

The Hartford Financial Services Group, Inc.

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FQ2 2022 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.52	2.15	▲41.45	1.63	6.98	NA
Revenue (mm)	5529.31	5373.00	▼(2.83 %)	5648.31	22553.47	NA

Currency: USD

Consensus as of Jul-29-2022 10:33 AM GMT

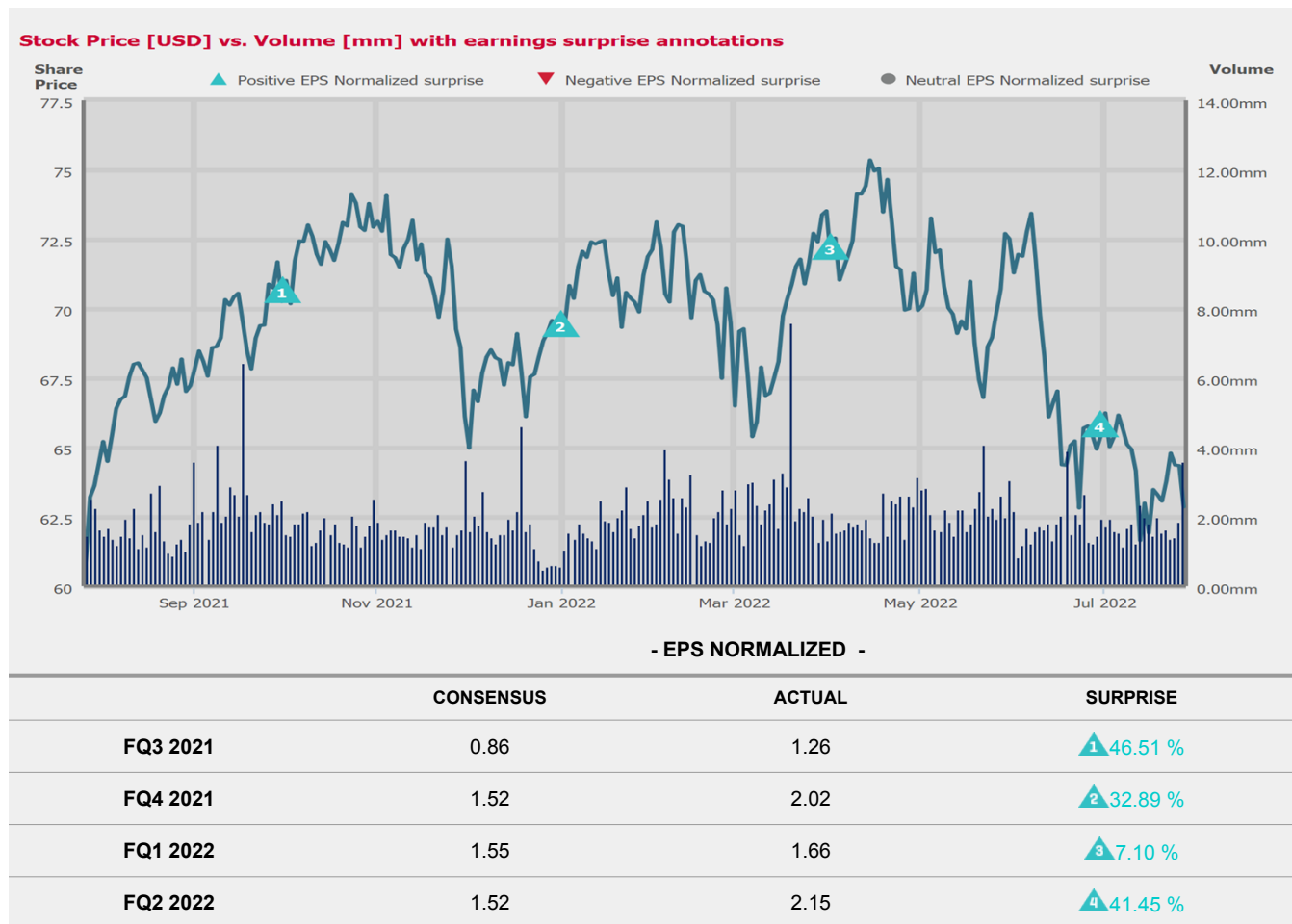


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Presentation

Operator

Good morning, ladies and gentlemen. Thank you for attending today's The Hartford second quarter earnings call. My name is Jaquita. I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to your host, Susan Spivak with The Hartford Group. Susan, please go ahead.

Susan Spivak Bernstein *Senior Investor Relations Officer*

Good morning, and thank you for joining us today for our call and webcast on second quarter 2022 earnings. Yesterday, we reported results and posted all of the earnings-related materials on our website. For the call today, our speakers are Chris Swift, Chairman and CEO of The Hartford; Beth Costello, Chief Financial Officer; and Doug Elliot, President. Following their prepared remarks, we will have a Q&A period.

Just a few comments before Chris begins. Today's call includes forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance, and actual results could be materially different. We do not assume any obligation to update information or forward-looking statements provided on this call. Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings.

Our commentary today include non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial supplement.

Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for 1 year.

I'll now turn the call over to Chris.

Christopher Jerome Swift *Chairman & CEO*

Thank you for joining us this morning. We are pleased to report another quarter of strong performance which demonstrates that our strategy and investments we have made in our businesses have established The Hartford as a proven and consistent performer. Core earnings for the quarter were \$714 million or \$2.15 per diluted share.

Book value per diluted share excluding AOCI was \$52.12, and our 12-month core earnings ROE was an outstanding 14%. During the quarter, we were pleased to return \$577 million to shareholders through share repurchases and common dividends. With our outlook for continued strong financial performance and capital generation, the Board has authorized a new share repurchase program of \$3 billion, effective August 1, 2022, through year-end 2024.

