

The Hartford Financial Services Group, Inc. NYSE:HIG

Company Conference Presentation

Wednesday, September 07, 2016 2:30 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 5

Call Participants

EXECUTIVES

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Chief Financial Officer and Executive Vice President

Douglas G. Elliot
President

ANALYSTS

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Presentation

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

Okay. Good morning. In the interest of keeping the conference on schedule as much as possible, I want to introduce Doug Elliot and Beth Bombara from The Hartford. They've got, I guess, introductory comments they're going to make, and then we will we jump into questions. I really don't want to monopolize with the conversation. If at any point in time you have a question, raise your hand, and we will move to the audience as much as possible. And with that, let me hand it over.

Douglas G. Elliot
President

Thanks. Good morning, everybody. Thank you. Maybe just a couple of quick comments to start on Personal Lines, and then I'll offer a couple of comments on Commercial, and I'll turn it over to Beth.

As you know, we're doing hard work on our Personal Lines portfolio. This morning, we posted some slides with additional data that give you a better sense of some of our sublines relative to retention of new business for the quarters going back, I think, 2.5 years. So we did that to give you a little bit more insight. I think you'll see the numbers consistent with the story we've been painting, which is we're leaning hard into our agency Personal Lines business, that has been shrinking because of how hard we've been pushing price and underwriting actions, et cetera. And our standard core AARP block, which has been performing, but still needs rate, performing differently relative to the stats, and ideally you'll see that as you look at the numbers.

A quick couple of updates for you. We continue to work hard at our filings on the pricing side with Personal Lines that has not dimmed at all over the past 60 days. As we kind of lean into the last part of the year, the filings will be up substantially from where they were last year. Pricing is still very consistent in the high single digits. We're pushing harder in the agency realm, so our filings and agency auto are a bit stronger than they are in the AARP Direct.

Our agency management actions continue. So we've shared with you the story we're on. We, at our high, had 14,000 location contracts. We're down to 10 today, 10,000. Over the next 2 years, we expect that number to be closer to 5,000 and then 10,000, just to give you a sense of how significant the next couple of years of action will be.

We continue to prune where we find agents who just don't value the Hartford contract or want to sell our value proposition, we're moving away. And we're finding that core that will deliver a profitable customer, and we are kind of leaning into that.

I've mentioned Open Road, we've talked a little bit about Open Road. So we rolled out a class plan, a new class plan in 2014. The third iteration of that class plan essentially is almost complete and rolling into market, as we speak. So again, 2.0 dropped in the market across a variety of states starting in second quarter of '14. And now 2.1, 2.2 and essentially 2.3 iterations of the original are going through. And I look at that as really our arms around the adjustments vis-à-vis kind of the fix of the original plan. So I feel good about the construct of that. We won't stop evolving. We already have designs on 2.4 coming during 2017, but I share that from the standpoint that we continue to iterate and look at modifications with an eye on getting our margins back where they need to be.

I think that is the Personal Lines story. We -- you all know, we are not satisfied at all with our performance, very disappointed first 6 months of the year. The trends continue to be the trends. So we continue to see more drive -- more miles driven. We see more fatalities on the roads. I looked at some statistics last night. Again, 2015 was the biggest change in the prior 50 years of fatalities on the road. 7%, I think, was the '15 number, and the first 6 months of '16 were 9%. That gives -- give you a little bit of color. Again, the number of accidents, yes, is up a bit, but we're seeing the number of bodies injured in those accidents up, which is what we're pricing away through relative to bodily injury.

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Last comment on Commercial Lines. We continue to see competition. Pleased about our progress. August is still coming together, but certainly through July, pleased that we're balancing rate and retention. So July looks a lot like second quarter in that regard. Challenged to find the new business opportunities we like at the prices we want to write at. But I think that's a phenomena where the market is right now. We'll keep our discipline. We'll write when we can get our strike price and pushing our folks to be thoughtful about walk away when we can. Generally, a market consistent with where we saw it in May and June on the commercial side. Beth?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Okay, great. I'm going to cover up a couple of comments. But first, my attorneys trained me very well. And so since I'm going to make some forward-looking statements. I want to caution you that they can change materially, and you should read the risk factors in our 10-K and 10-Q. Hopefully, I did that right Sabra. But a couple, maybe, I just wanted to touch on relative to investment income, kind of where we are with cash. I know that's always a question this time of the year and some comments on capital management.

