

The Hartford Financial Services Group, Inc. NYSE:HIG

Company Conference Presentation

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Chief Financial Officer and Executive Vice President

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Douglas G. Elliot
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Unknown Analyst

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Presentation

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Thanks, everyone, for being here today. My name is Mike Nannizzi. I am the Property & Casualty Insurance Analyst here at Goldman Sachs. We're pleased to have The Hartford here joining us. Representing The Hartford, we've got Chris Swift, Hartford's Chairman -- or Hartford's CEO; Doug Elliot, President; and Beth Bombara, CFO.

Hartford is a leading domestic insurance company with a market cap of about $18 billion and a focus on Commercial Lines, particularly in the Small and Middle Market; as well as in Personal Lines, led by its association, affiliation with the AARP. Chris joined The Hartford in 2010 as Executive Vice President and CFO, was named CEO in June of '14; while Doug joined Hartford shortly after in 2011, overseeing both the Property & Casualty Commercial business and Group Benefits, who was then named President in 2014 in which he was given responsibility of the company's personalized book as well. And then last but not least is Beth Bombara, the company's CFO and previously President of Talcott, which is the ringfenced Life Insurance business that Hartford had previously written, and that was her role since its formation in 2012 and prior to that was Controller for The Hartford dating back to 2004.

And so with those introductory comments, I'll turn it over to Chris for a few points. We'll open it up to Q&A and go from there. Thanks so much, and thanks, Chris.

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Good. Thank you, Michael. Always a pleasure to join you here at your conference and for us to have the opportunity to update you on our story and action. I thought I'd just summarize the businesses in general. And as Michael said, we'll open it up to questions.

So if I start with Commercial Lines -- or in general, I'm very pleased with our overall performance this year. We headed into 2016 knowing competition was increasing, particularly on the pricing side. We started the year in a low interest rate environment. And if I look at all our businesses, except for one we'll talk about, I think they are performing well and very close or exceeding expectations.

If I dive a little deeper into our Commercial franchise, which is the largest part of our book of business, and start with Small Commercial. Small Commercial is our growth engine, our profit engine, and it's our highest ROE business and it's performing marvelously. We've added some capabilities to Commercial this year, principally in the E&S space. We acquired an E&S insurer in Atlanta to help expand our risk appetite in serving Small Commercial. We're also moving upscale in Small Commercial, taking on larger account sizes than we have in the past, increasing, again, our underwriting risk appetite.

In Middle Market. Middle Market is probably the toughest component of our business today: fierce price competition for new business, people are trying to hold on to their retentions in a most efficient way. We knew this business was under pressure and that we were going to be disciplined heading into 2016, and we've seen a reduction in our top line and fewer new business opportunities. But on the positive side, retentions are strong. Margins -- actually, we're maintaining our margins throughout all of 2016. This line of business has probably had the most new investment in capabilities, whether it be our new industry verticals such as energy, we've launched an energy vertical here in the fourth quarter; whether it be our international capabilities that we've added with our partnership with AXA Financial to expand -- to insure property and liability coverages of our U.S. insurers. And there's numerous other examples of how we're adding to our capabilities. For instance, I think we have the leading construction practice, U.S. construction practice of any U.S. domestic insurer that we've built over the last 3 years. So a lot of good things from a capability side, but we're being very cautious on new business opportunities.

In the large side of our Commercial business, I view that as just a consistent performer in a tough competitive market. But our key differentiator, as we explained in our Claims Day in Hartford maybe

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a month or so ago, is really our claims capabilities in the large side, traditionally the national account business. We have good capabilities there. We have a good-sized book of business. But again, growing it is very difficult in this competitive environment.

If I look at our Group Benefits business, it has returned to growth. After years of restructuring, shrinking some aspects of that book of business, we're back in a growth area with consistent margins about 5.5%. And we've built out our full capability of voluntary products, and we're adding additional A&H capabilities to our product set. So again, very consistent and stable performer, and we're optimistic about our sales opportunities as we head into 2017.

