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Table of Contents

Call Participants 3

Presentation 4

Question and Answer 6

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Call Participants

EXECUTIVES

Beth Ann Bombara
Executive VP & CFO

Christopher Jerome Swift
Chairman & CEO

ANALYSTS

Scott Frost
State Street Global Advisors, Inc.

Unknown Analyst

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

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Presentation

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

All right. Good morning, everybody. Thanks for joining us this morning. I'm very pleased to have Chris Swift, Chairman and CEO of The Hartford; and Beth Bombara, CFO. It's been an eventful year for the company, for the industry. I'd love to go through a couple of questions I have. But maybe before that, we can start with some prepared remarks.

Christopher Jerome Swift
Chairman & CEO

Sure. Happy to. Thank you for inviting us. We always enjoyed being with you at the Goldman Sachs conference. I thought I'd just cover a couple of highlights you might find of help, and then Beth will talk through a couple of announcements that we made this morning.

But I would say 2018 has been a very eventful year for The Hartford, starting here in the fourth quarter, with the announcement we made this morning that the catastrophes continue to be elevated again [roughly] (sic) [quickly] due to California wildfires. Our estimates that we've put out will exceed last year's estimates at this point. We have a high degree of confidence in them, particularly given our reinsurance structure. But Beth will talk more about that.

I would also say, again from an underlying business performance-wise, our businesses are performing very well, and I'm excited about their prospects in the future. If I look at a couple of simple metrics, annualized year-to-date ROE of about 12.7%, a growing book value at 11% since year-end, top line growth where it makes sense. I'm again very, very, very pleased with the overall business performance.

If I look at what we've done strategically with our capital, we sold Talcott, realized the proceeds of that transaction, we've reinvested in Navigators transaction and we continue to integrate the Group Benefits business that we acquired last year. And then I would say, finally, from an overall investment theme, we continue to invest in the business, primarily in our digital and technology skills, that allow us to be an easier company to do business with, while retaining and attracting, I think, the talent that we need to compete for the future.

If I think about our near-term priorities going forward, I would say our #1 priority is to maintain our strong returns and margins that we're generating on the business, and I believe that we could do that going forward. What I would also share with you is that the execution, particularly on the integration of our 2 acquisitions, is paramount importance to us to really fully monetize the benefits that we saw, why we did that. I would report to you here today that our Group Benefits integration is well on its way.

If I look at our performance with our 1/1 new business sales, 1/1 renewals, very pleased, right on plan. If I look at the expense savings that we projected when we announced the deal, we're going to significantly achieve that by about 20% or $120 million of operational savings. And then if I look at -- another reason why we bought that acquisition was the claim system that Aetna operated in its benefits business. We have fully integrated into our environment, added some enhanced digital capabilities, rebranded it a little bit, but I would tell you that the operational platform that we wanted to build when we integrated it is now complete. And really, the next 24 months is about migrating Aetna's accounts that are still on Aetna legal entity paper, given it was a reinsurance deal, on to our paper, given that we have that operational environment built.

On the Navigators transaction, what I would tell you is we're working hard on the operating model in our go-to market strategies that we will announce well in advance of closing. We estimate closing to be around the April 1 time frame, early second quarter. Navigator shareholders' approval has been received, all our regulatory filings have been complete and it will take a little bit of time to seek all that. But really, the benefit here of this acquisition will to be to create a new global specialty operation for The Hartford and augment our capabilities and talents in Middle Market.

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As I think about particularly capital, our businesses are generating excess capital in excess of their current needs. Now if I couple that with the monetization of our tax benefits, AMT and NOLs, we will be in a position, after we close Navigators, to generate excess capital that can be positioned for deployment going forward. So very pleased about the capital generation capabilities.

And I would say that our priorities are probably twofold, right? We always want to continue to invest in our businesses, to be relevant to our distribution partners, to be relevant to our customers, to have, again, an updated technology platform. So that's first priority. Second priority is to continue to pay down debt. And the third priority is share repurchases. I would say that, with the 2 acquisitions that we've done, I feel like we filled in all the gaps that we've had in our portfolio and don't see any other strategic gaps that we need to fill in with acquisitions going forward, and we'll go back to our organic focus.

