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EXECUTIVES

Beth Costello
Executive VP & CFO

ANALYSTS

Jay H. Gelb
Barclays Bank PLC, Research Division

Presentation

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. Good morning, everyone. Jay Gelb, the senior equity insurance analyst here at Barclays. I'm very pleased to have with us Beth Costello. Beth is Chief Financial Officer of The Hartford. The Hartford, as of course you all know, is a leader in property and casualty insurance, sold primarily through a network of independent agency brokers as well as among the largest providers of group benefits. The Hartford also has a sizable retail mutual fund business.

Beth, thanks again for joining us today.

Beth Costello
Executive VP & CFO
Glad to be here.

Question and Answer

Jay H. Gelb
Barclays Bank PLC, Research Division

My first question is on Hartford's recent merger and acquisition and divestiture activity. The Hartford has been among the most active among insurers in terms of its acquisition and dispositions over the past several years. The Hartford acquired 2 major businesses, that being The Navigators' property and casualty business, as well as Aetna's group life and disability business. The company also, prior to that, sold its Talcott Resolution unit, which was mostly legacy U.S. variable annuities. Can you describe what maybe feels attractive and whether The Hartford would be interested in future M&A?

Beth Costello
Executive VP & CFO

Sure. Thank you. So yes, as you point out, we have been very busy over the last couple of years. I'll start with the Talcott divestiture. Obviously, that was a continuation of the strategy that we had implemented in 2012. And our objective over time was to divest of those legacy businesses, and we were very pleased to be able to come to terms which we thought were very attractive given that property, and we completed that in May of 2018. It's hard to believe that's well over a year ago at this point.

At the same time, as we looked at our core businesses, we, like other companies, are always evaluating if there's opportunities to accelerate our strategies through M&A activities. And in the fall of 2017, the Group Benefits acquisition manifest itself. And we looked at that and really set it as an opportunity for us to increase our scale in Group Benefits, as you pointed out, now being the #2 writer of disability and life in the group space, as well as some of the capabilities that we also acquired through that acquisition from Aetna, most notably their lead management or claims system that they have for disability. That had been an area that was on our list of technology improvements that we needed to do. We've done a lot on the front-end side of Group Benefits, and we're now starting to focus on the back end. And we've been very pleased with how that acquisition has gone. We closed a week within signing the transaction, and the integration activities have been on track. We said at the time it would be a lengthy integration because this was a reinsurance transaction, and so we wanted to make sure that we were thoughtful in how to bring that book of business onto our paper and do it sort of as a renewals happen. And as you know, most of that business is under a 2- or 3-year rate guarantee process. So we've been doing that. We moved the claim system into our environment and now are continuing on the process of moving legacy Aetna business onto our front-end systems and then over time legacy Hartford business onto the claims platform. But almost all metrics that we set out for ourselves at the beginning of that acquisition as it relates to top line, synergies, the integration plan itself, all on track and very pleased with how that has gone.

And then Navigators, which we just closed on this past May, there, too, we saw an opportunity to accelerate the strategy that we had, primarily in our Middle Market business. We've talked in the past that the attractiveness of Navigators was really the products that they bring to our platform that we didn't have. Through Doug and his team, they've been working to build some of those capabilities. But as you all know, that takes time to do. And we saw this acquisition as an opportunity to really accelerate those capabilities. And it's early on. We just closed in May, but we've been very pleased with the reaction that we've had from our distribution partners to see the value now that The Hartford brings and having a full suite of products that we can offer.

Jay H. Gelb
Barclays Bank PLC, Research Division

Right. Okay. You also put out or the company put out some financial metrics that will -- targets that it will be thinking about over the next couple of years, especially towards the Navigators. Can you remind us of those and kind of give perspective on what the second quarter was showing?

Beth Costello

Executive VP & CFO

Yes. So again, the second quarter, we only had owned Navigators for about 5 weeks, so really not a significant impact in the second quarter. And when we did the acquisition, we announced that -- we talked about our goal of getting to, from a run rate perspective, about $200 million in core earnings, sort of ex amortization of intangibles in the next few years, and we still see that as achievable. At the time when we looked at that analysis and we thought about the starting point and the activities that were going to get us there, there are a few buckets that we looked at. One was expense synergies, which, again, for a deal like this, you wouldn't expect a lot of expense synergies because again we're buying capabilities, and we had put out that we anticipated about $25 million pretax in expense synergies over time. We probably will trend a little bit better than that but feel very good about our ability to do that.

