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Presentation

Joshua David Shanker
BofA Securities, Research Division

Well, we're live. Hi, everyone. Welcome to the Annual Bank of America U.S. Insurance Conference. We are virtual again, this is the last one. We couldn't tell -- almost currently wanted to do this one in person, but 2024, we already -- 2023, we already have the date. We'll talk about that when everything is over. But let's talk about the conference today.

We're really said to kick off the first presentation discussion with The Hartford Financial. We have Chairman and CEO, Chris Swift; and CFO, Beth Costello, here to present. I couldn't ask for a better start of the conference. We got a busy day of course, and everyone has wonderful meetings. But let's just get started with Beth and Chris for the -- for a few preliminary remarks. I have a lot of questions. [Operator Instructions] But -- so please send in your questions, and I have plenty, and let me turn over to you, Chris, for a little introduction.

Christopher Jerome Swift
Chairman & CEO

Sure. Thank you, Josh. We're always happy to be with you, particularly in the leadoff position to your annual conference, and we always look forward to the dialogue with you and in these constructive conversations we have with our investors. I would just say that 2021 was an outstanding year for The Hartford. We generated a 12.7% ROE for actually the second year in a row. And I think it really demonstrates the improvement in our performance on a consistent basis. And we've been building and investing in our organization for a while, I think it's really starting to come through.
We also have continued high confidence in our business particularly through our capital management actions. During 2021, we returned over $2.2 billion to shareholders in the form of share repurchases and cash. So I've never been more excited about the future of The Hartford, and I'm very confident in our portfolio, our capabilities, our expertise, our talent and how everything is coming together. I think it's the right time to continue to outperform in a period of what we believe is new sustainable, profitable growth for us. And as I'd say, the better days for The Hartford continue to be ahead of us. So we will continue to pursue underwriting excellence, combined with our ongoing capital management to produce targeted returns in that 13% to 14%, Josh. So that's what I would open up with.

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Question and Answer

Joshua David Shanker
BofA Securities, Research Division

My first question is, in turn, atypical one, but given that we are remote and hope for this is the end of remote. I'm trying to figure out what remote work and The Hartford's culture, being an enduring franchise, I don't know if you have 150 years of The Hartford. It is work just to place for the paycheck or is there a culture to The Hartford how in this new environment or maybe we would have a more normal environment in the next 6 months, we'll see what is The Hartford doing to maintain its enduring franchise and that its employees feel like they're partner team and something that's going to last longer than just their 9 to 5 moment.

Christopher Jerome Swift
Chairman & CEO

Yes. Actually, it's a very good question, Josh. The Hartford has been around for 211 years. So we do have some legacy. But as I've said before, I mean, we're not your grandfather's Hartford anymore. We are a modern version of what a national insurance company looks like, and we're very proud of it. Equally proud of sort of our performance-driven culture that I think is collaborative, that's supportive. It allows people to bring their entire self into the organization. And it's that culture, one of the reasons why I'm so optimistic about the future.

Our talent is strong and deep in the businesses and all our functions. So I think the pillars to our performance that we've talked about is really our execution-orientated mindset, our leadership, our underwriting excellence and as you said, our enduring culture. And we're really proud of the talent that we have and that we put on the field every day, and it only continues to grow over the years, and I think it will continue to grow going forward.

So when you talk about the future of work, it's -- to me these days, you want to be flexible, but you also want to keep your culture that has worked so well for you. So we've always put the safety and the health of our employees first. So we'll come back into the office over the next couple of months and begin to sort of work in our new environment, one that takes the best of the old world that we just lived through the pandemic, and I hope that it is the old world sooner than later. And then it combined, obviously, with office where we come together to be more purposeful about strategy, innovation, coaching, learning, mentoring. I think those things are done very, very well in an office setting where you get to establish in your personal skills. But on the other hand, we proved that we could work remote and offer people flexibility 2, 3 days a week. So we're trying to create the best of everything going forward, Josh.