So first on the investment front. Obviously, we're still continuing to feel the impact of a low-rate environment. But overall, very pleased with the return to our investment portfolio. And specifically, this quarter as we look at our limited partnership returns, we're anticipating that we will have very strong results there this quarter. So as many of you may know, we typically plan for about a 6% annualized yield, and we expect to be above that this quarter. We've benefited from some very strong return in the private equity portion of our portfolio as some of those funds have sold some underlying investments that had us realize some gains. So very strong results that we expect to see there, which is nice to see. Because, obviously, last year and the second half of the year, that was an -- those asset classes were a challenge ending the first quarter. In the second quarter, we were again at about our 6% annualized yields. So it's nice to see that trend continuing.

As it relates to interest rates, the other thing that we've talked about is that low interest rates does impact our Talcott entity. And as we sit here today, and we look at what the impact would be, and we started thinking about 2017 dividends, which I know is always a question that people have as far as what we're anticipating. I would expect that the 2017 dividends for Talcott will probably be in the $500 million range. We're at $750 million this year, so do expect it will be down, and that really is part of it -- part of what's driving that is the fact that with low rates, we do see some pressure on some of the reserves that we'd have to post it at year-end, which will reduce statutory surplus. So that's where we stand with Talcott.

On CATs, so for the quarter, we typical -- we budget about $115 million pretax for catastrophes. Through the first 2 months, that budget would be about $80 million. So it's kind of pro rata, but $40 million and $40 million for July and August. And we're trending just slightly below that. So for the most part, pretty much on track. Obviously, we'll have to see what happens in September. The storm that occurred last weekend was, obviously, a lot -- less of an event than anticipated. So we feel really good about where we sit today and it was up to see how the remainder of the quarter turns out.

And then finally, on capital management. We expect to repurchase about $350 million of shares this quarter. We went into the quarter anticipating about $300 million. But given the stock performance, we did take advantage of the price and purchased an additional $50 million. So the $350 million for this quarter, and that would leave us with $280 million for the fourth quarter under our current authorization. And again, as we progress through the end of this year, we will, obviously, be looking at our plans for next year, and we'll share them with you once those are finalized.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division
That's helpful. And one point that I just want to make broadly speaking is that I know after the second quarter conference call, there was a lot of misinterpretation of Talcott related dividends, and I think that there was this perception that no dividend was expected for 2017. So I think that your clarification is both positive and very helpful. I'm going to kick off to questions, and again at any point in time, just raise your hands to let me know that you've got a question, and we'll turn it over.

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Question and Answer

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

I want to focus a little bit on Commercial because it's performing really well, I think it gets absolutely no attention, which is bizarre. But when we look at various surveys, we're seeing a little bit of moderation in the rate decrease. As you know, the surveys are all -- I mean, the precision is limited, but is that actually aligned with what you're seeing in the marketplace where it's still a competitive marketplace, but maybe the initial aggressiveness is toning itself down? Or is it still, again, looking at the small, midsized commercial space, is that still a steady competition in your book?

Douglas G. Elliot
President

I would suggest that it's a steady competition. I don't see any toning down of what I felt like we experienced in the second quarter, relatively consistent, so not toning up aggressively. But clearly, as aggressive and competitive in Q3 as what we've witnessed in Q2.

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

Okay.

Douglas G. Elliot
President

Maybe a good chance just to talk about Commercial Lines for a moment. We are very pleased with our performance, particularly in Small Commercial. It's a franchise play for us. It's our largest business. We feel very good about it. We invested heavily, and the returns have been very solid. Again, pricing has been relatively stable, and at the margins we write at in Small Commercial, I'm pleased with that. Over time, as the comp pricing filings go in state by state, we will feel some pressure, but very pleased overall with our performance in Small Commercial and the ability to grow organically over these past several years, including the early part of '16. Middle has been a turnaround story for us. I'm pleased about that turnaround. So 5 years ago, all of our conversations like this were on, "Can you turn Middle around?" It was more heavily dominated in workers' comp than a balanced portfolio should have been in the Middle, and I think we've worked hard and made good progress at that over the past 4 or 5 years. I like where we are today. I think we're competing well in the space. And if you ask the people that distribute our product, I think they would see us as a bona fide, genuine player in the Middle Market today. Very different than 4 or 5 years ago.

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

Okay. And if I put those 2 together, if we're expecting more price competition than workers' compensation, which I think is only reasonable, and it's a smaller percentage of what you're doing than the implicit pain, if you will, should be somewhat mitigated.

Douglas G. Elliot
President

Yes, in general, the Middle has seen more price competition and has had more amplitudes over history. The only thing different today is that I see quite a bit of our competition talking and thinking more proactively about small commercial. I think they looked at our model and other models that have been in place for a couple of years or so. There is a large interest in Small, and there's some new entrance. And so what normally is a very steady run, and I expect steadiness in small. I do think that it's understandable. We're going to see names that we haven't seen ever in Small, newer names.

Meyer Shields

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

Is their entrance more rate focused? The reason I'm asking that is because the infrastructure needed to distribute and administer Small Commercial is essentially fairly elaborate. So it's not that easy to just sort of jump in and get it. So one way of entering will be to have rates that are maybe not sustainable over the long term, but you can bring your way in.

Douglas G. Elliot
President

Yes. It's so hard for me to comment on rates of individual carriers. There clearly are more digitized platforms against the balance of the 50 carriers that play aggressively in Small. I think our service center, our breadth on underwriting, all of the services, including claim that we offer, is a terrific complement and a value prop for our agents. The speed of icon on the glass, on the screens for CSRs across the country is excellent, I think top of class. But we are digitizing many of our services, and I think you'll see that roll out over the coming years because we want to be there where our customers want to be serviced from. And eventually, we understand that some of those customers, who want to purchase online as well.

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

Okay. To date, we've heard a lot of news about potential direct distribution, whether it's workers' compensation or maybe more broadly, Small Commercials. Is that pinching your distribution force yet?

Douglas G. Elliot
President

I don't feel that it is. I think it's very difficult for us to get those numbers. But I don't feel any large impact coming from purchasers moving online.

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

Okay. But I mean, I think it will be a tricky, but who knows. You mentioned earlier the successful effort to diversify Middle Market away from an overexposure to workers' compensation. Is that effort done? In other words, are you at a good static point right now? Or are there additional mix changes above and beyond what rate would imply? I guess, I'm asking in the context of Middle Market, but I can hear this on the Small Commercial side as well.

Douglas G. Elliot
President

Our product offerings outside of workers' comp and the Middle have really advanced themselves over these past 3 or 4 years. I'm talking about property and general liability and also auto, although to a lesser extent. When I say that our appetite on commercial auto is clearly not the same as it would be for a property and liability risk. Secondly, we've been building our product. And we've announced over the last couple of quarters the continuation of our need to get broader and deeper in space. So we hired a gentleman in the Southwest to move this into our energy vertical line. We are looking at new classes, and all those classes are a balanced view of what's in the sector. So property and GL are a very close complement with our strong workers' comp offering. And I think, Meyer, we're in a good position today to offer all those products.

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

Okay. Where does commercial auto fit into that lineup?

Douglas G. Elliot
President

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So many talk about commercial auto as the fourth line in commercial. And so we're a player. We're not a specialty player. We're a thoughtful player, and we're a very deliberate underwriter. So we're looking at driver records. We're diligently working on the commercial auto risk that we underwrite. We've been working hard at price and underwriting for 3 or 4 years. And as I've said on the calls, our commercial auto pricing is right now the leader relative to all the other lines from a price standpoint. I don't see that changing anytime soon. And we do expect to see some of the nuances of Personal Lines auto creep into Small Commercial and into Middle Market. It's just a natural. Those cars are on the road, there are more accidents, there are more injuries. So we're trying to price our way and underwrite our way into that thoughtfully.

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

Okay. Do you see -- I've asked this question a number of times to different executives and gotten different answers. But is your perception that the issues that have been implemented or affecting industry-wide commercial auto to date are the same as those that are on the Personal Lines side? Or was there another factor that's sort of inhibited industry-wide profitability?