Net investment income was also a component, and that's one where we're feeling a little bit of pressure. Obviously, with the current rate environment, our expectations relative to repositioning that portfolio, we brought the asset management activities in-house. They had outsourced it. And obviously, with our platform that we have with HIMCO, we're able to bring those assets on, really, at no additional cost. But obviously, the reinvestment rates are a little bit lower than what we had anticipated. But on the other side, we are seeing very favorable pricing trends. So that environment is probably better than we had anticipated when we announced the transaction. So we put all of that together when we think about that longer-term goal, we see a path to get there.

In the short term, we had also put out some expectations related to 2020 at the time. So again, we had done that in August of 2018. And as Chris commented on our earnings call, we're probably at the lower end of that range, primarily because of investment income. Again, when you think about the components of how we would go from sort of what the run rate was to getting to that $200 million, we saw net investment income and expense as sort of being the early wins that we would see that build in quicker, and then pricing and underwriting actions would take a little bit longer. So because of what we're seeing in the rate environment, that's how we're feeling that pressure as it relates to 2020. But again, as I step back and we look at overall what this acquisition brings to our platform, we're probably more excited today than we were when we announced the deal. We really can feel that the synergies there as those that followed know that it took us a bit longer to close than we had originally anticipated, not because there were any issues, but just that was the process. And that time really allowed us to get our teams, as best we could, position them within all the rules you have to obviously follow, able to hit the ground running as soon as we close. And over the course of the summer and into the fall, there's a lot of activity as it relates to meeting with brokers and making sure that they understand the capabilities that we bring end to end. And we're really focused on making sure that our distribution partners see us as one company if they don't have someone from sort of legacy Hartford coming to them and then someone legacy Navigators that we really are integrated. We're using our field force kind of across the place. And the teams are really, really excited, and you can feel that when you talk to them.

Jay H. Gelb
Barclays Bank PLC, Research Division

That was fantastic. All right. So it's tracking better than you thought from a business perspective.

Beth Costello
Executive VP & CFO

Yes. From the reaction that we received from those external folks and again really appreciating and seeing how we can benefit from these capabilities. And we've had some early successes on deals where we don't even -- we're not sure we would have even been asked to quote because we didn't have the full spectrum of products. And it's also, I think, very good from a defensive position as well.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. That's very helpful. To bring it back up a little bit, can you discuss the targeted business mix for Hartford? If you think about the 3 major parts of the business, Property & Casualty insurance, Group

Benefits, Mutual Funds, compared to where it is presently, what do you envision the mix of Hartford ultimately being?

Beth Costello
Executive VP & CFO

Yes. So when you think about the mix that we have today, and I'd put Mutual Funds off for a moment, and you look at our Commercial Lines, our Personal Lines and our group business, I think, on average, taking into consideration, obviously, the scale that we've got from the Navigators acquisition into our Commercial Lines business, it is a good mix what you see today. And we also feel that all of our businesses, we have a lot of what we need to compete because I think one of the other questions we sometimes get is our appetite for additional M&A and where that might come from. And we've been very clear to say that as we look at our businesses today and the capabilities that we have, we don't feel that there is a pull in any of our offerings that would say that we need to accelerate our strategy by doing M&A. We'll obviously look at things that are more bolt-on and able to kind of leverage our current capabilities, but nothing like what we gained from Navigators, so feel very good with our mix.

Mutual Funds, as we've talked about over the years, is really separate. It's a self-contained business unit. It really does operate on its own. It does not require a lot of management time. Like if you think about when we had the Talcott business, it took up a lot of our time, a lot of our mental thinking. Mutual Funds runs very well, been very pleased with things that they've done to be able to expand their platform. And they provide a very nice cash flow to the holding company, and so we're very pleased with that business as well.

