


# The Hartford Financial Services Group, Inc. NYSE:HIG

*Company Conference Presentation*

*Thursday, September 07, 2017 3:15 PM GMT*

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 4

# Call Participants

## EXECUTIVES

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

## ANALYSTS

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

**Scott Frost**

**Unknown Analyst**


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

# Presentation

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*
Okay. We're going to get started to try and keep on schedule. Thank you so much. To begin our current panelist is Beth Bombara, CFO of The Hartford.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

# Question and Answer

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

So let's start with question that's obviously top of mind with every news feed showing pictures of the evacuation from Florida. I don't expect anyone to have an accurate Harvey estimate yet. Can you talk about what your exposure is in your reinsurance program so that we can start to defend or understand the exposure?

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

Sure. So why don't we -- let's start with Harvey and then we can talk about Florida. So obviously, as you said, looking at Harvey and just where we are, it's premature for us to have an estimate at this point. Given the nature of the storm, it's been slower than normal for us to actually get in and assess damage and so forth. But our claims teams are, as you can imagine, working very diligently to do that. When you think about Texas, and I know people have reported on our market share and so forth and understanding what's there, I think maybe if we just kind of talk about our businesses in chunks and how we're thinking about the exposure. So if we start with Personal Lines, we really are seeing that a large portion of the exposure there is from flood. Obviously, wind is there as well, but definitely a high percentage of flood. So on our Personal Lines business in the home side, we would not offer flood protection. Policyholders would have to get that from the National Flood Program. On the auto side, though, definitely, that would be something that would be covered, and similar to kind of what we saw with Sandy with that type of exposure. So we're continuing to work through the claims that have been reported, but we are seeing a high percentage, about 90% of the auto claim there, coming in are flood related. On the Commercial Lines side, our Small Commercial business, we -- in the kind of core business, setting Maxum aside for a moment, we do not offer flood protection. So there would not be flood coverage in the core Small Commercial. And when you look at Maxum, there would be some coverage there. Again, as a reminder, that's our E&S company that we purchased last year and they participate in some of the higher hazard and excess loss-type coverages there, so we would expect to see some exposure coming from that. And then Middle Market, we do offer flood endorsements there. So again, we would expect to see claims coming from that menu. Interesting, as we look at to sort of what our underwriting appetite has been in Texas, we typically, as it relates to flood specifically and we kind of categorize the zones, the things that are most coastal, we typically do not offer flood coverage. But as you know, the flooding has gone well beyond what people would have expected, so we do expect to see flood losses there. And I'll cover off on our reinsurance program. Our property cat, our property cat treaty is a treaty that kicks in after the first $350 million of losses, so it's $800 million in excess of the $350 million. As we sit here today and we look at Harvey, we don't anticipate that it would reach that layer, so we would still be in that $350 million. But again, it's early, and we'll continue to evaluate that. As it relates to that program, of that $800 million layer that we have above $350 million, that's also broken into some additional layers. So the first $150 million, we would retain 25% of that. And then the next 2 layers of $300 million, we retain 10%. And then the last layer, we don't retain anything. So it's kind of how the program stacks up. In addition, we also have an aggregate property cat treaty. And the way that treaty works is that, that first $350 million on our primary cat treaty, those losses kind of pour into the aggregate treaty, and so up to $850 million. After that, we have $200 million of coverage. So you kind of think about $350 million layer for each event. If you breached it, pour into the aggregate, it builds to $850 million and then we have coverage after that. So overall, we feel very good about our reinsurance program in total, how they're structured and the reinsurers that we place that business with.