Together, our strategy, superior execution and prudent capital management demonstrate The Hartford's commitment to long-term value creation through sustained profitable growth, continued investment in our businesses and return of excess capital to shareholders. We are producing excellent results in a very dynamic macroeconomic environment. As we look forward to the second half of 2022, while there are some mixed economic signals, combined with geopolitical tensions and Fed policy uncertainty, The Hartford continues to be well positioned to manage margins and returns successfully.

As we all know, within the U.S., we are experiencing historic levels of inflation, which has resulted in accelerated monetary policy tightening. These conditions appear to be pushing the U.S. economy into a lower growth environment or possibly a mild recession. However, this is occurring against the unique backdrop of low unemployment and strong corporate and consumer balance sheets. These conditions are very different from those that existed during 2008 when the recession was driven by credit imbalances across the economy, high unemployment and heavily leveraged balance sheets.

The Hartford is also a very different company today. We have well-performing businesses, enhanced capabilities, a diversified portfolio of P&C and Group Benefit products and a stronger balance sheet, including a high-quality investment

portfolio. All of our businesses are competing effectively in their target markets with unique value propositions, anchored by The Hartford's brand and reputation. We have invested in new capabilities to deliver an exceptional customer experience while ensuring appropriate rigor in the management of claim outcomes, including the extensive use of data science and artificial intelligence. For our 2 largest and strongest performing lines, workers' comp and disability, these enhanced capabilities have led to improved profitability over the years and give us confidence that even during the economic slowdown we are well positioned to minimize the impact on loss cost.

Now I'd like to share some highlights from each of our businesses which illustrate how our strategy translates into consistent and sustainable financial performance. Overall, Commercial Lines outperformed with double-digit top line growth and expanding margins in the quarter.

There has been much commentary about written renewal rates versus loss cost trends and the impact of inflation. We have been disciplined and prudent in establishing loss picks for 2022. Our assumptions reflect loss trends in the aggregate of approximately 5% excluding workers' compensation, reflecting our overall business mix which skews towards small business and middle market risk. Therefore, we have approximately 100 basis points of spread between written renewal pricing and loss trends.

Stepping back, I am incredibly proud of what we've accomplished in Small Commercial. Over the past decade, we have built a track record of consistent superior performance with underlying combined ratios below 90% as we grew the business to over \$4 billion in annual premium. Our momentum in the marketplace is evident with several consecutive quarters of record new business.

The speed, accuracy and consistency we deliver to the market along with leading digital capabilities continue to outpace competitors. We are transforming our Middle & Large Commercial business into a specialized organization with broad product offerings and deep underwriting skills across industry verticals, which is driving growth, strong profit margins and more consistent results. Our execution around data science, pricing segmentation and engineering has dramatically improved, which will help drive continued underwriting discipline in more competitive lines of business, including workers' compensation.

In Global Specialty, results are outstanding as we continue to maximize our expertise to gain market share. Our teamwork and cross-selling activities have been phenomenal and continue to strengthen the franchise. Underwriting margins have improved materially over the last 3 years, evidenced by our 85.5% underlying combined ratio through 6 months in 2022. These advantages are only getting stronger as the market recognizes our product breadth, efficiency and ease of doing business as key differentiators.

In Personal Lines, the rollout of the new platform -- Prevail platform continues and is beginning to show positive traction. However, higher inflation is impacting auto results and will require additional pricing actions. Doug and Beth will talk more about that shortly. But overall, from a strategic perspective, I am pleased with the progress we are making in Personal Lines.

Turning to Group Benefits. Core earnings were \$161 million with a margin of 9.8%, reflecting a rapid recovery in mortality and solid disability results. Long-term disability trends are stable and within our expectations for incident rates and recoveries. On the top line, fully insured ongoing premium was up 7%, benefiting from strong persistency above 90% and sales of \$204 million, nearly double the prior year quarter. The excellent sales results are primarily driven by the acquisition of new cases and strong enrollment, which reflect a combination of greater product awareness among employees and new enrollment capabilities we introduced over the last 18 months.

We observed that both employers and employees are highly engaged on benefit offerings in light of the pandemic. Businesses are also increasingly focused on offerings that can help them attract and retain talent in a competitive labor market and at the same time, struggling with growing complexities of regulation and compliance, including emerging state-paid family leave mandates. This is an opportunity for us to demonstrate higher value through our expanded products and services as we continue to grow the business.

Before I turn it over to Beth, let me leave you with some concluding thoughts. I remain confident and excited about the future of The Hartford. Our businesses are performing well and have never been stronger. We are managing the investment portfolio prudently, and our holdings are well balanced across a diversified asset classes. We have proven execution capabilities and exceptional talent that drives my confidence in our ability to continue to produce superior returns in a dynamic macroeconomic environment. And finally, we are proactively managing our excess capital to be

accretive for shareholders. All these factors underpin my confidence of achieving ROEs of 13% to 14% for this year and 2023.

Now I'll turn the call over to Beth.

Beth A. Costello
Executive VP & CFO

Thank you, Chris. Core earnings for the quarter of \$714 million or \$2.15 per diluted share reflects strong P&C underwriting results and premium growth in Commercial Lines and Group Benefits as well as a reduction in pandemic impacts. In Commercial Lines, core earnings were \$544 million and reflect higher earned premium, improvement in the underlying combined ratio and lower catastrophe losses in the prior year period. Commercial Lines reported 14% written premium growth, reflecting written pricing increases and exposure growth, along with an increase in new business and policy count retention in Small Commercial. The underlying combined ratio of 88.1% improved 1.3 points from the prior second quarter due to a lower loss ratio primarily in Global Specialty lines and improved expense ratio, partially offset by higher non-catastrophe property losses in Middle & Large Commercial.

