

The Hartford Financial Services Group, Inc. NYSE:HIG

Company Conference Presentation

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EXECUTIVES

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Douglas G. Elliot
President

ANALYSTS

Jay H. Gelb
Barclays PLC, Research Division

Unknown Analyst

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Presentation

Jay H. Gelb
Barclays PLC, Research Division

All right. Thanks, everyone. I'm Jay Gelb from Barclays. The format of this track will be a fireside chat with Doug Elliot, President of The Hartford; and Beth Bombara, Chief Financial Officer of The Hartford. The Hartford is among the largest property-casualty insurers in the U.S. with a strong presence in both Commercial and Personal Lines. It also has a presence in Group Benefits and Mutual Funds. Its business includes its Talcott unit, which largely consists of a runoff annuity business. Doug joined The Hartford in 2011 and has nearly 30 years' experience in the insurance industry. Beth was promoted to Chief Financial Officer 2 years ago. Her previous roles at The Hartford include President of its Talcott unit and controller of the company. Beth joined the Hartford in 2004. Doug and Beth, thanks for joining us today.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Thank you.

Douglas G. Elliot
President
Thank you.

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Question and Answer

Jay H. Gelb
Barclays PLC, Research Division

Let's start off with addressing some of the issues that came up during the second quarter for The Hartford. 2Q results were negatively impacted by personal auto insurance claims and also legacy asbestos losses. What were the causes of those challenges in 2Q? And how confident are you that these issues are fully addressed?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

You want to start with Personal Lines?

Douglas G. Elliot
President

Sure. Let me start with Personal Lines and Beth will cover A&E. So we did have a challenging -- disappointing second quarter with Personal Lines. Over the last couple of years now, we've talked about what we've seen in terms of our trends. 2015 on the back half of the year, we had seen a pickup of frequency. And really, what developed over the first 6 months of 2016 was a severity element, both in terms of injured parties in those accidents and also the severity of the number of people inside those accidents. So very disappointed that both in the first quarter and second quarter, we had to go back and adjust our year-end reserves, primarily in the second quarter as the '15, 2015 accident year reserve development. A lot of levers and a lot of actions underway, had been underway for a period of time, Jay, to address our personal lines book. I don't think many of the loss trends are just Hartford insurance group loss trends. I think many of our competitors are feeling a difference in behavior in the Street. We feel like speeds are up, gasoline prices are down. We're seeing more accidents as evidenced by even national statistics. I think I just saw last week 2015 data from the highway and safety groups said that highway fatalities are up 7%, 2015. They're up 9%, first 6 months of '16. So we are actively working both underwriting and pricing to address the issues on our Personal Lines book and feel confident that we're on a road to recovery.

Jay H. Gelb
Barclays PLC, Research Division

Great. Beth, what are your thoughts on the asbestos environmental front?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So every second quarter, we do a ground-up analysis of those, our asbestos and our environmental exposures. We were obviously disappointed to have to increase those reserves again this year. We've had to do that the last several years. And what we've been seeing, and we continue to see in this year's study, is that the vast majority of our accounts, when we do this ground-up analysis, actually behaves the way we anticipated with the number of filings leveling off or decreasing. But for a handful of accounts, and it's been different accounts each year, so it's not as if it's the same account each year, we see a situation where the filings are increasing or they don't decrease as much as we had anticipated. And because we project our asbestos reserves out to 2059, small movements like that can have a big impact. And it is hard to predict because when we do our study, we're looking at account-by-account analysis, making our estimations as to what we expect for filings and what we expect the exposure could be, and then we have to put it through what our coverage profile looks like for that insured because not every insured is the same. So where do we fall within their limits? Are they primary limits? Are they excess limits? So it's a very complicated study. It's why we do it once a year. It does take a significant amount of time. So the question on asbestos is, okay, will this continue? And that's hard to predict. If you go back and you look at what third parties have said about the incident of mesothelioma and the fact that we should be seeing declining rates and not seeing that in all situations, there's a lot of theory behind that, some of which