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

Right. Then for better or worse, and I'm not making prediction here, but it looks like this is a high-frequency year for the aggregate cover. I think we'll be increasing importance.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

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

Yes, it could. I mean through the pre-Harvey, when we just look at losses that have been reported on that, we probably have used a little bit around $200 million, a little over $200 million of that $850 million. Again, that's reported. So even we have some cat that continue to develop, that could continue to pour on into there, so I still feel very good about that. Then if we turn to Florida, again, overall, when you look at our market share in Florida, we're a little under where we are in other areas. On the Personal Lines side, we actually haven't written new homeowners policies in many, many, many years, although with our continuation provisions that we have in our AARP contracts, we still obviously do have policies that's roughly around 21,000 homeowner policies, so pretty small in that space. And again, same thing those would not have flood associated with them. And then on the auto side, our market share is about 1.7%. And again, given some of the challenges that we've had in Personal Lines and the actions that we've since been taking, we've actually seen that discount come down over the last year. And then in our commercial businesses, overall, we're a little bit under 1% market share on commercial property. Again, Small Commercial, ex Maxum, we would not be offering our flood. But obviously, we would have the wind. And then in Middle Market, similar to what my comments were on Harvey. And then again, Maxum would also be participating in there. So that's kind of how our market share stands up.

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

Okay. So that's incredibly thorough. I do want to talk about other aspects of The Hartford Group, but if there are questions on catastrophic exposure and reinsurance, now would be a great time. Yes?

**Scott Frost**

Scott Frost, [indiscernible]. We're trying to -- you mentioned kind of the problem, not for Hartford specifically, this is for the industry, specifically for the reinsurance industry. [indiscernible] the capital losses are out there and the industry sort of loss in [indiscernible]. What sort of magnitude of loss would you guys see to think you've kind of think that the reinsurance industry may be experiencing a [ capital ] event? I mean, the sort of existing counterparty assessment, what do you think we would have to look at in your assessment of things? You have this number here and I forgot [indiscernible]?

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

Yes. I think that's a difficult question to answer and I don't think one that I want to make a prediction on when other companies are going to have to raise capital. I mean, I think that as you look at -- as you look the experience and what's happened in Texas and I think as you look at the potential for the storm, I think you can start to see pressure on the reinsurers. And what will actually trip them into having to raise capital remains to be seen. I think there are some, but are probably more thinly capitalized than others. And I think this could be a test even for some of the alternative capital that we've seen come into the system. Even the storm maybe isn't as significant as potentially predicted, but I think there's a lot of people that are running a lot of models right now and looking at how they've structured their program. So that's probably a long way of not really answering your question, but I think that this does put pressure on the system when we look at an event that potentially could be as large as what people are saying.

**Scott Frost**

Would you characterize this as sort of a margin pressure, [indiscernible] pressure, meaningful pressure...

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

I think it depends on exactly what the storm is. But I think if it became the -- I think that, that definitely starts to put pressure on the system. And there is a lot of capital out there, too. But I think that you will start to see people question the returns that they've been getting in those businesses and potentially see some changes.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

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

All right. [ Josh ]?

**Unknown Analyst**

Would you say you're not expecting to reach $350 million on Harvey?

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

Yes. Sitting here today, again, that can change as we get in and do more assessment, but we kind of look at where we are. Our assessment today is that we would not reach on a higher at that -- to that level.

**Unknown Analyst**

And your [indiscernible]

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

Yes.

**Unknown Analyst**

And what about [indiscernible]

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

Yes. So from a reinstatement perspective, we feel very confident with our program. We do have reinstatement provisions. And in the cat treaty that we have, the restatement provisions by layer can change a little bit. But at its core, we have very good reinstatement provisions.

**Unknown Analyst**

[indiscernible]. So is that you can reinstate more than 2 or...

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

Yes. So we have on our program, I believe -- I could get back to the exact number, but sitting here today, the reinstatement is not something that I'm concerned about even with the storms that we're looking at.

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

Are you done? Do you still have questions?

**Unknown Analyst**

[indiscernible]

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

Right. So I don't have the exact number of reinstatements on our core cat, so we'll get back to you guys on that. I thought that I had it here, but -- yes, so we have reinstatements on the layers, the first, second and third layer. And again, we haven't -- we don't anticipate to breach that on Harvey.

