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Company Conference Presentation

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Call Participants

EXECUTIVES

Beth A. Costello
Executive VP & CFO

Christopher Jerome Swift
Chairman & CEO

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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Presentation

Brian Robert Meredith
UBS Investment Bank, Research Division

Welcome, everybody. Brian Meredith. I'm the senior North American insurance analyst here with UBS. And welcome to our fireside chat with The Hartford. With us today from The Hartford is Chris Swift, who is the Chairman and CEO of The Hartford; as well as Beth Costello, who is the CFO.

For the audience, if you've got any questions that you'd like to ask the company during this fireside chat, my e-mail address should be at the bottom of your screen. If you can't see it there, my e-mail address is brian, B-R-I-A-N,.meredith, M-E-R-E-D-I-T-H, @ubs.com. And feel free to e-mail any questions, and I'll do my best to ask it.

Chris and Beth, I want to thank you both for participating today in this virtual conference, really, really appreciate it in these crazy times. Chris, I know you've got a couple of comments you want to make to kick us off, and then I'll break into the questions and answers.

Chris, let me hand it over to you.

Christopher Jerome Swift
Chairman & CEO

Great. Thank you. Brian, thank you for inviting Beth and I to be with you virtually. I could tell you, honestly, this is the first time we've done a virtual investor conference, but there's always time for the first. So thank you for hosting us.

Brian Robert Meredith
UBS Investment Bank, Research Division

Sure.

Christopher Jerome Swift
Chairman & CEO

All I would start out by saying is The Hartford got off to a good start this year in the first quarter. We reported $1.34 in -- per share of earnings in the first quarter, really with good momentum in pricing, in our commercial and global specialty books, which has been a key execution item for us. I would say, very solid Group Benefits results, favorable mortality this quarter and good disability results and recoveries. Personal Lines had an outstanding quarter from a core earnings side, and our investment portfolio performed admirably during some rocky periods of time.

With that said, Brian, you have to admit, everything's changed with COVID-19 arrival around the world and affecting economies, affecting people's lives, affecting how people live and work and how they spend their time. And it is an uncharted territory, as they say. As I shared with you privately and public statements, there are a lot of unknowns still of how this crisis is going to play out because we're still in the midst of it. But I am confident about The Hartford's ability to manage the coming quarters. I still believe this is a earnings event, not a capital event, and we'll come out better and stronger for it at the end of the day.

So again, happy to take your questions, Beth and myself. I would have to say, Brian, we're here with no new news. We don't have any new data. We're not going to break anything here on your live chat, but we do want to try to be responsive to your questions and to investors. But we just had our conference call a little over 2 weeks ago. So there really isn't anything new that we're going to discuss here today.

Brian Robert Meredith
UBS Investment Bank, Research Division
Appreciate that. Well, maybe we can flesh out a couple of things and get your perspective on some industry stuff here, too.

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Question and Answer

Brian Robert Meredith
UBS Investment Bank, Research Division

So I think, Chris, my first question here is, as you look 12 months from now and as you look back at what the impact of COVID-19 is going to potentially have on the P&C insurance industry, and we've got some big loss numbers out there, lots of changes, lots of difference, contract wording, who knows, right? So what do you think the long-term implications are here for the industry? And then specifically, how do you think Hartford is positioned to respond to those changing kind of long-term implications?

Christopher Jerome Swift
Chairman & CEO

Sure. Well, a couple of things come to mind. One is just how we think about risk, tail risk from a global pandemic, did happen. So I think from a pricing side, a risk side, modeling side, things are going to be different and most likely -- and you've been reading it -- you've been writing about it, that this rate environment that we've been in for the last 3 quarters of accelerating rates, I think, what we're living through now will only accelerate rates even faster and harder going forward to compensate for past exposures and future exposures.