Joshua David Shanker
BofA Securities, Research Division

Right. This is -- it sounds like a silly question, but the essence of The Hartford, what is Small Commercial. I mean, some people -- is that a $1,000 policy? Is that a $5,000 policy? How can we think about what is Hartford's market share? Is it growing? I mean, everyone counts it differently. So tell me about what Small Commercial is for The Hartford who is the leader. But what does that actually mean?

Christopher Jerome Swift
Chairman & CEO

Well, I was going to just start that. Yes, I think we are the leader. And principally because we've been at it for 30-plus years, we've invested in it heavily. We've been in tune with our customers, both the end customer and our agent and broker customer of what their needs are. So it's been a business that has just performed superiorly over a long, long, long period of time. And I believe it will continue to perform at that high level for the foreseeable future.

And partly, it's because we've invested in it. What I always like to say is that you had to be really intentional in what you're trying to drive. And over the last 5 to 6 years, we've been intentional in trying to drive a better digital experience, trying to drive speed and accuracy for our agents, cutting down on questions. In fact, during the fourth quarter, 74% of our business went through without any human touch, our business activity. So I think that speaks to what we've been investing in, particularly data science, data and analytics that really generate, I think, that is superior customer experience.

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Small Commercial is a little more for some, but we really define it as businesses that have less than $20 million in revenues, generally less than $50 million of property. But again, the vast majority of our businesses and policies less than $10,000. And we bring our full suite of products, whether it be comp, general liability, our Spectrum product, our auto capabilities. And recently, we're bringing more of our management and professional liability capabilities through the Global Specialty group into this segment.

So again, we know the business well. I think if you look at it from a market side, it's probably a $110 billion market. We probably have 4% of the market share, evidenced by our $4 billion of premium. And I would tell you that we are capturing market share. If you look at our PIF count on a year-to-date basis, that was up 6.5%. If you look at our written premium, totaling a little over $4 billion, that grew about 11%. So we are gaining market share, and we plan to continue to gain market share.

And part of what the real secret sauce is, if Stephanie Bush who is here that who leads this business, she would say is you were trying to meet the customer where they want to be met. Whether it be an agent or broker's office, whether it be through a payroll vendor, whether it be through alternative and distribution channels, whether it be through our direct to the consumer channel. We are truly a multi-channel distribution organization that's bringing our skills and our products to the customers every day.

Joshua David Shanker
BofA Securities, Research Division

And are there still parts of the country were Hartford's underrepresented or focused on profitable. I'm sorry, we have a glitch. Is Chris glitching out?

Christopher Jerome Swift
Chairman & CEO

[indiscernible] Josh.

Joshua David Shanker
BofA Securities, Research Division

I'm sorry, you got to glitch for a second. Are there still parts of the country where you're underrepresented in your market share goals?

Christopher Jerome Swift
Chairman & CEO

I would say we have great strength in the coast, the East and West Coast. We have good strength in the Midwest. So our top 10 states are growing. But actually, our next top 20 states are growing 3x as fast. Yes, is our top 10 states. So I think that positions us well for continued growth. We've been continuing to appoint new agents. And really, the ease and speed, I sit down with the agents, why they like doing business with us and they do business with others, too, but they really do like our ease and speed, our timeliness, our turnaround time, the ability to see a bindable quote on the glass, press the button, bind it, and there's nothing else to do. So speed does count in this business, Josh.

Joshua David Shanker
BofA Securities, Research Division

And would The Hartford benefit from being in every agency? Or does it benefit to bring selective about its agencies?

Christopher Jerome Swift
Chairman & CEO

Our best position is when we're the top 3. So if we're not top 3 in an agent, it's just going to be hard to get meaningful business and flow. It doesn't mean we don't have contracts and relationships where we don't have the top 3. But if you look at our metrics, if we're in the top 3 position, top 1 or 2 particularly, that does drive superior market share in that agency's office.

