S&P Global
Market Intelligence

# The Hartford Financial Services Group, Inc. NYSE:HIG

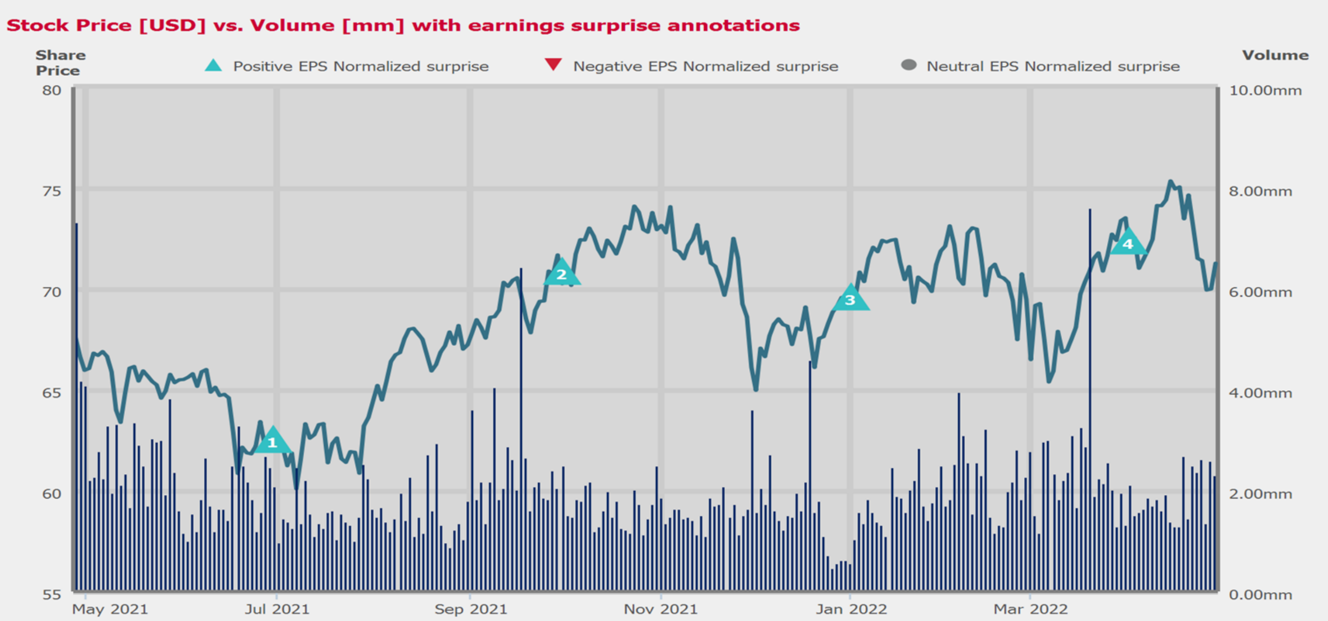
# FQ1 2022 Earnings Call Transcripts

## Friday, April 29, 2022 1:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ1 2022- | | | -FQ2 2022- | -FY 2022- | -FY 2023- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | 1.55 | 1.66 | ▲7.10 | 1.60 | 7.10 | NA |
| Revenue (mm) | 5597.33 | 5393.00 | ▼(3.65 %) | 5537.87 | 22358.17 | NA |

Currency: USD
Consensus as of Apr-29-2022 5:19 AM GMT




- EPS NORMALIZED -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| FQ2 2021 | 1.34 | 2.33 | ▲1 73.88 % |
| FQ3 2021 | 0.86 | 1.26 | ▲2 46.51 % |
| FQ4 2021 | 1.52 | 2.02 | ▲3 32.89 % |
| FQ1 2022 | 1.55 | 1.66 | ▲4 7.10 % |