If I look at it then from a, call it, a legal side or policy terms and conditions side, I think you're going to clearly see a tightening. A lot of the reinsurers are leading the way with tightening for virus exclusions, which would be one of the first major departures from follow-your-fortunes mentality. But obviously, they feel like they have to. And I think that will have a trickle-down effect on broad-based terms and conditions in the primary side.

And then lastly, something we've been talking about for a while, as you know, we're going to be ultimately in a lower, lower, lower interest rate environment for a long, long time. And the need to make up for low interest rates with more margin contribution from underwriting or expense efficiencies is going to be paramount to have any opportunity to expand margins from where we stand here today.

So at The Hartford, we're prepared to contribute to the economic recovery with our products and services, I still fundamentally believe. I like our market positioning. I like the market segments we serve on the middle to the small end with a nationally recognized benefit platform, really focused on employment activities and keeping people productive and healthy and working for our institutional customers. So we'll be there. But the recovery, Brian, is not going to be a 1 or 2 quarter event. It could take 6 to 8 quarters to get back to levels of economic activity that we enjoyed prior to COVID-19.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. So let me kind of narrow into some of the other kind of top issues or hot issues that we're hearing from investors. So I guess the first one, I'm just curious about, if we look back at the financial crisis, the group disability business at The Hartford saw ROEs dropped to very low single digits in 2011, and it took years and years to kind of get those ROEs back up. Given what's going on right now with the current economy and the economic outlook, could we see ROEs drop to those types of levels again? Is there something different about the business today? How is kind of the economic sensitivity of the group disability business different today?

Christopher Jerome Swift
Chairman & CEO

Yes, it's a great question. I would just share with you a couple points. This crisis is obviously different than last crisis. If I look at our book of business, when I joined The Hartford 10 years ago, obviously, it was smaller. Prior management was really trying to grow it aggressively during that time and probably got a little too aggressive on pricing that, I think, ultimately contributed some to the margin compression that we suffered during that period of time.

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But since then, I would just focus on why I think the book is different. One, it's larger, we have better scale. We have a better diversified client base within that book of business. It's equally balanced between life and disability. We've worked on the Aetna acquisition where we're at the final stages of completing that integration activity, really rethinking processes, taking the best processes from the old Aetna, from the old Hartford and combining them into a new operation. So I think we're much more efficient as an organization.

And we've invested a lot in our claim processes, including big data and analytics that I think are driving better outcomes for our clients. And better outcomes are ultimate recoveries to those workers that have been disabled. So I think it's fundamentally a different business than it was years ago. But no doubt, and I've said it during our earnings call, margins are going to be under pressure in that business in the near term. But it doesn't necessarily have to be as bad as it was before because I think there was other factors shaping the outcome in 2011 and 2012.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Appreciate that. Next question, I guess, a lot of discussion with respect to workers' compensation insurance, okay? And if we look at some of the recent things that have gone on, the California governor, he's got an executive order out there that creates presumption that employers -- COVID-19-related illnesses rose out of employment for purposes of attaining these kind of workers' comp benefits.

If you take a look at what the WCIRB talked about as far as what the cost of the insurance industry is, it's like $11.2 billion. It's a huge number, right? And if I take a look at Hartford's market share in California, and I know that's not an exact science, right, but that would imply something close to a $600 million gross loss, right? How do you kind of respond to those numbers? How do -- how should we think about that from an investor's perspective? One, with respect to these presumptions going through? And two, with respect to the potential liability on that one?

Christopher Jerome Swift
Chairman & CEO

Sure. Sure. I think I've said in prepared remarks, particularly for our earnings call that the workers' comp system is a well-defined, well-organized system that, I think, has worked pretty effectively over the last 50 years or so. So -- and there are various presumptions already out there in various states, including California. California has already had a high bar for presumptions in the workers' comp area, particularly for injury and sickness.

So I mean, it's something we're accustomed to and can react to over a period of time. But I would say that, in general, all presumptions aren't necessarily bad or really, really problematic. It's the broad-based ones. It's the ones where we don't have any rights, where we can rebuttal or we have the ability to adjudicate a claim with at least evidence of loss so that we avoid the moral hazards and fraud, quite honestly.