Joshua David Shanker
BofA Securities, Research Division

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Growth was fantastic in 2021. And you've given 2-year commercial premium growth guidance. It feels to me like you're well ahead of plan. Should we expect deceleration this year? I mean, I'm ahead of your forecast in my numbers, but maybe you'll rightsize me a little bit here and tell us what to expect.

Christopher Jerome Swift
Chairman & CEO

Well, you're right. And I'll ask Beth to add her comments in this area is that when we did our Investor Day, we wanted to continue to give people looking into the future. And we're really proud of the growth that we enjoyed in 2021. If I look at our commercial businesses, in particular, all of them are up low double digits, which is just outstanding.

Now some of that, as you know, is from exposures coming back, particularly in workers' comp and other lines, but primarily workers' compensation. So we do feel that was a onetime pull forward or a onetime recovery as the economy got back to normal, which is hard to replicate going forward or just expanding exposures.

Now on the other hand, the rate environment continues to be supportive as we said in our fourth quarter call. We think pricing is going to continue to exceed our cost of goods sold in most lines with most of the exception being workers' comp. So that will provide opportunities to continue to grow. And likewise, when we capture more market share, that will add to our PIF count and also add to our premium. So when you put it all together, we affirmed the 4% to 5% into 2022. But as we sit here today, that's imminently achievable, and we're trying very, very hard and with focused activities to achieve that. But Beth, what would you add?

Beth A. Costello
Executive VP & CFO

Well, Chris, I think you covered off on all of the pieces. One thing to keep in mind, which you did mention is that we did see increased exposure growth, kind of the bounce back from the lows that we saw in 2020. And some of that really kicked in, in the latter half of '21, which obviously will make that -- those compares that much more difficult as we get into the second half of the year. But -- as you said, we're very focused on doing what we can to meet or beat those expectations and feel really good about our start to the year.

Joshua David Shanker
BofA Securities, Research Division

Excellent. So if we go back a few years when you guys acquired Navigators, you bought a $300 million adverse development cover. At the time, it felt like a lot. And here we are through 2021 and the cover is basically even extinguished at this point, which surprised me. Now I'm a big believer for a lot of my ability that there's a -- it's a self-graded exam. You can be as [curative] or as aggressive as you want in terms of allocating losses or whatnot.

And it feels pretty good when you have $300 million protection on your side that you can be comfortable being conservative about things. When I look at the evolution of a $300 million adverse development, I'd say, well, I mean this says to me that 2016 to 2019 is bad, but The Hartford had the protection in place, there was no reason to be shy about it.

When if you look at the industry and think about pricing and obviously, things are great right now. How much of a hole do you think your competitors have to fill for 2016 to 2019? How conservative do you think you were because you had this protection that you might be ahead of the curve? I realize you don't want to talk too much about competitors, but you do have a market sense going on. What do you think is happening right now given the inflection from being underprice to an adequate price here in this moment?

Christopher Jerome Swift
Chairman & CEO

Yes, that's allowed to unpack. We're going to refrain from commenting on competitors and speculating there. So I think you would appreciate that. I'll ask Beth to add.

Joshua David Shanker
BofA Securities, Research Division

Beth, you might be on.

Beth A. Costello

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Executive VP & CFO

I wasn't sure if we lost Chris or me, if everyone. I'll come back. Yes, as it relates to Navigators and the reserves, I think one thing is important just to put it in context. I mean, the reserves that we're talking about for the Navigators portion of Global Specialties, it's a little over 10% of our total carried reserves. So a relatively small portion. We apply the same process that we do to all of our reserves. We look at things quarterly, we make adjustments as appropriate.

I don't think I can say that because we had an adverse development cover that, that impacted the judgments and decisions that we made along the way. We were very pleased that we had it. We put it in place for a reason because we knew that it was necessary. But as I said on our earnings call, we feel very good about the overall strength of the reserves. If you were to look at the Navigators' balance sheet and the percentage of IBNR to case reserves that we have now compared to when we purchased it, definitely would see some strength in the overall reserve position there.