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point to the fact that in general, as people live longer, we see the phenomena of people sort of living into the disease. And we do see that a bit in that the average age that we see of these -- such incidents is increasing. So it is hard to predict. We'll continue to do our annual studies. And we've also talked about that we do continue to look at are there other solutions potentially vis-à-vis some third party taking on some of the exposures for us. We just recently reached an agreement to sell our U.K. subsidiary, and one of the reasons why we liked that transaction so much is that it does have some asbestos environmental reserves in it. But because we were able to put all the exposures into one legal entity and can sell the legal entity, when we sell it, we're done. There's no push back to The Hartford in any way. When we look at our U.S. book, one, it's much larger, the size of the reserves. But second, we don't have a legal entity that just has asbestos environmental reserves in it. So any third-party solution really looks like it would have to be some form of reinsurance. With reinsurance comes the complication that -- very unlikely to find someone that would take unlimited coverage. So most of the deals that you see done in the marketplace have some sort of cap which means at some point, if reserves were to continue to develop and you exhausted that cap, the exposure comes back to you. Second, we really value our claims process and the experts that we have in-house that adjudicate these claims. And so if you kind of give that up, you're sort of losing that expertise if you ever need to take some of these exposures back. And then finally, price is always going to be a consideration as well. And to some extent, dealing with potential solution for A&E really involves how much capital do you want to put to asbestos solution because it's not inexpensive. And again, you have to kind of weigh the downside protection that you get versus the potential where these claims could level off. So that's a long way of saying there continues to be uncertainty there, and we'll continue to monitor the book very closely and we're open to other solutions to the extent that they make economic sense for us.

Jay H. Gelb
Barclays PLC, Research Division

Plenty of other primary companies with legacy asbestos and environmental exposure have addressed this largely through retroactive reinsurance. If we look at the impact to Hartford on a pretax basis over the past 2.5 years or so, it's been around $725 million. So when you think about that relative to the other factors you also address, does it make you lean a bit more towards trying to find a reinsurance solution?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

So I would say that we definitely, internally, spend more time today than we did 3 years ago in looking at our other solutions. And hindsight is always perfect. And so obviously, once you've made a decision in years past, you can see and make some determinations as to would it have been good to have entered into something in the past. But using the information that we have today, we'll continue to evaluate if there are solutions. But again, they're not inexpensive because, obviously, any third party is taking on that risk as well and looking to earn a return. And so you have to balance that as we evaluate again what's the best use of our capital.

Jay H. Gelb
Barclays PLC, Research Division

Let's shift gears to the commercial, property-casualty business. Doug, where are we in the pricing cycle? And do you feel it could get worse from here potentially?

Douglas G. Elliot
President

Jay, so I guess I would start the answer with identifying different market segments because I think there are different parts of the cycle. When I'd listen and read most of the comments, I think people are talking about the middle part of the cycle. I'll just start with a comment on our Small Commercial. Very pleased with our performance in Small Commercial. Over time, it has been a steadier, not fully subject to the wide vagaries of the pricing cycles of Middle, and we still feel very good about where we are today. Lots of competition, but we like our value prop in the marketplace and had a good 2 months -- good 2 quarters starting out 2016. In Middle Market, we are seeing more competition. I commented on that in

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the second quarter. It has ramped up over the first couple of quarters of the year. You've seen our new business levels, we share them transparently in our supplement. We're trying hard to be a disciplined, steady player in the Middle. And in the second quarter, that translated into writing less business than we had in the second quarter of 2015. So to me, the marketplace, I've had a full look at July. There are a lot of similarities between July and the second quarter. As we go back and close up August and finish the quarter, we'll get a better sense. But we are seeing more aggressive competition and we'll try to do the best we can to be disciplined, thoughtful and see through this cycle, Jay.

Jay H. Gelb
Barclays PLC, Research Division

Okay. Can the commercial insurance underlying combined ratio, which excludes the impact of catastrophes and prior year loss development, can that underlying combined ratio remain stable or perhaps improve given that we are in a highly competitive part of the cycle for areas like Middle Market?

