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Beth A. Costello
Chief Financial Officer

Christopher Jerome Swift
Chairman & CEO

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Robert Cox
Goldman Sachs Group, Inc., Research Division

Presentation

Robert Cox
Goldman Sachs Group, Inc., Research Division

All right. I think it's about time. Ready to get started. Thank you guys for being here. We've got Chris Swift, Chairman and CEO of The Hartford; and Beth Costello, CFO. I appreciate you guys coming out. To kick it off, I was thinking you could just give us some background on where the business stands today and the key parts of the strategy going forward.

Christopher Jerome Swift
Chairman & CEO

Sure. Well, Rob, thanks so much for hosting, Beth and I here. We look forward to being with you and all your friends and colleagues out there. So I would say from an overall business side, I'm really pleased in where our business is. I think it's performing at a high level. I think the team is executing well. There are seats up here, Michael, if you want to sit up here.

So we're performing -- I think performing at a high level. Ultimately, evidenced by the strong ROEs that we're putting up. And I think the thoughtful capital management. But I would say, over the next, say, 3 years or so, there's a couple of themes that I would say we're really focused on. One, we're focused on profitable growth through disciplined underwriting and I'll explain more. I think we're entering the period at least from a technology perspective, I think innovation is going to happen faster than it has over the last 10 or 20 years.

So we're thinking about innovation broadly, both in customer, both in products and services over the long term. If I go back to the first point on profitable growth, we still, I think, have opportunities to grow organically in areas that we haven't been historically in with new product sets, cross-selling existing product sets. So it's really maximizing our full potential including our vast distribution network to grow profitably over that period of time. So you will see us continually thinking about expanding our underwriting appetite, risk appetite into areas maybe that we haven't gone in the past, but we will go there thoughtfully to again, capture more market share, creating a more scaled organization going forward.

On the tech side, we're not going to talk about it because a lot of it is, I think, trade secrets as far as some of the things we're working on from a generative AI or AGI, which is artificial general intelligence, primarily focused on our employees and our customers and ultimately efficiency over the long term. So that, I would say, Rob, is sort of the primary focus of the organization going forward. Really pleased where we're at right now.
Our E&S capabilities are strong. Our standard lines are strong. We're an SME orientated organization, which I think produces some of the more stable, consistent returns in a market segment. Our Group Benefits business is performing stellarly for a long, long time. So all the pieces fit together contributing to, I think, the outstanding performance we've had.

Question and Answer

Robert Cox
Goldman Sachs Group, Inc., Research Division

Awesome. Okay. That's great. That's really helpful. I think shifting right into commercial insurance, I was thinking you could talk to us about the environment right now. Profitability is clearly very strong, but there's some loss trend pressure in certain products. Where are you seeing the opportunities for growth right now?

Christopher Jerome Swift
Chairman & CEO

Yes. We're a big national organization so there's always going to be sort of differences by product line and segment. But again, overall, I still think it's a very good time to be a property and casualty underwriter, both commercial and personal these days as we work back to targeted profitability. So if I just go through sort of the major product lines, Rob, if that's really what you want me to do is, I would say, anything casualty-related, property-related, auto liability related keeping up what trend, loss trend is paramount and I think we will do that in 2025. I think we've done it pretty well in 2024. But those product lines need rate just given loss trends and a lot of the discussions that we've all had over the last 2 or 3 quarters.

I think the comp business, again, is still highly profitable and strong returns for us, even on an accident year basis. But when you look at it on a calendar year basis with the reserve releases, again, highly profitable. And I don't see any major changes there. If I look at some of the specialty lines, particularly E&S, really still pleased with our performance in the E&S market. I think growth will still be elevated, but moderate just a little bit. But again, I feel like we're getting the necessary rate both in property and the casualty lines. And that's a really fast-growing segment for us and we attack it 2 ways through our open brokerage business, which is in the global specialty business and then through our binding business, which is in small commercial, which will exceed $300 million this year and we'll continue to press the accelerator next year.

I think the phrase I used last year at this conference was we were in go mode. We are still in go mode. Again, targeted thoughtful about underwriting, thoughtful about getting our margins, but it's clearly still an opportunity for us, I think, to capture more market share with our expansive distribution.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. And you just touched on it there for a moment, but we can't talk about the Hartford without talking about the small commercial franchise. So what are the competitive advantages in that segment of the market? And what is HIG doing to maintain those advantages today?

Christopher Jerome Swift
Chairman & CEO

I could be [pissy] and say everything. Everything we do in small is a competitive advantage. You want me to explain more?

