

The Hartford Insurance Group, Inc. NYSE:HIG Company Conference Presentation

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Call Participants

EXECUTIVES

Beth A. Costello
Chief Financial Officer

Christopher Jerome Swift
Chairman & CEO

ANALYSTS

Joshua David Shanker
BofA Securities, Research Division

Presentation

Joshua David Shanker

BofA Securities, Research Division

Here at the Bank of America U.S. Financial Services Conference. This session is Hartford Insurance. We're really blessed to have Chris Swift, CEO; and Beth Costello, CFO, here to talk to us about the company.

I wanted to make an observation that we've seen this decoupling of the markets with the [Mag 7] whatnot. And maybe the S&P 500 Equal Weight Index is the right way to consider things. It's about 255% over the last 10 years. Which is almost identical to the performance of Travelers, Chubb, CNA, Cincinnati Financial. Hartford over that same period of time is about 355%. So a question about what sell-side research analysts do, we pick stocks and maybe we're just writing about stuff that doesn't actually do anything and move stocks and everything ends up in the same place. Hartford does not end up in the same place. Something different is going on there. And that's a testament to execution and success, and you should be proud of it. I know you are.

Question and Answer

Joshua David Shanker

BofA Securities, Research Division

And so it might be a good place to start in talking about that decoupling between the markets and what software is doing yesterday, insurance as a sector was down a lot with insurance brokers down particularly. And Hartford is making a lot of investments in software and artificial intelligence and all these sort of things. And -- what is different at -- the Hartford? And what have you been investing in? And how does that plot a trajectory for the future that's very different from what others can offer?

Christopher Jerome Swift

Chairman & CEO

We only have 38 minutes left, and that's about a 40-minute...

Joshua David Shanker

BofA Securities, Research Division

Thats -- it's the most important slide.

Christopher Jerome Swift

Chairman & CEO

So I'll try the best we can between Beth and myself. But first, thank you for always inviting us to be with you at the conference here in Miami. It's great. It's always good dialogue.

I didn't know the exact numbers that you said over that 10-year period of time because we're keeping our heads down and just trying to create value for all our stakeholders. And it's a team effort top to bottom, and I'm really, really proud of the team. But as you think about sort of the future, whether it be software, whether it be AI, I think it's important to maybe lay a foundation of really what have we been doing in the last 10, 15 years since Beth and I started working together as Chief Executive and Chief Financial Officer.

And I would say it's been a thoughtful rebuild of core platforms. And after we decided coming out of the financial crisis to really focus on P&C benefits and mutual funds, we had some things that we needed to accomplish. And the easiest way to describe it is we had a lot of green screens and old systems and multiple systems. So it was a consolidation of claim platforms. It was a rollout of a new admin system by Guidewire. We had new billing capabilities. We had to use Guidewire in claims as one central claims function. And slowly, but surely, we sort of built up our capabilities.

Maybe the last major event that we did was with Duck Creek and our personal lines business, where we made basically a \$250 million investment. So that foundation element, we thought we just needed to compete in a world where we had a lot of good competitors. I would tell you, we weren't talking at AI at the time. We were talking of how can we make the customer experience maybe a little better, how do we reduce our cost? How do we make our lives easier for our employees and interacting with our agents and brokers and obviously, one another.

And I think largely, we've accomplished that mission. I would say from a platform side, what's still left to go over the next 18 months is some platforms in group benefits, think of billing primarily. And then in Global Specialty, we have some platform to do a little bit with claims, a little bit with administration to round out all our products basically on one system. So I feel good we're there.

I think the fortuitous nature of where we are today is if we hadn't really made those investments in platform to organize our data better, we wouldn't be in the position we are today in rolling out AI in various parts of the organization because as you all know, AI is driven by large language models, but on your data also. So you have to array your data in a way that customers can understand and interact with it.

So you put it going forward, AI for us isn't at experimentation. We've been doing it for 2 years in thoughtful ways. And you can even say some of our capabilities in small business are AI-based. I would say advanced data, data science and analytics, but there is a lot of predictive capabilities sort of hard coded into a lot of the things we do with small business, particularly through ICON.