Douglas G. Elliot
President

So on one side, we have pricing, and on the other side, we have underwriting actions and we work those levers every day. We're working on our pricing curves and underwriting activities in Small, in National Accounts, and in Middle. But we're fighting a bit of an uphill battle in the aggregate across the industries as prices have come down. So again, our loss trends last several quarters have been very moderate. Very pleased with our loss performance and, therefore, our pricing trends are pretty consistent with those patterns. But they are better than our longer-term loss trends. And so I think that is -- to see the answer to that question, we've got to play this out a couple of years. But we're doing everything in our being to pull the right levers to combat what we see as more aggressive pricing, softer conditions in the marketplace.

Jay H. Gelb
Barclays PLC, Research Division

Well, where do you see the growth opportunities in commercial P&C?

Douglas G. Elliot
President

Well, we still feel like Small Commercial is a growth opportunity for us. We have invested heavily over the past 10 years and we'll continue to invest in our digital capabilities, et cetera. So we look to Small. Most recently, we acquired a company in Georgia by the name of Maxum. Maxum will be a terrific acquisition -- was a terrific acquisition for us. It will allow us to think more broadly about appetite. This was an appetite expansion idea. What's neat about Maxum is that the leadership of Maxum had worked with The Hartford. So we know some of the players, they know us. But leaning into Middle Market, very excited about the new capabilities. So on top of basic organic opportunities, we're building out a new vertical in energy. Energy is a sector in the country that we've really not historically been in. We maybe have been in, in isolated ways, but we hired an executive in Texas to build on a vertical. We most recently hired an individual in the accident and health space to look at what we may be able to do between our group and our commercial businesses. And then most recently, we just announced a relationship with AXA to extend our international capabilities, which are so important primarily to that Middle Market customer who is having more and more of either their activities, their manufacturing, or their sales activities abroad. So we're looking both inside and outside and excited about the last 100 days.

Jay H. Gelb
Barclays PLC, Research Division

Excellent. Let's turn to personal auto. The Hartford's had a unique partnership with AARP for many years. Could you describe that program and how it's performed over time compared to some of the more recent quarters?

Douglas G. Elliot

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President

Yes. So our AARP relationship stands, I think, 3 decades. So it has deep history. Just last week, I was looking at our 20-year partnership together with AARP and the financial performance across that period of time has been excellent in the aggregate. We are feeling a bit of stress. So the stress we saw in the second quarter was not just in our agency book. Those frequency numbers and some of the severity are also in the AARP book as well. What's new in the last couple of years, traditionally, that has been a direct book of business. 4, 5 years ago, 6 years ago, we started now building an AARP product that we'd distribute through our independent agents. And so that has been a multiyear effort, one that we are aggressively fine-tuning that has been a growth component of our story last couple of years but also one that, Ray Sprague, who runs that organization and myself are working inside trying to get our rate program called Open Road, where it needs to be as we've rolled out a new class plan in the last 3 years.

Jay H. Gelb
Barclays PLC, Research Division

So there's been some underwriting profitability issues in the AARP Agency?

Douglas G. Elliot
President

Our total agency book, including AARP, certainly had some challenges, which we're addressing. And also, the frequency and severities are in our direct book as well, so we're addressing across. But I would say, in our agency book, a bit more rate is driving into that book because of the need.

Jay H. Gelb
Barclays PLC, Research Division

Okay. The Hartford's underlying auto insurance combined ratio has exceeded 100%, representing an underwriting loss in 3 of the 4 past quarters. What do you view as the causes there? And how long could it take to fix?

Douglas G. Elliot
President

So let's go back to the end of '14. Several of our competitors and the industry started seeing increased frequency at the end of '14. We continued to look at our book and did not see the same frequency patterns. Those patterns did start manifesting in the middle of the summer of '15. And actually, you could strike a line somewhere around July 1. Our frequency started emerging aggressively second half of the year. Not all months, but most of the months. We think about patterns of driver, we think about economic activity, mileage, gas mileage, et cetera. So a lot of things impacting us second half of the year. As we look back on our predictions, 2015, our loss picks -- our loss trend picks for frequency, they're still very steady and actually have held very well the last 7 months. What has not held as well, which has been the reason we've gone back and had to restate both 2014 and the second quarter 2015 as well are our severity picks. So the bodily injury predictions, Jay, inside our Personal Line's auto book, a little bit in '14 but more aggressively in '15, are the reasons we've had to do some of that.