Jay H. Gelb
Barclays Bank PLC, Research Division

Strategically, sometimes I get the question as to the Mutual Funds business, which, of course, as you did mention, generates a strong return on equity and very healthy distributable cash flow. But there does seem to be a question of strategic fit of that business within Hartford, which is otherwise entirely focused on insurance. Would Hartford shareholders benefit more, perhaps, if Mutual Funds were sold to another company?

Beth Costello
Executive VP & CFO

As we see it today, we believe that it's increasing in its value and the value that it brings to us. And to the extent that it continues to do that, we're very pleased to hold it. As I said, it generates nice cash flow. If we saw some change in the environment or something that we felt that over time we thought that there'd be value to be lost there, we might have to rethink that. But again, it is separate. There's obviously no linkage to our other businesses. And oftentimes, we've said it's our highest-generating limited partnership investment, if you can think of it that way, but with, like I said, a very healthy cash flow to the holding company.

Jay H. Gelb
Barclays Bank PLC, Research Division

All right. When Hartford announced the Navigators deal, the company said share buybacks would initially be on hold until 2020. The Hartford subsequently announced that it was moving up that time frame to the second quarter of 2019. How should investors think about the sources of funds available for buybacks for the remainder of 2019 and perhaps beyond?

Beth Costello
Executive VP & CFO

Yes. So we did announce a share repurchase authorization in February of this year of $1 billion, and we indicated that the majority of that we would anticipate using in 2020. We've sort of -- and size-wise have talked about it sort of like 20% maybe this year, 80% in 2020. And we talked about at the time we were doing that because we do that in 2019, our ability to generate a significant amount of excess cash flow at the holding company was somewhat limited. Because of the Navigators acquisition, we had accelerated dividends from our P&C company at the end of 2018, so we're really not expecting any dividends in 2019. But as we looked at our sources and uses of cash and we got more clarity on how we would be refunded some of our AMT tax credits, we -- as we looked at that cash flow, we did have some capacity in 2019, and we felt that it was important to put out a share repurchase authorization to be clear with investors on what our intent was in the short term. We've clearly said that from an M&A perspective, we have what we need. We know we weren't going to be generating excess cash at the holding company, and we wanted to be able to take advantage of that as we were going into 2019. So we started in the second quarter again after the Navigators acquisition or right around the time that, that closed. As I said, we have better clarity as to expectation of timing relative to some of our tax refunds that we'd be getting, and we did get our AMT tax refund in July, the first tranche of that, and so we started to implement our share repurchases. And as we go into 2020 really see that as sort of returning to more normal as it relates to cash flow generation to the holding company which I see is very strong. Our P&C company, we'd anticipate dividends in the $850 million to $900 million range annually. Again, we'll start that again in 2020, not in '19. Group Benefits has been performing very strong, and we anticipate dividends in the $250 million to $300 million range there, and then Mutual Funds is kind of in that $100 million to $125 million range.

And then when you think about uses of cash at the holding company, it's primarily dividends and interest. We don't have other expenses at the holding company. We allocate nearly all of our corporate expenses to our business units. And dividends and interest is probably sort of in that $750 million range. So when you kind of put all of that together, we will be generating excess cash at the holding company. And then again, we do have some tax refunds that we'll continue to enjoy into 2020, and we've been very pleased with being able to finally monetize those assets as we talked about them for a while, so it's great. Our AMT refunds, we should be mostly through those into 2020. And then our NOLs, again dependent on what the underlying taxable income is at the operating units, that also generates cash to the holding company through our tax sharing arrangements and for next year probably like in the $500 million range.

Jay H. Gelb
Barclays Bank PLC, Research Division

$500 million for the NOL?

Beth Costello
Executive VP & CFO

NOL and AMT together in 2020.

Jay H. Gelb
Barclays Bank PLC, Research Division

That could put you $1.7 billion, $1.8 billion in backlog?

Beth Costello
Executive VP & CFO

Yes. And the only thing I would mention is that we do have some debt maturing in March of next year, and we had indicated our intent to pay that down. So that would obviously be a source of our use, obviously, of cash as we think about 2020, about -- that's about $500 million.