So I think where California ended up -- and again, you got to remember, California is, what, the sixth, seventh largest economy in the world. So I mean, it's a big, an important state. But I think where they ended up, although not ideal, it's probably acceptable. So I'm not foreshadowing any industry or individual response to what California has done. But I think we just have to see how it plays out.

The data that you refer to, I would say, also has a wide range of outcomes. I think if -- you would know, I mean, the range of outcome is from basically 0 to almost up to $30 billion. So ultimately, in all these presumptions, we have going to see, what's the incidence rates, what's the severity. There are offsets built into the California law and other laws for offsets from leave programs. So the net benefit could net down to a smaller gross amount depending on other coverages or other programs out there. So it's one of those things. As I said, Brian, we're in the midst of this crisis. We're just going to have to see how it evolves.

But even -- again, from the industry side, I still think this issue is an earnings event, it's not a capital event. We'll put these incremental costs back into our loss cost trends and ultimately, price for them in the future. So we might have the front money, but again, we're working hard to make sure that all of these

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trends then are in future loss costs. So that at least we could price and recover for incremental claims that we paid out that weren't priced for.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. I'm just curious, we talked about gross exposure, but I know you guys have some reinsurance protections in place. Maybe you can tell us a little bit about what you have on the workers' comp reinsurance that could potentially limit from a net perspective?

Christopher Jerome Swift
Chairman & CEO

Yes. Reinsurance is, obviously, both on the property and the comp side. I'm going to ask Beth to comment upon it because she's been with our risk managers, the principal architect for it. But you got to know most of the reinsurance programs we have are excess of loss or catastrophe related for big events. And we're going to have to watch terms and conditions, hours clauses, everything that's defined in that. But Beth, what would you add?

Beth A. Costello
Executive VP & CFO

Yes. And I think you've captured some of the key components very well as to things that have to be considered when you look at some of those treaties today. They are for large events and where they attach it at various points. And as Chris points out, components of hours clause and all of that, that will have to be worked out. But there are no specific exclusions in our reinsurance treaties related to virus. It really is, as Chris said in his remarks earlier, follow-the-fortunes type of policy. Our property per occurrence treaty is, we lay out very clearly, I think, in our disclosures. Our aggregate treaty is, a CAT would have to be declared by PCS in order for the aggregate treaty to come into effect. So it's all about the details and the individual terms and conditions.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. So another area that's a hot topic that we talked about some on your conference call has to do with business interruption and property insurance policies and virus exclusions, et cetera, et cetera. I guess specifically, I'm just curious, do you have any kind of percentage of your policies that have virus exclusions? I know you said vast, vast majority, maybe a little more color on that. And then I think more importantly, too, is just how many actually have in virus endorsement? And kind of -- what kind of limits are we talking about here?

Christopher Jerome Swift
Chairman & CEO

Yes. I think I remember that call. That was the first question. I forgot who asked that first question, Brian?

Brian Robert Meredith
UBS Investment Bank, Research Division

I just put on the tape recorder.

Christopher Jerome Swift
Chairman & CEO

So to sort of recap and not break any new news. Yes, on our property policies, the vast, vast majority of our policies have a virus exclusion. I think the physical loss component of our logic is still paramount. Because if you really look at -- and I have looked at policy language and wording and sort of the flow of how property policies work. I mean it's all centered around the physical loss or physical damage to a property. As we've said, the virus exclusion, we think, is ultimately just additional documentation embedded in a policy form that is meant to be really objective and clear for the policyholder. But it all centers around physical damage.