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


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay. Anything else on this topic? It's obviously very important, but there are other things to cover as well. I just want to make sure I'm not precluding anyone from asking any questions. Okay, thanks so much. That was incredibly thorough and really helpful in terms of framing things. I think, as you pointed out, still, unfortunately, very early in hurricane season and a lot of energy in the waters right now, so it's hard to know when we're done. Let me go back to auto, which was probably a main consideration or concern for Hartford investors for the auto insurance industry domestically. Up until about 2 weeks ago, those are very real issues. So you've had -- I think you've clearly achieved a turning point not just in terms of getting pricing in place on written premium, we'd actually see the result start to flow through in terms of improving the auto core loss ratio. Can you give us an update in terms of how you see the next, I'll take, 6 quarters, but whatever time frame that's helpful in terms of that process playing out?

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

Yes. So we have been very pleased with the progress that we've been making on the auto profitability. It has been a slow process, and we've talked about before some of the challenge that we've had just relative to how our policies were structured being 12-month policies and when we started to see some of the changes in trend. But in the first quarter and second quarter, again, if you adjust kind of last year's numbers for the subsequent development that we saw, we definitely we're seeing improvement quarter-over-quarter and are in line to, as we see it, get to the combined ratios that we talked about at the beginning of the year in auto line. So that progress is continuing, and we see that continuing and helping us to get to our long-term objectives as we talked about in getting our auto combined at that 96.5 level, as you said kind of getting into the tail end of '18 when our actions continue to take place, when the rate continues to come into the book. We've seen some of our exposures fall and all that has been playing out. The other thing that we talked about in our second quarter call was the fact that we are seeing that we are at rate adequacy in certain aspects of our book and so beginning to turn on, again, some of our marketing spend. So people should anticipate to see that the amount of marketing spend that we have in the second half of '17 will be higher than what we saw in the first half as we look to continue to grow, again, in some areas. We think that, that process will take some time. Obviously, when you pull back, when you have some of the disruption that we've seen, it's not as if you can just turn it on and get right back to where you were. But we do believe that, over time, we will again be able to start to grow in that -- in those areas where we've achieved our target objectives.

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

And that higher marketing spend is contemplated in the 96.5, if I understand it?

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

Yes, yes, yes.

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

So fine then. Let me ask the next question. I may be getting ahead of myself, but in terms of medium-term thinking, obviously, Hartford has a phenomenally powerful brand. How do you think about the opportunity to leverage that outside of AARP in the -- and the agency channel once the [indiscernible] for workout is sort of getting auto price where it needs to be, if completed?

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

Yes. So our focus really is on our -- is more on our AARP channel. We've seen that through the years that, that has been very profitable for us. On the agent side, we really look at that as an extension of that program, where we have agents that see the value of the product that we're bringing to the market through our AARP, through agent. So our focus on sort of traditional agency, I think, will continue to be somewhat narrow. AARP really is where we see the growth. And again, we want to make sure that we're


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

partnering with agents that appreciate the value that we're bringing and not just necessarily looking for lowest price.

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

Great. Fine. Moving on a little bit, and I guess this gets us back to weather, but not the catastrophic weather we're talking about now. The first half of 2017 was -- one consistency and across the industry was elevated non-cat weather losses, so tornadoes rather than hurricanes, hailstorms, that sort of issue. How does that factor into pricing on the commercial side, that elevation and expectations going forward?

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

Yes. So all of those experiences get contemplated in our models, and we have seen an increase in non-cat weather across our book. And so as we look at the adequacy of our pricing, when we look at the adequacy of are we getting rates that covers loss cost trends, all of that is being incorporated into those trends. And there has -- we have seen an uptick in that, and so that is reflected in how we're thinking about the rate that we need to maintain our profitability.

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

Okay. Fantastic. Is there an -- I'm asking one part, and it's unfair because there are so many different factors, but is there an expectation of heightened non-cat weather trends, like maybe expecting that experience next year will continue -- will resemble '17 instead of, let's say, 2014 or '15?

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

Yes. We look at it more on our averages and over a period of time. So obviously, elevation in '16 and in '17, you would take into consideration, but it's not that we -- just looking at 1 year, we're looking it over a period of time. But over a period of time, we have seen slight -- we have seen elevation there, it's not a trend just recently. So a lot of that is incorporated in the loss cost that we're putting into our model.