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# Call Participants

## EXECUTIVES

**Beth A. Costello**
*Executive VP & CFO*

**Christopher Jerome Swift**
*Chairman & CEO*

**Douglas Graham Elliot**
*President*

**Susan Spivak Bernstein**
*Senior Investor Relations Officer*

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

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

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

**Elyse Beth Greenspan**
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# Presentation

**Operator**

Hello, and welcome to today's The Hartford First Quarter 2022 Financial Results Webcast. My name is Bailey, and I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to Susan Spivak, Senior Vice President of Investor Relations. 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 first 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 Elliott, 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, note that please that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford 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*

Good morning, and thank you for joining us today. Last April at our first quarter earnings call, I had said I've never been more excited about the future of The Hartford and was extremely bullish about our prospects for growth and further margin expansion. Since then, we have demonstrated our ability to deliver on these commitments through exceptional execution quarter after quarter.

We continued that momentum in the first quarter with core earnings of $561 million or $1.66 per diluted share, up from $203 million or $0.56 per diluted share in the prior quarter. Book value per diluted share, excluding AOCI, was $51.42, and our 12-month core earnings ROE was 14.8%.

During the quarter, we were pleased to return $530 million to shareholders through share repurchases and common dividends. These results and actions demonstrate our commitment to long-term value creation through consistent profitable growth, continued investment in our business and return of capital to shareholders.

We delivered these results during a very dynamic period, which is likely to continue with ongoing challenges from COVID, the secondary impacts of the Ukraine conflict and the anticipated Fed actions to raise interest rates while shrinking its balance sheet to address historically high levels of inflation.

And yet, there are reasons for optimism. Unemployment remains very low, 3.6% at the end of March. U.S. consumers are historically holding low levels of debt with healthy savings. Home prices have appreciated 17% on average over the past year, providing a valuable source of equity for homeowners. Corporations have strong balance sheets and healthy earnings profiles, while new U.S. business applications are up 65% from the pre-pandemic levels, a trend that is expected to continue.

We view the economic environment as favorable to our business, where growth is fueled by higher employment levels, rising wages, new business start-ups and commercial exposure expansion. I remain confident that The Hartford is well positioned to perform across its portfolio of businesses to deliver on our goals, maximizing value for our stakeholders.

Now let's turn to the highlights from the quarter, which illustrate how our strategy translates into consistent and sustainable financial performance. Overall, Commercial Lines results outperform with double-digit top line growth and expanding margins in all businesses. In Small Commercial, we hold a clear leadership position with our innovative products, digital platform and data analytics, setting us apart from the competition.

Last year, we delivered a record growth, eclipsing $4 billion in annual premium. And in the first quarter, we continued this positive momentum with very strong new business and increased premium retention. Middle and large commercial results are benefiting from sustained investments in underwriting capabilities, broader product offerings as well as innovative digital and data science tools.

In Global Specialty, we continue to maximize our expertise to gain market share while expanding margins with overall profitability improvement, up more than 10 points from the second half of 2019.

As it relates to the Ukraine conflict, first, let me say, we share the world's outreach at the tragic and senseless death, suffering and destruction and pray for an end to this needless violence. From The Hartford's perspective, we have very modest direct exposure within the region, which is meaningfully reinsured. We have a definite amount of premium there and have actively controlled our exposure in the run-up to the conflict and subsequent to the start of the hostilities. Beth will cover the financial impacts to the quarter.

In Personal Lines, results were in line with expectations and reflect our transformative work and unique AARP relationship. I am pleased with the progress we are making as we roll out Prevail, our innovative and cloud-based platform that provides a simplified digital customer experience and uses data science to drive new business growth in a profitable 50-plus age segment.

Turning to Group Benefits. As expected, we continue to be impacted by the pandemic. However, our underlying performance was solid and continues to demonstrate our market leadership position. Fully insured ongoing premium was up 5% in the quarter and reflects both increased premium from existing customer and a full point improvement in persistency over the prior year. Favorable employment trends and rising wages also contributed to premium growth.

Sales for the current quarter are down year-over-year as the first quarter of 2021 benefited from the expansion of paid family medical lead products in several states. Adjusting for that onetime lift, sales are comparable to prior year across our life, disability and supplemental health products.

Through the first 3 months of the year, our long-term disability book is performing as expected, with modestly higher disability incidence trends, a higher incident rate is reflected in our future pricing and was anticipated when we set forth our margin expectations for 2022. Modestly higher expenses in the quarter reflect higher staffing costs to manage elevated short-term disability claims and accelerated investments in capabilities, including digital, claims automation and administrative platforms. We expect the full year 2022 expense ratio to be generally consistent with first quarter results.

During the quarter, the number of U.S. COVID cases were at their highest levels of the pandemic and thus were elevated. However, both cases and deaths have rapidly declined in March and April. Clearly, the past 2 years have shown that predicting that pandemic impacts is impossible. But with cases and test at their current levels, we are cautiously optimistic about the remaining quarters of 2022.

In conclusion, The Hartford is off to a strong start in 2022. We are optimistic about macro factors impacting our business, including improving pandemic outcomes and the potential for easing of inflationary pressures. We continue to manage our investment portfolio prudently and expect the portfolio yield to benefit from rising interest rate environment over time. And we are continuing to proactively manage our capital. All these factors underpin my confidence that we will generate a 13% to 14% core earnings ROE in 2022 and 2023.

Our strategy and the investments we've made in our business have established the Hartford as a proven performer with consistent results. We are competitively positioned with a complementary and a well-performing portfolio of businesses and a winning formula to consistently achieve superior risk-adjusted returns.

Now I'll turn the call over to Beth.

**Beth A. Costello**
*Executive VP & CFO*

Thank you, Chris. Core earnings for the quarter of $561 million or $1.66 per diluted share reflects excellent P&C underwriting results, a significant contribution from the investment portfolio, and reduced pandemic-related impacts and group benefits. As Chris commented, this is written related to Russia-Ukraine exposure had a modest impact on results.

We recorded $27 million of net catastrophe losses, primarily related to political violence and terrorism, including aviation war and credit and political risk insurance. As a result of incurred losses covered by our reinsurance treaties, we recorded a provision for ceded reinstatement premium of $11 million.

The company's direct investment exposure is limited to corporate bonds issued by Russian entities with an amortized cost of $16 million, and we recorded an allowance for credit losses of $9 million in the quarter. We do not have any investments in Belarus or Ukraine.

Moving on to the business line results. In Commercial Lines, core earnings were $456 million, up $351 million from the prior first quarter, primarily driven by the reserve increase in the 2021 period for boy scouts and a stronger top line and lower catastrophes in the current period. Commercial Lines reported 12% written premium growth, reflecting an increase in new business in small commercial, strong policy retention, written pricing increases and exposure growth.

The underlying combined ratio of 88.3% improved 2.9 points from the first quarter of 2021 and due to COVID losses in the prior year and a lower expense ratio and slightly improved margins across several product lines in 2022.

In Personal Lines, core earnings were $84 million, and the underlying combined ratio of 88.5% reflects increased auto loss cost as anticipated. I would note that from a seasonality perspective, the first quarter typically has lower loss costs in the balance of the year. As Doug will comment upon, we are making progress in getting more rate into the book given the impact of inflation on loss costs. Although our view impact is a bit higher than where we were a quarter ago, we expect to be within the underlying combined ratio guidance of 90% to 92% for the full year, albeit at the high end.

P&C current accident year catastrophes in the first quarter were $98 million before tax, which included the $27 million related to Russia, Ukraine exposures that I just mentioned. P&C prior accident year reserve development was a net favorable $36 million, with workers' compensation being the largest contributor.

Turning to Group Benefits. Core earnings of $8 million, compares to a core loss of $3 million in first quarter 2021. Core earnings reflect a lower level of excess mortality losses in group life, partially offset by a higher disability loss ratio and an increase in the expense ratio.

All cost excess mortality in the quarter was $96 million before tax compared to $185 million in the prior year quarter. The $96 million included $122 million with dates of loss in the first quarter, which was partially offset by favorable development on prior quarters. The disability loss ratio increased 4.8 points over the prior year period primarily due to less favorable prior incurral year development and long-term disability as a 2021 loss ratio benefited from low instance levels from earlier in the pandemic.