Before turning the call over to Beth, I'll just comment quickly on workers' compensation frequency trends. I think you know we've called out some elevated frequency trends over the last couple quarters, elevated from 5 years of historical negative frequency trends, particularly in workers' comp lost time claims. So we felt the need to call it out because it was a deviation from the prior trend. But I would tell you that our analysis to date, we think it's a onetime movement here, particularly related to macroeconomic conditions, low unemployment, tax stimulus, job creation, job demand and particularly high turnover wages. So our metrics are working. We called it out to highlight the nature of our metrics. We're taking the needed adjustments on underwriting, on segmentation. And again, in the context of a $3 billion workers' comp book, to make a minor adjustment in Middle Market comp picks, I think, is manageable within the overall context.

Then if I look at our commercial book in total, which is about $6 billion of premium, I think, again the impact on margins going forward is very negligible. And again, our goal is to really maintain and improve margins if we can, recognizing that there is some pressure on that workers' comp product line, but we've got other product lines that will contribute to margin improvement story going forward. So that's what I would share with you.

Beth, should you...

Beth Ann Bombara
Executive VP & CFO

Sure. Let me just touch on the announcement that we made this morning relative to catastrophes for the fourth quarter. So I imagine most of you saw, we did release that. We anticipate full -- or for the full fourth quarter, our cat losses or the net impact of catastrophes to be $350 million to $365 million pretax. So again, that takes into consideration the hurricane at the beginning of the quarter, and obviously, some -- our estimates as it relates to the most recent wildfires.
Obviously, our claims adjusters are continuing to work with our policyholders as it relates to the California wildfires. And we're continuing to look at our estimates there. But I'll remind you that we have very solid reinsurance in place, so we have an aggregate reinsurance treaty, which covers losses in excess of $825 million cat losses. And the way that works is any one cat can contribute up to $350 million into that layer. But after $825 million, we have protection of up to $200 million in excess of that as well as our per occurrence treaty, which attaches after $350 million of losses. So even though we're still early in putting our estimates together as it relates to the wildfires, we feel very confident with the range that we put out because of the reinsurance protection that we do have in place.

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Question and Answer

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Great. Well, thank you for the overview. I was going to start with some strategic questions. But actually, maybe because you just touched on the wildfires, maybe we -- I dive into a couple of questions around those. Are those considered 1 event, 2 events from a reinsurance perspective?

Beth Ann Bombara
Executive VP & CFO

Yes. So for the way our contracts are awarded, they would be 2 events. Obviously, for us, the larger event would be the Camp wildfire.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Right. And would that be mostly Personal Lines-oriented contracts?

Beth Ann Bombara
Executive VP & CFO

Yes, definitely, it would be more weighted towards Personal Lines than Commercial Lines. Obviously, we'll have some Commercial Lines impact, but given the area that was impacted, definitely more of a Personal Lines event.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And maybe one broader question on California wildfires, and it probably doesn't even pertain to this year's losses yet. But there's a lot of -- I get a lot of questions on subrogation and reverse condemnation with regards to the utility companies down in California. How does that process work? And what will your expectations be around subrogation?

Christopher Jerome Swift
Chairman & CEO

Yes. Again, it's -- subrogation, I would say is there's couple elements of it, is ultimately trying to define who created the liability or who caused the event. If we look back at last year's fires, I mean, that activity of trying to determine who created the event is happening right now. There's 3 power companies involved: PG&E, Southern Cal, Caltrans. So I mean, we have actions and suits against those companies as far as cause of loss. Our accounting ramifications of that is we don't book any subrogation receipts, cash, until we get the cash in the door. So we put up our gross losses net of any reinsurance, and then we work the system to determine root of cause and who would need to contribute to that subrogation. We'll do the same this year. We're just early in the process. There's no suits. There's no, I'll call it, formal process begun. Obviously, we'll reserve rights to subrogate under our reinsurance contracts. But it's generally an elongated process to get receipts back in the door when you're trying to determine root cause of the liability.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

And does that determine kind of the liability -- termination liabilities, is that determined by the courts? Or is that determined by the state of California that...

Christopher Jerome Swift
Chairman & CEO

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There are a lot of parties involved. Investigators, right, fire investigators will put out their reports. There could be a second report by other independent investigators. There could be disputes that need to be resolved in a court system. So there will be -- and that's why takes it a long time to, I'll call it, settle all the views of liability.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Understood. I guess, if we go back to a broader strategic view of the company, so you talked about the deals, I actually remember seeing on this stage a year ago. And I think you just announced the Talcott deal the day before. So how is the company positioned today versus a year ago? What has changed from a broader perspective in terms of the markets that you want to be in, the growth avenues for the market, given how you have -- given the deals that you've executed?