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So then if you get into the add back, so we have broad-based exclusions in our policies, both in middle, large and small commercial. But I think what you're talking about is, is there -- are there conditions or are there situations where you add back bacteria, mold and virus protection? And the answer is yes. But again, it's, yes, in the context of the policy form and how it's designed is to respond to properties that were damaged. And if during the restoration of the properties, there becomes mold or bacteria or viruses in the restoration of a damaged building, damaged property, we will pay incremental compensation for the treatment, special treatment of that virus or bacteria or mold to remove it in conjunction with restoring the property.

It's not to meant to be stand-alone. It is not stand-alone. It is in conjunction with restoring property to its original use, if bacteria, mold or a virus develops. And generally, I would say, it is sub-limited generally at the $50,000 level in the portfolio, and it could be plus or minus. A small commercial might have some lower limits. You get into the larger property schedules, it might have large. But we're not putting full policy limits at risk for this sub-limited add back if bacteria, mold or virus develops while you're restoring the property.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So that's specific. I got you. That makes sense. It's specific as you're restoring the property. It's more like cleanup and those types of things that your coverage would provide for.

Christopher Jerome Swift
Chairman & CEO

Correct.

Brian Robert Meredith
UBS Investment Bank, Research Division

That makes a lot of sense. And I think that's important, too, to kind of understand what this coverage actually is for, right? I mean it's -- I think you can probably talk about more, but it's for expenses you're incurring as a result of potentially being shut down and not being able to pay them, those types of things. I think that's important too, right?

Christopher Jerome Swift
Chairman & CEO

Well, again, the add-back deals with physical loss as restoring property. If you're referring to, I'll call it, civil authority coverage...

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. Civil authority, yes.

Christopher Jerome Swift
Chairman & CEO

It works a little differently. But again, it is still a physical loss damaged property in a surrounding area that would cause your building or location to be shut down due to safety of that other damaged building. So all these conditions, and I know we probably sound like a broken record is predicated on physical loss or damage. So civil authority, again, is a common coverage in a lot of policy forms that deals with sort of a shutdown of an area due to property damage or unsafe property conditions.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. And then, I guess, another thing I've heard about with respect to you guys is that the virus exclusion that you'll have in a lot of your policies is actually tighter than ISO endorsement, right? Because ISO, I know a lot of your -- lot of ISO policies basically have these virus exclusions. So maybe

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you can give us some perspective on that. Do you use the ISO exclusion? Is that most of your small commercial BOP business that have ISO? How can we think about that?

Christopher Jerome Swift
Chairman & CEO

Yes. I would say, again, I can't give you specific numbers just because I don't know them. But our broad -- our policy forms are broad-based exclusions, and we do have a lot of, I'll call it, special terms and conditions that we don't follow ISO by the letter of the law. But a lot of companies do which works fine. We built, particularly in small commercial sort of a unique set of policy terms, conditions, wording that conceptually is based on ISO concepts for the industry.

But we've tailored them. We used in our own special terms and conditions that we think are broad, are clear, are understandable, are defendable. If anyone wants to challenge them. So I'm not going to sort of tick line-by-line what ISO does, what our policy does. But I would leave you with the view that we do have some unique non-ISO policy wording that we've developed over the years, particularly in small commercial.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Let's pivot over a little bit to the economic downturn and what that impact could potentially be on, call it, commercial auto, workers' compensation. I guess a couple things here. First, if we take a look at commercial auto right now and workers' comp, obviously, claims frequency as a result of the shelter-in-place orders is probably down fairly substantially. And maybe I'm wrong on that assumption, maybe you can correct me if I'm wrong. Question is, what are you doing with customers and clients to kind of help them out here in this situation? Are you giving premium credits? Or are there other things that we should potentially think about here?

Christopher Jerome Swift
Chairman & CEO

Yes. I think it's a broad-based question. So one, to -- if I remember your question, I mean, frequencies in certain areas are coming down. And when I say frequencies, I really mean sort of claim intake right now, and the actual measurement of frequency, obviously, is exposure based. So we'll also have to see what -- where ultimately exposures settle out during this period. Because as you said, I mean, we've offered premium refunds, 15% on April and May, credits in Personal Lines. We've processed, I think, over 80,000 endorsements in small commercial and middle, which, in an essence, acts as a refund at that point in time as people take exposures down, whether it'd be automobile exposure in commercial policies, whether it'd be sales-based exposures. Property exposure is what it is. It's either there or not.