The long-term disability loss ratio in the quarter was in line with our expectations, which included an assumption for increased incidents relative to the past couple of years. Long-term disability claim recoveries remain strong and are consistent with prior year.

Lastly, the expense ratio for group benefits increased by 0.6 points. Consistent with expectations, the expense ratio was impacted by higher staffing costs to handle sort-term disability claims and increased investments in technology, partially offset by incremental Hartford Next expense savings and the effect of earned premium growth.

Before excess mortality and COVID short-term disability losses, the Group Benefits core earnings margin was 5.7%. From a seasonality perspective, we experienced higher underlying loss costs in the first quarter, so we would expect the margin to be lower than our full year estimates. We remain confident in our guidance of a 6% to 7% core earnings margin for full year 2022, excluding COVID impact.

Turning to Hartford Funds. Due to equity market declines and higher interest rates, AUM decreased during the quarter to $148 billion, resulting in a sequential quarterly decrease in core earnings, though core earnings were up 11% compared to first quarter of 2021. Our investment portfolio delivered another strong quarter. Net investment income was $509 million, benefiting from very strong annualized limited partnership return of 14.6%, driven by relatively balanced contributions from our private equity and real estate equity investments.

Total annualized portfolio yield, excluding limited partnerships, was 2.9% before tax. With the increase in interest rates and wider credit spreads, the portfolio's reinvestment rate was 3.3%, which compared favorably to the average sales maturity yield of 3%.

Not surprisingly, the portfolio value was also impacted by higher interest rates and wider credit spreads. The portfolio moved from an unrealized gain position of $2.1 billion at year-end to an unrealized loss of approximately $300 million. Additionally, the portfolio had a net realized loss of $145 million, which includes $107 million of mark-to-market losses on the public equity portfolio, reflecting the decline in equity markets in the quarter.

While it is still early, as we look ahead to the second quarter, we anticipate the limited partnership annualized return will be in the 8% to 10% range. Both private equity and real estate equity investments contribute to our LP return and this diversification has proven to be beneficial. 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 is also evidenced by our capital management actions. As of March 31, approximately $900 million of share repurchase authorization remains for 2022. From April 1 through April 27, we repurchased approximately 1.9 million common shares for $139 million. On April 15, we redeemed $600 million of hybrsecurities with a rate of 7.875%. We had prefunded this redemption with the issuance of $600 million of 2.9% senior notes last September, which will result in net annual after-tax savings of approximately $24 million.

In summary, our first quarter financial performance demonstrates the positive results that building and investing in our businesses have yielded. Combined with prudent capital management, we are positioned to deliver on our goals.

I will now turn the call over to Doug.

**Douglas Graham Elliot**
*President*

Thanks, Beth, and good morning, everyone. The Property & Casualty strong first quarter results are evidence of the substantial progress achieved to expand product breadth, advance technology and data science, deepen our distribution footprint and differentiate the customer experience. These accomplishments are powered by our skilled talent base, positioning us well for profitable growth.

Starting with Commercial Lines, I'm pleased with the underwriting performance across product lines and the improving expense leverage. Written premium growth was strong in the quarter, sustaining the top line momentum achieved last year. With the acceleration of growth during 2021, the year-over-year compares will get more challenging in subsequent quarters, but we're confident there is upside to our initial target of 4% to 5%.

Starting with pricing. In January, we shared with you our 2022 Commercial Lines guidance, which contemplated moderated renewal pricing, and first quarter was largely in line with those expectations. Commercial written pricing, excluding workers' compensation, was 7.1%, moderating about 1 point from the fourth quarter, but continuing to exceed loss cost trends across most products. This moderation was largely experienced in Middle Market and Global Specialty.

Workers' compensation pricing declined slightly from the fourth quarter as expected. The dynamic of higher average wages, partially offset by negative filed rates will likely persist throughout 2022. New written premium in Small Commercial was up 6%, driven by Spectrum and retention improved 2 points from last year. Our #1 rated digital customer experience, outstanding product capabilities and rising no-touch bindability levels are driving business to The Hartford as customers continue to embrace our consistent pricing and underwriting approach, leading to higher sales and excellent retention.