Robert Cox
Goldman Sachs Group, Inc., Research Division

Yes, that would be helpful.

Christopher Jerome Swift
Chairman & CEO

I think the themes that we've talked about in the past are really the same, right? I mean accuracy, speed, ease of doing business, our digital capabilities. Kenova, one of the independent rating shops, ranked as #1 for the sixth straight year, we're 20 points ahead of anyone else. So yes, we -- we're proud of what we've built over an extended period of time. Serving the micro side to the $50,000, $100,000 premium small business owners. So we could go from super small to large with our capabilities. But if you really look at the foundational element behind it all, is data, data analytics, data science, and that drives a lot of our secret sauce. But beyond that, I can't talk about anything else.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. How about workers' compensation? What's the outlook for that line of business? Obviously, the material product for Hartford. Can you discuss the loss trends? And are you looking to increase market share in that line of business despite the pricing pressure?

Christopher Jerome Swift
Chairman & CEO

Yes, you want to tag team? I would say, again, still a profitable line of business, but the rate rollbacks continue heading into '25. That's just a reality. I think we could still manage that. But in all reality, like we said this year -- last year at this time, we're probably going to feel some margin pressure in that workers' comp line, offset by other positive activities and margin expansion in other lines. So I think the setup is basically the same. Rob, I would say though that the environment, I don't see anything outsized one way or the other, whether it be super good or super bad. Frequencies are still behaving given our economy. Severities are within our expectations, and we see that continuing.

So I don't think we're -- we're the second largest workers' comp player, everyone in the room knows that, I don't think we're trying to gain market share, but we're not backing away from competing in certain states, in certain industries, certain geographies that make sense for us to compete where we think we can make good risk-adjusted returns. And otherwise, we will just let the business go right now. I don't think it's a time to be super bold, but I don't think it's a time to be super cautious either.

Beth A. Costello
Chief Financial Officer

The only thing I would add is, I think that we look for our opportunities, managing the rate environment that we see, but through various underwriting actions that we take, we're able to I think, manage that to an appropriate level, which, as Chris said, results in the business continuing to be very profitable. And from a loss cost perspective, behaving very well and within all of our estimates that we make relative to frequency and severity.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Got it. Got it. Okay. That's very helpful. I did want to zone in on the social inflation trends. I was hoping you could give us a sense of where you're seeing social inflation trends most prevalent and kind of what we've learned from the trends so far this year.

Christopher Jerome Swift
Chairman & CEO

Yes, I see in most prevalent on billboards on the highways.

Robert Cox
Goldman Sachs Group, Inc., Research Division

I hear you. I see them.

Christopher Jerome Swift
Chairman & CEO

It's the genesis of that, right, advertising, deceptive practices switch and bait taking 30%, 40% of claimants claim. So yes, it's sort of sad honestly, where we are today as a society with litigation broadly defined, but it's reality. So I think it's been well documented, Rob. There's no new news here. Obviously, we can talk about some of the adjustments we've made to reserves in light of the social inflation. We haven't been immune. We do our best every quarter to estimate and react to trends. But unfortunately, it's a tax on citizens estimated to be about [$4,200] per household. So it's not a small tax that we all pay for. So Beth, I don't know what would you add?

Beth A. Costello
Chief Financial Officer

And again, this isn't new. These trends have been there sometimes they accelerate. But we've also been taking underwriting actions through the years to think about our exposure, whether that's raising attachment points, looking at size of fleets that we insure and things of that sort to sort of manage the exposure and some of the areas that we see this activity looking at institutions that have a lot of foot traffic and what that might mean for slips and falls and things like that. So there was a really tight loop between our underwriters, our claims folks and our actuaries. So we're seeing trends, they can react to it from an underwriting perspective.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. And maybe a related topic, but there's been some conversation that recent accident years, like I think 2021 to 2023, have been mispriced in casualty lines, just like we used to discuss the 2015 to 2019 period. Curious if you guys have a view on reserve adequacy for recent years for the industry, how you're feeling about HIGs specific reserves and you could include some discussion, anything about the asbestos environmental legacy reserves as well?

Christopher Jerome Swift
Chairman & CEO

Yes. I would just say and let Beth add her commentary. Hindsight is always 20. Obviously, we made our best estimates. Even if I look over a 5-year period, and I'll use round numbers, if liability trends were sort of in the 11% range in hindsight. Our pricing increases on sort of a like-for-like basis was about 12.5%. So I thought we were thoughtful. I don't think we ignored or were rosy about the environment. But obviously, what we took in the third quarter was even a little bit of adjustment to those overall trends that I just talked about. But Beth, I think you just said it. I mean, we analyze reserves every quarter. There are certain segments of the book, particularly in the malls in the real estate and the restaurants area where we did see more slip and falls. We made the adjustments. We'll continue to be thoughtful every quarter about what we see and what we possibly need to react to. But that's what I would say.