So I mean, we've been reacting and giving accommodations, billing accommodations to a lot of our policyholders, both on the P&C side, Personal Lines, commercial and benefits through the end of May, and we're going to have to reevaluate what we want to do going forward and what any regulatory guidance might be. I would say that the level of regulatory activity these days is at all-time highs. It is quite active, and you would expect various insurance departments across the country to -- you want to try to help their customers, but we're helping them on our own. And we're trying to do the right thing to help support forbearance broadly defined.

What we're really sensitive to, though, is a quick snapback, particularly in driving. I think Doug described it on the call that, particularly in Personal Lines, we only gave forbearance and return to premium through the end of May because we really do think where the price of oil is, how people's behaviors are going to change going forward, how they commute to work, we are going to see a spike in miles. And we're already starting to begin to see that the last 2 weeks based on some of our telematic data, based on just other broad-based industry data. So we're trying to be thoughtful, responsive, but also protect ourselves for any snapback in miles driven which would drive more accidents.

Brian Robert Meredith
UBS Investment Bank, Research Division

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That makes sense.

Beth A. Costello
Executive VP & CFO

The only thing I'd add to what Chris said when you think about the various mechanisms that are available to match sort of exposure changes with premium changes is our workers' comp policies have an audit feature. And you may recall in the first quarter we did take down our audit premium reserve. We call it a reserve. It's actually a receivable because typically, we expect to bill more on audit. I'd expect in the second quarter to see further reduction there. So there is some just natural mechanisms that deal with exposure changes that come about in those types of policies.

Brian Robert Meredith
UBS Investment Bank, Research Division

Workers' comp policies. That makes sense. And then just, I guess, adding on that, Beth, a little bit, and Chris. So clearly, there's some potential expect -- potential impact here from a premium perspective, right, given workers' comp adjustments, pressures going through those types of different things. Maybe talk a little bit about -- do you have any flexibility with your expenses to help buffer some of that potential top line pressure and how that could potentially impact your expense ratio in the Commercial Lines space as well as the Personal Lines?

Christopher Jerome Swift
Chairman & CEO

Go ahead, Beth.

Beth A. Costello
Executive VP & CFO

No, I was going to saying, yes. So I mean, there are some expenses that obviously vary with premium and so you see some reaction there. In the short term, as we look at some of the reductions in premium, I'd expect there to be a little bit of pressure on the expense side. But we have already been in the process of looking at reducing some of our expenses and had a goal of improving our expense ratio and looking to see if we can accelerate some of that, but that's probably more back-ended as we think about 2020. It's not something necessarily reacting to in the moment because, again, we do believe that over time, economic activity is going to come back, and we want to make sure that we're prepared to deal with that and be able to service our customers. So it's a little bit of a balancing act, but obviously something we're watching very closely as we go through this period.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. One other one, kind of I'm getting questions coming here from people also coming through. But I'm just curious, we haven't talked much about Navigators. And just one, maybe a little bit on kind of how that's all proceeding too. Talk a little bit about maybe their exposure to what's going on with COVID-19.

I mean Lloyd's came out with a huge potential number that they think that the loss could potentially be for the industry north of $100 billion, right? And a reasonable side, loss for Lloyd's, the largest ever. Is that something that you guys are thinking about? How is Navigators potentially exposed to that?

Christopher Jerome Swift
Chairman & CEO

Sure. I would say, I think it was February -- excuse me, May 20 that we closed the Navigators transaction a year ago. And I couldn't be more pleased with how things have gone from the technical integration, adapting, learning the environment and culture, building a new global specialty business, led by Vince Tizzio and the team. The men and women that we brought on board with the old Navigators have been outstanding and are contributing. So I think it's been just absolutely fantastic.

