from an overall surplus generation to determine what if any additional dividends we would take out in 2016 and we'll see how the year ends is there.

Through the nine months through September, our [specialty] surplus is up a little bit over $400 million if you back out the effect of dividends. We seem to anticipate that coming down a little bit in the fourth quarter so in the past we've talked about surplus generation for Talcott in the $200 million to $300 million range and sitting here today still think it will be on the higher end of that but just kind of need to see where things land and what interest rates are.

So as it relates to capital management, we have the plans that we been executing on, as you know, which is a combination of share repurchase and debt reduction. We did pay down a maturity in November as scheduled. For the quarter, we went into the quarter with a trading plan in place to buy back about 350 million worth of shares. We did do some open market purchases as well, about $75 million. So for the quarter, expect about $425 million of share repurchase. And then we'll just continue executing on our plan as we go into next year.

For further capital deployment going forward, to some extent our calculus on that I think stays the same. We have the stated goal of reducing our leverage ratios over time into the low 20s. We're on that path. We have a debt scheduled to mature next year that we will pay down.

And so as we continue to generate excess capital and bring that to the holding company, we will evaluate the best use of that. And as we've talked about in the last two earnings calls that as we think about deploying capital we also put into the mix investing in our businesses as well and of course we have to have -- have to get the right return objective to do that.

But given all the improvement that we've made and our financial picture we believe that now we're in a position to be able to think about that more than we were in the past.

Mike Nannizzi - *Goldman Sachs - Analyst*

Great, and then last one for me and then I'll open it up for questions. Obviously another topic, Chris, that has come up very frequently and more so this year than probably any other I can remember is just M&A and the questions we get is which side of the fence is The Hartford on? And can you talk a little bit about how you think about the potential for Hartford to maybe fill in some of those areas that you are looking to grow with acquisitions and -- or anything -- any other thoughts on how that might be a tool that you would use and how you think about that relative to some of the stuff Beth just talked about.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Sure. I think the context for that question is -- I view it as that we're in four major risk businesses. Years ago we wanted to be in the risk business as opposed to the market risk business, so Commercial, P&C, Personal Lines P&C, Group Mortality, Group Morbidity. So any of those businesses from a M&A side would be interesting.

We primarily think about things, though in an organic fashion of what do we need to do organically to improve our risk appetite or our capabilities? But as Beth said, the calculus for our excess capital, which all our businesses are generating excess capital, gives us great flexibility. We've driven down our cost of equity capital. We've delevered the firm. So I think we said at one point in time we could be more offensive minded about opportunities and we do think of it in terms of build versus buy, trade-offs, IRRs on buybacks or debt pay downs versus the IRRs you could earn over a reasonable period of time in doing M&A.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

I think we've also framed it, look, we're not looking to do anything transformational. We're a national carrier that's trying to expand in certain regions of the country, expand certain elements of our risk appetite and if there's things that come across our desk or things that we are proactively cultivating, I think that is a legitimate use of excess capital if it fits strategically and fits financially as far as the payback.

Mike Nannizzi - *Goldman Sachs - Analyst*

Great. Any questions from the audience? Give you a chance to think of one, if you have one. Other than that, I guess one other question from me in terms of -- if we go back to the AARP channel, specifically and I guess personal lines, is that an area where you think there is -- you mentioned small commercial as a product area that can grow.

Do you view Personal Lines that way or is that more kind of hang on to your demographic and maybe tweak around the edges and just try to make sure you're getting the offering right?

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

No, definitely view AARP Direct or Agent as our Personal Lines growth engine. As Beth said, we have the ability to market and drive responses from our direct response system whether it be digital, whether it be paper, whether it be TV. So we really have strong capabilities to drive a response.

What we're focused on is expanding the risk appetite in those areas, underwriting it in a consistent and an appropriate fashion and building out our homeowners capabilities. But if I look at where AARP -- again a very strategic partner for us and with us, for where they are trying to take their membership base and some of the things that they are trying to do and I think how we could fit into that in particularly that -- I'll call it younger cohort of AARP members below 60 -- that's a real growth opportunity because I think we have the opportunity to provide them with high-quality product. But we need our underwriting tools lined up to do that.

And even -- I saw a report this morning that the fastest growing demographic of drivers is 85-plus, right? So who would have thought? But again there are opportunities, again, with good underwriting and sound discipline, so the overall AARP member base of roughly 38 million members and we have roughly 2.5 million of those members I think gives us a great growth opportunity when we execute our sales plan, our underwriting plan and our risk appetite.

Mike Nannizzi - *Goldman Sachs - Analyst*

Great. I think we have time for maybe one quick one here in the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Yes, just (inaudible). With additional pricing -- with (inaudible) (inaudible) alternative capital that's coming into play, how is Hartford taking advantage of that in both the property and casualty lines as well as (inaudible) coverages?

Mike Nannizzi - *Goldman Sachs - Analyst*

Let me just repeat that for the webcast. The question is inexpensive reinsurance pricing, how is Hartford able to or taking advantage of that in either property or casualty lines? Is that fair?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

Yes, I'll let Beth add her views, too. I would say our reinsurance buying is fairly modest. We don't put out huge lines. I think what we're proud of particularly as we grow our property capabilities, we do have a $500 million reinsurance treaty per risk or $500 million per risk on location. So we feel like we have the appropriate reinsurance to back it to be competitive in the marketplace.

We're in the market right now to place our property cat treaty that comes up in January 1. We're not big users of reinsurance with our book of business.

Beth Bombara - *Hartford Financial Services Group Inc. - CFO*

Yes, I would agree. We have been able to over the last couple of years take advantage of the pricing that we've seen and make some changes to our program but it's not a large spend for us. So even though we've seen some savings there and expect some as we head into this renewal, it's just not as large because of just the size of what we buy.

Chris Swift - *Hartford Financial Services Group Inc. - Chairman and CEO*

That said, Beth and I and Doug and others, we routinely meet with providers of alternative capital. We met with our reinsurance brokers to sort of keep abreast of activities. So always challenging ourselves to think differently about capital and risk but to date we're pretty satisfied with our current approach.

Mike Nannizzi - *Goldman Sachs - Analyst*

Great. Well, thank you very much, Chris and Beth, for joining us. Really appreciate it.

Thank you, Michael.

Mike Nannizzi - *Goldman Sachs - Analyst*

Thank you all for listening.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS