

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

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Table of Contents

Call Participants		3
Presentation		4
Question and Answer		5

Call Participants

EXECUTIVES

Beth A. Costello
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ANALYSTS

Meyer Shields
*Keefe, Bruyette, & Woods, Inc.,
Research Division*

Presentation

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Good morning. We are going to do our best to stay on schedule today. I'm very excited to kick off day 2 of the conference with Beth Costello, CFO of The Hartford. Thank you very much for joining us. I usually start off asking if there are opening comments or anything that you wanted to hit on before we get started.

Beth A. Costello

Executive VP & CFO

Yes. Well, thank you. First of all, I love being here. Very happy to be here. today. And I'll just make a few comments, which are very consistent with comments that Chris and I have made in the past, which is we feel really good about how the Hartford is performing, how we started the year, the first half of the year, I think our results speak for themselves, very strong.

We continue to focus on delivering high ROEs for our shareholders. deploying our excess capital. And when we look at all of our businesses, really happy with how each one is performing and the outlook going forward. So again, happy to be here.

Question and Answer

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. I'm going to start maybe counterintuitively on the employee benefit side rather than P&C just because you've got this recent acquisition coming from Equitable.

And two questions. One, I was hoping you could elaborate on the technology because in the press release, you called that out, like what does that provide? And then the second, maybe more mundane part of the question, legacy Hartford's employee benefits results seem to have been better than Equitable. What's the pathway to getting them to Hartford-level returns?

Beth A. Costello

Executive VP & CFO

Yes. Well, great question. Well, first of all, we're very excited about this acquisition and excited about the people that will be coming with it. And as you point out, the technology is something that we found very intriguing. So we've talked before that when we look at our Employee Benefits business, obviously, a very strong national accounts player. But getting into the under 500 lives and below has been an area of focus for us.

And technology is a really important part of that. And so the technology platform that comes with this acquisition, we feel really, will position us well in that marketplace. And I would have you think about the technology as sort of as underwriting platform. So it's from quote to buying, to installing the cases and so forth, access from a digital perspective for employers and employees being able to access the information. So it just really is a full suite.

And as I said, to really compete in that part of the marketplace, we felt that, that technology was really important, also comes with a dental and vision product set, which again, when you get into the lower part of the market and Employee Benefits, those product lines are very important.

So team is really excited about it. And as I said, we've talked about this being an area of focus. So it really was a way for us to accelerate that strategic focus that we have.

As far as overall profitability, I mean, obviously, bringing it into our ecosystem, applying our claims, tools, our efficiency initiatives that we have, all of that will put us in a place to bring the profitability of that business up over time. So the team is really excited about it. And as I said, really excited about the employees that will be joining us as well.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. You mentioned some of the ancillary products that they have. Can you talk a little bit about the cross-sell prospects, whether it's with the current employee benefits group or maybe even on the P&C side, how those new product sets can be disseminated more broadly?

Beth A. Costello

Executive VP & CFO

Yes. So as it relates to the acquisition itself, cross-sell was not a big part of the equation as we thought about it. But more broadly, and again, as we think about going into the smaller end of the employee benefits market, coupled with, obviously, our strong presence in small business on the P&C side; we see some natural synergies there over time.

Nothing sort of immediate, but again, over time, when you think about us competing for small business on the P&C side and being able to offer this product set on the employee benefit side, we would see some benefits to that over

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Do you have a sense in terms of client overlap with the current small business on the P&C side?

Beth A. Costello

Executive VP & CFO

We do not. So again, until we close, as you know, like a lot of times you don't get that level of information, so once we close, obviously, we'll have a better insight into that. But again, as we think about the growth potential over time, we would see that there should be some overlap there.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. And then this question is going to come up later also. But in terms of employee benefits, how do you think about scale? Obviously, this helps a little bit and giving you another customer segment to target. But fundamentally, where are you relative to competitors in terms of adequate scale and what's next?

Beth A. Costello

Executive VP & CFO

Yes. Well, if you step back and you look at our Employee Benefits business and where we rank overall, so from a disability -- fully insured disability, family lead perspective, we're number one. All in, when you add in all product sets, we're #3. So we definitely have scale in employee benefits.