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And as we mentioned in the first quarter earnings call, we're on track for that 5- to 6-point combined ratio improvement that we've talked about driven by a combination of aggressive renewal pricing actions, aggressive exits of certain businesses, delegated authority, binding certain lines of business in Lloyd's that we're just exiting. So a combination of things is really going to drive that result. And we're most confident about the short-term and the long-term goals that we've set out financially for that organization.

I think the second part of your question deals with what's Navigators' potential exposure, particularly as it maybe relates to Lloyd's and/or anything unique here in the U.S. And I would say that, again, from my understanding, what John Neal is really foreshadowing is exposure is more in the event cancellation business in Lloyd's which we are not in. More exposure in Lloyd's in the D&F Property business which we're not in. We do have some small reinsurance treaty, reinsurance written out of Lloyd's as part of our global reinsurance division, but relatively modest.

And then whether it be trade credit, political risk, other type of financing of receivables for businesses, we're not in the broad-based financing of receivables. We did mention in the call that there are a small amount of our total policies enforced from Navigators, particularly in their property book, their E&S property book that do not have virus exclusions. Some policies don't have physical damage requirements in there that we'll have to reserve for and put up the appropriate limits there. But by and large, that's very small, tiny in relation to our overall book of business. So I see very limited impact coming out of Lloyd's statements as it relates to Navigators.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. Let's pivot a little bit maybe and you talked briefly about the pricing environment here and what's going on. I'm just curious, your thoughts about outlook here for the Commercial Lines pricing. We've heard several companies talk about a "hard market" in the Commercial Lines environment. I haven't said those words since, I guess, 2001, 2002. So just kind of give your perspectives on that and then maybe roll that forward to kind of what do you think could happen here with small commercial pricing where you guys are bigger? Do you think this causes workers' comp maybe to flip the other way at some point from a pricing perspective?

Christopher Jerome Swift
Chairman & CEO

Definitely on your last point, workers' comp is going to flip just given the presumptions and the amount of expansion in certain states and in certain areas. It's not going to happen next quarter or maybe even not the quarter after that. But as we look to do our rate filings in '21 and build in some of these incremental -- again, manageable incremental cost, I think, that will start to take some pressure off the rate rollbacks that we've been experiencing in the last 3 years in comp.

Remember, I'm the one, I think, 2 quarters ago, Brian, that really talked about a hardening, firming market, really for the next 12 to 18 months, and I'm more convinced than ever that, that trend is continue given what we're living through today and ultimately, the impacts of lower interest rates. So I don't know how people -- how you would define hard market, hardening market, super hard market, but particularly, the level of price increases is going to rise. The level of terms and conditions is going to get tighter. Exposure limits are going to come down and are coming down. And again, I think that's a trend that's going to continue for at least, again, the next 12 to 18 months in my judgment.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Here's another one. I'm just curious about. Prior to the situation that we're in right now, there was a lot of talk about social inflation, right, and that was the hot topic here. And I know you talked about that you've been reserving for that for a while. You've shown in your general liability book. I'm just curious, when we get into a situation like we are right now, historically, does that change the whole social inflation type of environment? Could that potentially moderate here? Does it get worse? How should we be thinking about that?

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Christopher Jerome Swift
Chairman & CEO

Yes. It's going to be interesting. The optimist in me, I could say, I sure hope it gets better, but the pragmatist in me and knowing the trial bar probably says, no, it's not going to help. And you could see some of this by some of the legislations of various state legislatures are passing or Congress is considering, just limiting liabilities, business liabilities as we open up the economy primarily for COVID-related exposures and incidents, which speaks to that we're probably still in a very litigious environment. Social inflation is going to be with us for a while. It does act as a tax and a toll.