Christopher Jerome Swift
Chairman & CEO

Well, if you really look at even beyond that, with respect to the last transaction and the restructuring, I mean, that was a momentous event that we worked hard on for a long time to get that completed. But we had been positioning the company for a long time, focusing on more underwriting-centric businesses as opposed to capital market or spread-sensitive businesses, so Commercial, Personal Lines, benefits. Benefits is an underwriting business. It happens to be morbidity and mortality-based, but it's underwriting-centric. And we have our Mutual Fund platform. And really over the years, all we've done, I believe, at the core is to strengthen those businesses with our organic investments, with our organic mindset of becoming a larger, more relevant underwriter, with more products, with more capabilities, with more industry verticals and a player in benefits that has more scale.

If you look at us today, obviously, MetLife is the largest benefit players, given their large mortality block. But we're the second player, with a very balanced mortality, morbidity block of business, a growing A&H block, a growing voluntary block of business. And we still at our heart believe benefits and P&C cooperate together nicely, particularly in our environment where workers' comp claims and LTD claims are managed by the same group, the same group of leaders. They have different intake mechanisms, but there's very similarities. We are beginning to market those capabilities in a very productive way. So we like all the businesses we're in. They're all strategically important to us. We're trying to grow them, invest in them, particularly on an organic basis going forward. And I think the real performance is really shining through the last couple of years here in spite of some large catastrophe losses that the industry is prone to.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Right. And with the deals you've gone through, so I look at core earnings, so Navigators builds up your commercial earnings. The Aetna deal builds up your Group Benefits business. So I guess, the weighting of personal has maybe shrunk a little bit. Is that a temporary thing? Or do you think Personal Lines will build up again?

Christopher Jerome Swift
Chairman & CEO

Is it temporary? Well, it's math, so it will be reflective of our overall contribution of other businesses to the total. But we're committed to the Personal Lines business, particularly with our unique and special 30-year relationship with AARP. I think it's 33, you always remind me, it's a little longer. We like it. It's a profitable segment of the marketplace in spite of large losses coming out of California. We're doubling down in that area, continuing to invest in technology product sets, modernize that platform.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Doubling up.

Christopher Jerome Swift

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Chairman & CEO

Doubling up, yes, excuse me. So yes, it is an important part. It just -- the Personal Lines space is very competitive, dominated by the top 5 or 6 players. But I think we could effectively compete in our niche, in our segment and make -- create returns for our shareholders over a longer period of time.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Got it. And so really, it's been an eventful year for Hartford, for the industry. What do you think the market is missing today in The Hartford story?

Christopher Jerome Swift
Chairman & CEO

No, I was going to ask that question at the end to our investors and shareholders here. Look, it's hard for me to share what's missing. I think all we're trying to do is continue to tell the story about our strategy, what we are focused on, our strong execution capabilities, I think a very strong management team across the board, honestly, how we cooperate, how we think in terms of what's best for our shareholders, best for customers, best for employees. And we'll put up good numbers going forward. I mean, I understand why certain people might have rotated out of the stock, given some of the actions that we've taken over the past 18 months. But we've signaled those actions pretty intently over the last 3-plus years of what our priorities were, why we wanted to do what we did and we're doing what we said we did. So I'm just going to continue to work hard every day to create value for shareholders, tell a positive story about the momentum that I feel we have in the organization. And I think, over time, the value of what we've created will be realized.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And you're now also signaling that, in terms of capital deployment, the strategic deals are through. Not to say you won't see any financial deals or tuck-ins, but large deployments of capital towards large deals or things like -- you're comfortable with where your platform is today.

Christopher Jerome Swift
Chairman & CEO

Totally. That's a clear intended message of, look, we always want to be opportunistic in that space. But what we did to create the second-largest benefit players, what we've done to create a new global specialty player with the Navigators acquisition and add to our Middle Market capabilities, I thought was very strategically important, primarily because of the role that distribution plays in our business. Our distributors are consolidating rapidly. They want to do more business with us and to continue to grow organically our product sets and underwriting capabilities but augment it with a strategic acquisition, I thought was the right thing to do.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then I think you touched on it in your opening comments. But maybe we can spend a little more time on excess capital generation. Maybe at what point should investors expect to see maybe a buyback program being reinstated? And I don't know if you can offer any thoughts to the magnitude of excess capital that you're generating.

Beth Ann Bombara
Executive VP & CFO

Yes. So I'll start with that. As Chris laid out, as we look at going into '19 and into '20, we are positioned to be generating excess capital. All of our businesses, as Chris indicated, will be generating capital in excess of their needs. And when we think about the 3 like primary business segments that we have: P&C, group and Mutual Funds. P&C, we typically look to pay dividends out around $850 million to $900 million a

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year. We front-loaded next year's dividends into this year to fund the Navigators acquisition. But as we go into '20, we'll be in line with that. From a Group Benefits perspective, we're in that $250 million to $300 million range, and we would expect to start taking dividends in '19 from group. And Mutual Funds is a pretty steady contributor to the holding company of about $100 million, $125 million a year. And then as Chris alluded to, we also have tax benefits at the holding company, NOLs and AMT credits, that will also be generating cash. And so when we look over the next 2 to 3 years, that's another $1.2 billion to $1.3 billion of cash that will go directly to the holding company.

And so again, as we look at then what our needs are to use that cash, we have interest and dividend requirements that are typically around $700 million a year. We do still need to think about from a leverage perspective, the actions that we've taken with Navigators. But it's about a year behind kind of relative to the track that we were on to get into our long-term target. Just sitting here today, we anticipate in March of 2020, we would pay down maturing debt, and that would really put us in line with where we need to be. And then that would generate excess that, as Chris said, we would look to first to see if there's areas in our businesses that we can fund growth, but absent that, would look at opportunities to return that to shareholders, which again we see as a viable and appropriate use of excess capital.

Christopher Jerome Swift
Chairman & CEO

I would also point out because I've been on the road with our investors for a good period of time here over the last 6 weeks. And we tried to paint a picture that maybe I'd share with this group, that over 2012 through 2017, we've generated, created, freed up through all our initiatives, about $12 billion of capital. If I look at how we deployed that, 50% of it has been gone over that period of time to buybacks and dividends. 25% of that amount has gone back to what we would characterize as balance sheet strengthening, such as paying down debt, such as our A&E reinsurance transaction with Mr. Buffett. And then the last balance sheet strengthening item that we would consider was our pension derisking transaction with the Prudential Financial, where we transferred about 1/3 of our retirees' obligations. And the other 25% over that 5-year period of time, but has been concentrated obviously in the last year, has been towards M&A. So when we talk about being balanced with our capital management, I think we've had the track record. We have that mindset going forward. And more importantly, we're going to have the cash flows that allows us to continue to be balanced in that regard.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. If we dive in a little bit deeper into the segments and businesses. So one question I'd have is if we look at the Group Benefits business on the one hand, we look at commercial, P&C, where you have a large workers' comp block on the other, is there some correlation in terms of loss experience or margins in the 2 businesses? And if so, when in the cycle do you expect to see losses pick up?

Christopher Jerome Swift
Chairman & CEO

Yes. We covered this on the last earnings call. The correlation is generally not there. The only historical correlation is that we acknowledge is in high unemployment. So the frequency trends that we're seeing here with newer inexperienced workers, people -- employers is stretching to hire people. You don't see that on the LTD side. In fact, you see people going out on disability less frequently. But in higher unemployment areas, when I say higher, high single digits, low double digits, where we've experienced that or shocks to certain industries that creates an unemployment gap, that's when there tends to be some correlation of frequency or incidences in workers' comp and LTD.

Beth Ann Bombara
Executive VP & CFO

Yes. And I just will add, when we look at our LTD experience, the reason why we don't see that correlation to what we're experiencing in workers' comp and what we believe is driving the frequency is it's a relatively low percentage of our LTD claim that come from someone being injured at work. So that's why whereas the broader unemployment picture might drive people's tendencies differently, but the specific

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item that we're seeing in the comp area, that's why we are not really seeing it in disability, wouldn't expect to see in disability, we're obviously very watchful to see if there's any trends there. But our trends overall in our disability book have been very favorable and continue to do so.

Christopher Jerome Swift
Chairman & CEO

The performance this year is significantly exceeding our guidance that we established at the beginning of the year. Very bullish on the outlook for '19 in benefits, particularly as we roll out more voluntary products to our existing customer and A&H products, which we would define as AD&D in business travel accident.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And with results being as strong as they are in Group Benefits, and I guess even true beyond Hartford, the industry is just doing very well on that front. And with the benefits of tax reform flowing down to the bottom line, not necessarily having been reflected in 2018's pricing, how confident are you in pricing going into 2019?