As I said, the -- our market set tends to skew to national accounts. And so this opportunity and sort of the -- what we call priority business, which would be less than 500 lives, is definitely an area of focus for us.

So we feel very good about the scale that we have. It has allowed us to, I think, develop very strong capabilities kind of across the board. It's allowed us to invest in the platforms, which, again, as we've talked about before, is really important, especially in today's world as technology becomes more and more important.

So again, overall, I feel very good about our ability to compete in this space. And we see ourselves as a market leader.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

That's helpful. I'm going to move to P&C now, but I want to make sure that everyone in the room has the opportunity to ask whatever questions they want. So if you do have a question, please raise your hand, and we'll get a microphone to you.

Switching to P&C, one of the goals of our conference this year is to really concretize what leading companies are doing in the realm of artificial intelligence, both in terms of to the extent that you're comfortable, specifics about how things are changing operationally and where those of us on the outside -- maybe I'll say where and when, those of us on the outside are actually going to see financial results that could not or would not have been achieved without these investments. So it's a very broad question.

Beth A. Costello

Executive VP & CFO

That's a very broad question. We have...

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

So we can take the next hour or 2 to go through that.

Beth A. Costello

Executive VP & CFO

Yes. So there's a lot in that question. So if I don't get all the pieces, you'll go back to me and remind me. But stepping back from it, when I think about the question on how are the benefits of AI going to show up or where they're going to show up, my view is it's going to show up across the board.

So we've talked about before that when we think about and we focus on our AI investments, it's in three areas: Underwriting, claims and operations. So broadly. And we have a very robust invest agenda across all of those areas. So we're continuing to invest in this technology.

On the underwriting side, first of all, remind people that when you talk about AI, and there's lots of ways to define it, but I would point to our small business platform if you want proof of our ability to execute.

So as you know, 75% of new business quotes that come through in our small business business are quoted on the glass, no human touch. We've been doing that for years. that is powered by AI. And we've done that and achieved phenomenal profitability.

So as a proof point of like where can you see it, you can see our growth rates in small business. and you can see our underlying profitability, all of that being fueled by these engines, and we think that we have the ability to continue to improve that quote ratio, and focus on that.

We've talked about kind of bringing some of that automation into the middle and large business. And you've heard Mo talk about initiatives that we have there, where we're automating parts of the underwriting process.

What are the benefits that we'll see with that and what are the benefits that we are seeing? Well, one, it will improve underwriter productivity. Two, it also allows us to provide quotes back to indications of of price back to agents and brokers more timely. And we can see in our data that the faster that you're able to respond, your hit ratios are higher. So we'll see that over time.

And we also think that when you can automate parts of the underwriting process, you also have the opportunity to reduce what we've often referred to as leakage in the process. So what do I mean by that?

An underwriter doing a lot of different things we're supposed to be doing steps 1 through 12, people are people. Something gets missed that might result in us binding a risk that otherwise maybe we wouldn't want it to or someone's bias may get into the mix and have them look at a particular risk and decide not to quote it because of prior experiences, so we have a missed opportunity.

And Mo has spoken about in the past that we've looked at this leakage concept and believe that if we can automate processes, we would reduce that. So where will that show up? It can show up in top line, it can show up in outcomes on claims if you're better able to match price with risk. And so we're implementing these tools as well.

Also frees up time for our underwriters, so they can spend more time working with brokers and working with agents to produce additional opportunities. So we think that, that will also increase throughput over time. So it shows up in the top line, it shows up in the claims process and also in that example, would show up in an expense ratio because you can have more business done per underwriter, and so that improves operating leverage. So a definite focus there. And those are just a couple of examples on the underwriting side.

On the claims side, things that we again can do to automate intake of claims information. provide quicker responses to first notice of loss and things of that sort, we think will, over time, improve outcomes, also will improve productivity on the claims side. So same thing. There's a component of the loss ratio. That's the claims handling expense. And so again, if you can get more throughput done, you'll see -- we'll see benefits there as well.