Douglas G. Elliot
President

So I believe there are some of the same. There are more drivers on the road, distracted dynamics. All those run across. There is an economic dynamic to commercial, though, I think of as well, which is healthy economy, more workers, more employed workers, more vehicles on the road transporting product, et cetera. So in a healthy economy, you're going to see more commercial drivers out there. In a very healthy economy, you've got lots of businesses looking for drivers. That concerns me sometimes when they look too hard because you're going to get now less experienced drivers driving larger trucks. So there's a balance between wanting healthy economy and also wanting good drivers. And there's a tension point you have to work your way through, which is why underwriting through driver records is so important.

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

Right. I suppose more importantly, you have more bad drivers. If we can shift briefly to Personal Lines, we've been seeing fairly steady 6% or 7% rate increases on the AARP book for a couple of years already. Is there an upper limit that constrains you in terms of protecting the AARP relationship and the brand associated with that? In other words, and I'm making these numbers up, they don't give them any credence. But if you needed a 15% rate increase in a particular state, would you take that as a 15% rate increase or spread it out over 2 or 3 years to preserve the relationship.

Douglas G. Elliot
President

Yes. I guess, I'd start that answer by saying, we have a very open, honest relationship and dialogue with AARP. They understand exactly where we are, and they're working with us as partners. On that effect, I think Chris is going to be with them this afternoon on a panel they're hosting. So close working relationship. Second point, I would make is, when we talk about 7, 7 is the average of all the price points inside the plans. So there are components that are much greater than that. And there are also driver classes that are much less than that inside our filings. So it's not a 7 meets all. There are components that are plus 20, plus 15. There are also ones that are rather flat. And because of that, I think AARP is clearly a good partner in that regard and understands those drivers that had poor auto performance with us need to get more rate and probably need to get more in the 7 point. Albeit in an environment where we're working with regulators, we've got 12-month policies with AARP, that's a value point for them. But I see us continuing to improve that book, very optimistic and I know we can make the same kind of changes there that we did in our commercial side.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

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There's one thing I'd add just to echo what Doug said at the beginning in his comments is the team is pushing really hard on rate filings. And when you look at where we are this year compared to last year, that's up, and that pace is continuing. So totally agree with what Doug said that the AARP relationship is very strong, and we're looking to get the book back to profitability.

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

Okay. Is it your sense -- and I know we're talking about 51 different regulators, so it's an unfair question, but do the regulators get it that there's something unusual going on with claim frequency now compared to prior years and, therefore there are -- for the politically-minded regulators giving you less of a hard time about rate increases that are fairly easily actuarially justified?

Douglas G. Elliot
President

Yes, that's a loaded question. So I would say that the regulators are clearly looking at their data elements, and understanding that this line is feeling stressed at the moment. I don't know how to compare it to prior cycles, but we feel good that in our key states, and they're almost all key, there are thoughtful discussions and the outcome that we're seeking to achieve largely able to do so, we're not looking to get our combined ratio to 75 overnight. We need to make strides towards a combined ratio, the number 1 is out front of our cost and capital, number 2 is competitive relative to return on equity, and that's what we intend to do.

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

And that, if I'm interpreting you correctly, that you're not taking any unreasonable hurdles from the regulators?

Douglas G. Elliot
President

Correct.

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

Okay. Turning slightly to the non-AARP book guide, and you talked a little bit about a fairly significant reduction in terms of the agency force. Is there a minimum size that you need to have to be relevant for its capital efficient in typical third-party distributed personal auto?

Douglas G. Elliot
President

I don't know if there's an exact data point. But there clearly is a position where if you're below their top grouping of carriers, you're not seeing the preferred risks in an agency, and you're probably not one of their key providers. So we spend a lot of time thinking about that balance, whether it's 1 through 3, 1 through 5, clearly if you're 8, 9, 10, you're probably better off letting them move into their key markets and going elsewhere. The backdrop of that is that we had an aggressive rollout not only with AARP through agents, but just in general, agency program over the prior 3, 4 and 5 years, where the book was performing well. We built a new class plan the idea was this is the time to grow. And all else equal, thoughtfully done. That was done at its point where trends started changing, and we had some adjustments that needed to happen to the class plan. And so Beth and I and Chris as a new team, starting in the summer of '14, kind of moved into the space. We felt like we had too many agents that were not valuing our contracts, but aggressively moving to get back into relationships where we matter and where our customers matter, and they want to purchase a Hartford contract, and we value that. So lot of moving parts, pleased with the progress. And one of the things I didn't share is that where we're not positioned well or don't think we have that relationship where it needs to be, we've also made a series of commission adjustments. We rolled out our commission adjustments since second quarter effective July 1 in most

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states and other states in August. So looking at all features and, I guess, the macro dynamic is that I would just say with the multi-carrier rater issue in front of the industry, the agency channel has been a bit more challenged in last year or 2. We recognized that, and we're working our way through that.