In Personal Lines, core earnings were \$21 million, and the underlying combined ratio was 94.1%, reflecting increased auto loss costs. We continue to experience inflationary impacts on auto physical damage. We expected to see some moderation in severity trends, and to date, that has not been the case.

Due to these trends and reduced optimism for improvement in the second half of the year, we expect to be 1 point or 2 above the high end of the full year Personal Lines underlying combined ratio range we guided to in February. To put that into perspective, 1 point is worth about \$23 million or \$0.07 per share after tax. Doug will comment upon the actions that we continue to take to get more rate into the book.

P&C current accident year catastrophes in the second quarter were \$123 million before tax, which was \$5 million below the prior year period and well below our expectation for typical second quarter catastrophes. P&C prior accident year reserve development was a net favorable \$58 million with workers' compensation being the largest contributor.

Turning to Group Benefits. Core earnings of \$161 million and the 9.8% core earnings margin reflect a lower level of excess mortality losses and growth in fully insured premiums, partially offset by an increase in insurance operating costs and a higher disability loss ratio of 66.3% compared to 64.2% in the 2021 period. This increase is primarily due to a lower risk adjustment benefit recorded in the quarter related to the New York Paid Family Leave program.

The long-term disability loss ratio in the quarter was in line with prior year, reflecting claim recoveries and a stabilization of claim incidents. All-cause excess mortality in the quarter was benefit of \$5 million before tax compared to \$25 million of expense in the prior year quarter. The \$5 million reduction included \$19 million of excess mortality with dates of loss in the second quarter and \$24 million of favorable development from first quarter 2022 claims.

Turning to Hartford Funds. Due to equity market declines and higher interest rates, daily average AUM decreased during the quarter to \$137 billion, resulting in core earnings of \$44 million compared to \$50 million (sic) [\$51 million] in the first quarter of 2022. Our investment portfolio delivered another strong quarter. Net investment income was \$541 million, benefiting from annualized limited partnership returns of 17.3%. Two commercial real estate sales totaling \$51 million in gains were material contributors to LP returns as well as strong results from private equity, which is generally reported on a quarter lag.

We have been very pleased with the performance of LPs in the first half of the year. Given the evolving macroeconomic outlook in combination with the mix of commercial real estate, private equity and other limited partnership holdings, we anticipate that annualized LP returns in the second half of 2022 could trail our full year annualized target. However, we believe returns in total will be positive in the second half of the year.

In the quarter, the total annualized portfolio yield excluding limited partnerships is 3% before tax. With the increase in interest rates and wider credit spreads, the portfolio's reinvestment rate was 4.5%, which compares favorably to the average sales and maturity yield of 3.6%. As we have noted previously, net investment income will benefit from higher rates over time, and we would expect ex LP yields to increase 10 to 20 basis points during the second half of the year.

Not surprisingly, the portfolio value was also impacted by higher interest rates and wider credit spreads. The unrealized loss position of approximately \$300 million pretax at March 31 increased to an unrealized loss of approximately \$2.4

billion at June 30. The investment portfolio credit quality remains strong with an average rating of A+ with insignificant credit impairments and a small increase of \$5 million to the allowance for credit losses for mortgage loans to reflect a growing book and the current economic outlook. So while interest rates and capital markets may remain volatile, we are confident that our high-quality and well-diversified portfolio will continue to support our financial goals and objectives.

The confidence we have in our business' ability to generate free cash flow is also evidenced by our capital management actions. As Chris mentioned, yesterday, the Board approved a new share repurchase authorization of \$3 billion, effective August 1, 2022, through December 31, 2024. This authorization is in addition to the existing authorization which, as of June 30, had approximately \$450 million remaining. Our expectation is to complete the existing authorization this year with the vast majority of the new authorization to be utilized in 2023 and 2024, subject to market conditions. In summary, we have had strong performance in the first 6 months of the year and believe we are well positioned to continue to deliver on our targeted returns.

I will now turn the call over to Doug.

Douglas Graham Elliot
President

Thanks, Beth, and good morning. The strength of The Hartford's Property & Casualty business was once again evident in the second quarter. Despite inflationary pressures and lower GDP, our broad product portfolio and specialized underwriting expertise positively impacted the quarter's financial results. Those 2 factors, combined with our distribution footprint and deep talent base, position us well to maintain strong performance going forward.

In Commercial Lines, we achieved double-digit written premium growth for the fifth consecutive quarter. Underwriting results were excellent with underlying margin improvement in Small Commercial and Global Specialty. Diving deeper into growth, Commercial Lines pricing was fairly consistent with expectations. Written pricing excluding workers' compensation was 6.1%, about 1 point lower than first quarter but continuing to exceed loss cost trends across most products. Workers' compensation pricing remained positive but declined slightly.

Global Specialty pricing markets were more competitive with written price at 5.5%, off about 2.5 points compared to quarter 1. However, pricing in our wholesale book actually ticked up, remaining in the high single digits. Notable contributions to an excellent commercial top line quarter include strong policy retention across markets, our largest new business quarter ever for Small Commercial at \$201 million, solid new business levels in middle and Global Specialty despite increasing signs of a more competitive market and strong audit premium from robust customer payroll growth. In total, I'm pleased with our growth profile across these components and confident we will continue our disciplined execution.

Turning to loss cost. Trends were largely in line with expectations. We continue to watch severity across our book, including social inflation, wage growth, supply chain pressures and commodity pricing. All in, our commercial book posted a very strong quarter and first half of 2022.

Our Small Commercial team recorded an outstanding underlying combined ratio of 86.9% for the quarter. Since the first quarter of 2013, Small Commercial has achieved a sub-90 underlying combined ratio in every quarter except 2. Global Specialties underlying combined ratio for the quarter was a stellar 83.1%, their best result since the acquisition. And Middle & Large Commercial delivered a solid 92.9%.