Joshua David Shanker
BofA Securities, Research Division

I have a question coming in from the audience. And no one [indiscernible] to ask. They're also asking out guidance for 2020, particularly in the group. And they want to know, given that COVID is still present, do we need to be concerned that guidance might be a little bit aggressive given the current environment we're in right now?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Yes. So as part of the guidance that we provided for group benefits. We did put a range out for potential COVID impacts as we see it today, coming from both excess mortality and short-term disability. So from an excess mortality perspective, we talked about $100 million to $200 million pretax and then $25 million for short-term visibility.

And as we said and Chris' comments that he covered on the call, is that is based on our view that things are going to get better as we go through the year. We do expect to have impacts in the first part of the year, particularly in the first quarter because of what we're experiencing right now. But we're really pleased to see that case counts have come down significantly, deaths will then should follow that. Our guidance is predicated on not having an additional variant like Omicron come through, and we'll continue to watch it.

But I think as we've all seen throughout this pandemic, it can be challenging to make some of these estimates we take into consideration, the information that we have, those are our estimates and we'll continue to update. But as we said, we do expect that a big portion of those estimates we'll experience in the first quarter, just again, given what's currently going on.

I think what's equally important is when you look beyond that and underneath to the actual performance of the business, performing very well, very pleased with the top line growth that we've been seeing, the products that we have in the marketplace. So all in all, Group Benefits continues to be a strong performer for us, again, when you look through sort of the underlying performance.

Joshua David Shanker
BofA Securities, Research Division

If we can talk a little bit about the reserve up for the voice count session all station litigation. I mean we get -- just 2 things. I mean the agreement principal only had 73% of support. And then there is news that more of the claimants might be online. It looks like it may actually settle for the amounts that are currently planned. You put up $787 million for The Hartford's exposure to that litigation. Chubb recently announced their exposure to it as well. You've said in the past that some of your exposure might be contingent on how much Chubb sells for. Can you sort of explain what that means a little bit? And given that Chubb's $800 million settlement, yours $787 million. How -- your confidence level that this is approximately where it will come out for you, you don't have a comment about Chubb, I suppose?

Beth A. Costello
Executive VP & CFO

Yes. So we -- as you said, we did reach an agreement for $787 million. That was up from our $650 million agreement that we had reached earlier. And I would say is the way that, that amount was determined and the way we settled on that, it's

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really not predicated on others. That is our agreement, is a little different than the original agreement that we came to. So we continue to watch the process and are optimistic that things will progress, and I'll leave it at that.

Joshua David Shanker
BofA Securities, Research Division

Okay. When we talk about direct-to-consumer and Hartford's initiatives there. You can go to a small [bizquote.thehartford.com] and get a policy direct without an agent. I don't know and sometimes there's been hybrid sort of models where, yes, you can get a direct quote, but you'll be serviced by an agent who is directed to. What is the nature of Hartford's direct-to-consumer offering right now? How does it work? What kind of traffic is coming through? What kind of bugs do we getting traction? Is there traction for direct-to-consumer bond?

Beth A. Costello
Executive VP & CFO

Yes. So we've had a direct-to-consumer product for a while in Small Commercial. And we continue to see traffic there. It is by no means the primary way that business has come. We still find that for the vast majority of businesses are still looking to work with an agent. But those that want to get a quote directly from us and get their policy issued can do that. It's -- it really is probably we'd say only about 3% to 4% of businesses really looking to operate in that channel. But as we've said through the years, if that continues to grow and that's how businesses want to come to us, we're prepared and overall, been pleased with how that product has worked. There are opportunities if people are in the channel and want to talk -- get talk to an agent or talk to us if they can. And as I said, just we're ready if the way that businesses operate changes and they want to do more of that direct-to-consumer model.