Jay H. Gelb
Barclays PLC, Research Division

Okay. What's the expectation in terms of when that gets back to target profitability?

Douglas G. Elliot
President

Yes. So we are working our rate plans like never before. I think I've shared on prior calls our number of filings are up appreciatively throughout 2016. It will take time for these rate changes to roll in. But as I've talked to you in the past, this is more than rate change. This is a matter of rate change and also the underwriting levers that we're pulling. So we're aggressively working our agency book. We have terminated relationships that have been outliers on the negative performance side. We have pulled back

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AARP contracted agents that had the authority to write our AARP book that we're not doing it kind of within our scope of partnership. We've made a number of changes in our class plan. So early in 2014, we started rolling out an Open Road class plan. It was the new iteration of our pricing vehicle. And as we were rolling that out state by state, the last state to go at the end of the summer of '15 we have now iterated several new versions of the class plan, I think, pretty aggressively. In fact, version 3 is going in, in the fourth quarter. So we're going to see -- we expect to see change positively in 2017, but it's going to take us a couple of years, Jay. We're going to need to work our way into 2018 for all these actions to earn their way into the book of business.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

And the other thing, I know we've commented on before, just as a reminder. The majority of our policies are 1-year policies, they're not 6-month policies. So that's also part of the reason why it can take time to earn in. I'd say sometimes, we get the question why 1 year? Do you -- should you move to 6 months? And it is something that we find that the AARP member values, right? They got their coverage in place. They have it for a year, they're not getting a renewal midyear -- midway through. So through the long term, that's going to -- very beneficial to the member. Obviously, in a period like this when you're trying to get a lot of rate into the book, it takes a little bit longer. But we do think that it kind of adds to the value proposition for the AARP member.

Jay H. Gelb
Barclays PLC, Research Division

Okay. What type of overall target combined ratio should we be thinking about for personal auto?

Douglas G. Elliot
President

Our goal over the next 2 years is to get our XX auto ratio into that 96, 96.5 range. We feel that, that would be on top of our cost of capital at that level. That's not the ending point we want to seek eventually, but we think 5, 6 points of change over this 2-year window is achievable and we're working incredibly hard to make that happen.

Jay H. Gelb
Barclays PLC, Research Division

The underlying combined ratio should track reasonably closely to the calendar year, right, given the low catastrophe impact that's typically in auto reserves?

Douglas G. Elliot
President

Yes, a point or so probably on an overall annual expected basis. And obviously, without prior year reserve, that would be a straight up number then.

Jay H. Gelb
Barclays PLC, Research Division

All right. Okay, Beth, turning to Talcott. What -- can you tell us the company's progress in winding down this $50 billion legacy asset under management business?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So Talcott has been in runoff since 2012. And I think if you look over the last 4 years and what we've been able to do significantly shrunk some of the more significant exposures that we had in there -- namely the sale of our Japan business. Right now, what we have is the U.S. business. So it's the variable annuity, fixed annuity. And then we also have the structured settlements and terminal funding, which would obviously not be in the $50 billion number, I think, that you were referring to. So we've been doing a lot of actions over that time to reduce the size and also the risk associated with the book. For us, it's not