There certainly has been a fair amount of discussion concerning the impact of future economic conditions on our industry, particularly workers' compensation. From a top line perspective, the data we watch are employment levels and wage growth, which together determine the payroll base for workers' compensation.

Shifting to the loss ratio. We're focused on the following key metrics: wage growth, which acts as a form of pricing with indemnity payment offsets; changes in worker tenure, which can impact claim frequency; and the impact of inflation on medical severity. With respect to medical severity, we believe our long-term view of 5% in both pricing and reserving is sufficient to cover the potential for increased severity above the benign trend we've experienced the past few years.

We are well positioned to address these trends head on. Our workers' compensation accident year performance has been excellent over the past several years, and the balance sheet is strong. We have also built sophisticated pricing and risk segmentation tools and expanded data analytics within the organization to successfully underwrite through different economic cycles.

Let's switch gears and move to Personal Lines. Our second quarter underlying combined ratio of 94.1% reflects auto physical damage pressure driven by supply chain-related inflation, elevated used car prices and wage increases. In the second quarter, these auto severity trends ran higher than we initially anticipated. Combined with normal seasonality in our book, the second quarter auto accident year loss ratio increased 5.7 points from the first quarter of this year.

The physical damage increase was 2.5 points; with the remaining delta, normal seasonality. As Beth noted, we expect the continuation of inflation pressure in the back half of '22 and have moved our original guidance up accordingly. We are pleased that our pricing actions initiated over the past few quarters are starting to take hold. Auto written premium price increases recorded in the quarter eclipsed 4%. Rate actions taken across 39 states in the first half of the year averaged 5.7%.

In home, overall loss costs were in line with both the first quarter and our expectations. Non-cat weather frequency, although higher than the prior year, continues to run favorable to long-term averages, offsetting elevated large fire losses and material and labor costs, which remain at historically high levels. We are also taking pricing actions in home with written pricing at 9% for the quarter. Given all these factors, I remain pleased with both our year-to-date current accident year home loss ratio of 63.3% and combined ratio of 94.2%.

Turning to production. Written premium growth was nearly flat with steady retention and new business growth of 5.6% in the quarter. We're seeing a significant increase in responses driven by our digital marketing programs and increased consumer shopping in the 50-plus age cohort. With that said, I would characterize our Personal Lines growth attitude as cautiously optimistic based on the current risk profile of the segment and the opportunities available in the market.

Prevail is currently available in 16 states, including the launches of Florida in January, Texas in April and 3 more states this month. We have also launched expanded self-service capabilities, demonstrating our digital customer commitment in the space. Year-to-date Prevail new business premium was \$36 million with conversion rates at expectations, and we continue to be pleased with the quality of our new business. In addition, our redesigned telematic offering is available in 16 states and will be launched in additional states as Prevail rolls out. Our initial results, including consumer interest, online adoption and enrollment, are all trending ahead of expectations.

Summarizing the strong results for Property & Casualty. Our Commercial Lines business maintained a double-digit growth rate with exceptional operating margins. And in Personal Lines, while auto severity is pressuring loss ratios, pricing actions are getting stronger, and increasing contributions from Prevail add to our momentum.

As I wrap up my comments today, let me step back and provide a bit of perspective from my operating seat here at The Hartford. Neither we nor our competitors can control the external forces or economic trends that will occur in the future. However, we can control our preparation and our response to various likely or possible scenarios.

I firmly believe The Hartford has never been better positioned to aggressively take advantage of opportunities while mitigating the downside risks. My confidence comes from our broadened product portfolio responsive to solving broker and customer needs, the enhanced underwriting and deep analytic capabilities that deliver competitive advantages and lead to outstanding financial results, strengthened technology and digital tools that have improved our competitiveness over the past 10 years and an invest agenda that is cutting-edge and is forward-leaning as anything I see in the marketplace. In short, we have transformed the small business marketplace with our innovative and industry-leading capabilities, and we are well on our way to achieving the same in Middle Market space.

Global Specialty is producing excellent results and will increasingly leverage the competitive tools built within our walls. And finally, Personal Lines is off to a good start with our cloud-based product Prevail, which will be pivotal to our future. For these reasons and more, I am bullish about our ability to demonstrate strong execution capabilities in the years ahead. I look forward to our next update in 90 days.

Let me now turn the call back to Susan.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you, Doug. Operator, we're prepared to take questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

My first question is on capital. You guys took up the dividends that you expect from the P&C and the Group Benefits subs for this year. So should those higher expectations represent a baseline or perhaps you could even come in above that when we think about the dividend that you could take in '23 and '24 as we think about additional capital return from here?

Beth A. Costello

Executive VP & CFO

Yes, Elyse. I'll take that. We did increase the dividends in P&C and Group Benefits just slightly. I would say the ranges that we're providing probably provide a good basis for thinking about things in the future. And I wouldn't, at this point, point to an expectation of increasing those. We'll comment on '23 and beyond when we get there.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

Okay. My second question is on pricing. The 6.1% that you guys gave in commercial excluding workers' comp, is that pure rate? Or does that include exposure? And if it is pure rate, could you give us the exposure piece as well?

Douglas Graham Elliot

President

Elyse, this is Doug. So the 6.1% is consistent with all our former pricing metrics over the last decade and includes an element of exposure that works against loss trends. So it is not complete exposure but it is an element we call all other insurance included in that, noted in our definitions in the supplement. And that's about 1.5 points overall.

Operator

The next question comes from the line of Greg Peters with Raymond James.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

So the first question, I'll focus on your top line and maybe more on the commercial side than the Personal Lines side. But you're generating strong growth, and there seems to be some concern in the marketplace that this is as good as it's going to get. And so I thought maybe you could -- and you did provide a lot of detail in your comments. But if you could give us a sense of how the market can sustain itself and you continue to generate these substantial growth rates for the intermediate term, what you're seeing in the market in your specific segments, that would be helpful.