Christopher Jerome Swift
Chairman & CEO

Well, as I said, with our 2019 new sales and retention, very confident. Now most of our policies, as you know, are on 3-year rate guarantees. So we do have to take a longer-term view on how the economy will perform, how economic conditions that affect people going out on LTD. But again, very bullish on the outlook for that business.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then workers' comp. So you talked about frequency. And I think we spent some time on it on the last earnings call as well. Where are you seeing the frequency increase? Are there particular industries or parts of the market where that's really coming into full force?

Christopher Jerome Swift
Chairman & CEO

Yes. I'll comment and then if Bill -- or Beth, Bill -- Beth could provide her points of view. What we've tried to describe is we think these are broad-based trends, both in our small and Middle Market businesses, not in our large account national book. So broad-based industry trends that are reflective of macroeconomic conditions of low employment (sic) [lower unemployment], and I believe is sort of the pull forward of all the tax investments that people made versus a surge in demand. We are seeing it generally in businesses that have higher employee turnover, businesses that have more of a, I'll call it, a service component to it that you would be more susceptible to injuries from minor slips and falls, minor incidences at work. Remember, frequent (sic) [frequency] -- or severity, our severity trends and our severity outlook is not moving. It's behaving actually generally very well compared to long-term severity of injured workers from a lost time perspective and also the medical side.

So it's those industries that, again, probably don't have the robustness in the safety program or those companies that haven't invested in safety. And that's where, again, I think we could contribute to better outcomes. I would also say that most of the incidences of higher frequency occurring in the first year of employment, in fact, there's evidence that accidents are occurring in the first couple of days of work for new people. So that again speaks to a training safety experience issue. But again, with the economy not getting stronger, we don't see unemployment going to 2%, with a little moderation. We think, again, frequency goes back to its sort of 0 to minus 1% on a long-term basis. And this was a onetime macroeconomic-induced condition that created a frequency. Plus as I always like to say, it's human nature, right? People are going to get smarter. If they got hurt once, hopefully, they learn what not to do in their job going forward that created the event. Beth, what would you add?

Beth Ann Bombara

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Executive VP & CFO

Yes. The only thing I'd add, and you touched on this, but just to make the point is, as we look at our trends for the month of October and kind of early in November, we are seeing a moderation from what we've seen in the first 9 months. And that was in line with kind of what we were expecting to see. Again, it's only 2 months, but we are very pleased to see kind of those trends starting to moderate. And so we'll continue to monitor that. And then as Chris said, workers' comp is a very important line for us. It's very, very profitable line. And we feel that these trends are -- we can manage through and the book will continue to be profitable.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

And if I think of slip and fall claims on the workers' comp side, just trying to understand, if one should expect that to also ultimately translate into higher general liability frequencies in a worker who walks the floor and splits, wouldn't the customer walk on that same puddle and slip as well? Are you seeing that? Or is that maybe an incorrect way of thinking about it?

Christopher Jerome Swift
Chairman & CEO

I would say I would never call you incorrect. I would just...

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

My wife would.

Christopher Jerome Swift
Chairman & CEO

I would just point you out to the fact that, again where workers work and customers travel might not be the same area. Again, if you think about manufacturing, if you think about retail, the conditions are different. So I wouldn't correlate the 2 of increased frequency to more premise liability on property.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That's helpful. And then on the frequency versus severity. So you're not seeing any increase in severity to date?

Christopher Jerome Swift
Chairman & CEO

Within expectations.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Within expectations, right?

Christopher Jerome Swift
Chairman & CEO

What we would expect.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Clear. But you are seeing the frequency coming and it sounds like more from an inexperienced new workforce coming in, right? And that seems to be concentrated mainly on the slip and falls. Why wouldn't we see it in industries such as construction or warehouses, where maybe the extent of the severity should

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be higher there as well? Is it the training? Is it because it's less temporary or lower turnover business there?

Christopher Jerome Swift
Chairman & CEO

Like anything, I would segment it, right? I mean, you're going to get a little bit more granular. So we are seeing it in construction, not the large construction firms that have invested significantly in safety, more the family-owned small construction firms that have a subcontracting role, an odd job here and there. Yes, I mean, you are seeing it there. Then you are seeing it again in sort of warehousing, which is a retail-orientated wholesaling function to me, where people are moving goods around or shipping, you are seeing it there, too, a little bit.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. I wanted to give the audience some opportunity to ask questions. Sure, here.

Scott Frost
State Street Global Advisors, Inc.