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

Okay. I don't want to put words in your mouth, but I want to see if I'm interpreting this correctly. You've got the sort of typical dynamic between rates and loss cost trends. And then on top of that, you've got sort of an aggressive, proactive agency-focused management structure, which would imply, I think, and that's why I'm asking, a quicker improvement in the personal auto or Personal Lines personalized combined ratio than rates and loss cost trends and their intersection would imply. Is that a fair interpretation?

Douglas G. Elliot
President

Yes. I'm fully expecting that the result of our actions outside of price are going to have very positive impact on that change.

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

Okay.

Douglas G. Elliot
President

It's hard to predict. I mean, Beth and I sit, and we look at a whole series of features, and some she lets me put in the roll forward and some she doesn't, but essentially, there are a lot of levers being pulled. I'll just give you one little fact. We've looked at our new business production this year, and you clearly have seen and we shared the numbers today that it's curtailed from where it was a couple of quarters ago. Our new business frequency, right now, in the agency channel is better than our renewal frequency. So the quality of new coming on this year, I have -- number one, I don't see that dynamic very often. Normally, there's always a new business surprise factor in there somewhere, that's both commercial and personal. So we're pleased with what we're seeing come on our books, but we've had to constrain, if you will, the amount of new business we've written. But I'm seeing signs that this thing is starting to head in the direction we want it to go.

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

Fantastic, and that's renewal as renewal, not renewal when it was new?

Douglas G. Elliot
President

Correct. Renewal versus new. So it's customers renewings versus those that are brand new to us.

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

Right, and that's really unusual in a good way.

Douglas G. Elliot
President

That's a good thing.

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

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Okay. Again, I want to make sure that I'm not missing anyone out.

Unknown Analyst

My question is...

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

We got a mic coming to you in one second.

Unknown Analyst

I don't think I'm asking a forward-looking question, but when you reported the second quarter Personal results and the Auto results in particular, that included a true up for the first quarter. Would you -- as a starting point, would you say that the year-to-date underlying loss ratio for Personal and for Auto was a good starting point rather than the second quarter underlying loss ratio?

Douglas G. Elliot
President

So I look at the 2 quarters together, X, X, and think that we were 99.5, if you will, on a year-to-date basis, X, X, in Auto, knowing that there's seasonality. So the fourth quarter is typically a more difficult Personal Lines Auto quarter than the other 3 quarters. So as we think through that puzzle, I do think you can look at year-to-date as a baseline for that. But I think that we share where we think the second half of the year was going to go from an all-in basis.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

So for Auto, we didn't break it out for the second half, but what we did say in your comments was that when we started the year, we had thought that the Auto X, X would be at 96 to 98 combined ratio, and we were trending probably 5 points higher than that. So it was the 101 to 103. So again that's with the seasonality aspect as the second half is usually, we see higher loss costs. That's how we think about we would get to those the full year as the second half would be a little bit -- would be higher than the first half.

Unknown Analyst

Can you speak about the workers' comp business, what's the breakdown is between excess and standard workers' comp, what's the tail? And what kind of implicit interest rate assumption is embedded in your reserves?

Douglas G. Elliot
President

So our workers' comp book and national accounts primarily is all excess. Essentially, the customers keeping the underlying, and we're playing over the top depending upon our retention point, whether it's $100,000 or $0.5 million or $1 million. Our Middle Market book is really all dollar one, all guaranteed costs. So we have no risk sharing on the workers' comp side in our Middle Market book. We make estimates for medical wage, et cetera, on our reserves, inside our assumptions for our reserves going forward. And our medical assumptions range in the 5% to 7% category on are actually in years that we've written on our books today. So we're forecasting where we think medical's going to go on the injuries that will happen or occur or have already occurred in those accident years.

Unknown Analyst

What about interest rates assumptions on your -- what are your interest rate assumptions on the reserves? What kind of interest rate you assuming you're going to earn on the float that you're achieving from the business that's written, roughly speaking?