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just looking at the size, absolute size, but how do we address some of the risk in that book. And we've obviously been doing that through our hedge program. But we've also done some targeted buyouts to policyholders and really targeting what we viewed as a more risky part of the book. We didn't think that it made sense to do sort of broadbrush sort of buyout offers across the whole book. Again, remind you, half of the variable annuity book is adjusted death benefit. It doesn't have the withdrawal benefit. And so we'll continue to look at things like that, that can help accelerate the reduction of that account value. We've also done other things from the risk side. One thing that we did a couple of years ago was we started to enforce some of the investment restrictions that we have in some of our policies, and that had the effect of, again, putting the profiles to what we wanted as far as the asset classes that they were in. But that also resulted in some people deciding to drop their product as well. And what was very interesting about that program is we also saw the situation where some people who had the withdrawal benefit on their death benefit contract, when we put the investment restrictions in place, they didn't want to adhere to them. So we were able to drop the withdrawal benefit rider, but they still wanted the death benefit. And our policies never allowed you to make that kind of choice. Your choice was to surrender the whole policy. So we look at things like that where, again, if you can reduce the withdrawal benefit, we see that as having more risk. And then as we've always said, we're always open to looking at other ways to move the risk to someone else. Ideally, we would like to find a solution where we are able to transfer all of the liabilities and the legal entities, not do it via reinsurance. When you do pieces, reinsurance gets a little difficult, one, because you're still on the hook as the primary writer of the policies. And so you -- there's a certain administration and just process that still takes place that you have to deal with. So again, I think as the book gets smaller, I think there's probably the potential, more potential for us to evaluate solutions. But right now, the way we see it, Talcott has been generating earnings. We've taken out $750 million in dividends this year. We took out $1 billion last year. We anticipate in 2017 of taking out something in the $500 million range. So it is generating capital that's being sent to the holding company.

Jay H. Gelb
Barclays PLC, Research Division

In a potential sale scenario of Talcott, how should we think about statutory capital as a reference point as well as kind of where we are in the interest rate environment? How that could influence the outcome?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, I think typically, when people look to kind of the valuations, so to speak, of Talcott, they tend to start with statutory. Obviously, a much more conservative regime and what it counts as assets. Interest rates do put pressure on statutory capital, so interest rates being low does put the need for additional reserves to be posted. We talked about on our second quarter call, that as we look towards the end of '16 and where interest rates are, that we would anticipate needing to book some cash flow testing reserves, which would most likely result in for the year 2016 when you think of statutory surplus generation. Again, not to be confused with the capital we send to the holding company, but just that surplus before any dividends that we wouldn't expect that to grow this year. But even though the variable annuity business is generating fees and generating statutory surplus, it probably will be offset by the need to post additional reserves. And so the longer you stay in a low interest rate environment, you can continue to see that need because, again, when you're setting those reserves, you're looking at today's interest rate environment, but there is some mean reversion that comes into effect. So the longer rates stay lower, the more the need is for additional reserves.

Jay H. Gelb
Barclays PLC, Research Division

So what does that mean in terms of Talcott's ability to generate deployable cash in a persistent low rate environment? I know the outlook, as you just mentioned, $500 million is probably less than what we'd see in 2016 -- was around $750 million.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

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Right, $750 million, yes.

Jay H. Gelb
Barclays PLC, Research Division

What if rates kind of stay at this level for the next few years?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. I think you'll -- we'll continue to see some pressure on those outer years. I don't want to get into too much of a prediction of '18 and '19 because it's obviously going to be based on facts and circumstances. There is still excess capital in Talcott. So the way I think about the dividends that we send to the holding company is, one, you look at what statutory surplus did you generate in a year, and is that surplus able to be sent to the holding company. And then we just look at the absolute capital base. And as the book continues to run off, as we think about the buffers that we need for stressed environments, we share that usually annually. We show what our stress scenarios look like and what that -- excess capital is we have. That's sort of the second piece. And so when you're -- find yourself in a low rate environment and you're doing stresses, that obviously can have an impact on that second piece. But the bigger impact in the low interest rate is really from that first piece, which is about the actual surplus you're generating in a given year.