Talcott. Talcott is just a beautiful thing, as I call it internally. It's performing exactly as expected. It will probably exceed or come close to the high end of our earnings guidance range for the full year. We've taken a dividend in about 250 -- excuse me, $750 million this year. We expect another dividend next year in the range of $600 million. It is performing as designed. The risks are well maintained or well managed. It's a self-contained business unit.

Mutual Funds. I would say our net flows are consistently improving. We've added 2 new capabilities to our Mutual Fund platform. We've added a second sub-advisor in addition to Wellington called Schroders, so we're using Schroders' investment capabilities as part of our fund complex now. In addition, we bought a smart beta company called Lattice out in California and are going to integrate it into the Mutual Fund platform.

So those are just a quick update on some of the business activities.

The one soft spot for us and others in the industry today is auto, principally personal lines auto for us. And what I would remind people is that we have seen an increase in frequency and severity trends beginning in the second half of 2015. Those trends have continued to put some pressure on our results in '16. If I look at the actions that our team has been aggressively taking over the last 12 months, and this team is working 24/7 to fix and improve this line of business, but we have adjusted our underwriting, we have shrunken our agency footprint, we have taken expense actions on operating expenses and we've also taken commission adjustments and what we pay our agent. All those metrics I see and Doug sees every day also are beginning to take shape and will begin to improve our 2017 combined ratios. And as we head into '18, we expect to get closer back to our target margins in this business going forward.

But as I mentioned, those trends are pressuring us here in '16 also. As we look out into the fourth quarter here when we do our fourth quarter reserve study, we see more bodily injury severity pressure in these books of business, both personal and commercial auto. I do expect a prior year reserve adjustment, principally for accident year 2015, in the range of about $50 million pretax, attributed 60% to Commercial Lines and 40% to Personal Lines. At this point, there's no one more disappointed than the 3 of us that these trends are continuing. But if I look at the industry trends, that most carriers face of increased miles driven, full economic activity, lower gas prices, more fatalities on the road. We've seen double-digit increase in fatalities over the last 2 years. And then lastly but not leastly is distracted driving. Now I would employ this group as professionals in the investment management spaces. Educate your friends, your family, your children on distracted driving. It is a real issue that's causing real pain for the society in general. So that's all I'll say there. You put all that together, and we've needed to make some adjustments to our severity calls for '15 as we see, again, with more severe accidents just a little bit more litigation and legal advice and counsel being sought as we settle out these claims.

I'll end, lastly, with our capital generation. I'm very pleased with our ability to continue to generate excess capital. All our businesses are generating excess capital, creates a lot of dividend flow to our holding company, where we, with Beth's leadership, can do accretive things for shareholders with that capital. As you know, we bought in roughly about $1.3 billion of stock this year. We'll buy in $1.3 billion next year also. We've increased the dividend. So gives us a lot of flexibility to do accretive things for shareholders. We always talk about using our excess capital primarily to grow our businesses either organically or through acquisition. And if we can't find returns that are acceptable to us in those growth strategies, we'll continue to return excess capital to our shareholders.
So Michael, we look forward to answering any of your questions or your guests' questions here today.

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Question and Answer

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Thanks, Chris. Okay, well, why don't we just pick up with your comment on the reserves in the fourth quarter. Can you talk about the current accident year [indiscernible] and how we should be thinking about that and whether -- or whether or not that reserve adjustment is effectively addressing the catch-up for the full year?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Yes. As I said, the reserve adjustment is primarily for 2015 accident years. What I neglected to say, and thank you for reminding me, is that for Personal Lines, we had guided people to a 101 to 103 full year combined ratio for that line of business. With these adjustments and some of the trends we're seeing, we're probably in -- at the high point of that 103 to slightly exceeding it as we close out the year.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

And just to be clear, that was for the auto.

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Auto only. Yes, auto only.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes, okay. And then so can you maybe talk a little bit about the trends that you're seeing? And as we've gone through the quarter, what have you seen that sort of led you to that conclusion? Or what has been the trend through the quarter? Can you give some color on that?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

I'm going to ask Doug to add his color.