I do worry that if it really gets out of hand with turning back the economy, it can actually slow it down. I know it's something that various members of our trade group have been talking about quite proactively and trying to influence some policy that we can't afford right now as a nation to slow down a recovery, a safe recovery, a prudent recovery where businesses of all types, small, large, middle, are trying to do the right thing, trying to bring employees back. And if they're going to have fear that they're going to be sued or could be bankrupt because of a virus, it doesn't seem to make sense to me that we can't provide them a level of protection for a period of time so that we can really rejump and restart our economy, Brian.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That makes a lot of sense. I appreciate that. One that came in, an interesting one from a client, I'm just curious, and this goes, I think, back to some of this business interruption coverage. The kind of question is the presumption right now is that insurance companies, particularly small commercial companies are getting swamped with phone calls coming in from these small businesses saying, "Hey, where is my coverage? Where is my coverage?" I guess, is that true? Are you getting a lot of claims notifications from small commercial customers? And then on that topic, how do you deal with that situation? You've got your reputation as an

[Audio Gap]

also you've got a great small business, arguably a leader out there. How do you deal with that situation and with your distribution?

Christopher Jerome Swift
Chairman & CEO

Yes. So 2 points. One, yes, we have seen a spike in property claims. Again, we investigate fully, which really means you're going back to policy terms, conditions, language, making sure that there wasn't anything unique about the exposure or the claim that could be covered by our standard policy language. The vast, vast, vast majority there are just plain denials. And when you deny, particularly a claim when someone is looking for a benefit they think is purchased in there, we -- you have to do that with empathy, you have to do that with sensitivity. It takes time.

We work through agents sometimes. We work directly with the insureds. And all you try to do is explain the facts as clearly as we can. And we have a wonderful claim team that knows how to do that well, is trained for it, and I think is responding admirably. But yes, it's hard to say, "No, your policy wasn't designed to cover that." But unfortunately, that's the simple fact that our policies weren't designed to cover pandemics.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. Appreciate that.

Beth A. Costello
Executive VP & CFO

And if I could add to that, Brian. I just want -- is that -- besides that aspect of it, we have gotten very favorable feedback on just how proactive we have been in our communication with our policyholders and

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with our distribution partners and the clarity of what people can do, the billing release that we've talked about. We were very early on some of those things. And I know that Doug is very proud of the feedback that he's received as to how the team has been dealing with all aspects of this with our clients through this period.

Christopher Jerome Swift
Chairman & CEO

Thank you, Beth.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That makes a lot of sense. Stick with you for a second here. I'm just curious, any kind of changes or any thoughts with respect to the investment portfolio given the macroeconomic outlook? Any thoughts on changes that you potentially could be making here?

Christopher Jerome Swift
Chairman & CEO

I'll let Beth add her point of view, too. But no, I mean, we've been on a trend of derisking over the last 18 months. I think we've positioned it well for this downturn, this event. Look, no investment professional is going to have a pristine record. We're probably going to have a modest amount of impairments and exposures to deal with in certain asset classes or certain parts of our economy that have really, really been hard hit. You think of airlines. You think of leisure.

But generally, it's a portfolio that we've stress tested. We understand it's a higher quality than most, in my judgment. But yes, it's something that's environment, and we just always have to stay on top of. But besides, as Beth commented and she could talk about building some short-term liquidity, there isn't anything radical we feel like we need to do with the portfolio right now. Beth?

Beth A. Costello
Executive VP & CFO

Yes. I think you captured it well, Chris. As we talked about on our earnings call, we did reduce some of our equity exposure post March 31. So there's things tactically that the team continues to look at and do, but no wholesale changes in how we think about the sectors that we're invested in. We are, at the moment, building liquidity, just given the environment that we're in and the fact that we were giving some of these extensions of billing terms to customers. We obviously want to have a good liquidity position. But we would anticipate over time, as things progress, to be able to start investing again. And as Chris said, I think we have a very well-constructed portfolio and not looking to make any wholesale changes.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Another just quick one that came in on the BI situation. Interesting one. Just how long does it typically take for a BI claim to settle? I would think it probably takes a long time.