Douglas Graham Elliot

President

Sure, Greg. Just a few thoughts to add to what I shared in my script. Number one, the new business strength is evident across all our markets, particularly in small, as I noted, our first quarter over \$200 million. I think that momentum will continue. And a lot of it is driven by some of the new products we've built over the past couple of years.

Secondly, in small, you see that PIF count. So we're growing PIF count. Not just a pricing, audit premium dynamic, we feel very positive about our PIF count. We've talked to you about cross-sell in the past. So across the franchise, we believe we're in a much better shape to handle a more complete set of customer challenges. So I love our complete piece there.

And then as we've commented in the past, we are right now in a pretty positive spot relative to audit exposures as it relates to workers' compensation. So we do have some tailwind at us, particularly in Middle & Large Commercial and also Small Commercial that's providing a little bit extra positive momentum in our growth.

Beth, anything you or Chris want to add?

Christopher Jerome Swift
Chairman & CEO

I would just say, Greg, I wouldn't underestimate Doug's point on cross-selling, particularly with an expanded set of specialty products into Small Commercial, into middle and large, the cooperation that we have as a team and really the knowledge and confidence that our distribution partners are gaining in our broadened capability. So Doug, I think you used the word bullish, which describes my tone equally, as to what we can continue to do in our Commercial Lines space.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Just a clarification on your answer. I mean the success in the Small Commercial is obvious. When I think about -- and we're not in a recession, but when I think about the -- well, it depends on whose view you're talking about. But if we go onto a bigger recession, I view that there's more risk on the Small Commercial side than the larger commercial side, but maybe I've got it sideways. Any comments on that?

Christopher Jerome Swift
Chairman & CEO

Do you mean from a risk of economic slowdown?

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Yes. Which businesses might perform, be more challenged in -- if there's a slowdown?

Christopher Jerome Swift
Chairman & CEO

Well, again, I think we saw during the first phase of the pandemic there was a disproportionate amount of slowdown in small business, Doug. Whether we get to ever that point again, Greg, remember -- I mean that was such a unique environment where the economy basically shut down. People weren't traveling. They weren't going out to small businesses. They weren't going out to restaurants. They just weren't -- they were hunkered down.

So I think that's one extreme. And the other extreme is just, particularly with inflation, people are going to have to think about disposable income differently and activities that could impact a certain level of small business, Doug. But I wouldn't see anything like what we experienced during the pandemic.

Douglas Graham Elliot
President

Chris, I'd only add that as we watch the indicators, new business starts, the health of that through the middle part of July looks very strong still. To remind you, Greg, that the Fortune 1000, although an important segment, we are not outbalanced on that direction. So our portfolio runs across [middle strong] and [middle small], et cetera.

And when I think about the labor market, there still seems to be high demand for top labor. So from a comp perspective, I'm still optimistic that as we go through the next several quarters, we will perform, our products will be marketed. And I'm holding optimism as I kind of move into Q3.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Got it. Just the second question I had was just around -- Doug, you commented about your inflation factors and the assumptions you're using. One of the numbers that you cited was -- I think, was medical severity. You said 5% compared with what was a benign trend.

To me, that suggests that there's a degree of caution in your inflation factors that you're using relative to what you're seeing currently. But I don't want to put words in your mouth, and it's clearly an area of focus of The Street. So maybe you can add some more color to that. That's my last question.

Douglas Graham Elliot

President

Yes. So maybe just a few thoughts on loss trend in general. There's been a lot of discussion about it, and we're spending a lot of time here at the company. I mentioned our long-term medical inflation pick of 5%. We've not moved off that for several years. Yes, we have seen some periods of benign medical inflation over the last couple of years, but our view is that through the longer period, it's prudent for us to hold those picks.

And if you looked at our workers' comp triangles, you've seen that we've been very steady, right? This quarter, we had some releases in comp, but really 2018 primarily and behind. So our '19 through '21 years are still holding, and we're watching to make sure that we've got all our calls in a row.

I would also say to you that the aggregate number by company, you've got to look at the mix of business, where we play, where others, mix by line of business. So we've got strong loss trend picks in our excess casualty trends that run from 9% to 13%, property, commercial auto. So our book does tend to mix a little smaller than some that we compete with, but I feel like we've got very solid loss trend picks in our -- across commercial and Personal Lines. Where we see something, we address it, like we did this quarter with Personal Lines. But that -- I think we have a prudent process that's been diligent and responsive to what we see in our loss triangles, and we're pricing accordingly.

Beth A. Costello

Executive VP & CFO

I would agree. And back to the specific question, again, Greg, that you had on medical inflation. As Doug said, we just -- we haven't changed that long-term view. So the fact that we're saying 5% compared to what has been benign in the last several years, that's not new and not reflective of a change in how we think about that trend.

Operator

The next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

Just following up a little bit. I'm wondering if you could tell us where that 6.1% written premium stand versus kind of what your current trend and expected trend assumptions are. And in that context, do you believe that most of your book kind of is rate adequate, particularly when I look at the middle and Global Specialty businesses?

Douglas Graham Elliot

President

Yes, Brian. I think Chris commented in his earlier remarks that we think we're about 100 basis points on top of our call for loss trend in 2022. So that's where we sit relative to the 6.1%. We consistently look at that. You can imagine this is an evolving item.

But really, as I commented, our loss picks for the year -- our loss trends for the year haven't moved a lot in commercial over the past 2 quarters. They've moved in personal but we're watchful of that. And we're particularly careful in terms of the potential recession that may be in front of us, but we'll wait and see and make those calls as conditions change.