Douglas G. Elliot
President

So Mike, let's start with Commercial, we haven't talked a lot about Commercial, just share with you what we're seeing. Number one, the Commercial pressure we see in auto is primarily centered in Small Commercial. We've been working at Middle Market auto for the last 4 years. In fact, our rate change in that line in the Middle has been in addition to 30-plus percent over these 4 years. So we're not feeling the pressure in Middle at the moment. What we're feeling in Small Commercial -- for those cases that are open in that 12- to 36-month category, we're feeling pressure in severity to get them closed, and we're seeing more litigation on the backside from the plaintiff's end. And so the pressure on severity is in bodily injury tied in with speed and damageability of some of these accidents. But it's a bit more challenged than we expected and in certain classes. And what I would close my comments in Commercial by saying we are now adjusting our underwriting approach and refer to underwriter. We've got a very automated system in Small Commercial where we accept applications on the glass through the computer with our agents. We have now changed our profile to look at -- referred to an underwriter, aggressively moving up, getting more touches on those auto, particularly stand-alone auto cases that have worked their way into our system. So that's Small Commercial, and that's really where the pressure is right now on the auto line. In Personal Lines, I'd start off by saying, last year, at this time, we were struggling with an uptick in frequency. And as we worked our way through a series of adjustments, our view now looking backwards

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and in the fourth quarter so far, our frequency picks are holding. Feel pretty good about where we are and really don't have an adjustment on the frequency side. What we're feeling is this continued pressure on severity. And as we look at not only ourselves but what we can tell from data around us, we look at the ISO Fast Track data, those severity dynamics on a paid basis look to be across the industry in that 5 to 5-plus range, and we're feeling that as well. We expect that our severity second half of the year to be a little bit less and largely because last year we had such aggressive patterns in the second half of the year. But they're a little bit higher than we had hoped they would be 6 months ago. And so we want to make sure, as we close '16, we get on top of that and we've adjusted for '15 as well.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And when you break into that BI component, you mentioned legal costs, maybe could you give us a little bit more granularity in terms of what's driving that change with some more specificity? And you also mentioned specific lines of business. What are the areas that you're seeing this more so than others?

Douglas G. Elliot
President

Well, in Personal Lines, the...

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Maybe going -- maybe just back to that second part, going back to Commercial.

Douglas G. Elliot
President

Okay, okay. In Commercial, we're seeing percentage of open cases, an increased percent with attorney representation on the back side, so on the plaintiff side. And they're putting pressure on awards, and so the awards are up slightly from where they had been and where they would be without attorney representation. The change's in 100,000 case estimates and up. So the number of changes in a quarter where we had a loss estimate that move by more than 100,000 are moving more than we expected. So we've got our triangles and we've got all that factored in, but we're seeing a bit more movement on the larger end in our Commercial cases. Again, we don't see the same trends in Middle that we see in Small, but we see some of the same trends in Small that we've experienced in Personal Lines, where the severity element of BI is reaching into our Small Commercial book where we might have 1 or 2 vehicles in a small fleet doctor's office or a lawyer's practice.

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

I would say also to the data that I've seen that there has been an uptick in the construction area of Small. So anything construction-wise, that class of business is exhibiting a poor loss behavior than we've seen in the past.

Douglas G. Elliot
President

Yes. But when I talk bodily injury, I am specifically talking about BI because I think the PD element, the physical damage element, looks to be within our expectation, knowing that we're having to price up for the value of some of the features that are in these cars. We've talked about that, Mike, at length with you. Particularly I think about the Ford trucks and the Chevy trucks and the trucks that are attached to some of these small commercial vehicles. We are doing our best to stay on top of features, but we're feeling like the speed and the casualties that are now occurring are causing us to adjust our estimates.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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Got it. And then what about rate activity? I mean, we've seen you -- you talked on the third quarter call about the rate actions that you've taken. Can you just give us an update in terms of what you've now done since the call and what you're expecting to continue to do from here?