Middle market pricing, excluding workers' compensation, was 6.5%, a very solid start to the year. Retention was up 4 points from the first quarter of 2021, while new business premium was essentially flat. Robust exposure growth also contributed to our quarterly top line increase of 10%.

Pricing remained strong in global specialty at 8.3%, with U.S. wholesale pricing just over 9%. Premium retention was steady and growth from our reinsurance business was significant. We continue to be pleased with our growing momentum, deeper product suite and improved underwriting execution.

Turning to loss costs. Our 2022 guidance also reflected our disciplined and long-term consistent approach to loss trend selection, including the expected impact of supply chain inflationary pressures in our auto and property books along with social and economic headwinds in other lines. Overall loss trends and loss ratios for the quarter were in line with a few puts and takes.

In summary, for commercial, I'm very pleased with the continued excellent performance of each of our businesses, and I expect to achieve our underlying full year guidance of $86.5 million to $88.5 million.

Small Commercial delivered yet another sub-90 underlying combined ratio quarter and our best first quarter since 2014. At 91.5, Middle and Large Commercial has now achieved 4 straight quarters of strong underlying performance, and this quarter's result is the best first quarter in over a decade. And Global Specialties underwriting combined ratio -- underlying combined ratio of 88.2 is equally impressive, reflecting the recent strong pricing environment, improved underwriting execution and significant underwriting actions taken since the acquisition.

As these results demonstrate, we are effectively balancing the rate and retention trade-off while maintaining disciplined underwriting and leveraging at our underlying combined ratio of 88.5, acknowledging the typical first quarter seasonality benefit and industry loss cost headwinds. Maintaining profitability of the legacy book has been a primary focus while developing our new product, Prevail. Consequently, over the past several years, we continued to selectively tune pricing.

In Personal Lines Auto, loss costs were elevated, primarily due to higher-than-expected severity, particularly in physical damage. We have not been immune to supply chain and inflation pressures. And in response, over the past several months we have completed over 50 auto filings with an average rate increase of 6.2%. These filings were across multiple class plans and will impact approximately half of our book going forward. In addition, we continue to recalibrate Prevail pricing to reflect these elevated loss trends. We're confident our filing execution, combined with prudent rate increases taken during the past few years, we'll continue to position our auto book for profitable growth.

In Home, overall loss costs were in line with quarter 1 of 2021. Non-cat weather frequency continues to run favorable to long-term averages while material and labor costs remain at historically high levels, putting pressure on severity. We're similarly taking pricing actions in home. All in, our current accident year home loss ratio of 47.3% is very healthy.

Turning to Personal Lines production. Retention remained steady while we generated new business growth in the quarter. Responses and conversion rates are in line with expectations. In addition, Prevail is now available in 13 states, including the launch of Florida in January and Texas in April, a couple of our larger states. We're actively managing our new business flow through an accelerated view of key metrics and enhanced analytics, pleased with the quality of the new business we're writing.

In closing, the first quarter was a very strong start to 2022 across property casualty and represents mounting evidence that we have and will continue to deliver on our critical strategic goals. Our Commercial Lines business grew at a double-digit clip with exceptional operating margins. And in personal lines, pricing actions are taking hold, while new business growth is emerging with increasing contributions from Prevail. The seamless integration of our product portfolio, technology and analytics, distribution and talent continue to drive our success in the marketplace. The momentum is clear. The results are strong and our future is bright. 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. We have about 30 minutes for questions. Operator, could you please repeat the instructions for asking a question.

# Question and Answer

**Operator**

[Operator Instructions] Our first question today comes from Brian Meredith from UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

A couple of questions here. First, Beth, I'm just curious, could you give us what the current new money yield that you're actually getting or new money rate that you're getting right now in your portfolio? And how does that compare to what your book yield is? And then how much of your portfolio kind of turns every 12 months? And then on that also, Chris, why 13 -- why consistent RE 22% to 23% given the rise in interest rates?