Jay H. Gelb
Barclays PLC, Research Division

Okay. From a core earnings standpoint, from your GAAP earnings perspective, what do you feel the earnings profile Talcott could be over the next several years compared to where we are now?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So the majority of -- a significant portion of the earnings that we generate does come from the fees that we earn on the variable annuity block. And as that block continues to run off, you would expect to see a similar reduction in the amount of income. Interestingly, if you go back and you look at what's happened over the last several years, even though the variable annuity business has been surrendering, we've also had equity markets increasing. And that counter impact, when you think about the fees that you're generating, has probably made the earnings decline not as significant as otherwise would have been. So a big predictor of what the earnings profile would be like in the future is what happens to markets because of that aspect. The other piece that Talcott has benefited from over the last several years has been the large returns that we've had in our limited partnership portfolio. Again, over the last couple of quarters, starting in the third quarter of 2015, we saw some pressure on those returns. And so that obviously impacted our earnings. But based on what partnership returns do, and a big portion of our portfolio is allocated to Talcott, it does support those long-dated liabilities we have in the institutional book, restructured settlements. So that's a factor as well. But the simple answer is the earnings will decline as the book continues to run off.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So yes, we -- does that mean we generally expect, all else being equal, 2017 and 2018 Talcott earnings to be...

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Lower.

Jay H. Gelb
Barclays PLC, Research Division

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Lower, okay. More broadly, if we think about the overall company on a return on equity perspective, the trailing 4-quarter return on equity for The Hartford was 7.4%. And if we exclude Talcott, it was 9%. What do you think a reasonable expectation is for, say, 2017 or other long-term goals?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, so a couple of things. So again, that was the rolling 12 months at the end of June. And so obviously, those returns were impacted by the development we saw in Personal Lines and our A&E charge. And if you exclude those 2 things, just the prior year development on Personal Lines, don't even try and adjust anything for the current accident year exposure we saw and you adjust for the A&E charge, the -- those returns to the total company would've been about 8.7%. And for the ex-Talcott, it would've been about 10.9%, almost 11%. So obviously, those 2 factors impacted the return significantly. So when we think about our return going forward, we really do more and more look at it in the -- from those 2 perspectives. Obviously, the full company ROE is very important and we're -- we look at that very closely, but it is impacted by Talcott. And there's really not a lot that can be done relative to first fixing something there because the earnings are the earnings and the capital is the capital. And so as long as Talcott is part of The Hartford, that is going to a reality that we have to look at. So we really more and more focus on the ex-Talcott ROE, and that's why we started disclosing it in our investor supplements, both total company ex-Talcott, and then we show it for P&C and we show it for Group Benefits because that's where we really want to make sure that we are focused on generating appropriate returns. And again, if you think about backing out the prior year Personal Lines development, backing out the A&E, and the interest rate environment is the interest rate environment, not making any changes for that, I think being close to 11% sort of on an ex-Talcott basis, given all of the things that we're dealing with in the environment around us, it's our healthy returns as well as other cost of capital.

Jay H. Gelb
Barclays PLC, Research Division

Okay. Last one before we get to the audience response system. Looking at share buybacks, the company, I believe, plans $1.3 billion of share buybacks for 2016. How should investors think about the sources of funds available for buybacks in 2017 and beyond?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Okay. So similar to what we see this year, all of our businesses are providing capital to the holding company that supports the share buyback plan that we have this year and in general, provides us flexibility as we think about excess capital. And what are those sources? So I've already talked about Talcott. Again, we took $750 million this year, anticipate somewhere in the $500 million range next year. If you look at this year, the other businesses and what they provided to the holding company, P&C is about $800 million of dividends. And not going to get into kind of what our exact prediction or estimate would be for next year, but I think that seeing it at around $800 million, where we've been in the past, is a good start. And there's always the potential for that to be a little higher based on how the business performs. Group Benefits was about $240 million of dividends that are going up to the holding company. And in Mutual Funds, it's about $70 million. And those businesses are all still part of The Hartford, and we'd anticipate that they would be generating cash flows next year as well that would support the holding company.

Jay H. Gelb
Barclays PLC, Research Division

Let's go to the audience response questions. Okay. The first question for the audience is if you currently -- you can start the clock, if you currently don't own shares of Hartford or are underweight, what would cause you to change your mind?

[Voting]

Jay H. Gelb

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Barclays PLC, Research Division

We should have the Jeopardy! music out during [indiscernible] otherwise it's just dead air.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

I was going to say, yes, something should go on, yes.