Douglas G. Elliot
President

So I gave a little preview of what we thought the fourth quarter would look like, which is continued focused activity to get our pricing on top of those loss trends, and that activity continues. So we had several quarters in a row of 7% written price change. We expect the fourth quarter to be in the 9% range. We still do expect that to happen, Mike. And as we move into '17, the activity won't stop, right? We're going to stay on top. We have talked about a multiyear plan to get our book back adequately priced. It's more than just the pricing element, but just I want to share this morning that the pricing element pressure continues. And the last thing I would say about that, Mike, we do give an all-in pricing number, but obviously, there are state variations. There's AARP versus agency variation. So we use averages. But across our norms, we are leaning into territories. And clearly, the agency end a little bit harder than needs more rates than our direct book.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then maybe we could talk a little bit about, since we're sort of on the update topic, as far as capital deployment is concerned, can we get sort of mark-to-market on share repurchase and thought process?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, sure. So our plan for the fourth quarter was that we would be repurchasing about $280 million of common stock, and we're on track for that. That will pretty much close, the initial program that we had. And as Chris said, we have $1.3 billion earmarked for 2017. We also had a debt maturity in October, which we paid down. And we also anticipate paying down a maturity that we have in March. So our plans are very consistent with what we shared in October, and we're continuing to execute on that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

One area of focus at this conference has been policy, taxation, regulation and maybe some environmental commentary on interest rates and macro factors. Maybe we could talk a little bit, we'll start with the impact if it comes to pass as well as lower tax rate, how you're thinking about that. And then maybe we could talk a little bit about the impact of higher interest rates and does that have any strategic change or any impact on the strategic direction of the company. So first question to Beth, maybe second one to ...

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, I'll start on tax. And Chris, reminds me, until the tax law has actually changed, they haven't changed. But we obviously are spending a lot of time looking at what that impact could be. So a couple of things. First, just from an overall effective tax rate, one thing to point out if you look at our results for this year is our effective tax rate tends to bounce around a lot, especially because of the impact of some of the transactions that we've done. So if you normalize for that and you go through the 9 months, our effective tax rate is about 21% because some of the preference items that we have. So if we think about a reduction in the corporate tax rate to 20%, we would expect that 21% effective tax rate to be about 12%. So definitely would be a positive for us, assuming all preference items stay that we currently have, so our DRD deduction and some of the tax-exempt interest that we have on our muni portfolio. So that's positive. On the other hand, we, like every company, will have to look at our balance sheet and the deferred tax assets that we have up today that are on the balance sheet assuming a 35% tax rate. And so if you lower that to 20%, probably looking about a 4% reduction in book value per share from that change. The other thing I would say with that, too, is that when we think about cash tax, the amount of money we're

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actually spending, this is part of corporate tax reform, the AMT would be eliminated. And assuming we get paid for the AMT credit that we already have, but going forward, that would provide a benefit from a cash tax perspective because we do have net operating losses that we would be utilizing and we'd be getting that full benefit today. What oftentimes happens is as we project utilization of our NOLs, we bump into AMT. And so from a cash perspective, we're still paying tax even though we get a credit. So kind of think about it in those 3 buckets would be the impact sitting here today with a lot of assumptions.