Brian Robert Meredith

UBS Investment Bank, Research Division

Yes. I'm sorry, maybe what I meant is that the 100 basis points I heard Chris saying, is that better or worse than kind of what you're currently seeing right now? I understand -- what you're pricing for and what you're actually seeing in your book right now?

Douglas Graham Elliot

President

I think that's basically what we're seeing right now. I would call that a pretty dynamic view as of today, Brian.

Christopher Jerome Swift

Chairman & CEO

That's the spot view as of June 30, Brian.

Douglas Graham Elliot
President

Yes, it's the written view. So I gave you a written current view of pricing and an overview of the loss trend, yes.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. Makes sense. And then just quickly on the personal auto severity. I wonder if we could drill in a little bit more into that, what's going on there. Another company talked about an issue with respect to late paying claims, meaning it's taking a lot longer to actually get claims paid out and that that's created some issues with respect to inflationary factors affecting your PD part of your auto. Are you seeing similar type of stuff?

Douglas Graham Elliot
President

Well, we certainly have been watchful of courts coming out of the recessionary period '20 and '21. So I would say that it's a high-watch area. But in terms of our triangles, I don't think we're seeing any data that is surprising to us. What we are dealing with at the moment is a phys dam environment, used car, labor and other issues that has caused us to change our picks. And we've changed them obviously appreciably in the second quarter, and we'll watch what happens in the third quarter, which is why we moved our guidance, Brian.

Christopher Jerome Swift
Chairman & CEO

But the time to repair, Doug, from a supply chain side is extended. So it means potentially rental cars being rented longer. I don't have the exact number of days in front of me that we've extended out the time to repair a car, Brian, but it is extending.

Operator

The next question comes from the line of David Motemaden with Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question on the specialty underlying combined ratio improvement in Commercial Lines. Could you just talk about how much the 7-point year-over-year improvement was coming from the expense ratio versus the underlying loss ratio? And then maybe just comment if this is a [sustainable] underlying combined ratio to think about going forward.

Douglas Graham Elliot
President

Yes, David. Let me start. I think annually, the 7-point change is roughly 4-ish points of loss and 3 points expense. I thought you were going to ask about the quarter 1 versus 2. I think you know that in quarter 1, we had some risks relative to Russia-Ukraine that we booked losses for. So that really does explain the '22 roll between quarter 2 and quarter 1. But I shared with you the 4 and 3 components of the 7 from last year.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And yes, it's definitely lower than where we've seen over the last 5 or 6 quarters. Is that a -- and obviously, there's been rate earning in, in excess of trend. Is that a level, the 83%, to kind of think about going forward? Is there anything one-off that's flattering that?

Douglas Graham Elliot
President

I don't feel one-off at the moment. I do feel very pleased about the progress we've made. It's a result of not only aggressive and sustained pricing over the last couple of years but also underwriting actions. We've been taking underwriting actions throughout our book internationally and domestically.

So I'm very pleased about all of that. I do feel like that specialty business should sustain and have significant profit contributions to our company, and we expect that to continue. And we hope to grow that business and become a bigger part of our franchise over time.

Christopher Jerome Swift
Chairman & CEO

David, I'd remind you that specialty book is almost approaching \$3 billion, and it's a diversified book of E&O, D&O, I would say some surety, our London exposures, casualty. So yes, I'm really proud of what the teams worked hard at over the years since we acquired it. And it feels gratifying that from a strategic point of view, it's performing at this high level.

Douglas Graham Elliot
President

David, I'd add just maybe one other thought. Over the last 3 years, we spent a lot of time on integration and feel good about that progress. We have pivoted over the last 6 months and are now working harder on data analytics. So the work relative to data science and analytics and how we evolve those pricing models and beat in the marketplace, those are some of the reasons that I have optimism that we will continue to be an excellent top-tier player in specialty. And so I think our future is bright there, and I really believe we're just getting started.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. I appreciate that color. And then for my follow-up, so you gave us the approximately 5% loss trend. That was excluding -- what is it if you include comp, just out of curiosity? I know you said 5% for severity, but that doesn't include the frequency on comps. So yes, I guess, just what was the -- what is the loss trend that you guys are picking to if I just include workers' comp within Commercial Lines?

Douglas Graham Elliot
President

Yes, David. We don't share that number. But you're right, it would be down slightly. And then that comes to our frequency call on comp, which we don't share externally, but we talked about it. It's been very, very moderate. In fact, over the past couple of years, we've had extended periods of negative frequency.

So that's too much data to share with a couple of our competitors, but our book continues to perform. We watch frequency carefully. I think our calls are appropriate. And it's a line that we know well, and we'll continue to compete effectively over time.

Operator

The next question comes from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Similar question on the other segment in Commercial Lines. So the Middle & Large Commercial was the only segment there that had a little bit of -- it rose in your core loss rate -- your core combined ratio and a little bit of uptick sequentially the last few quarters. So I guess is there anything there in the rate or trend dynamics or anything else kind of one-off that would account for that?

Douglas Graham Elliot
President

Yes, Mike. In the quarter, we did have a one-off and had a large property loss and some reinsurance reinstatement associated. So that was the cause, a couple of points inside middle just from that 1 loss. I think those things are episodic. They happen over time in the property space. Nothing, at this point, more than that.

Michael Wayne Phillips

Morgan Stanley, Research Division

Okay. Great. And then I guess, back to comp. You took favorable development. You guys do -- you're very conservative in your current reserves. But I guess if we can hone in on 2020 -- the 2020 accident year for a second. That year still has the highest loss pick of any surrounding years, and a large part of that is because of your IBNR piece. So I guess I'm curious.

Is there a severity issue you're worried about for those -- for that year given what's happened during COVID? Or is there something else that makes you a little more concerned or maybe just cautious? I don't know the level you've taken development in 2020 accident year. But claim counts are down significantly 20%, 30% in that year, yet your reserves are still pretty strong. So maybe it's just extra conservatism, but is there anything else that maybe makes you a little cautious on that accident year?