So I mean this isn't anything new, but I would say that the 2 main themes I would leave with the audience is we're approaching AI from 2 fundamental perspectives, personal productivity tools, and maybe that's the easy part. But when you say easy, adoption is never easy. Change is never easy. You really have to focus. But we really want our people using personal productivity tools to make their

lives easier. And our tool of choice right now is Microsoft 365. And then when we think about AI, it is really an end-to-end process transformation where we want to put AI first in our processes. Again, ultimately, augmenting our human talent. We want a better customer experience, the person that uses our product and its advisers and agents. That's important.

And then I would ultimately say we know there's productivity gains that will come long term. So that's at the high level. I'd be happy to go deep with you in any particular area. But it's a brand-new world, and we have a foundation that I think is going to allow us to go faster than most.

Joshua David Shanker
BofA Securities, Research Division

One thing I remember, it might have been the last time you did an Investor Day in Hartford. I remember Sabre was still running the IR department. So it was a while ago. And it was the first time in the concept of Hartford making a lot of investments in technology. You said that you had really been making investments in neural nets. I don't even know what a neural net is even today, but it sounds like it's pretty cutting edge from like 10 years ago technology based. So I mean, I think it's not as new, the foundation was built a while ago. And in terms of like if we want to say like how far along what you envision to be have you brought the claims department versus distribution versus where are the fruits being most harvested right now in terms of what's possible through these technological innovations?

Christopher Jerome Swift
Chairman & CEO

I would, again, give you another foundation is we are a micro -- excuse me, Amazon shop as it relates to cloud. So we've also been on a journey not only with platforms, but moving all our applications, platforms, data to the cloud. And I would say we'll probably be 80% done by the end of 75% done by the end of 2027. And then we got a couple of little things to do. But ultimately, it's to be cloud native with our data and apps to encourage development, experimentation, putting sort of the customer first.

So I think really where we're at, where the manifestation of all this work is beginning to come through is, I think, our consistent growth rates. I think we're capturing more market share in small, middle, large Global Specialty because of our capabilities to be a little faster than maybe most, to be more customer orientated and at least in my judgment. So I think the growth rates -- and then I think the overall equation is going to be, I think retention will be higher. People that want to do business. I think we'll capture more market share, particularly in the small end of the market, say, from middle -- that small end to middle to obviously what we do today, particularly as agents and brokers consolidate, speed, accuracy, predictability, consistency is more and more going to be valued. And I think we have all those in spades.

And then as I said, we talked a little bit about in our earnings calls. I think there are productivity lifts, whether it be from increased scale and leverage, as Beth always talks about, or just leveraging our existing workforce to be able to do more.

Joshua David Shanker
BofA Securities, Research Division

Does the R&D tech infrastructure spend ever decline? Do we ever -- has there been any like we needed to make some investments -- and we have the foundation. And obviously, we need to upkeep of those investments. But do we see like the amount of money needing to put to work changes over time and becomes a tailwind on the expense ratio?

Christopher Jerome Swift
Chairman & CEO

Do you want to give them the history of just where we've been and where we are today?

Beth A. Costello
Chief Financial Officer

Yes. So when we think about our invest spend, if you go back 5 years, 6 years, we were probably averaging that \$300 million, \$350 million a year. Now we're a bit over \$500 million a year. And we've been able to fund that additional spend, some through productivity gains that we've gotten along the way. And I think as we look out over the near-term horizon, we don't see that decreasing. There's plenty of areas for us to continue to invest. And I think that, that will allow us to continue to gain more efficiencies. But that invest spend, I think, is really important for us to focus on and the opportunity set to do all the things that Chris just said, I think, is really important. And I think that's why when we think about scale and why scale matters is I think to be able to be

successful long term, you're going to need to be able to kind of be able to put those kinds of dollars into your R&D, as you called it, we call it our invest spend to continue to make progress.

Joshua David Shanker
BofA Securities, Research Division

Is there a point in time where the offering is so entrenched at the company that the add to the company we just want you to price compare. We just want -- you should go -- not your own customers, but any customer, you should be asking yourself, am I getting a deal in Hartford invariably aims to be the most accurate in price. But when they do the most accurate, usually wins among because you have more efficiencies than other companies and you've made the investment to the point where you can be more price competitive at a higher margin than other companies.