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

Okay. Fantastic. And again, if there are questions in the room, just let me know. I'm more than happy to include your questions, they're probably better than mine. In the absence of that, we'll use mine. So on the Small Commercial side, Small Commercial seems to be similar to what see on Personal Lines. It's a brand. A brand that's important. The scale is important. Pricing seems to be reasonably benign certainly compared to what we're seeing or what we have seen in reinsurance and in specialty lines. In the context of that stable pricing and obviously one of the powerhouses of the industry, how should we think about the opportunity for continuous top line growth and margin section within, specifically Small Commercial?

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

Yes. So Small Commercial has continued to perform very well. We are a market leader there in our capabilities and we see the potential for continued growth, especially as we think about our risk appetite and types of coverages that we think we can provide. So we definitely do see a room there, and it's really across the spectrum. So we're very, very strong in sort of the micro end of Small. It's a very small Small Commercial. But we also continue to focus on the higher end of Small, too. And when you think about that as companies of its revenues of like $25 million or so is kind of our boundary. And our platform that we've invested in for 30-plus years, we think puts us on at a very strong competitive advantage to others, and we see the ability to continue to utilize that to our advantage.

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


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Is there an opportunity to target more agents? I believe going -- are there agents whose profiles you like where you're currently underpenetrated?

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

Yes. We're always looking at that and opportunities to find ourselves higher in the rankings in certain agencies and so forth. And again, I think that proposition that we have relative to the ease of doing business with us and the things that we can do on our service capabilities makes that a very compelling partnership for us. So we continue to focus on agents where we think we can expand and penetrate more into their book. Part of the reason why we were so attracted to Maxum, and that was a capability that we didn't have in the E&S space. And we did find situations where being able to bring those capabilities to market would be helpful to us, especially in some of our plans as far as penetrating various agents.

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

Is it fair to say that there are some small business accounts in some standard lines at quasi-specialty accounts that have been lacking capability allows you to write?

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

Yes. I think it rounds out that capability. And as we look sometimes at when agents might come to us, what we referred to as book rolls or looking at trying to consolidate, again, having that capability that we can bring to the table we think, over time, will be beneficial. Again, Maxum today is primarily a distributor's business through wholesalers. But the capabilities and how we can bring that into the retail side, we see as an advantage for us.

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

Certainly. Perfect. Can you -- so before, you were distinguishing between, I don't know how to call it, tiny commercial and Small Commercial, and obviously, you've got the Middle Market as well. Can you talk about the differences and similarities in terms of how you view those books of business and maybe the differences in that [ earnings ] performance?

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

Yes. So again, Small Commercial and the way that we're setup in that space is very, I'd call it, low touch, right? We can do a lot, sort of agents can do a lot sort of on the screen. It's not underwriting policy by policy. And so the volume that we have, this is a very different market. When you go to Middle Market, obviously, a lot more touch there, policies that are being underwritten, and it's a different model. And so in Middle Market, we have, over the last several years, been looking at expanding our capabilities there relative to product lines. We've talked many, many times in the past about the fact that several years ago when Doug Elliot first came to The Hartford, he noticed that we were very quickly in the Middle Market space becoming on the mono-line workers' comp writer. And through actions that he has taken over the years in bringing new capabilities to The Hartford, we've been able to change that profile. I think that's an area where, again, we see the potential for continued growth as we look at different industry verticals: energy, we've talked about in the past; health care and so forth, where we can expand in that marketplace as well.

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

And are the specialty verticals more the Middle Market phenomenon?

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


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. So I think of those more in the Middle Market area, especially just because of the high touch and the underwriting kind of capabilities that you need as you're writing each of these risks.

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

Okay. So in that context, when you've got the Maxum acquisition and your own sort of legacy Hartford specialty capabilities, how should we think about that going forward, the opportunity for growth through acquisition or based on the resources that you currently have?

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

Well, we talked about before, as we think about our strategy for expanding our product suite and our capabilities, we start with looking at doing it ourselves and either through hiring talent, devoting talent to that, but we'd always be very open to acquisitions that could accelerate that. And again, Maxum is an example of that. But our core strategy for expanding these capabilities really starts with us doing it ourselves. It's not reliant on having to do an acquisition. But again, we would look at that if that was a way for us to accelerate that strategy.