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

I think from your question on strategically what happens in a rising rate environment, there's just 2 aspects I would count upon how we think about what to do with our investment portfolio. So we have roughly $75 billion of general account assets to manage between our P&C operations, Group Benefits and Talcott. So I would say that generally, over last year, we've favored investment-grade corporates, mortgages, CMBS and certain classes in the high-yield area. We've deemphasized municipals, our underweight munis emerging markets. And we had been underweight equities heading into the quarter, and we're starting to close that underweight on equities. So from an investment side, we think there'll be opportunities to pick -- again, not index, pick, pick the appropriate sectors and pick the appropriate names when we have a chance to create alpha for our shareholders. So HIMCO, our investment manager, has got a lot of capabilities in those areas, and we're pretty confident we can continue to find appropriate opportunities without taking undue risk. I don't think we're in an undue risk position from our portfolio. I mean, we take educated risk, and we have the capital to back it. I think in a rising rate environment for any financial services company, it's interesting because it has moving parts on both sides of the balance sheet, right? The asset side, we just talked about the mark-to-market that flows through book value and the liability structures. Being predominantly a P&C and Group Benefit-orientated company, we don't mind a modestly rising rate environment as long as there's not terrible spikes along the way and that there's not inflation in the certain sectors where we have significant exposure. So if you think about wages, workers' comp exposure, we have to manage that inflationary aspect very, very closely. So you might earn more spread from your investment, but your loss costs could feel a little pressure. Net-net, I still think it would be a positive and something that we and others in the industry could manage appropriately.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

When you think about -- you've got a few disparate businesses. You've got the Group Benefits business. You've got, obviously, Talcott. You've got P&C primarily through an exclusive direct relationship on the Personal Lines side. You've got more of an independent agent dynamic on the Commercial side. Thinking about all these -- all of these different dynamics, just could you touch a little bit on the complexity of managing all of these? And then in a rising rate environment, are there businesses that you feel are more likely to be -- that you could either monetize or where there may be more value in other hands?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Yes. So from a business side, our core franchise is geared around Property & Casualty and Group Benefits. We like those businesses. We think we can create great shareholder value over the long term with those businesses. We think our consumer-centric mindset on serving customers and growing our capabilities will be very advantageous. Talcott, we've been in run-off for the last 5 years now. And whether we run that off over longer period of time or there is a transaction that is economic and feasible to execute, we'll continue to push ourselves to explore that. So that's sort of a gray area right now of when. But I would say in a rising rate environment, the opportunity to sell long-dated liabilities is a lot easier and more economic. Mutual Funds, we like that businesses. It's not unusual for an insurance group to own a mutual fund complex. We view it really as a distribution capability that we have where we have 100% sub-advice with Wellington and Schroders going forward. So I mean, I see these businesses as very complementary, particularly P&C and Benefits. There's not a lot of distraction with the other 2 businesses that we own either running off or managed for a steady dividend flow and higher ROE, which is our Mutual Fund business. So they can create a lot of value for a long, long period of time.

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Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. If anyone in the audience has questions, feel free to raise your hand. I'm going to keep going here, but don't be dissuaded from asking a question if you have one. I guess, Chris, picking up on a point that Beth had made before about -- on the tax side. I was just curious, could you give us a lens into your conversations with state regulators when you're looking to push through rate increases? How relevant is the tax rate? Or does that become part of the discussion when you're looking at requesting a certain amount of rate or the required overall profitability for the book of business?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

I'll let Doug comment, too. But generally, what I would say about our regulatory posture and regulatory relationships across the country, it's very constructive, very professional. And by and large, what regulators want is competition and choice in their local markets. And I find them fairly accommodating these days given the industry trends of frequency and severity, particularly in the auto line. Regulators tend to focus on consumer-orientated insurance businesses, primarily health care, home and auto, less so on commercial. But it's still regulated. There's processes that we have to go through. But I find them -- given what the industry has been dealing with in auto and home over the last couple of years, I think they've been very constructive and fair with our rate filings and requests. Doug...

Douglas G. Elliot
President

Yes, I would agree with that. Mike, it's a good question, though it's been a while since a change has occurred, so I have to think back to -- during that period of change what might have occurred in the process. But we've got a constructive dialogue right now across. And in the case of Personal Lines, where these trends have just spiked across the industry over the past 2 accident years, we find a pretty good partnership, and I expect that to continue over the next several quarters.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Good. Question here in the audience? Here we go with the mic. Fifth row back, there you go.