Christopher Jerome Swift
Chairman & CEO

Yes. I would say the philosophy there, particularly in the small end of the market is, I mean, we want people to have a product that covers a wide range of issues, outcomes, risk. We don't want to sort of just [indiscernible] down a product and just have a cheap version of something. And you could look at it from our property coverages, our business interruption coverages. You could look at some of the things we're doing with cyber and cross-selling other specialty products because we want to take care of, particularly as small business owners, all their needs and give them some comfort that they're covered. They're covered. So if that's what you mean...

Joshua David Shanker
BofA Securities, Research Division

Covered at a price that Hartford is actually cheaper for more coverage and better service.

Christopher Jerome Swift
Chairman & CEO

Exactly. I mean it might not be the sort of the cheapest price for a product because when you really dissect the product, as I just said, you're going to have more from us. But we want to make sure our agents and our customers really feel safe and secure. And I think we can deliver the most value per dollar or per unit of risk, just given our scale, given our experiences and sort of our orientation to be sort of customer orientated. And I think you see it in the Keynova report. I think I always mention it every year for the seventh consecutive year, we are the #1 digital carrier, which is a testament to the team and their vision, but the ability to build and execute at scale. And those things are important to build customer trust and confidence over a long term.

Joshua David Shanker
BofA Securities, Research Division

If I'm a business owner, I'm a florist, I have 6 employees, a delivery van, I have a store in a strip mall. How should I be buying my insurance? What -- should I be talking to an agent? Should I be talking to you directly? What is the best way for me to get coverage right now?

Christopher Jerome Swift
Chairman & CEO

Well, I would say, as a small business owner, it's where they feel comfortable, right? Do they have the time to invest to understand coverages, risk exposures? Do they get smart online and then talk to an agent and broker to help them close and maybe do a little comparison shopping. So we pride ourselves on being sort of multichannel. We want to meet the customers where they want to be met at. And I would say that's changing. I mean the search game used to be tell me something. The search game is now morphing into do something for me with Agentic.

So we want to respond to customers in the way they want to interact with us. And we have channels through agents, brokers. We have direct to the consumer channels. We use payroll companies and certain product sets to distribute our products. We have strategic relationships with some of our friends in the industry, personal line companies that don't manufacture certain products and their agents bump into small business owners. We provide them capabilities. So I feel good that we're in the marketplace and have the ability to reach customers, the real customer that's going to use our product in any way, shape or form they want.

Joshua David Shanker
BofA Securities, Research Division

Is there a different price if I reach out to you directly versus go to you through an agent?

Christopher Jerome Swift
Chairman & CEO

Not today.

Joshua David Shanker
BofA Securities, Research Division

Not today. And so in the end, I should use the agent ultimately because it saves me time, probably. But in the future that there would be an advantage to doing the work myself?

Christopher Jerome Swift
Chairman & CEO

Yes, it's hard to predict where the future is going to go. But again, right now, we have a price per risk is basically same in any channel. I can't predict what's...

Joshua David Shanker
BofA Securities, Research Division

But you have to pay a commission if someone comes to you directly, there's no commission on it.

Christopher Jerome Swift
Chairman & CEO

Well, you could say we built a direct capability with all the technology. So it's an internal allocation of acquisition cost or marketing costs that we generally spend. So I'm comfortable with where we're doing today. But I think your question is the \$100 question of what is the future really going to entail? And I can tell you, we want to be able to show up in the new search in an effective way, representing our product capabilities and things that customers should know.

Joshua David Shanker
BofA Securities, Research Division

By the way, anyone can ask a question. I'll just keep asking questions, but if you want to just raise your hand at any time, and I'm happy to see the microphone to you.

Along those lines, do you -- I've talked to other C-suites who are surprised that the direct-to-consumer commercial experience isn't bigger than it is right now, that if you ask them 10 years ago or 5 years ago, where we'd be along that adoption rate, generally, there's a surprise that it has not occurred with the size that would be expected if you were just hypothetically spinning a yarn here. Is that true from your experience as well?