Joshua David Shanker
BofA Securities, Research Division

And is there any indication? I mean, if your answer, I'm guessing not, but is there any indication that there is increased uptake and desire for purchasing? I mean, are we at -- it seems like that direct-to-consumer seems obvious, if the market can get it right. But they may it's just not there yet and still customers are hesitant to buy. They wanted bites. They're not ready to buy online. Maybe 2021, 2022 is too early.

Beth A. Costello
Executive VP & CFO

Yes. I think that's what we're seeing. We're just not seeing significant uptick there. And I still think that for some. If you think about a small business owner and they're starting their business, I'm not sure that focusing on the nuances of insurance are necessarily where their expertise is and they value that relationship that they have with their agent to make sure that they're protected. And so that hasn't really changed. We have seen through 2020 and 2021 and living in this pandemic world that consumers are looking to do more things online. We see that just even with our customers overall, but that initial sort of placing of a policy and getting kind of insurance for a commercial company by themselves haven't seen that really explode yet. But we're ready if that trend were to change.

Joshua David Shanker
BofA Securities, Research Division

Not that we don't have actual information right now, but just want to know. Chris, is trying to get back in. I'll see he's successful, but has [819]. [Operator Instructions]

Let's talk about AARP, the changes in the underwriting requirements that you've gone through the last couple of years. Can you talk about how that's different than it was in the past? Especially, given what we're seeing right now, the auto market making up underwriting for the industry is really unprofitable. Is it not really a possibility to determine whether or not that the current underwriting changes are going to be successful because it's just very hard to get a track repriced auto business at the moment? Talk what would change our -- there I have gone on, what indications you have that it's working, that this is going to be a success. A lot of places can go there.

Beth A. Costello
Executive VP & CFO

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Yes, absolutely. There is a lot there. So yes, we are in the process of rolling out our new auto and home model. We call it Prevail. We launched in 7 states and continuing to execute that through 2022. And overall, just our initial feedback that we're getting on the product and the experience because it is a new platform, it's been very strong and very pleased with the initial rollout. It is leveraging and working with our AARP relationship. And as you mentioned, we did make some changes to how we go to market as it relates to our AARP contracts, specifically, and we've talked about this before, that previously we had a feature of the product that was a lifetime continuation benefit, which -- what that meant was that if you purchase a policy from us, auto or home, you were guaranteed to always then get renewed, not guaranteed to get renewed at any price. The price up decision was obviously up to us, but we couldn't nonrenew you.

And the reason why we think the fact that, that has -- that is no longer in the product is important is because of that we had to be very thorough initially with our screening to look at what customers we were bringing in and the price associated with that. Not having to have that continuation -- lifetime continuation benefit provides us the opportunity to not have to ask so many questions upfront because it's not like you have just one opportunity to assess the risk that you're bringing on. So what we found is that, that benefit really wasn't very valuable to AARP members. And so as we went through and renegotiated the contract, we took that part out.

But again, as we think about the overall product suite and what we're bringing to market, very pleased with that. Doug did mention and he mentioned what we and others are experiencing as it relates to the auto online right now. And because of that, we did slow a bit down our rollout of Prevail into 2022, really focused right now on getting rate into the book. We want to make sure that we get the rates appropriate before we launched into further states. It's part of the reason why when we talked about our growth expectations in personal lines, we said flat to slightly down in 2022 because of that. But again, early indications are very positive on the product, the feel of it and just really excited to be able to sort of relaunch this product suite.

Joshua David Shanker
BofA Securities, Research Division

And then in November, the guidance was flat. In late January, the guidance was flat to slightly down, right?

Beth A. Costello
Executive VP & CFO

Yes. Yes. The change that we made, again, just taking into consideration the environment that we and others are in.

Joshua David Shanker
BofA Securities, Research Division

Chris is back.

Christopher Jerome Swift
Chairman & CEO

I'm sorry about that, Josh.