Also, we've talked about this before as well that we've done a lot as it relates to ingestion of claims information, specifically, we've talked about medical records and being able to ingest those, summarize what can sometimes be pages and pages of medical records to again help focus the claims handler on what is most important, which ultimately will result in better outcomes for our insureds and ultimately, we believe better loss outcomes.

Also, we use AI to evaluate on medical bills as well that we're being charged what we should be charged. Especially in the workers' comp area on the medical side. the fee schedules are very complicated, differ state by state, what is covered and what the costs are.

So again, having an ability to automate that to ensure that we're paying the appropriate price we've seen benefits on that as well, where we've talked about before that for every dollar that comes in from a medical spend, we're probably spending \$0.30 to \$0.40. So all of those pieces show up in the result on the claims side.

And then finally, on the operations side, so where we can continue to digitize the way that our customers do business with us. You could look at it as self-service, but you can also look at it as being able to get customers answers faster, improving the customer experience. We've just put in AWS what we call customer experience platform, so how customers come to us, whether by phone or digitally.

And again, that improves the customer experience, it proves productivity. All of those things, I think, again, will show up in retention, will show up in expense ratio. So it's a long way of saying. It has been showing up in a lot of different ways. It will continue to show up in our results.

And I believe that companies that have the ability to invest like we do, will ultimately have greater success because it's just going to continue to improve the overall process. And I think make agents make brokers, make ultimate customers want to do business with us.

And I have one more thing to -- sorry. So we talk a lot about the spend that we have. And so our IT invest spend a little over \$500 million a year. But even in that spend, we are getting efficiencies. So what we can do with \$500 million today is much more than we could have done with \$500 million 3, 4 years ago.

So we're investing in the productivity of our technology as well, which is allowing us to do more and not have to increase the dollars as much as we would have had to in the past to get some of these results.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I'm glad there was a long answer, honestly, because I think it's important to like highlight all of the details. And again, really, I think we're at the point where you're seeing enough success from what you're doing that we can actually talk about is no longer this theoretical contract for sometime in the...

Beth A. Costello

Executive VP & CFO

It is. And I think the caution is like as I said, it's not going to be one particular area that you see it. To me, it's the whole ecosystem that we're looking at relative to our business model. So the benefits that we're going to see are going to show up across the board and I believe will ultimately position us for success. .

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Conceptually, just as a follow-up, is there any way of -- I mean, I guess, there are a couple of indications. But how do you think about compared -- and you made a point that's really important, and that is companies with the resources and probably the data systems to invest in this are going to pull ahead.

How do you track that? In other words, the premise of the question is you have a lot of smaller competitors, they're not public, we don't see them here. But from my perspective, there's no way they can keep up. How do you see that in terms of the easiest wins? Because they are -- I don't mean this is a personal criticism, but they're weak competitors.

Beth A. Costello

Executive VP & CFO

Yes. I mean, I think, ultimately, where it's going to show up is an increase in market share. And again, I'll go back to our our Small Business division where you can see the gains that we continue to have there and the growth that we have there. And I continue to believe that, that comes from the execution that we have, the ease of doing business with us.

We've talked about that before that that's so important in that segment of the market. And again, their overall results are just outstanding. So I think that's why we will see it over time.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I'm going to be moving away from AI because while it touches everything, there are other things to talk about, but I wanted to see whether there are questions in the room on that. And if not, I'm going to move to the reserve side because that was an area of a modest disappointment in the second quarter.

You talked about being a few instances on the other liability current side. I was hoping we could get a little more detail on what you saw and more importantly, your confidence in it being addressed.

Beth A. Costello

Executive VP & CFO

So yes, so I would say, and I think I characterized this when we reported our results is we had some modest adjustments that we made in general liability and all of it in commercial auto. And I think in the context of the overall reserve base, very modest for those lines. And then obviously, when you look in total, our reserves continue to be in a very good place.

And yes, I mean, we've talked about this before. I mean we're continuing to watch trends and liability lines as it relates to what is characterized as social inflation. In the liability area, on the occurrence side, which is most of where our general liability reserves are; was really in the excess and umbrella areas where we were just seeing elevated activity.