Beth A. Costello
Chief Financial Officer

Yes. The only thing I'd add is, I think, to just stepping back from it, just important to keep in mind. I think relative to our whole portfolio and the size of our reserves, very small adjustments. And more importantly, we quickly pivot to what does it mean for a business that we're putting on the books today, and it's both Chris and I just commented on taking a lot of underwriting actions accordingly. You asked about A&E and the question I usually get this time of the year because we do our study in the fourth quarter, our annual study for asbestos and environmental reserves. And we just wrapped that up.

And overall, we're seeing an increase similar to what we saw last year. So last year, we increased reserves about $194 million. This year, it's about $204 million. So relatively consistent and kind of a consistent breakout between asbestos and environmental. The other thing that we've talked about throughout the year is that we do have an adverse development cover that we purchased in 2016. We have $62 million of coverage left on that cover. So this increase this quarter will use up that $62 million that will impact net income and the remainder will impact for earnings. I don't think it's surprising our results are not inconsistent with others. And the only other thing I'll remind you, on is once we tap that up, we'll have $850 million of a deferred gain on our balance sheet that will amortize pretax, amortize into book value over time as we start to get cash recoveries under that cover, which probably will start, I would think, in the 2026 time frame.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. So we've talked about loss trend reserves. How do we think about the sustainability of the pricing cycle in that context? And are you seeing any variation by product and by account size?

Christopher Jerome Swift
Chairman & CEO

I would say, again, heading into 2025, I'm actually quite bullish on the overall market and trends and the need to get price to stay up with trend. I think the market is generally being disciplined. You might see some softness in property in maybe large property or E&S property. But then on the other hand, our middle market and small and our binding property in a small business actually, trends are pretty positive there from an overall price side. Even if I look at our homeowners line of business for property, we've been able to maintain, I think, decent rates -- or deep rate increases to match up with loss cost, just evidenced by a 75% underlying combined ratio in the third quarter last year. So property is a little bit of a mixed bag. But again, it still generally positive. And I still think it's a good time to make risk-adjusted returns.

We set the goal a couple of years back to grow our property business aggressively across the country, build a national book focused on the fire peril. But if it came with a little catastrophe risk, we would take it on as long as we thought we were getting paid for the attritional loss and CAT losses in there. And I think we've executed pretty well. I think we'll have the same philosophy going forward. We have the capacity, we have the capital to deploy into property to grow it. So that's just giving you one specific example, Rob, that I thought you might be interested in.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Got it. Yes, I appreciate that. Thank you. And how about reinsurance. It feels like there's ample capacity in the market. Is the Hartford contemplating any changes to the buying strategy as we head into 2025?

Beth A. Costello
Chief Financial Officer

There's nothing that I would foreshadow was a change when we look at our overall reinsurance structure. Feel very good about it. Even with the increases that we've seen in property. I recall last year, we purchased a CAT bond on the top of our catastrophe cover. So overall, I feel very good and I think that we get a lot of high marks from our reinsurers on how we manage our exposure. So I would not anticipate any significant changes.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. Maybe we'll give commercial lines a break and shift to personal lines. So the profitability improvement story there seems well underway. Could you walk us through what are the key components of getting the home and auto businesses back to target profitability and sort of the time line for that?

Christopher Jerome Swift
Chairman & CEO

Yes. I just would start where I ended before. I think the homeowners line of business is close to targeted profitability. There might be a couple of states that would have to focus on that might have more CAT exposure than most. But pretty pleased where that is. I think on the auto line, as you said it, we're on our way to target profitability by mid-2025. I think the team has executed well. Particularly on the rollout of our prevail product in chassis, as I like to call it, which is a 6-month auto policy, 12-month home policy, no lifetime guarantees, primarily in the direct response channel right now.

And I would say, except for a couple of states on the East Coast and the West Coast, we are at targeted profitability in the remaining 48, 49 states. And we got rate plans in those 2 coastal states to get back to what we think is targeted margins might take a little longer, particularly in California, a little bit longer in the New York area, too. But I think the team is executing well. It knows what it needs to do. I think when you really look at sort of the math behind 2025, we'll probably have a loss trend that is, call it, mid- to high single digits. Still need to focus on rate, maybe at less than the 20% rate increases we pushed through the book this year.