Scott Frost, State Street Global Advisers. When touching on your buyback programs and how you're going to manage the stack, I know that the Navigators transaction, you're still on target to reach your leverage metric guide by the end of 2020. Is that -- that's correct? So when we think about how the debt paydown is going to go, you're talking about the '19s possibly get refi-ed, the '20s get paid down. If we're thinking how to dimension the buyback program, should we sort of think of it as you're going to have to build your equity part of the stack to meet that metric by 2020 in buybacks or other capital management has to take place in that context? Is that the right way to think about how you're managing the stack by the end of 2020?

Beth Ann Bombara
Executive VP & CFO

Yes. So a couple of things -- yes, so obviously, we're looking at both sides. And yes, as we think about our long-term target and getting there by the end of 2020 from a leverage perspective, a portion of that is the denominator. And so yes, we need to balance those. But again, when you look at paying down, as you mentioned, the January maturity -- and I'll just point out that we did do a preferred stock offering earlier in November. So we're very well positioned to pay that down and not needing to issue more debt prior to the Navigators -- to do the Navigators acquisition. And then we'll evaluate from there. But there is definitely a component of even with all of that excess capital, even taking that into consideration, that we could evaluate for deployment and still get to our targets.

Scott Frost
State Street Global Advisors, Inc.

And just to be clear. From a rating agency perspective, is 2020 kind of a hard stop for you? In other words, if you don't make it, would there be potential consequences? How patient do you think they are?

Beth Ann Bombara
Executive VP & CFO

We consistently share with rating agencies our path and the path that we're on. And we don't have a bright line number that we need to hit by a certain date. These are our targets. This is what we're marching towards. But there's no cliff, if that's the question, as to we need to make this number by this date. But obviously, we need to show progress.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

We have one more over here.

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Unknown Analyst

I had a couple of questions on California. First, it seems like the risk environment has changed. How confident are you in your ability to price that correctly on the primary side? What are the regulatory challenges there? And then just to follow-up on the subrogation question, depending on how things settle out, I know you said you won't book everything until all the cash comes in. But it seems like there's at least a potential for yourselves and the rest of the industry to have very large exposure to 1 or 2 counterparties. Any risk mitigation that might need to be on there?

Christopher Jerome Swift
Chairman & CEO

Yes. We're going to go about 20 minutes longer. It's a complex question, right? But on the subrogation, yes, I mean, there's a lot of cash at stake as far as the power companies involved. So I think what I can tell from a distance in working with our team is that everyone knows you need a viable power company in California. And there's 3 main ones. They all need to be kept alive or floated. Bankruptcy is not option. That would create, I think, just too many problems, one to modernizing their infrastructure. How does a bankrupt company continue to invest in a more modern power grid that does not cause these fires? It doesn't make any sense if they're in bankruptcy, they're not going to get any financing. So I think that the trick is, like on anything in life, there's a balanced approach for all constituencies and they need time to raise cash. There's some funding options that are being kicked around similar to the Earthquake Authority to take a little pressure off the power companies that may have caused that. We, as an industry, will have to come together to understand what our contribution is to that, if any, or if it's going to be other taxpayer-driven, utility base-driven-type activity. So a lot of moving parts there. It's too early for me to predict what is the path going forward, other than, I think, as I said, no one needs any of these companies in bankruptcy.

As far as getting paid for risk in California, I mean, if you look at California, it's, what, the fifth, sixth largest economy in the world, so it's an important insurance market for every aspect of insurance, from comp to liability to personal lines. And generally, it had a very proactive publicly elected insurance regulator that advocates for its policyholders very well. If you also look at the impacts of climate, if you look at impacts of sort of the environmental concerns, about how waters moved around, about how forests are managed, I mean, it's a complex equation to come together to figure out what is necessary. It's easy to sit here and say, look, if you look, right, even on the last 5 to 7 years, the industry is now collecting enough cash to fund the amount of catastrophe exposures that have occurred. So all we know over the longer term is, unless you're collecting enough cash to fund a new higher level of catastrophes, that needs to occur or else capital allocators, broadly defined, would not allocate capital to a class of business where you can't earn an adequate return. But again, part of the process here is how do all constituencies come together to recognize what are the facts, what are possible solutions, what are contributors to allowing price and risk to be matched up more in a more specific, granular way to make sure you're charging the right premiums to cover your attritional losses plus your cat losses.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Thank you very much, Chris, Beth. You've been very helpful.

Christopher Jerome Swift
Chairman & CEO
Thank you. It's always good to be here.

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