And when we do our reserve reviews, we're doing our reserve reviews on our liability lines by subline. And so we look at the excess lines, we look at the umbrella lines, we look at it by the various segments, we're kind of doing our grounds up. And as we evaluated it and we looked at just some of the increases we were seeing in multiple areas, multiple lines, we felt it was prudent to make some adjustments.

I think I said these words on the earnings call that these are lines we're going to be cautious about. And there are modest adjustments and felt it was the appropriate to do and looking at the trends that we saw and incorporating that into what we view going forward.

On the commercial auto side, there again, that was in the more recent years. When we looked at the severity associated with some of the claims that we were seeing was that claims that in the past had settled for lower amounts, we're creeping up on the severity side. So again, we felt it appropriate to take some actions there.

And we continue our process. It's not just our actuaries. We've got our claims folks in the room as well. We've got our business leaders in the room as well because we want to make sure we're incorporating anything that we're seeing then into what they're -- what the underwriting side is doing as they're in the marketplace and again, making sure that we're getting the rate that we need to offset the trends that we're seeing.

So it really is a cycle that we go through to look at all of the pieces and ask ourselves the questions on okay, what is our expectation going forward? How do we incorporate that, and we took the actions that we did?

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

This is a process question in terms of a follow-up. No one wants to go through this more than once, so want to go through it at all. What questions do you ask the actuaries and the claims folks just to make sure that the strength in the second quarter covers it and this topic goes away?

Beth A. Costello

Executive VP & CFO

Yes. I mean that's the question that we have, is what are we seeing? What do we expect to see in the future? How do we increase our loss picks accordingly? And we review our reserves every quarter for a reason because activity comes in and we evaluate it. And again, you're always trying to make that determination of what you're seeing today, how is that going to manifest itself in the future? And we do that in lines like this every quarter, where we will look at them and make adjustments accordingly, if needed, up or down. .

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. On the topic of social inflation, obviously, you have claims data, you have internal data. What external data do you look at to see whether perhaps social inflation is abating. We've had a couple of states with some level of tort reform. There's certainly some companies out there that have said we think it's stabilizing. We think rates are fine.

I'll leave my own personal views on that. But I'm more interested in the internal process. What is it that you look at besides your internal claims information just to get a sense of what the broader outside world looks like?

Beth A. Costello

Executive VP & CFO

Yes. I mean, obviously, we're looking at a lot of different trends that are out there. We're looking at what's happening from a jury awards perspective and what we're seeing there. We obviously continue to see a lot of advertisement that plaintiff attorneys continue to do. So we look at that. We look at it by jurisdiction. Some of the reforms that you're talking about, we're watching those closely.

Again, we don't want to be premature in incorporating a significant change there into our views, whether it's in reserves or in pricing. We want to see it come through, but we're encouraged by it.

And yes, it's triangulating on a lot of different things that we're seeing within the environment. Our government affairs group continues to be very active in pursuing reforms across the country because we think that it is important because it is a cost that everyone is bearing as we look at some of these awards.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

I'm very curious. With that, is there receptivity on the part of, I guess, what would be legislators or maybe the regulators also but legislators to this idea? Because I agree fundamentally with the premise that everything you buy is going to be influenced by the cost of liability insurance. but voters have to see that before some people will actually do anything about it. And I was hoping you talked about that level of receptive...

Beth A. Costello
Executive VP & CFO

Yes. I think it varies. I think there's some that maybe are more than others. Obviously, we've a lot of different constituents that are also on the other side, that are putting forth their point of view on that.

Again, I think the fact that you've seen some states take action is a very positive sign and shows that there are -- there is receptivity to that and the impact that it can have. But I don't my personal view is I'm not sure that you're going to see something that's going to change dramatically overnight.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Is it too simple to say red state, blue state?

Beth A. Costello
Executive VP & CFO

I'm not going to go there.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fair enough. Let me ask a question where hopefully, there is more comfort. Does the social inflation experience vary between small commercial, middle market and specialty?