Christopher Jerome Swift
Chairman & CEO

Not necessarily. I would say I don't want to sound like a broken record that insurance is special. It's unique, it's different. But I think it's a complicated technical product when you get outside of sort of a required product like auto. Home, I mean, is usually a person's largest asset in their portfolio. And how they think about that, how they want to protect it, the things that they need to be smart on, it's not surprising people go for a little advice.

And again, right now, the advice channel that we support the most is our agents. We love the relationships we have there. We want to support them, helping to, call it, the common shared customer. But we'll have to see how things evolve in the future. But I think some type of advice again, either in person or some form digitally or it could be a hybrid. You could see hybrid models developing over the near term also where it's just not direct to the consumer. It's how do you pull in agents at the right time to help fulfill. And so there's a lot of thinking that we're doing from the customer experience side. But right now, we're pretty comfortable with working through our agents and everything they bring to the table and serving customers.

Joshua David Shanker
BofA Securities, Research Division

And please correct me if I misrepresent anything here. When I think about an average insurance agency, I tend to think about that Hartford and Travelers and Progressive all want to be there in that agency. And oftentimes, that agent has a carrier who isn't everywhere, who is asking them for a very large proportion of their business where they'll pay a higher commission rate than industry standard. And that seems to be whether it be a Cincinnati or Selective or Hanover or something like this. Is that model changing? And is Hartford at an advantage when there's a higher commission payer out there within the same agency network that Hartford is trying to win share in?

Christopher Jerome Swift
Chairman & CEO

Yes. I think what agents really value, particularly from us, but there's a lot of other good competitors is that consistency, showing up every day, being accurate, timely, timely responses are critical to be able to sort of get a piece of business off agent's desk and get it bound. So I think the game for us is being one on the ultimate experience for the agent and the customer. And look, we've talked to agents and shown them the math that if you could place more of your business with us, we could save you pennies on the dollar that add to your margin. So it might not be sort of in the commission line, but it will show up in the productivity line of their agency when they work with us with our digital toolkits, all the capabilities that we have to allow them to do business in the most efficient, speed, accurate way. That's where the game is at.

Joshua David Shanker
BofA Securities, Research Division

Is anything changing about commissions as a general sense in the last couple of years -- are you paying the same amount, paying more, paying less as are other carriers paying more or less? Or is that pretty stable?

Christopher Jerome Swift
Chairman & CEO

Yes. For us, I would say it's pretty stable. I think over the last 5 to 7 years, if I benchmark where our all-in acquisition costs are for agents, it's been very steady in that 14%, 14.5% range. I don't know what our competitors are doing day-to-day on the sort of battlefield every day. But for us, it's stable across middle. It's stable across small. And again, we're trying to incent agents to do more business with for, in essence, revenue share or profit share. And just not paying them more stock rack rates. Everyone runs some specials now and again, depending on the channel and the agent or what you're trying to do. So I'm not saying we don't run specials with an agent or a broker or 2. But by and large, we're trying to keep the economics of the cost to acquire business flat in our organization.

Joshua David Shanker
BofA Securities, Research Division

I think Mo said at one point that I can't remember the numbers, but there's maybe 100 agents that really matter or maybe 30 agents. I can't remember what number he used, but it was a very small number that because of all the consolidation that in the end, like what was a highly fragmented marketplace really isn't as fragmented as it looks today. And so maybe these cellphone [indiscernible] agencies can have a different relationship with you than the Gallagher network or whatnot.

Christopher Jerome Swift
Chairman & CEO

Yes. I would say consolidation is -- I think, is a benefit for us as a national carrier with capabilities all across the country. And I think a lot of our agents and brokers want to do business with fewer companies, again, from an efficiency side and a scale side. And I think that's the opportunity we have to continue to take market share.

Joshua David Shanker
BofA Securities, Research Division

Among other things, the industrial logic behind what was so long ago now, the Navigators acquisition was to be the complete shelf that we have every product that our distributors might need. But one product that you didn't really have was personal lines. Personal lines you're selling directly, but you were not selling through the agencies. Is the Prevail launch is there an industrial not only are we going to be good at it and makes sense for us to do. But two, your distributors want you to be there for them in the personal lines category as well?