But if trend is still high single digits, you should think in terms of high single or low double-digit price increase that we'll manage to next year. And we'll see what happens beyond that. And we've alluded to looking at other distribution channels to sell homeowners an auto product that exploration will continue, but feel really good about how that book is positioned to be at targeted profitability for most of '25 -- or at least from mid-25 on.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Awesome. Maybe the expense ratio, I think it's been around 30% for a few years here. What are the things Hartford is targeting to get more efficient and improve claim outcomes. And should we be thinking about improvement over time on that 30% expense ratio? Or is this kind of the range that you expect to be in?

Beth A. Costello
Chief Financial Officer

The range will be at in the near term. Again, as Chris commented at the beginning on the investments that we're making in our businesses. And so although the ratio staying the same, when we look at the dollars that we're putting towards innovation and investments in our business, that's been increasing. And I think that's the right trade-off for us to think about efficiency on claims, obviously, isn't going to show up in our expense ratio. It shows up in the underlying results, and there's a focus there as well. But we're very mindful of the need to stay ahead on the innovation and technology front, and that's what we plan to do over the next couple of years.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Net investment income, could you give us a sense on where the portfolio yields are likely headed and kind of how you're maximizing portfolio. And I also wanted to ask if you think a stronger contribution from net investment income is causing any noticeable pressure on property and casualty pricing in the market.

Beth A. Costello
Chief Financial Officer

So yes, on the NII portfolio yield, I mean, obviously, you hope to be bouncing around a bit. But kind of our best call as we look into '25, as we'd expect really yield to be relative XLPs relatively consistent with 24%. We do think that there'll be some and obviously decreases in interest rates, which will impact the portfolio, especially some of the short-term investments we have in floating rate securities. And then the investment team, I think, continue to do a really good job of continuing to look for opportunities to deploy our investments in asset classes that provide good returns through the course of this year, we took some actions where we traded out of treasury securities, lower yielding treasury securities and into corporates, and that obviously impacted the yield. So I think the team will be able to manage through some of the dynamics that we're seeing in the environment and would expect relatively -- yield to be relatively consistent.

Christopher Jerome Swift
Chairman & CEO

I would say from just the competitive side, I don't feel extraordinary amount of pressure that the industry is using higher NII to compete with lower prices. I do think there are certain long-tail line of businesses, national accounts business, excess of loss or excess of workers' comp business that might have a little more competitive pressures given just the amount of yield that contributes to sort of those product line overall profitabilities. But generally, I think the industry has been pretty balanced with higher rates.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. But a little bit of a bigger picture question. Outside of the impact of interest rates and on the fixed income portfolio, is there anything from a macroeconomic standpoint, that is a particular focus for our Hartford as you head into 2025.

Christopher Jerome Swift
Chairman & CEO

Well, there's certainly a lot of change that's happening, whether it be administration, whether it be inflationary signals, whether it be just GDP in general, as I said in the opening, I remain pretty confident and sanguine about the operating environment. When economic activity is expanding that's really good for our businesses and our product lines and our capabilities. So I think the thing that we watch the most and talk through the most is just how the Fed is managing the overall dual mandate. I think they've actually been doing a pretty decent job and I expect they'll continue to do that going forward.

I think the trade policies is a big question mark and what does that mean to economic activity. What does tariffs really mean to what economic activity. So I think if the administration follows through, we'll have a live experiment to watch and see how things happen. I think the other thing that I'm sure everyone is watching is just tax policy and what that means. And then everything else sort of comes down to sort of state-specific issues and sort of NAIC matters, but we're watching -- we've got a tree up terrorism renewal coming up in '27. NFIP has been just on a continuing funding mechanism, which really not a permanent long-term solution. We've talked about social inflation and what does that mean for various aspects of business or disclosures to think about. Those are the top of the ones -- top of the mind that at least Beth and I talk about and watch along with our HIMCO professionals and our emerging risk professionals.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Yes. Okay. A lot of things to think about. How about on capital allocation. Clearly, the firm is growing a little bit more, but HIG also continues to pay a little more.

Christopher Jerome Swift
Chairman & CEO

It's actually been healthy, right? I think we are differentiating ourselves in the marketplace and is showing up in our growth rates.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Yes. And so you can continue to pay a dividend and regular share repurchases. How should we think about the capital deployment going forward with that strong growth?