Beth A. Costello
Executive VP & CFO

It's there across the board, maybe not to the same degree, just given size of limits and things of that sort. But Yes, as we look across, we see pockets of it across the board. And you see it in personal insurance, too.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. We'll definitely get back to that because I think it's an important question. One more on the reserving side, though, there seems to be a pattern of reserve releases, workage compensation, it's consistent perfectly consistent with what we've seen for reserving for the Hartford and beyond.

We see every other quarter, there are, and this is just the outcome, not the inputs, reserve releases in bond, reserve releases on the catastrophe side. So I was hoping two questions. The less important one is, what does that tell us about the schedule? And the more important one is, what does that tell us about Hartford's reserving for these lines of business?

Beth A. Costello
Executive VP & CFO

Yes. So some lines of business, we don't look at every quarter in great detail. And bond and our cat reserves are two of those lines. And we still, as you point out, we are on a 6-month review.

On the off quarter, we'll look just to see if something dramatic has happened. But assuming not, then we do the more detailed reviews every 6 months. And we have seen releases in both of those lines pretty consistently. And a couple of things I'd point to.

So on the bond side, really there, obviously, we make our initial loss picks. But we've just seen very favorable experience, especially on the contractor side where you haven't seen a lot of contractors go bankrupt, projects have been completed.

And so as you evaluate all of that, as those things happen, then we reduce reserves. But obviously, you're putting up -- when you put out those limits today, you have to take into consideration a variety of outcomes. And so we've seen very favorable results there.

On the catastrophe side, what we've seen there, a couple of things. One area as it relates to hail activity. And if you go back several years, we had seen much higher hail-like severity from a loss perspective. And so our -- when we book our catastrophes, again, you're booking it based on the information that you have; our estimates reflected that activity.

Now we've done some things as it relates to our claims practices, as when there are hail storms to be more proactive in reaching out to claimants to make sure like do they have, for example, roof damage from hail.

Sometimes you can have a hailstorm, someone has roof damage. They don't know that they have damage, and then that becomes the cause of loss. And if it's not taken care of, you can end up with a much more severe loss because the roof doesn't improve with age, if you have damage.

So being more proactive to understand where hailstorm activity happened and reaching out to our insureds to get on those claims more quickly. we believe, has resulted in less large hail claim activity. And so some of that has come through.

Same thing with other storms where large loss activity has just been a bit muted. But again, we want to be thoughtful when we put up our initial estimates, and we've seen those benefits come through, as you pointed out. And those are just a couple of examples of what's been happening on the cat line.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's very helpful. You mentioned hail, which has been the locus of a fair amount of fraud. Do you have any sense in terms of whether -- or let me ask this differently, what experience have you seen in terms of the ability to identify and combat that?

Beth A. Costello

Executive VP & CFO

Well, we do from an underwriting side and roof scoring has become, obviously, more important in more recent years to really understand condition of roof before you place a risk. So I think that, that has also helped.

And again, not that I would say that, that's necessarily always fraud. But obviously, depending on where a home or a business is located, the condition of the roof matters, especially as you think about some of the storm activity.

So definitely being more proactive on the front end relative to the roof scoring and then on the back end from a claims handling perspective, using our claim adjusters to really evaluate the exposure and get some of these this damage address more quickly.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then one final follow-up on the hail question, if you will. Has your coverage changed? Talk about restoring. There are some insurers that have said, okay, if your roof is damaged, we'll pay you what it was worth before the damage instead of buying a new roof.

Beth A. Costello

Executive VP & CFO

Yes. I guess on that specific, I'm sure there are some things like that, that we've done but not anything that I would point to kind of of wholesale. I know the teams from an underwriting side or constantly looking at what levers can be pulled as we think about those exposures. So I'm sure there's some of that going on, but I can't really comment on how broadly. .

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And again, if there are questions in the room, please raise your hand, and we'll get the microphone to you.

I wanted to dig a little bit -- it's not a huge line of business, but global reinsurance. Reinsurance is a huge category. I was hoping you could nail down for us or describe what you're writing, what you're attracted to, what you think prospects are going forward?