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

Okay. And so far your acquisition activity has been fairly limited. I think it's very fair to say you've been disciplined, and not willing to chase prices up, ultimately. More broadly, can you talk about the -- your interest in acquisitions, whether it's personal, commercial, maybe some of the non-P&C units within The Hartford?

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

Yes. So when we look and think about acquisitions, obviously, commercial space is front and center of that, and I would say also our Group Benefits platform. Whether that's expanding the products. We're starting to do more voluntary products, but there are other aspects of that business that would be attractive to us as well as just increasing our market share. Personal Lines, I would put low on the list. Obviously, we're very focused on the auto profitability and we're also focused on retooling our homeowners product which, again, we think we can do ourselves. So that's kind of how we think about those priorities. As far as non -- I don't know what you referred to it as non-P&C or noninsurance or maybe group...

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

Group Benefits and Mutual Funds.

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

So Mutual Funds, and Mutual Funds has done a couple of things. It's very contained. And things that they've done through the Small acquisition last year, it's of that size. They can fund that their -- on theirselves, so...

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

I'm going to presume you have no interest in buying life insurance?

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


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

I thought that was pretty obvious. But if you want me to say that, yes, definitely, we do not have an interest in buying life insurance.

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

When things are obvious, I have a better sense of getting them right. Again, if there are questions from the floor, please, just signal to me, I'm more than happy to include them. Can you talk a little bit about the profile of your Group Benefits customers, maybe contrasting that or comparing it to Small Commercial and Middle Market, both in terms of actual overlap whether it's been successful cross-sell or theoretical?

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

Yes. So there's not a significant amount of overlap. And when you look at our Group Benefits business, we definitely have more of the larger employer than you would see kind of in our Middle Market and Small Commercial business. But we do see opportunity in the smaller-sized employers in Group Benefits. And it's not as if we can point to specific sales that are happening because we have both, but we are noticing just more conversation with brokers, with agents that are talking about both sort of in the same sentence, which you really didn't see several years ago. Again, I wouldn't point to it as a significant accelerator, but I think that there is something there over time. We are looking at ways to bring our Group Benefits offerings more to the forefront to some of our Small Commercial and Middle Market clients, and we see synergies there. And as we talked about in the past, we always have seen a lot of synergies from a claims perspective of having both, from both our disability and our workers' comp business. The claims operations they're now under one. And we definitely see some learnings that you get from both sides of that and the data available when you're looking at those types of exposures.

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

Okay. Is that -- I'm thinking specifically about the claims initiative, but there could be other factors as well. Does that portend maybe margin expansion from current levels? Or is it more of a top line growth opportunity?

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

From the claims side, we really see it as an outcome on perspective. As we -- both with comp and disability, one the biggest things that you focus on is how to get people back to work. And being -- and that will improve outcomes and that improves our overall -- our cost, which ultimately is just kind of -- it trickles from there, improves our profitability, improves our capabilities in going to market. And we see it as a real selling point to employers, both on the comp side and the disability side. So eventually, I think that gets into the sales process as well, but it's kind of all part of the whole picture.

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

Okay. Fantastic. I want to focus a little bit on Mutual Funds. My own perspective is that people undervalue the really high ROE aspects of this business. It's not that common to have it within a P&C company, but there's a story behind it. But going forward, I guess there's a lot of theorizing about what ultimately will happen with Talcott. I just want to ask a simple question. How dependent is the expense structure that you currently have within Mutual Funds on the assets under management stemming from Talcott? Is that like a reasonable concern if and when Talcott goes away?

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

Yes. So I won't comment on the latter part of what you just said. But as it relates to Mutual Funds, a couple of things to keep in mind. So at the end of June, their assets under management were about $107 billion. About $16 billion of that is the Talcott AUM. And what that is, is that is funds that are offered within


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

variable annuity contracts where policyholders have selected that is their investment vehicle, and that has been running off. That's obviously not any part of -- when we talk about the growth in Mutual Funds, not any part of what we see there is just -- it's just slowly running off and it really is running off as policies lapse. That's what will trigger that more than anything else. So from an expense perspective, when we think about Mutual Funds, that Talcott piece really is not much anything to do with the expense base because, at this point, those things are already invested. It's not a part of the sales initiative or anything like that. Our expense base is really focused on that non-Talcott piece. So when we talk about our fund flows and we talk about performance, we really are -- we're really focusing on that.