Christopher Jerome Swift

Chairman & CEO

Well, Michael, it's Chris. I appreciate the question, and I'll ask Beth to add her color in a minute. But yes, I think that's been our consistent philosophy of trying to be prudent with reserves and picks, and I think we've used the phrase over the years, let it season and obviously release any benefits that occur.

So I would just say it's a natural process. But particularly during the COVID years, we were very sensitive to the unknown unknowns or known unknowns depending on how you want to think about it. But yes, Beth, I feel good about the overall balance sheet and particularly the comp line. Don't you?

Beth A. Costello

Executive VP & CFO

Yes, I would agree. And as we look again specifically at the 2020 year, obviously, a lot of distortion because of COVID. And so our view is to be cautious and as Chris said, let those years season a bit before we make any adjustments.

Michael Wayne Phillips

Morgan Stanley, Research Division

Okay. So just to clarify, are you not seeing any higher severity -- kind of average severity on the claims that exist in that year? Or is it more of kind of waiting to see that maybe there could be late reported claims or just general cautious?

Christopher Jerome Swift

Chairman & CEO

I think you characterized it right. It's just -- it is an [odd pattern] year, and we're just being generally cautious until it fully seasons to our judgment.

Operator

The next question comes from the line of Paul Newsome with Piper Sandler.

Paul Newsome

Piper Sandler & Co., Research Division

I was wanting to ask you a little bit on the Personal Lines side. You are obviously raising rates like most are. Any pushback you're seeing that's different than normal from the regulators in terms of getting rates? We've seen a lot of press suggesting that some states are pushing back.

Douglas Graham Elliot

President

Well, I think that's a fair comment. I also would say that we have very effective relationships with all of the states. So it's an active process. It's actually been an active process, as you know, since the third quarter of last year.

I'm encouraged by the momentum. I think as we move through the next 2 quarters, that momentum will continue to pick up and quite bullish about what we're going to see in the supplement in Q3 and Q4. So encouraged about that. But yes, there are lots of things that we manage our way through state by state, and I think it's just part of the process.

Paul Newsome

Piper Sandler & Co., Research Division

And then maybe to beat a dead horse a little bit. Any further thoughts on kind of social inflation? And some of the -- there are some movements in reserves and general liability, and we had some companies miss [on their financials], for example, with excess casualty issues, large losses in casualty. And I was wondering if you're seeing anything of that nature and maybe how we should be more confident in the accident loss picks or liabilities not necessarily going up.

Christopher Jerome Swift

Chairman & CEO

Paul, I'll start and then Doug and Beth can add their commentary. I think we've commented in the past on social inflation, that it's not a new phenomenon. We've had many years of experience particularly with mass torts and some of the claims that we had to deal with. We got a world-class claims organization that has got a deep, deep expertise in handling casualty exposures of this sort. But yes, as the courts reopen, we do believe that there will be at least a clearing of the existing inventory, and we'll have to see what trends emerge at that point in time.

I don't think there's any new trends as we sit here today that we're really, really concerned about. We've talked about some of our revival status issues or Boy Scouts issues that we think we've put behind us. But jury awards are going up. No doubt about it. It's clear in our data. That's why when Doug talks about casualty picks -- loss picks in the 9% to 13% range, we're trying to be prudent and reflect what we think is continued activity of just larger awards. But Doug, Beth, as we sit here today, there's nothing new coming out of our book at this point in time.

Beth A. Costello

Executive VP & CFO

Yes, I would agree with that comment. Overall, I mean, we did increase slightly from prior year reserves for general liability. But it was really just a handful of, I would call them, one-off losses that as we made our final judgments for the quarter, thought that it was prudent to book a bit more in those lines. As a percentage of the overall carried reserves in those lines, very, very small. So again, not indicative of a trend that's different from what we've seen, just wanted to be cautious, as I said, as we closed out the quarter.

Operator

The next question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker

BofA Securities, Research Division

The first -- this is the first quarter since 1Q '16 where you didn't lose any auto policies net, and that's a good accomplishment, although it could also mean that your pricing is more attractive to the consumer right now than a lot of opportunities in the marketplace. To what extent have you secured the customer group you want in your Personal Lines business that they have a stickiness that you can raise prices on them but they'll stay? And to what extent do you think that even though you have to put more pricing through, you're not particularly disadvantaged on the pricing side at this moment?

Douglas Graham Elliot

President

Josh, a very insightful question. And I can just share with you, given our new platform, the metrics and analytics that we're watching flow, where we're winning, quality of the book, had a whole series of diagnostics laid out in terms of expectations going in state by state. We're watching that match week by week. So I can tell you it's an exhaustive process. Everything we can see, we look like we expected and hoped to look. So again, I think it was a really good question and something that we take seriously and working our tails off out here.

Joshua David Shanker

BofA Securities, Research Division

Okay. And then in the prepared remarks, Chris spoke about some new technologies you have on the benefit enrollment platform to increase enrollment and whatnot. To what extent are these unique offerings in the market? And to what extent can you leverage them to gain share with employers?

Christopher Jerome Swift

Chairman & CEO

Thanks, Josh. Yes, we have rolled out some new capabilities to have a better enrollment experience. Again, I think a lot of the things that we do across the organization, we think we're leading the way. But we know it's a competitive marketplace and a lot of fast followers that can replicate new things that come to the market, Josh.

But as evidenced by our strong earned premium growth, I think the group benefit -- the better days of group benefit are still ahead of it as far as a real need for the products that we offer. And particularly, some of the voluntary offerings we have of medical supplement, critical illness, accidental activities are really increasing, and those carry strong profit margins for us. So I think that the whole equation is coming together and then our continued investment in our broad-based digital capabilities, and I feel really good about where we're positioned today, Josh.