Beth A. Costello

Executive VP & CFO

So it's a nice business for us. The coverages that we provide, think property, some specialty casualty, CPRI, political risk type exposures. And I think the nice part about this business, as you can see from our side, we're not a big reinsurer. So it really does allow us to be very selective in where we place limits, allows us to really have a very deep understanding of the insurers that we're providing the reinsurance to.

And I think that the way that, that team has managed that book kind of shows up in their results. And it allows us to be very flexible. So it's a nice little business for us is how I characterize it.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I was at Monte Carlo earlier this week. There's a lot of capacity for reinsurance, even on the casualty side. What is the selling point to the global reseatings? Like what is it that they get from Hartford that they wouldn't get elsewhere?

Beth A. Costello
Executive VP & CFO

Yes. I mean some of it is sort of our ability, as I said, to sort of be very selective and develop relationships with insureds and allow us to participate in that market. Again, we're not looking to be broad-based and be everything to everybody. But we've just -- we have a very sort of niche business, and we're able to kind of fill in protection for insure that need it and feel good about how we're deploying the capital that we put to that line.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. I want to make sure I get this right. Within the financial supplement, you talk about global specialty having Lloyd's and other international markets. And I'm very curious as to what the other international markets are? Like where it is hard for that we don't necessarily think of?

Beth A. Costello
Executive VP & CFO

Yes. It's relatively small. So think of it, we have a U.K. branch, we have a Canadian branch. So very small activity like that. It could be an area over time that you might see more in, but it's really in those particular areas right now.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And we should think of those as being the specialty products that would also be done in Lloyd's and elsewhere.

I want to spend a little bit of time on Personal Lines. First, the fundamental question. And this is a bad question because you've already got the AARP business. So you're not starting from scratch. What are the ambitions and scale required in the agency side?

Beth A. Costello
Executive VP & CFO

Yes. So we are starting from a position, obviously, of having the AARP business. And as you know and as we've talked about for several years now, we've done a lot to upgrade the platform that, that business is on. So from the technology that we have, the pricing sophistication that we have kind of across the board, and we've talked about that and rolling that out on the direct side.

On the agency side, we are then now taking that product to the agency segment of the market. And I think it's important to remember that we're also not starting from scratch there. We have a very strong agent relationships on our business insurance side. And we've heard from agents that they would like to have a personal insurance product that they could sell from the Hartford.

So we're leveraging that distribution relationships we already have to bring in this product. And again, still very much focused on a similar profile to what we have in AARP. We're not looking to be the insurer for everybody kind of being in our sweet spot. So we believe that we have the pricing sophistication to be able to compete in that marketplace.

I mean, obviously, agency is different than direct. Agency oftentimes leads with the home product. So part of being able to launch into the agency market was improving our home capabilities and products and the things we were just talking about as it relates to roof scores and things like that. So definitely is a focus there.

And we've been very pleased with the rollout so far. We're in 23 states and continuing that rollout, getting very favorable feedback from agents and happy that we have the product that they want.

So it's -- I look at it as -- we're leveraging our relationships that we have on the business insurance side, and we're leveraging the capabilities that we have from the direct market and bringing that into the personal insurance agency market.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Is it reasonable -- you talked about the agency overlap, and I think that makes perfect sense. Hartford is the crown jewel of small commercial. Is there overlap -- potential overlap in the customers?

Beth A. Costello

Executive VP & CFO

Yes, potentially. Yes, absolutely. We could look to see that because, again, as you think about an agent who is working with a small business owner, looking to then provide the personal insurance side; we think that there definitely could be some overlap there.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. I am going to scan the room again to see if there are questions. I want to spend a little time on personal auto because I've been spending a lot of time actually on ISO data, which shows almost surprisingly low levels of frequency.

Again, this is for the industry as a whole, for the 50-odd percent of companies that report to ISO, where frequency for most auto sublines is back down towards or approximating COVID levels, which surprises people because there's a lot more driving going on now. I don't know whether that matches every individual company. I was hoping you could talk about that. And then I want to follow up on the severity side.