Christopher Jerome Swift
Chairman & CEO

Yes, I think you're exactly right. I would just tweak just going back because I've been with -- the Hartford now 16 years. And when I joined the Hartford, I think we had an agency premium base of maybe \$2 billion. So it wasn't large, but I mean, we were in the agency business.

Joshua David Shanker
BofA Securities, Research Division

Yes, definitely.

Christopher Jerome Swift
Chairman & CEO

We sort of didn't execute very well. Analyze it consciously is we had a failed growth strategy on some of the things we were trying to do with agents. So we doubled down with AARP. We wanted to extend that relationship another 10, 15 years with them. We agreed to make some investments in product technology. They agreed to make some changes in the way that the program was really structured. As you really know, 6-month policies, no guaranteed renewability, but still support sort of that mature segment of the market in other tangible ways.

Fast forward, we had always envisioned the opportunity to sort of use what we built for AARP and sort of purpose it in the agency channel. And that's exactly what we did. It's the same platform, modified for agents and some of the connection points you need to make in their shops and through comparative raters. We need to build obviously a commission structure into the filings. So we're in 10 states today, going to 30 by the early 2027. And the real strategy there is that there's probably 100 agents in the personal lines area that really matter because they know us from small business, they know us from middle market.

I've had many executives in the distribution network say, we're so glad you're back principally because I think that home offering that agents lead with is more important than ever these days, given weather change, given buyers, given some shortages and capabilities, some affordability issues. So I think they're looking for a carrier that is committed to it, has a good brand, good reputation, has good claims capabilities to interface with the customers. And they are willing to not give us a shot, but do business with us and grow that book in personal lines, just like we're growing it in small.

Joshua David Shanker
BofA Securities, Research Division

And in the way you report, we don't really have granularity on Prevail versus the legacy direct personal lines products. Is there anything you can tell us about the success rate that we could understand like the take-up and how well it's going if we can decouple it from the AARP business?

Christopher Jerome Swift
Chairman & CEO

Well, I think the best metric to look at is just look at our new business flows today. We do break it out between direct and agency. So you could begin to see -- I would say we're in 10 states right now. So give us a little grace to at least get into 30 over the next 3 or 4 quarters, and we'll talk about it, honestly and transparently like we always do. But I'm still encouraged based on all the feedback we're getting from our agency partners.

Joshua David Shanker
BofA Securities, Research Division

If we can pivot to the economy, it's -- I think it's still.

Christopher Jerome Swift
Chairman & CEO

Just -- I think you know it, Josh, one last point. We call it sort of front book, new business is Prevail. The back book, we're still keeping on the old chassis. So we're not doing a conversion of the back book into...

Joshua David Shanker
BofA Securities, Research Division

But not all new business is Prevail. The direct is still...

Christopher Jerome Swift

Chairman & CEO

No, all new business, going forward is Prevail.

Joshua David Shanker
BofA Securities, Research Division

Even if it's direct-to-consumer business, it's still Prevail?

Christopher Jerome Swift
Chairman & CEO

Yes, direct-to-consumer is AARP, that's Prevail. And it's where we started.

Joshua David Shanker
BofA Securities, Research Division

It's still -- because the change terms are Prevail. Like I mean I feel like Prevail is like the -- what is the difference between a legacy AARP policy and an AARP policy today?

Christopher Jerome Swift
Chairman & CEO

Principally lifetime guarantee.

Joshua David Shanker
BofA Securities, Research Division

Okay. So anything that has the 6-month policy and the guaranteed renewal is legacy and anything that has now 6 months and the right to cancel is Prevail.

Christopher Jerome Swift
Chairman & CEO

Just think in terms of all our new business activity in the AARP channel is Prevail. We're migrating to all our new business activity in agency as Prevail.

Joshua David Shanker
BofA Securities, Research Division

I've been using Prevail as a term for the agency offering within the personal lines, but it's really any...

Christopher Jerome Swift
Chairman & CEO

We call agency Prevail and Prevail direct.

Beth A. Costello
Chief Financial Officer

There's still a little bit that's the old and the new, but Chris is right that the majority of what you see in our new business is Prevail. And as you said, we're not converting that book. And then as you said, in agency, we'll start to roll that out into various stages.