Unknown Analyst

Just on the charge you were talking about. Who said that there's not going to be another sort of charge like this next year, this time or during the year? I mean, is this something you think of as a one-off? And if there were to -- if there needed to be a charge, what would have to happen for there to be another charge next year?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Yes. I would say, and let Beth comment, too, is that if you look at some of our actions that we've taken particularly on the accident year '14 and '15 in prior quarters, we did -- we think we made the necessary adjustments at that time. I think that adjustments we made for '14 are holding. '15 just -- there's just a little bit more pressure, as Doug said, on closing out cases, particularly with litigation involved, in more severe accidents and more severe injuries. We've made our best estimates to triangulate a number of different data points from the industry. We've sought some outside views, independent of our organization, among other industry participants. So all I could tell you is that we've made our very best pick. And particularly with the '16 accident year and '15, we think we've got our arms around it to give us a high degree of confidence and that we put this behind us.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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I guess, maybe just, Chris, to follow up on that. So your 2016 accident year, then you normally -- you sort of take the '15, you add your rate and loss trends and then -- to get to '16. So if '15 goes up, can you talk about maybe the interaction between the current accident -- or the developed accident year in '15 and the current accident year in '16?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Yes. So the '15 impact that we just took affects '16, so it is part of the new baseline loss ratio. So as I said, we're going to be at the higher end of our 103 guidance because of that impact. And I would say the judgments we've made, we'd probably put more conservatism into the '16 pick than we have before.

Douglas G. Elliot
President

Mike, one of the challenges and opportunities, but challenges, we have looked at ourselves and tried to evaluate is -- you've seen our new business numbers have drastically changed over the last 4 quarters, and fourth quarter will change more. So as we have adjusted our underwriting appetite, as we've gone back and adjusted our class plan, we're now on our fourth iteration of that, we're seeing a better profile of mix coming through, and we're trying to quantify that. The other thing I would say is every year when we try to predict next year's accident year outcome and the plan for the next year, we'll look at the last several accident years to establish a baseline. What has happened over the past 16 months, though, as we've put less comfort in 3 year and more into these evolving trends now. So the '16 baseline, which would have been established based on looking at '13, '14 and '15, as we've moved through the year, we're believing that '15 was a better baseline to jump off of. So we put more and more confidence in that, which is actually putting a higher starting point, which has put pressure on '16. So we think it's prudent. We look back at '13, '14, they look like much more docile normal years than '15. And we think '15 is a better starting point for '16. And as we adjust, we adjust '16 as well. The last point I'll make and for those of you in the room that have followed us for a number of years, some of where we are right now reminds me of where we were in 2011 and '12 with workers' compensation. The environment moved on us with frequency. And we looked at our book of business, we felt like we were underpricing the market. We had to get on that. We had to take a series of quarters in a row of getting accident years '10 and '11 right. But once we got out through that, the accidents on the underwriting side and the pricing really did put that book of business in good stead going forward. And I believe we'll see the same thing in Personal Lines, but it is a stubborn trend that we're leaning into right now.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Another question there?

Unknown Analyst

Just going back to your comments on inflation, also talk about workers' comp and some of the longer-tail lines of business, do you disclose some sort of assumption in your inflation projections or what you bake into your reserves on those longer tail lines?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

We've talked about that in the past on earnings calls that both from a pricing and on a reserving side, we have inflation adjustment. Think about it from a reserving side in that 6% to 7% long-term inflation range on medical severity.

Douglas G. Elliot
President

I do believe it's one of the reasons that our new business successes are a bit more moderate because I think others are leaning into maybe a bit more aggressive expectation for medical. Our view, though,

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is over time, when you get these cases, you're going to be on some of these medical cases for 10 to 20 years. And our long-term pick in medical still sits in the range Chris described.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