Christopher Jerome Swift
Chairman & CEO

Well, all I would say is that a BI claim, a truly, a business interruption claim for a business that has had property damage is a complex claim to administer, to make sure you get all the facts and data as far as expenses, lost business income and involves projections. I mean so there's a lot of judgment that goes into it, and then there's just a lot of questioning and full understanding that our claim adjusters who, again, have to have strong financial acumen skills to adjudicate those claims. So Brian, I can't tell you if it takes 1 month, 3 months, 4 months, but I know it's some of our most complex claims to settle and adjudicate.

Brian Robert Meredith
UBS Investment Bank, Research Division

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Makes sense. I guess another one here, Chris. So as we think about the environment going on right now and what's happening, obviously, there'll be some smaller midsized insurance companies that maybe have a tougher time dealing with the situation. Does this create any opportunities, you think, for The Hartford at some point to kind of do some inorganic growth here or continue on kind of your strategy of seeing some inorganic opportunities?

Christopher Jerome Swift
Chairman & CEO

Well, as I've said in the past on M&A activity, we think we have everything in the building today that we need to grow, to grow organically, to focus on providing our agents and brokers with a wide array of products with increased appetite in certain industries. So I think we're on the path of an organic approach, I know we are, and feel very satisfied.

Particularly in this environment, I think, it's going to be hard to do M&A in general until exposures and unknowns become really knowns, before people would even consider doing M&A in this environment. So I think that's just a practical limitation. And for us, never say never, but it is not a high priority for us right now to think about M&A.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. And then I think on the capital management topic, I think you kind of addressed it on the conference call here. Still, I guess, the focus is on continuing to kind of delever here. Can you just kind of give us what your kind of views on capital managements are?

Christopher Jerome Swift
Chairman & CEO

Beth?

Beth A. Costello
Executive VP & CFO

Yes. So we did pay down some debt in March that matured. So from a leverage perspective, feel very good about where we are. We don't have any maturing debt now out for quite a bit of time. So we've taken the actions that we needed to take. We have some hybrid debt in 2022. We have the ability to take a look at. But that's a bit of a ways off.

As we said, we did pause our share repurchase activity right now, just given where things stand. And we'll evaluate when would be the appropriate time to resume that program, which to me is really going to be reflective of just what's happening of the overall economy, and we get better clarity on some of the things that are going on right now.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. I mean do you have a reasonable amount of excess capital on your balance sheet at this point?

Beth A. Costello
Executive VP & CFO

Yes. I mean we've gone through with all of you several times kind of the sources of capital that we have at the holding company, and we don't see any changes right now in that. We still anticipate taking the same level of dividends out from our subsidiaries. Our tax credits, we anticipate, will monetize.

And our operating companies are well capitalized. Our philosophy is to keep them well capitalized and be able to sustain stresses and obviously, continue to look at the current scenarios and stress test them. But feel very good with the overall capital position that we have kind of across the company and across our legal entities.

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Brian Robert Meredith
UBS Investment Bank, Research Division

Sure. Great. Great. Really, really helpful. Well, I think we're kind of hit at the end right now of our time for this. Chris, Beth, I thought really, really helpful discussion. Really appreciate all your time. And with that, I guess we'll pivot to the next one here, and stay safe and stay healthy, everybody.

Beth A. Costello
Executive VP & CFO

Thank you.

Christopher Jerome Swift
Chairman & CEO

Thank you. And first virtual investor conference, wow. I could put that in the record books now. Thanks for hosting us, Brian.

Brian Robert Meredith
UBS Investment Bank, Research Division

Here we go. Awesome. Thanks. Thanks. Appreciate it.

Beth A. Costello
Executive VP & CFO

Thank you.

Christopher Jerome Swift
Chairman & CEO

All right. Bye-bye.

Beth A. Costello
Executive VP & CFO
Bye.

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