Operator

The next question comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

I also have some top line questions. You showed nice growth in Small Commercial. And as the economy is reopening, I'm wondering if these new businesses lack operating history and risk that typically reside in the E&S market.

Douglas Graham Elliot

President

Tracy, I would suggest to you that we're watching claim intake by segment for maturity of worker. We are expanding and have worked at expanding our appetite in small. We do have an excess and surplus offering. But I don't think our book is trending to E&S. I still think it is very high quality. We've got a series of metrics that help us score our book.

And so from every angle that we can see and evaluate, I think we have an outstanding book of business. But yes, in general, we are now pushing ourselves outside of what I might say would be a historically conservative risk appetite, Chris, to a little more bold. And maybe bold is too aggressive a word. But certainly, we're looking at other cells where we've not competed aggressively in history, and I think you'll see us with product in that space.

Christopher Jerome Swift

Chairman & CEO

Doug, I would also observe, given our monthly reviews we do together, we're doing it thoughtfully. We're doing it with a primary product. We're also adding more Global Specialty product, particularly, I would say, the E&O capabilities, into small. So yes, Tracy, we're trying to be the most relevant player in the small business segment as we can be and maintaining our discipline and profitability focus.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

Excellent. That is great feedback. I also had a question on the auto PIF, flat sequentially. I'm wondering, are you looking at the policy life cycle where maybe, right now, you're not earning an adequate return but you feel good about the business that 3, 4 years from now, you could earn acceptable return? And to what extent is Prevail playing into that PIF count? Is it material yet?

Douglas Graham Elliot

President

Yes. The life cycle component is a heart of our process for sure. So we're looking at current rate adequacy. We're also looking at our retentions and our profiles of customers. So I would agree with you that policy life cycle profitability is something that is an important part of that measure.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

And the Prevail piece, is that maybe dampening a little bit...

Douglas Graham Elliot

President

Yes, consistent...

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

PIF decline -- yes. Okay.

Douglas Graham Elliot

President

Yes, I would say that Prevail would be adopting some of those best practices that we've used historically on our Personal Lines pricing.

Christopher Jerome Swift

Chairman & CEO

Tracy, Prevail is a platform, right? It's the platform, it's the products, it's the digital capabilities that we're bringing to the market. But remember, our book of business in auto and home, we've enjoyed \$3.5 billion of premium over the years. So that lifetime cycle that you're talking about is deeply embedded into our capabilities and how products season, how customers green.

Remember, we have more flexibility today with Prevail because we have no lifetime guarantees. So that -- the funnel that we had open for new business in the old days when we have lifetime guarantees needed to be very restrictive because you, in essence, were marrying that customer for potentially a long time. So the flexibility we have with Prevail is dramatically different, but the methodology in our thinking, Doug, is very consistent.

Douglas Graham Elliot

President

And I would add, Chris, 6-month policies, too, right?

Christopher Jerome Swift

Chairman & CEO

Exactly.

Douglas Graham Elliot

President

I mean we have much more flexibility to deal with changes in the event that we make adjustments to our strategy.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

Yes. I'm sorry, I guess I was referring to the non-AARP as you're trying to market that demographic, right?

Christopher Jerome Swift

Chairman & CEO

No, not at this time. I mean our core focus is AARP members. We do have some small agency business. It's very small but it's still accretive to the organization. But the main focus, Doug, has been on serving a broader segment of AARP members, particularly 50- to 65-year-olds that -- we're deeply partnered with the AARP organization in growing that membership base.

Operator

The final question comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott

Goldman Sachs Group, Inc., Research Division

First one I had is on net investment income. I mean certainly, it was a good quarter. If I set aside the LPs, just noticing the yield was more or less flat year-over-year. And so I was just interested if you could provide any color around sort of where new money yields are and if there's anything we should be considering about how that may start to trend up.

Beth A. Costello
Executive VP & CFO

Yes, Alex. Thanks for the question. So as I said, we do anticipate to see the yield ex LPs to continue to increase. I may have you look at some of the details that we have in our investor financial supplement that show you some of the other lines besides just fixed maturities that contribute to that. So we do have some equity funds that had, albeit small, negative marks this quarter but that also impacted the compare year-over-year. But when I look at just the fixed maturity yield, we are seeing a pickup as, again, new money yields are outpacing what we're seeing from a sales and maturity perspective.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And then on Group Benefits, is there still pressure at all that you were feeling this quarter on the expense side? I just -- that's been elevated with handling so many claims and so forth. Has that more or less wound down at this point? Or anything I should be considering around the expense base as we move forward, hopefully, with maybe less elevated claims?

Christopher Jerome Swift
Chairman & CEO

Yes. I think that claim comment you made, Alex, is the key. We're probably -- we are carrying excess [stuff] to remain cautious if there's another surge of COVID. Obviously, we're dealing with obviously very good mortality trends. But particularly in our STD book, we are carrying excess capacity just to see how things play out for the fall and the winter seasons.

And then I would also say that -- so that's a temporal item you could characterize. But the increase in IT spend, particularly in digital and some of the other things that we're investing in, is also evident in there. That's probably -- for the next couple of years, there's a couple of big projects that we want to complete in that area. So the IT spend might remain elevated. But as we grow our top line though, we do have expectation that expense ratios will start to moderate and improve as we grow. But where we're at for the first 6 months of the year, I think, is a pretty good year -- full year run rate.

Operator

I would now like to pass the conference back over to the management team for any closing remarks.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you all for joining us today. And as always, please reach out with any additional questions. Have a great day.

Operator

That concludes The Hartford second quarter earnings call. Thank you for your participation. You may now disconnect your lines.

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