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Douglas G. Elliot
President

Yes, so inside our pricing curves, we use a 4 LIBOR mark. We keep that updated every 30 days. So we're basically using a duration in our Small Commercial and Middle Market book, probably in the 4.5 range. Our national account durations are far longer because of where we sit in those curves. We try to stay very much on top of the interest curve. I would say the 30- to 60-day cycle on top of those pricing curves is as fast as most anybody I've seen.

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

I want to throw in a couple of questions about asbestos. The first is, definitely [ph], can you describe a little bit about what was attractive about the deal with Catalina that could or cannot translate over to the legacy liability within the U.S.? And second, this is just a broader asbestos liability management process, what steps does Hartford take to ensure that your claim practices are in line with the rest of the industry?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Okay. So take the first question that we're very pleased with the deal that we reached relative to our U.K. exposures. And really, it's been in part of a multi-year process, one to get all of the exposures in different entities that we had written over the years over there into one legal entity. And what we really liked about the transaction was the fact that it is a legal entity transaction, so it's complete transfer of the rest. There's no liability back to the Hartford. And most importantly, we're very pleased with the terms of the agreement as well. So very happy and expect that, that will close sometime in the fourth quarter. As you think about then the carryover to the U.S. book, and I would point out that the exposures in the U.K. were not just asbestos. There were other exposures as well, but there was a component that was asbestos as well. A couple of things, one, we don't have a legal entity that can house all of these liabilities that one could sell. So to look at any type of third-party solutions is really done via reinsurance and it's a large block. And so to some extent, it really is a discussion around pricing and terms. And we do look in the marketplace to see if there's viable transaction that could potentially take off some of that risk, but you don't see any of that provide unlimited exposure. So there's always going to be some kind of cap. You always have to take into consideration who's going to handle the claims, especially if it is a capped transaction, you want to make sure that if those exposures come back to you, you have the expertise in-house to handle those exposures. And then it's a matter of the risk margin that what we charge on top of that. So we balance all those things. What we do? We do take those things into considerations and trying to determine if whether or not it makes sense for us to put additional capital to work against those exposures. As it relates to our claims handling and even how we think about our reserving processes, we do discuss things with others in the industry. We do not do a third-party peer review or anything like that as it relates to our exposures. But we do bring in folks periodically to understand what they're seeing in the marketplace to make sure that we're taking those trends into consideration. We obviously get insight from our auditors who look closely at our reserves and also have insight into what others are doing. So we use that as a sounding board as we think about these exposures. And we do believe that for these difficult claims that our claim handlers perform very well, and we're very pleased with the settlements that we reach and so forth. This just continues to be a difficult environment where, as we say, the majority of our insureds behave consistent with how we expected them to the previous year when we look at the reserve study. But you have a handful of insureds where that behavior is different. And because we extrapolated out several years into the future, it can have a large impact.

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

Okay, just one -- make sure I'm not overlooking any questions. But moving forward, I want to talk a little bit about Maxum. I think our first interpretation of Maxum was sort of there was a signal that Hartford is now fully back and able to look at acquisitions, and I think that's true, but it's probably underemphasizing the actual addition of specialty underwriting capabilities. So maybe you talked a little bit about the reality

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of it. Is there -- I can ask this awkwardly, is there a time line that will have Specialty products available across the country, et cetera?

Douglas G. Elliot
President

So the answer to last question is not yet. But let me just start with Maxum, and why Maxum and why Specialty. So we have been looking at our appetite across small commercial, and eventually middle, these last 3 to 5 years. And I talked some of the things we've done in middle market in terms of product rollout. In small, where we're very strong, I think we feel terrific about it. So there are -- between retail and medical, et cetera, we have excellent products, great breadth and feel terrific about how we do small commercial. But we also know there is an element to small commercial that we don't reach, don't have the skill set or the know-how to reach. So we've been debating how best to broaden our risk appetite these last couple of years. And when the Maxum opportunity came up, we spent time with that group in Alpharetta. The irony is that the leader of Maxum worked for The Hartford once upon a time, and actually, he had a very close relationship with Stephanie Bush, who runs small commercial a long, long time ago in our Chicago location. So there was a spirit of cooperation and understanding what happens at a big company and the E&S capabilities. So we are leaning into those hard. I know we had a team there last week. We feel terrific about what Marshall Turner and that group has done in Alpharetta. They have had a very tight distribution equation around how they distributed their product. They know we want to figure out how they can help us grow in small, but we also want to be thoughtful and not just drive some of the things they've done to make them successful. So working on it, it is a huge priority. I don't want to give you a time line because I would set you up for something we're just not positive of yet.