Joshua David Shanker
BofA Securities, Research Division

Is there any -- taking a legacy policy and saying, you want to become a Prevail policy? Is there any reason why someone would want to get on to the platform who is a current customer? Or is the terms are so much better for the previous they'd rather just stay with what they have?

Christopher Jerome Swift
Chairman & CEO

Yes. I think that's -- the strategy is just keep them where they're at. They have a good product, a good coverage. Let's not create more questions and disruption in that back book, and we'll just run it off over time.

Joshua David Shanker
BofA Securities, Research Division

Makes sense. So pivoting to the economy, there's way too much news flow. It makes it crazy all the time. But we're still in mostly a full employment economy. You are a dominant workers' comp writer. You're a dominant writer of disability insurance that's measured in lives. How should we think about the economic cyclicalities of Hartford's business given how much it's tied into employment?

Christopher Jerome Swift
Chairman & CEO

Yes. I'd say, and I'll ask Beth to add her commentary. Where we are at today and what we see in sort of the near term is encouraging. It's positive. You could look at unemployment rates still being relatively low. GDP still strong, maybe in the 3% range here, fourth quarter, we'll see what the numbers show. I think the consumer is still alive and well, maybe a little stretched in certain areas. But generally, it's a conducive economic environment. Everyone is going to obviously watch what the Fed does with a new leader over a longer period of time. But I don't feel like we're facing a wall of headwind coming at us from an economic perspective.

We are employment-centric, particularly with being the largest workers' comp writer and then the second largest or first largest disability. But I think those are strengths. I think those are strengths for our franchise. I think it's something we lead with, something that people know us for. And we'll have to watch. But as we said in the fourth quarter call, I mean, there's been headlines, primarily tech companies reducing employment. But on a broad basis, we don't see a lot of reduction in our in-force covered lives. From the East Coast to the West Coast to the north to the south. But there are pockets of rebalancing that people are doing with certain classes of jobs. Beth, do you want to...

Joshua David Shanker
BofA Securities, Research Division

So one other thing which I find somewhat interesting. So people are very quick to say that the cycle has peaked for personal lines. There's just talk about affordability, and I can go at the history, and it's true that the auto and home companies are making profits that are at the peak of the cycle, but they're not so different from the previous peak of the cycle. It's within the realm of normalcy of what the cycle looks like. There's going to be a period of time of over-earnings. There's going to be a period of time of under earning. Over the last 5 years and even longer, people have talked about social inflation in commercial lines and personal also to some sense, but it's a problem. When I go look at the underwriting margins of commercial lines, I don't think it's ever been better. Maybe I can go back to the 1950s or something and find a time and some people are ever talk about how the market is getting soft. I mean you can say that, but the profitability is outstanding right now.

Is it possible for the markets to continue to enjoy this level of profitability? And is the fear of social inflation, does it show up in the numbers because things seem really quite good right now.

Christopher Jerome Swift
Chairman & CEO

Yes. Social inflation is showing up in the numbers.

Joshua David Shanker
BofA Securities, Research Division

Okay. I'll -- talk about that a little bit.

Christopher Jerome Swift
Chairman & CEO

No, let me start on personal lines. I -- the overall statement, everyone knows this. Our insurance model works on a lag. Right? I mean it's usually lag 12 to 18 months and you make adjustments going forward for past trends or past activities. Regulators want basically availability in their states, but also affordability. But I think in the personal line space right now, most, I think, legislatures are more worried about availability because there's some lessons learned in California, what not to do.

Joshua David Shanker
BofA Securities, Research Division

Even if there's political posturing to the otherwise.

Christopher Jerome Swift
Chairman & CEO

Right, right. I mean it's all about availability. And then they want to value. They want to make sure that carriers are responding to trend and know more. And that system has worked pretty well for a long time. You get into -- and so I'm not going to comment upon peak, but just normal lags of pricing increases, severity and frequencies, you got to say, in the personal lines, where we're behaving this year. Catastrophes were relatively calm except for the devastating fires in California. So you put all the components together. And yes, the personal lines organizations with scale are making good money. We'll see what happens going forward, but there most likely be some reversion to the mean, particularly when I look at rate filings and some of the reductions in rates people are proposing in various parts of the country.