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

Okay. Excellent. And again, I just want to [indiscernible] Mark?

**Unknown Analyst**

Just going back to the commercial side of the segment. Assuming the industry gets into a further market within recent events, will that lead into casualty lines or otherwise [indiscernible] lines? Or is that -- is it a fair assumption to say that [indiscernible] maintain on property line coverages or [indiscernible]?

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

I mean, I think you obviously first see it in the property lines. But again, I think many companies are looking at their profitability kind of across the place. So you'd expect maybe over time to see it, but I wouldn't think of it as sort of a direct cost for all of a sudden how people think about pricing workers' comp to change significantly. There's a lot that would go into that. I think you'd first see there. But oftentimes, when you're looking at pricing and all that, I think the way companies are looking at -- their looking at it from an all-in profitability perspective. And oftentimes, you can't necessarily get the rate as quickly as you want in one line, and so you do have to kind of think about it across. But I think it could be a catalyst to some of that.

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

Not that you asked me, but I'm up here anyway. I've got a microphone. We didn't really see any commercial auto rate needs so is the other lines in business. But I think, right now, it's probably hard to see that crossover appeal. I think it might make sense, but I'm not sure that that's where the industry...

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

It depends on how -- yes, and then I think how big things are and sort of all of the knock-on effects. But typically, you're kind of pricing your products discretely.

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

Okay. And then my final question -- and again, we obviously welcome questions from the floor. But the context of this question has changed an awful lot over the week, but in terms of M&A valuations, like how are you thinking about it? Or we can have those, suggesting that things are still really, really expensive in the context of purchase in soft market and maybe some signs of accelerated loss cost inflation, I don't know if that's still true, but probably potential seller's mind takes a little longer to change. Can you just give a broad guideline in terms of what you're seeing in the marketplace if you consider the possibilities?

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

Yes. I mean, I think that -- and you all know this better than me that valuations continue to be high. And I think that, over time, as people think about sort of what to do next and some of the competitive pressures


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

that we're talking about and what's happening with the pricing cycle that, that could cause people to kind of shift in their mindset as to the values that they're seeing. But I haven't seen any evidence of that as of late. But we'll see as we continue into this year and next how all these pressures come to bear and do companies look at taking advantage of some of the values that are out there.

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

Okay. And -- yes, go ahead, [ Gordon ].

**Unknown Analyst**

Just a question on the reinstatement of your reinsurance [indiscernible]. Do you pay for that upfront? Or is that something that you have to pay probably [indiscernible] trade rate? And how much would that be [indiscernible]?

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

So on our cat treaty, the reinstatement basically is at the same terms as the original [indiscernible]. There's no escalation on premium that we would have to pay for the reinstatement provision that we have. If I'm getting your question correctly, is there -- as you know in the past, many, many years ago, you used to see that reinstatement premiums would be at a higher level than your initial premium. Again, as the reinsurance market has softened over time, some of those provisions have changed. And our treaty, our reinstatement provision premium is at the same amount as -- based on the same amount as our original.

**Unknown Analyst**

Is that an option you have? Or do you have to go through to have [indiscernible]?

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

Do we have to reinstate the premium? No, that's our choice.

**Unknown Analyst**

[indiscernible] potential to replenish the total of the...

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

No. So -- no, so the main treaty that I talked about was an occurrence treaty. So you have that for the occurrence. We don't use all the limits in that occurrence. It doesn't rollover to another occurrence. And so if you didn't reinstate your coverage, then you wouldn't have that coverage for the second event because when you reinstate it once, then you have it for the second event at the same terms that you have the original one at. The aggregate treaty that we have is where it continues to just sort of build, but that's separate from our primary cat treaty.

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

Okay. Is there's nothing else, thank you very much. It's very informative. Very helpful. Thank you.

**Beth A. Bombara**
*Chief Financial Officer and Executive Vice President*
Great.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2017 Capital IQ, Inc.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.