Jay H. Gelb
Barclays Bank PLC, Research Division

Yes. Okay.

Beth Costello
Executive VP & CFO

But I think once we get through that when we think about our debt, I think that will, based on our projections, put us in a very good place as it relates to leverage ratios. And so again, all the things that we've been working on to strengthen our balance sheet that improve our underlying profitability and really see it as having a steady source of cash to the holding company, so less volatility than maybe we've talked about in the past.

Jay H. Gelb
Barclays Bank PLC, Research Division

Yes. That's a very strong story. How do you feel that translates into return on equity profile? Hartford's return on equity on a core basis, the trailing 4 quarters is 11.7%. What do you think a reasonable expectation or run rate is, now that you've got the major acquisitions, Navigators and the Aetna life and disability business, plus Talcott being off the books, talked about strong distributable cash flow, the share buybacks, [taking that] off the balance sheet as well?

Beth Costello
Executive VP & CFO

Yes. So one, we're very pleased with the 11.7% and remember being on the stage a few many times and we used to ask the audience if we'd ever get over 10%, so obviously a very strong result. And I'll remind you that when we quote that 11.7%, that's on a rolling 12 month. So that's looking at the past 12 months, which would include the fourth quarter of last year's wildfire losses that we had. So when you kind of look at it sort of on a run rate sort of through the 6 months, it's much higher than that. And as you know, there's lots of puts and takes as to where we will be over time. We've talked about the 11% to 12% range. And obviously, we're ticking towards the high end of that range. And again, depending on what actual cats are for this year, what happens if limited partnership returns, the path, or we would be over 12% for the -- for 2019.

Looking forward, obviously continuing to focus on the core profitability of our underwriting operations is key, but we do have to be mindful of a bit of a headwind with interest rates and what will happen with that over time. Now again, the portfolio doesn't turn overall at once. But you did see in the second quarter that our reinvestment rate was below what our sales and maturities were, and I would anticipate third quarter we'll see a little bit of that as well. But from my perspective in this rate environment and all things considered, if we can be in that 11% to 12%, I think that's a very healthy return given the environment that we probably will be in.

Jay H. Gelb
Barclays Bank PLC, Research Division

Including in 2020? You wouldn't think given expense savings, opportunities and productivity enhancements, plus the benefit of buybacks might [indiscernible] that a little both ways...

Beth Costello
Executive VP & CFO

Yes. So again, that's going to be impacted, as I said, on what happens with overall investment returns. Obviously, component of that is what happens if limited partnership returns. So if you anticipate sort of a 6%-ish return on limited partnership, probably harder to get past that. If the limited partnership returns continue to be where we've seen, obviously that would be a little bit of a tailwind. But again, overall, when you step back and you look at overall cost of capital and current rate environment and what all that means, I'd say they're very healthy returns.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. Of course. Near term, of course, the industry and of course the people affected or dealing with Hurricane Dorian, any initial thoughts on what the impact would be on Hartford or perhaps the broader industry?

Beth Costello
Executive VP & CFO

Yes. I mean obviously, it's very early, and the storm has taken lots of turns. And estimates have changed over time, so I don't really want to give an estimate estimate because it's obviously hard to do. But it obviously is a much lower impact than probably what some were predicting before it changed course and obviously didn't hit Florida. And even in the areas that it did hit did not hit it as people thought. So for us, we would expect it to be under $50 million, just to kind of put some sort of cap on that and I would say well inside of that. We do have a little bit of exposure in the Bahamas through Navigators. But even considering that, we see this as a very manageable event and obviously very happy for those affected on the East Coast that it turned out to be much less intense than originally anticipated.

Jay H. Gelb
Barclays Bank PLC, Research Division

Of course. And normal cat load for Hartford, is there a quarter during hurricane season? What would that typically be?

Beth Costello
Executive VP & CFO

Yes. So we -- when we budget, we typically -- for third quarter, we're usually about $135 million-ish pretax is kind of our what our load is. We do seasonalize our cat load, so second and third quarter tend to be higher than first and fourth quarter. So again, based on what we've seen to date, we're not necessarily expecting it to be outside of that.