What do you think is behind -- meaning, so clearly, auto has been a quagmire for the industry for some time now with sort of shifting reasons, whether it's frequency or severity and what's underneath the severity. What is your sort of view from here? Is it that we're sort of in a new normal as far as personal auto is concerned? Are some of these demographic trends really pervasive, such that the visibility that you've historically had, you or the industry has historically had into auto loss trends is now murkier either because of distracted driving, ridesharing, ride-hailing services? Can you talk to me a little bit about sort of how you're thinking about it from -- as you answer that question, how does that factor into your pricing actions?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Yes. I'll let Doug comment because we have this debate all the time, but I'd just put it into 2 driving factors: activity, whether it be a 4.9% unemployment rate, whether it be miles driven, there's just more activity on our roads than ever before. But then you have to also say that, that activity is being compounded with just a lot more devices in the car -- embedded in the car, right? There's a lot of technology and a lot of distraction that is embedded in the car. And then if you bring any other device that adds to that complexity, you're not paying attention. And so when we talk about speed of accidents, it's not because everyone's driving faster, it's because there's less reaction time for braking. So the speed of the accidents that are occurring are occurring at higher speeds because reaction time is down. That's classic distracted driving. And that's why I said what I did in my opening, it was a plea. We've got a problem. We can fix it. And I grew up in the days back in a '63 Impala. I sat in the backseat, and I didn't wear a safety belt. When dad took a fast turn, I used to bounce from end to end. I learned how to put a safety belt on, and I put one in the backseat of the car now. We can teach ourselves to put down devices, put them down, get there safely and then pick up back your activity. Teach everyone to do that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Do you think that like the advancements -- technological advances in cars give people a false sense of security that they don't need to pay as much attention when they're driving because the car is kind of driving themselves or whether that's on a highway? I mean, do you think that, that is a contributor as well?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

There are certain behavioral aspects to that question. I don't know, to tell you the truth. But all cars are different. So even if -- do you have 2 cars at home?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes.

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

I bet their safety features are different. And how do you keep track of it in sort of real-time to make those decisions? It's hard. I could tell you the research we do in conjunction with our partner, MIT, MIT's AgeLab, is that the only real meaningful safety technological features you need in a car is the front-end collision avoidance system. All the other stuff that flashes on your sidelights or vibrates or this and that is a distraction. If you're going to purchase a new vehicle, purchase a vehicle that has that -- a collision avoidance to help you stop if you're not paying attention.

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Douglas G. Elliot
President

Mike, our view is that there is a bit of a new norm here. So I just want you -- our view of today is the baseline for tomorrow. And as recently as the data this week kind of looked at the Thanksgiving Day holiday traffic, the number of highway deaths were up again, miles driven is up. And our expectation in the fourth quarter there still will be 3%, 3.5% up. So we're leaning into '17 with that as a new norm.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then one last one here in the...

Unknown Analyst

I had a panel discussion this afternoon. Could you maybe give us your views on disruptive technology in the insurance business again?

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Yes. From an insurance business model side, I think it's well documented and discussed in general that most of the disruptive technology is focused on distribution-related activities with a close second on underwriting activities and how automation can help big data, can help have underwriting advantage. So those are the trends that we see, if I understood your question, sir. But I think from our Small Commercial platform side, we've been in business 30 years, we think we're a leader with our technology, existing technology today. We have great service center capabilities, and we're going to continue to invest and innovate in that channel to maintain our leadership position.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Let me just -- before we wrap, let me just -- one last question on Small Commercial, just because it came up here. A lot of other companies have been talking about small commercial, building franchises and platforms to focus on small commercial. So some disruption may come not just from new entrants but from incumbents that look to focus on the part of the business that's been really at the core of Hartford's success on the Commercial side for a long time. How do you think about protecting your franchise position in Small Commercial given...

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Continuing to invest and innovate ourselves. Others are -- they see the aspects of this segment of the business that it's predictable, profitable. But we've been at it 35 years. So capabilities, the brand, the recognition and the investments that we have made and we'll continue to make, we're going to try to create that differentiated outcome.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. Well, there's no more questions. I'd like to thank The Hartford for their time today. Thanks, Chris. Thanks.

Christopher John Swift
Chairman, Chief Executive Officer and Member of Finance, Investment & Risk Management Committee

Thanks, Mike.

Douglas G. Elliot
President
Thanks, Mike.

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