Christopher Jerome Swift
Chairman & CEO

Yes. I think over a long period of time, I think we've been consistent, thoughtful about just how to use our excess capital, whether they're going back 6, 7 years from M&A, whether it be aggressively buying in our shares, whether it be increasing our dividend rate for 10 straight years. I think our current approach of dividends and buybacks make sense for us. I think our valuation, still has room to run. So I don't feel like our payback periods have extended out or IRR has gotten smaller, just given where the valuation is. And as we've always said and continue to believe M&A. We have a team that understands what's happening in the marketplace, but it's just a low priority for us right now.

I think the organic mindset our team has of building, adding new capabilities, being thoughtful underwriters is still the right long-term strategy. And if something fits and comes along, it makes absolute strategic and financial sense, we'll look hard at it. But I'm just saying that, that's just not a priority of what we wake up every day thinking about.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. And how about Group Benefits. It seems like it's a piece of the portfolio that's kind of an over-earning that long-term core margin? What's driving that performance? And how should we think about the business contribution to the firm over the long term?

Christopher Jerome Swift
Chairman & CEO

Yes. It's a business, again, it's another underwriting business that fits well. It's just underwriting mortality and morbidity, but it fits with our overall portfolio of underwriting businesses. And yes, I would say when used the word over-earning, I would just say it's performing well. We're executing well. We've been getting price in the book where it's needed. I think trends, particularly from the mortality side of moderating, although we still expect a little elevation with mortality trends, at least another year or 2, and we're pricing our product that way.

So I think the performance in the long-term disability book with incidences being fairly moderate and then claim recoveries are getting people back to work is really part of our secret sauce in the claim department of working with people with empathy, with clinical nurses with routine and regular follow-ups. So I think all those components are still relevant as we look into the future. I think the one area, Rob, we called out that just needs a little attention in some of our paid medical and paid family leave products. Margins there are weak. And it's a newer product line to the industry, newer to us. It's about a $250 million premium book of business. But that's the one area that we're not performing the best, and we have correction and plans in place in '25 and '26 to get back to our targeted margins there.

But I do expect mortality to continue to slowly revert and the disability trends are really, really healthy. It's interesting, though, it just tells you how at least in my mind, things are shifting. The leave -- the paid family and medical leave products are really popular. I mean, so people are using them with high utilization because employer groups have promoted it is a good benefit for people to use. So I think that will have a positive halo effect to some of our other core products, some of our other medical supplement products like critical illness, hospital indemnity, AD&D. So the whole benefit landscape, I just think is it's coming alive with more knowledge about features and benefits and how to use these products in an array of overall benefit products, including medical.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Got it. That's really interesting. How about we shift all the way back to commercial lines?

Christopher Jerome Swift
Chairman & CEO

Sure. I'll go where you want to go.

Robert Cox
Goldman Sachs Group, Inc., Research Division

HIG acquired Navigators a number of years back.

Christopher Jerome Swift
Chairman & CEO

6 years ago.

Robert Cox
Goldman Sachs Group, Inc., Research Division

And now you're -- 6 years ago, and you're pushing for significant growth in E&S binding as well. How meaningful of a role should we expect the E&S market to play going forward for HIG? And I'm curious if you think this market will continue to gain share within broader commercial lines.

Christopher Jerome Swift
Chairman & CEO

Yes. I would say on your last point, yes, I think the commercial lines market has gone through a structural shift, not just the cyclical shift that E&S maybe has done in the past. So as I said, maybe growth moderates a little bit, but I think it's a market that really just still has legs, primarily because you could just be much more targeted with terms and conditions, pricing actions, parts of liability product lines or property product lines that you want to be in or not. And just the freedom of rate and form is pretty powerful, particularly in an elevated weather pattern changes, climate change and as we talk about, particularly with social inflation. So we feel bullish on that overall marketplace.

Yes, the Navigators acquisition, that was a little victory lap because it turned out to be the right acquisition at the right time with the right profit improvement action plan to get it to where it is today. We picked up wholesale distribution that we didn't have before that become a more major part of our distribution network. Our E&S business is maybe a little over $1 billion, $1.5 billion. I think it will continue to grow at a faster rate than most. Supported by the global specialty, I'll call it, business and then as I said, also in our small commercial business. So quite bullish on it. And one opportunity for us is we have deep capabilities in construction but we're looking in the wholesale space. But we're wanting to expand that to other industry verticals where we have maybe standard lines expertise, and we can apply that expertise into wholesale distribution.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Awesome. I think we're just about out of time. Thank you guys so much. Appreciate it. This has been great.

Beth A. Costello
Chief Financial Officer

Thank you.

Christopher Jerome Swift
Chairman & CEO
Thank you. Thanks for hosting us. Take care.