Jay H. Gelb
Barclays Bank PLC, Research Division

Right. Otherwise, it's been...

Beth Costello
Executive VP & CFO

Pretty mild. I mean through -- yes. Through August, we were probably -- if we trend things on a month-to-month basis, we're a little bit under what our cat budget had been, so obviously have been some activity, but nothing of significance at this point.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. That's good news. Let's focus on Hartford's commercial P&C business more broadly. What are you seeing there in terms of top line and margin trends?

Beth Costello
Executive VP & CFO

Good question. It's a hot topic I know people are very focused on. I'll go back to what we said in our second quarter call. I think Doug was pretty explicit as he went through the various businesses and some of things that we're seeing. I mean there's definitely areas where we're continuing to take rate. We've talked about it before in commercial auto where we need rate, so that's obviously important for us to get and to continue to track well there. Definitely seeing that in our general liability and construction lines. From a margin perspective, we obviously are feeling a little bit of pressure in comp, and we and others have talked about that as you've seen rate decreases being rolled in across various states. I always start that conversation with the fact that comp is a very profitable line for us. So even with a bit of compression, it's still business that we want to write and we believe we write very well and can manage in this rate environment. So we're watching that closely. And then Doug also commented in our call that we were feeling a little bit of loss cost pressure in our builders risk book, kind of a construction, builders risk, marine book, and we're taking action there as well. And all of that was contemplated when we provided our update on our combined ratio guidance for the second half of the year, including Navigators. Because I think when we had provided our guidance at the beginning of the year, we obviously didn't know when we were going to close Navigators, so it excluded all of that. And all that was contemplated and feel good about the range that we put out.

Jay H. Gelb
Barclays Bank PLC, Research Division

The pricing trends have continued to improve in commercial P&C through the first half of the year. Is that a trend that you think will continue in the second half?

Beth Costello
Executive VP & CFO

I mean it's -- we've definitely seen that and continue to see that as we go through the third quarter. Sometimes these things are hard to predict what obviously will happen in the future. Our focus right now is where we are seeing the ability to take rate to do that, obviously be smart about it. We're very careful as we look at new business that's coming into the market and understanding why it is and what the loss experience is there. But in various areas and especially in some of the Navigators business and the specialty area, we've been very pleased with the level of rate increases that we're seeing. Again, some assets of that book need it, and so we're mindful of that. But right now, that trend seems to be continuing.

Jay H. Gelb
Barclays Bank PLC, Research Division

So when we see the pace of rate increases for The Hartford overall, it's not -- it's just going to be inclusive of Navigators, right, which has a bit more of a specialty focus, right, [indiscernible] getting larger increase?

Beth Costello
Executive VP & CFO

Yes. So -- yes. And if you're referring to the disclosures that we do on price increases, those disclosures we do are more in our standard line. And so we're still working on what metrics we'll give on our specialty lines, but that is typically in our old construct with Small Commercial, Middle Market sort of standard businesses, which is what it will continue to be. But yes, if you peel back and we look at underlying rates that we're seeing in some of the Navigators book and most of that business will be or is in our Global Specialty segment. There are some that's in Middle Market, but the most of it is in Global Specialty. Been definitely pleased with the rate of pricing increases that we're seeing there.

Jay H. Gelb
Barclays Bank PLC, Research Division

Good.

Beth Costello
Executive VP & CFO

And we'll continue to share what we see there going forward.

Jay H. Gelb
Barclays Bank PLC, Research Division

Excellent. The somewhat flip side of that is we've heard about increased social inflation, how that could be affecting claims, cost inflation and casualty lines. Do you have any hot spots around that?

Beth Costello
Executive VP & CFO

Nothing that I would point out in particular. I mean we do watch that carefully, especially in the general liability lines, to see what we might see in underlying exposures. There's not anything that I would point to specifically as being a dramatic change in trend from what we've seen, and we do pretty significant diagnostics in those claims to look for those types of activities. And we watch them, and there's always spots that you have your eye on, but nothing that I would point to that, at this point, I would say as significantly impacting our overall loss ratio.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. The -- let's turn to personal auto. The premium volume for Hartford's personal auto business has been shrinking for the past several years. At what point do you feel premium volume in personal auto might stabilize or perhaps even return to growth?