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

Okay, but is it fair to say that this is actually going to be without stress at a time, is this going to be meaningful product opportunity?

Douglas G. Elliot
President

Yes, the Maxum transaction will meaningfully help us think about broader appetite options than we could have without them, absolutely. Another question is how to set that in a schedule, and how to do that? This is a small company, right? $150 million of premium, 85 employees. So quickly, we could overwhelm them, and we don't want to do that. And they have their own game plan to serve, but they're dedicated to helping us get stronger, and I want to also help them be a broader player as well.

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

Okay. Good. One issue we haven't touched on yet is group benefits, both on the zone and the interplay between group benefits customers and P&C. I was hoping you can talk little bit about one, how things are going? Obviously, depressed interest rate environment is, I think, insightful in that comment. And second, across on the opportunities to maybe preservation of retention or other asset advantages that stem from having the group benefits platform?

Douglas G. Elliot
President

Generally, very pleased with our group benefit business performance. It has been a big turnaround as has middle market the last couple of years. Solid start to this year. We had an excellent sales first half of 2015, so didn't duplicate that, but also had a strong start to 2016. We're feeling a bit more competitive pressure in the disability lines. We're trying to be thoughtful and prudent. So we're being careful there. Again, we built in a forward LIBOR curve, so we're not hoping for an NII investment income result that we're not thinking we could see on the horizon. The general category is as best we can as we follow competitors. Our performance stacks very well in the suite of the top 10. I think there are several in that category that need improvement on their profit. So it's interesting as I watch that play out and compare it to all my

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experience in the P&C. We're pleased about it, but we also want to keep our margins at that 5-plus range, and that's what I think that's the most important thing. So we've moved and given on a couple of new business opportunities where we just couldn't get the right price. But I think over time, we'll see a stable environment because I do think others are going to have to improve their profit performance. First part of your question was this, this interlock potential between comp and disability group. The last month I've been on the road, actually Chris had been on the road several times, and without us suggesting, several of our largest agents have described new initiatives in their broker agency to look at the combination of group, health and P&C. As recent as last week, one of our major brokers in the Midwest said to me, "Doug, I had lived my life on the P&C side," and across his phone, he was showing me wins that were coming in from teams working together at the brokerage operation. Now I realize health is a part of, it's not just our group, but it is voluntary not just disability, it's the group life and also it's the health. So we continue to look at that. Now that both workers' comp and disability are reasonably healthy lines, I think you will see us continue to experiment and look for customers that might want to try some things across those lines. I'm optimistic. I'm not telling you this is going to be the offensive strategy for '17, but I am suggesting that we continue to see more and more of those buying decisions heading down to the CFOs office near in our customer segment.

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

Right. So you're benefiting in other words from all of the uncertainty surrounding broader health insurance consumers?

Douglas G. Elliot
President

Which is why I think it's so important to be a respected player in these larger middle market and national account brokerage shops. They're going to see some of these opportunities that are looking for more holistic solution, and I think we offer a lot in that opportunity. So right.

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

Fantastic. Again, I want to make sure that I'm not missing anyone that has a question. And you want to talk a little bit about broadly thinking the investment portfolio. We've seen some duration shortening, maybe that's just top of that attrition, I'm not sure. But can you talk about, I guess, what's driving that more broadly the investment strategy?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. No real change in our investment strategy. It really is a question of just what happened with interest rates. So our HIMCO folks that manage our investment portfolio are continuing on the same path they have been, obviously monitoring things very closely as far as what's happening in the environment we've seen over the course of the year then take action on certain asset classes. We've talked about energy before and some of the actions that we took on that last year, where they can, and we can move up in credit quality and still get good yields, we're looking at that, too. But again, overall, no real change in our investment philosophy or strategy.

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

Okay. Fantastic. I think at this point, we're heading up, again that's the buzzer. So those are the questions from the audience. I just want to thank Beth and Doug for a very helpful...

Beth A. Bombara
Chief Financial Officer and Executive Vice President
Thank you.

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