I would say the commercial insurance might be slightly different in the fact that property is sort of leading the way on softening, and that's real. It's one of the lines of business where capital could come in, flow out, people compete on a global basis. And the starting point for rate reductions is strong still. I mean we're earning good ROEs in our property book today. So by definition, you can afford to give back some points and still feel good that it's accretive for shareholders.

On social inflation, it's -- all I could say is real and remain as calm as I can because there are good reforms that have happened in certain states, particularly here in Florida. And I would say I feel like there's more momentum between industry groups, legislatures, governors to really get at the root cause of some of the affordability issues in our products. And at the heart of that is higher claim payments due to, I wouldn't say, abusing the legal system, but there are just trends where awards are getting more expensive to settle. There's more lawyers involved earlier on. All the metrics that we follow as far as rep rates, litigation rates, the trend is not going down. If it's anything, it's steady to increasing in certain areas.

Joshua David Shanker
BofA Securities, Research Division

One question that I have not asked you before, but you mentioned that it was a generally benign catastrophe environment before the wildfires last year. Obviously, you are not a terribly cat-exposed company relative to some of your peers, but you do have the exposure. Can you preview at all for us what you know about the last 4 weeks in terms of -- is it going to -- is 1Q going to be a large cat quarter for the industry?

Christopher Jerome Swift
Chairman & CEO

No, I don't -- I mean, we get our claims reports weekly. I would say for us right now, I mean, it's an event. It's not small. It's not major. It's -- there's a lot of people that were without power and homes, particularly in Texas and Tennessee and sort of the Mid-Atlantic. But I don't think it's going to be a terribly devastating catastrophe, but the industry will respond appropriately.

Joshua David Shanker
BofA Securities, Research Division

Of course, I was trying to get a picture of that. So we have 2 more minutes. I can open it up for questions if anyone wants -- again, or we can finish very shy audience, I can tell. And so let's just talk about capital return. Obviously, you guys can use the capital you're generating and grow. You can return -- how do you rank the order preference? And so what is the value of a dollar being put to work in the business versus a dollar being taken out of the balance sheet?

Beth A. Costello
Chief Financial Officer

I'll start.

Christopher Jerome Swift
Chairman & CEO

You got it.

Beth A. Costello
Chief Financial Officer

Yes. Well, I think the story on how we think about capital, Josh, is exactly how you said it. We start with where we can invest in our businesses and support the growth that we see. And we've been very pleased with the growth that we've achieved, and we think that we're on a good foundation as we look forward. And then we always look to maintain a very competitive dividend. We're really pleased to increase our dividend again this past year by 15%. And then we still see returning capital to shareholders through share repurchases as an effective use. We've talked about before that from an M&A perspective that that's a low priority for us when we look at the capabilities that we have in-house and our ability to execute. Don't feel that we have a hole that we need to fill. And so we think we have the right balance there.

And we've been increasing our quarterly share repurchases over the years. And given the dividends that we expect from our operating companies in 2026, we indicated on our earnings call 2 weeks ago that we expect our quarterly cadence to step up to \$450 million a quarter. So I think we have a nice balance on all of those aspects.

Joshua David Shanker
BofA Securities, Research Division

To the extent that 15% increase in dividend, that's a very sizable hike. And congratulations on that. There might be some people would say, well, I'd rather you buy back your shares or whatnot. Does such an extreme hike in the dividend signal that we understand that we don't know -- we're not good at figuring out what our own stock price. So we're just going to -- does that help make decisions on capital return for you...

Beth A. Costello
Chief Financial Officer

The way I would think about it is that, to me, the dividend and how we think about the dividend is reflective of the fact that our earnings generation has increased. And we just look to maintain a nice payout ratio and dividend yield. So it really -- that step-up is really more reflective of -- if you look back at how our earnings have increased over the years and the stability that we see there, felt that, that was the right decision to make.

Joshua David Shanker
BofA Securities, Research Division

And so we can say in sum that your view of the attractiveness of the stock has not changed in the past year.

Well, thank you very much for being here. I appreciate your time. Thank you. I hope you have a wonderful day. Thank you all for being here.

Christopher Jerome Swift
Chairman & CEO

Excellent. Thank you.

Beth A. Costello
Chief Financial Officer

Thank you.

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