Beth Costello
Executive VP & CFO

Yes. So we have been on a path of, one, first, improving the core profitability in Personal Lines. We obviously had some challenges in that line going back a few years and feel very good now about the profitability. And we look at it, not just in total, but by state and the level of rate increases that we were able to achieve to really offset some of the increases activity that we saw in loss cost trends. And through that process, we obviously did have an impact on the top line. Some of that was very intentional, especially in our agency book, as we really look to repurpose sort of what agents we were doing business with, what agents we were giving access to kind of AARP through agents and so forth. So that was expected and really was part of our process of returning back to profitability. When we focused on our Personal Lines business, we're primarily focused on the AARP business, and we were very pleased this last quarter to see year-over-year growth in new business because we see that as sort of a leading indicator of being able to return to overall growth. And Doug has talked about in the past that kind of getting through '19 and into '20 that our expectation would be as we go through 2020, both with increasing our new business as well as improving our retention, we still -- we put a lot of rate into that book. And as we've talked about in the past, a lot of our policies, majority of our policies are 12-month policies, so it takes a bit of time for all that rate to come in. And in some instances, because of just the number of filings that we're doing and the timing of that, when an individual gets a renewal, there could be a pretty significant increase. So it creates a shopping moment, and we definitely were feeling that in our retention. So the team is very focused on improving retention rates, getting that new business up and then obviously trying to stay ahead of loss cost trends and focus on that as well. And putting all those together, I think, as we go through 2020, we would anticipate getting back to top line growth.

Jay H. Gelb
Barclays Bank PLC, Research Division

Excellent. That would be great. Margins are in great shape, too, now in personal auto with an underlying combined ratio of around 95%. Do you feel there might be opportunity for further improvement in personal auto underwriting margins? Or is that about where you want to keep it relative to restarting growth?

Beth Costello
Executive VP & CFO

Yes. I think if we can keep it around there, maybe slightly better but right in that range, I think that positions us well for growth. I mean as we start to look at new business and turning new business on. I mean so that can sometimes be a little bit of a drag as it relates to combined ratios kind of new business penalty and so forth. So we take all of that into consideration when we look at what levels we want to write at and where overall loss costs are, and I think we have a good balance there. And obviously, with some of the challenges that we saw several years ago, we've improved significantly some of our analytics and our ability to kind of look through what's happening in that book in a more granular level to stay on top of trend. And we've been pleased overall with the trends that we've been seeing in the auto book.

Jay H. Gelb
Barclays Bank PLC, Research Division

Good. Great. Okay. Well, let's turn to the audience response system. We did some audience feedback.

So the first question. If you don't currently own shares of The Hartford, what would cause you to change your mind? We've got a couple of options here for folks.

[Voting]

Jay H. Gelb
Barclays Bank PLC, Research Division

Closing out on the last couple of seconds here.

The feedback from the audience, 40% saying a tighter property/casualty insurance market, around 1/4 saying improved return on equity and then 20% saying more aggressive -- I'm sorry, lower valuation, which -- that's a high-class problem, right?

We think maybe -- obviously, one company alone can't control the overall market environment. But what do you think about that return on equity element?

Beth Costello
Executive VP & CFO

Yes. I mean obviously, there is a lot that goes into that. And as I said earlier, I think given the environment that we're in and when I look at our returns versus others, I think we stack very well now. I think in the past, it was a very complicated story for investors to parse through and understand. And now given what we've done to streamline our businesses and the focus that we have, I think that the areas that I commented on are things that can drive continued improvement in ROE. But again, I think focusing on what happens with the rate environment is going to be key.

And one of the questions we sometimes get on that topic is, well, will that manifest itself or should it manifest itself in pricing if you're earning a lower return on your investment portfolio. And I think the theory is, yes, it should but probably over time. It's not like you're going to see it as quickly as you might see some of the impacts that come from the lower-yield environment. And of course also, the other piece that comes into that is just how much excess capital is in the system and what returns are attractive to both.