Beth A. Costello

Executive VP & CFO

Yes. So for our data from a frequency perspective, we are definitely still a bit below pre-Covid levels, but I would say we're a little bit above COVID levels. So we're kind of like in between. So maybe that's a little different than what you might be referring to. But when we sort of see if that's kind of where our data puts us.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Right. Okay. And on the severity side, and again, recognizing that it may well be a perfect mapping. Severity -- other than bodily injury, which to me is the auto subline facing social inflation, we're also not seeing much in the way of severity, which -- that's lagging information. But does that match what you're seeing in your more specific customer segment?

Beth A. Costello

Executive VP & CFO

Yes. When we think about -- from a physical damage perspective, severity, what we've seen from severities come in a little bit better than we would have anticipated. Now again, some of that we were anticipating probably a little bit more impact from tariffs and things like that, which hasn't really manifest itself.

But yes, from a physical damage severity perspective, that definitely has been coming in a bit favorable to what we would have thought. To your point, on the bodily injury side, then we've been watching that and severity there being a bit

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Perfect. Last reserve-ish question is on asbestos, which is impossible to do. How are you approaching that as best as issue? Because we're at the point now where the liabilities are back on your balance sheet. Is that -- how is that changing your approach? How are you thinking about asbestos in a world where broadly speaking, if we look at the industry, there seems to be sort of annual strengthening?

Beth A. Costello

Executive VP & CFO

Yes. So we do our annual study. So that's one of our reserve reviews that's done on an annual basis, and we do asbestos and environmental in the fourth quarter. And I would say that our philosophy there hasn't changed, even when we have the reinsurance cover.

When we do the review each year, a big part of the review is grounds up. So we're looking at the large accounts that we have that we now have exposure, and we're doing very specific reviews of those accounts because you can imagine, it gets very complicated, right? You have an account but asbestos coverage and exposure can go over multiple years.

And it kind of depends on what years were you on, where is the exposure, and it's -- they have complicated charts like this big, big paper to look at all of that. So it's a very detailed review going account by account, thinking about what we would expect to see for new cases coming in.

And asbestos, I'm going to be around this for a long time now. And if you go back 20 years, people would have thought that there wouldn't be any new asbestos claims coming in. But that hasn't -- the dip hadn't served to happen the way people thought. We have to see some indications of declines, but then you get health exposures come in with asbestos. So it's -- there's a mix there.

And so our view is every year using the best data that we have, evaluate the accounts, evaluate the exposures that we have and make any adjustments. Sometimes those adjustments are from settlements that we reach. so we have a particular account, and we decide that we're going to basically buy back the coverage. And so that can affect the results as well.

So there really are a lot of pieces that go into that. Environmental, same thing. We can have in any particular year, maybe the cost for a specific site cleanup is more elevated than we thought. Sometimes things come in better than we thought, so that moves around as well.

But it's why we take a year to do the study. It's not as if we start it in the fourth quarter. It's a lengthy review. And again, when we're making our best calls across multiple years, multiple coverages, multiple insurers.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. We have time for one more question. So if there's one in the room, we'll take it. If not, I want to talk about the changing distribution world, and I don't want to lead the witness by saying that I think that it's a great opportunity that the big brokers are coming into middle market and small account. How are you thinking about that?

Beth A. Costello

Executive VP & CFO

Yes. I think given where we are positioned in those markets, given how we're positioned with the larger brokers, net, we see it as very constructive for us and our ability to continue to get market share. And so we obviously watch all that consolidation very closely. But net-net, I would agree with how you led the witness that it's a positive.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

When do those conversations happen? In other words, there is theoretical mindset that I have where you can go to [Aon] and say, it makes sense for you to do more business with us through our...

Beth A. Costello

Executive VP & CFO

Our team is actively engaging with our top brokers and agents all the time. and having those conversations and having them as a conversation across our various lines of business.

One thing that we're very proud of is that when we show up with our brokers and agents, we're showing up as the Hartford. We're not showing up a small business, middle and large, global specialty. And it's really important to us to make sure that our distribution partners understand the full suite of things that we can do.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. With that, we have come to the end of our session. Beth, this was fantastic, as always. Thank you so much.

Beth A. Costello
Executive VP & CFO
Thank you.

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