Joshua David Shanker
BofA Securities, Research Division

The harder questions. I have a question coming in, although it seems like a Beth's question, but probably both of you. There's a question, I mean, can you talk about the starting point of your workers' comp business profitability is pricing below the loss cost trend today? And is this an issue for the foreseeable future?

Christopher Jerome Swift
Chairman & CEO

I would start then Beth you can add your color is, one, line continues to be historically profitable. '21 was a profitable, year '20 was a very profitable year given some of the pandemic situation. So it continues to perform exceedingly well from a return on ROE side. And if you look at our long-term assumptions regarding our cost of goods sold, both frequency and severity, you would have to say that pricing is not keeping up with that as we head into 2022. Exactly when that would change, Josh, is hard to say because you need history and results to take the regulators to say you need a rate increase. So as long as the line continues to perform as it has, it might be a little bit longer before rate increases are necessary.

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Joshua David Shanker
BofA Securities, Research Division

I'm going to go -- we might get 2 more in, but we'll see as the time is running short. Can we talk a little bit about the group benefits product offering? You guys have a life and disability right there. You see a lot of competitors increasing products on their shelf to try and make themselves have a greater value to the employer, I guess. It does hard for me to expand its offering is life and disability enough? How should we think about the future of that marketplace for any convenient for shelf space there?

Christopher Jerome Swift
Chairman & CEO

Yes. I would say if you think about our business, life and disability, both long-term and short-term are the 3 main product lines. But over the last 6 years, I mean, we've built out suite of supplemental or voluntary products that include critical illness, hospital indemnity, accident. We have some other A&H products that we would distribute. So I believe we have the full product set that has been growing. And I think that's the benefit of a group platform is that I think agents and employers are looking to bundle more of the core life and disability in STD with these supplemental products to at least offer their employees' choice as far as additional benefits. So that book of business is growing rapidly for us. The profitability is strong, and we're trying to capture more of that voluntary business market share in the market every day, Josh.

Joshua David Shanker
BofA Securities, Research Division

And one last one, a quick one. I don't know if it applies to The Hartford and works sold life insurance. Obviously, COVID has been a profitability crimp for the last couple of years. There's some life insurers to say about the [indiscernible] that persists after COVID's over will have better profitability to it. Is there any upside for The Hartford in a work sold product? Does it work that -- is there a healthier population post-COVID benefits there? Or any upside we can cast?

Christopher Jerome Swift
Chairman & CEO

Yes. If you think about it, there's a couple of themes in there. I mean our life product is a simple term. It does have some portability if people choose to it with additional underwriting, but that's not selected very often. And most employers do provide some retiree death benefits after they retire. So we would provide product for that area. So we're really not in the mainstream life insurance, CMR with permanent insurance is, again, is a simple term product.

There's been a lot of debate in that we pull forward mortality. It results over the next couple of years due to COVID. I think the math is really hard in a science to prove that the people actually died this year would have died 3 years hence. And there's trends in mortalities, both negative and positive. The negative is clearly COVID's going to be with us, I think, in an endemic state for at least the next 3 to 5 years, some might say.

But health trends and medical advances and science continue to provide longer life spans for people. And those trends, it will continue. So it's hard to see how things are really going to flush out here. But I would tell you that our belief is that at least in the near term, the next 3 to 5 years, we do need to get a little more rate in the book due to the endemic state that I think the virus is going to turn into. And we're targeting the start into 2022 here and into 2023 with 1% to 2% price increases on our term life products.

Joshua David Shanker
BofA Securities, Research Division

Well, we're on time. You guys have a busy schedule today with other things. Thank you for giving me your time for this half hour. I'd be well, we'll be in touch, and have a wonderful day.

Christopher Jerome Swift
Chairman & CEO

Sorry about the technical issues, Josh.

Joshua David Shanker
BofA Securities, Research Division

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No worries. Thanks, guys. [indiscernible] Financial coming up, everybody. Thank you. Take care.

Christopher Jerome Swift
Chairman & CEO
Thanks.

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