Jay H. Gelb
Barclays Bank PLC, Research Division

Exactly. Okay. Next question, please? So this has to do with Hartford's operating return on equity in 2020. Please start the clock. So compared to 11.7% in the first half on a trailing basis, we'd be interested to see what investors' expectations are for 2020 return on equity.

[Voting]

Jay H. Gelb
Barclays Bank PLC, Research Division

70% saying 10% to 12%; and then evenly split, 15%, lower than that or higher than that essentially. It's pretty consistent with your view. Okay.

Next question, please? So this question has to do with the underlying combined ratio expectation for Hartford. Over the next several years, as a point of reference, it was 92% in the first half of 2019, and what do people think directionally about that, where could it head?

[Voting]

Jay H. Gelb
Barclays Bank PLC, Research Division

So the audience is saying that 40% expecting modest deterioration. Nearly 30%, each, saying either no change or a modest improvement. How should people think about that from a structure standpoint?

Beth Costello
Executive VP & CFO

Yes. The only thing I'd comment on, and I don't know if this is part of what might be influencing the 40% for modest deterioration is don't forget for the first half, the 92.2% obviously didn't include Navigators, and Navigators does run at a higher combined ratio. So even with our guidance that we gave for the second half of the year, they're showing that we would anticipate a little bit of deterioration in that. So we would really need some time to, as I said, improve the underlying underwriting profitability there of Navigators. So that may be influencing a little bit, and maybe people are listening to what we said, our expectations for the second half of the year.

Jay H. Gelb
Barclays Bank PLC, Research Division

All right. And for 2020, in terms of price improvement, earning through expense synergies, I mean, it seems like...

Beth Costello
Executive VP & CFO

It's early, I think, for us to start putting out 2020 guidance and obviously want to see how the rest of 2019 plays out and to your point what sort of price increases we see through the second half. And as is our normal practice, we'll update folks as we look towards 2020 and what our expectations are there.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. Good. Next question, please? So this one is with regard to Hartford's acquisition strategy. We talked about it a fair amount today. If Hartford could target a major acquisition that would not be substantially dilutive, tangible book value per share, will be quickly accretive to EPS and ROE, should they do it?

[Voting]

Jay H. Gelb
Barclays Bank PLC, Research Division

Let's see the feedback from investors, which is slightly over 2/3 saying no, don't target a major acquisition. Just under 30% saying yes. So that was pretty consistent with what you've been telling us today. More bolt-on focus perhaps or adding capabilities.

Beth Costello
Executive VP & CFO

I'm going to stay away from getting too specific on the feedback, but yes.

Jay H. Gelb
Barclays Bank PLC, Research Division

Fair enough. Is there another ARS? One more. So with regard to the potential impact of what we've been hearing about in terms of deterioration in a tort environment, what's investors' level of concern around that? Start the clock.

We actually heard one other company today already say they're hearing some challenges around that. So pretty nice bell curve here, kind of right down the middle, moderate in the middle. And nothing to -- much to take away from that in terms of the data, but -- and you already talked about how you're not seeing too much of a hot spot.

Beth Costello
Executive VP & CFO

Yes. And again, we continue to watch it and look for trends. And obviously, if we see trends, we'll react to those, as I said.

Jay H. Gelb
Barclays Bank PLC, Research Division

Great. We have a minute or so in terms of time for questions from the audience, if there are any.

Beth Costello
Executive VP & CFO

I will say I do like these questions that you ask this year than some of the questions. I've been up here in the past. It feels like we've come a long way, basic knowledge.

Jay H. Gelb
Barclays Bank PLC, Research Division

So I looked at the one from 2 years ago, and I remember, not meaning to, but I hammered you a bit on Talcott then I...

Beth Costello
Executive VP & CFO

You absolutely did.

Jay H. Gelb
Barclays Bank PLC, Research Division

There were a couple of those. But then very quickly, afterwards, there was announcement of the transaction.

Beth Costello
Executive VP & CFO

Right. Exactly, exactly.

Jay H. Gelb
Barclays Bank PLC, Research Division

Question from the audience? Last call? All right. Looks like we covered everything.
Please join me in thanking Beth Costello from The Hartford.