Jay H. Gelb
Barclays PLC, Research Division

All right. A couple of seconds left. Okay. And the outcome here, 50% saying they'd like to see a higher return on equity; 25%, looking for improved property casualty underwriting results; and then a smaller percentage is tighter P&C market or more aggressive share buybacks. Any thoughts on that?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

So return on equity is obviously something that we are very focused on, and I've just commented on my thoughts relative to that and where we're headed. So I don't find that result surprising.

Jay H. Gelb
Barclays PLC, Research Division

Okay. Next question.

Douglas G. Elliot
President

Jay, I was just going to say that, obviously, we can't control Column 1 but we're working hard to improve #2, which is all about, at the moment, Personal Lines because I really do feel like our other businesses are in pretty good shape. All this can be better, but fairly healthy start to 2016 on the commercial side.

Jay H. Gelb
Barclays PLC, Research Division

Okay. Next question is my confidence in The Hartford's ability to fix its personal auto insurance underwriting results by mid-2017 is? You can start that countdown.

[Voting]

Jay H. Gelb
Barclays PLC, Research Division

All right. And just winding up here. And the view is kind of straddling between high confidence and neutral confidence but pretty evenly split, so we'll look at the outcome there. Okay. Next question please. We can start the countdown. Should Hartford maintain its current business mix? Yes, it should remain in its current form; no, Hartford should explore options to divest, that being the second option.

[Voting]

Jay H. Gelb
Barclays PLC, Research Division

And the audience is saying, 50% saying yes, 50% saying no. So I don't really know what to do with that.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

I think we'll go to the next question.

Jay H. Gelb

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Barclays PLC, Research Division

Good idea. All right. Next question, please. My expectations for Hartford's share buybacks in 2017. I'll give you my estimate just for a point of reference. I'm assuming $1.1 billion in 2017.

[Voting]

Jay H. Gelb
Barclays PLC, Research Division

And on buybacks, the audience is 50% saying between $1 billion and $1.3 billion, and then sort of straddling either less than $1 billion or between $1.3 billion and $1.5 billion. That's what the data says.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, that's what the data says. All right, so we'll leave it at that.

Jay H. Gelb
Barclays PLC, Research Division

Any -- are there any more ARS? All right. We're all set on ARS. I believe we have just a few minutes left for any questions from the audience. Any questions?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

We've got one back there.

Unknown Analyst

Can I ask about digital binding? And just it seems like a lot of carriers have the digital binding present, but you can't get actually do the digital bind. You have to make a phone call the end the talk to someone. So can you just talk about the pros and cons of that, and why we haven't seen more of that in the industry overall?

Douglas G. Elliot
President

Digital bind. So we'll start with agreeing that to us -- and it's hard getting data, but it does not look like a lot of folks are end-to-end throughput. When people call us, they do need to talk to somebody. And I'm assuming you're talking Commercial, Small Commercial. Over time, I think we're all working on data. We're continuing to work on our algorithms. We've been engaged with agents and they drive our franchise, but we understand that our customers, over time, will want to be serviced differently than they are serviced today and may have -- will have expectations to purchase over time. So we're trying to make that more seamless. We want to be available over time to purchase our product where they want to purchase, how they want to purchase, et cetera. But right now, our core theme is built around digitizing for that agent who is driving so much of the Commercial, Small Commercial business.

Jay H. Gelb
Barclays PLC, Research Division

Any other questions?

Unknown Analyst

In light of the discussion around your ROE, can you talk about what you think of as your cost of capital? How you get there and how that influences decisions in the company?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

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Yes. The cost of capital is something we obviously pay a lot of attention to, and there are different measures that people use depending on how you're looking at your beta and what your view is obviously on a risk premium. But I would say when we look at it today, we would see it somewhere on that 8% to 9% range, probably ticking a little bit closer to 9%. But again, there's usually a range around that. And it's something that we are very focused on. It's something that we look at very closely. It's something that our board also is focused on in understanding that relationship.

Jay H. Gelb
Barclays PLC, Research Division

Excellent. Well, please join me in thanking The Hartford for joining us today.

Douglas G. Elliot
President

Thanks, Jay. We appreciate it.

Beth A. Bombara
Chief Financial Officer and Executive Vice President
Thanks.

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