**Beth A. Costello**
*Executive VP & CFO*

Sure, Brian, I'll start. So yes, as we look today, the new money rate is probably closer to 3.8% compared to the 3.3% average that we had for the quarter. obviously compares very favorable to the Folio yield. So you may recall a quarter ago when we were talking about our expectations for yield for 2022, I had said that we expected to see a slight decline from where we were in '21. Given where we are today, we'd expect 2020 to be relatively consistent with '21 and then see increases as we go into 2023. .

**Christopher Jerome Swift**
*Chairman & CEO*

Yes. And Brian, on the range question, 13% to 14% is obviously what we've been talking about for the last year, as you heard my confidence and optimism today. I believe we will achieve that in both those years. And you should not view the 14% as a limit, and we will try to achieve it. If the conditions are appropriate, particularly as Beth said, we'll have to see how the portfolio lift really plays out over a longer period of time. But that could be meaningful, particularly as you get into 2023.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Got you. And then my second question is, I guess, more Doug and Chris, Russia-Ukraine, what was your gross loss? It seems like you had a fairly -- the reinstatement premium, obviously, you had some reinsurance recoveries.

And then also on that topic, Russia-Ukraine, maybe a little more kind of details as far as where your exposures are? And where could there potentially be some more losses coming from Russia-Ukraine?

**Christopher Jerome Swift**
*Chairman & CEO*

Sure. So I would -- Doug will add his commentary. I would say that most of the exposures that we have, obviously, have come through our syndicate in London, primarily through the political violence and credit and political risk book. We have about $45 million of net written premium in those lines. And as we said in our prepared remarks, it is heavily reinsured.

So clearly, the war is still evolving. And the loss picks that we made, I think are very prudent and thoughtful about the -- I will give you a little insight. We've only had 2 notices of loss and 1 we denied. So the entirety is nearly just all IBNR at this point in time.

So I think that's all I'd share with you right now, given it's a live event. But we used a lot of data in Intel, including satellite imagery to look at properties that were exposed and feel really good about the picks that we made at this point. But Doug, would you add anything else?

**Douglas Graham Elliot**
*President*

No, I think you know that, Chris. We -- Brian, have a very good handle on the risks located in those countries. I think we understand our book well. And this process has been deliberate and prudent. And I think Beth and I feel really good about the call we made in the quarter for what we know.

**Operator**

The next question today comes from Elyse Greenspan from Wells Fargo.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

My first question, I noticed in your prepared remarks, you gave us a sense of where you might fall within that personal lines underlying margin guide. So what about within commercial, right, 86.5% to 88.5%. I know we're only 1 quarter in. But given how things have come together in the quarter as well as your view on pricing and loss trends for the balance of the year, do you have a sense of where you might fall within that range within commercial lines?

**Christopher Jerome Swift**
*Chairman & CEO*

Elyse, we haven't changed our view. So as I said, we expect to be by that range, but there's no nuance there. I don't think our view is any different than it was 90 days ago. So we clearly have our sights set and believe we'll achieve inside that range.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

Okay. And then my second question is on the group business. I'm just looking to get some more color on how you think disability trends, especially within your long-term disability book could be impacted as we potentially enter into recession and how that's kind of embedded within the guide for this year given perhaps thoughts beyond this year into '23?

**Christopher Jerome Swift**
*Chairman & CEO*

Yes. I'm happy to try to give you color, Elyse. Yes. I would share with you, first off, our base case of economic activities is not a recession in '22 -- 2023. Obviously, there's still a lot of question marks, but we think the Fed will try to prudently balance growth and inflation and come to hopefully a good spot.

As it relates to, I'll call it, disability trends, what I would share with you is last year at this time, we just -- from the initial cover and we are having this year. Also, I think in our prepared remarks, we talked about seasonality. So long-term disability claims are seasonally higher in normal conditions in the first quarter. Now living through 2 years of pandemic is anything but normal, but those are still the underlying trends that we see.

As we sit here today, we still -- we feel very confident of achieving our 6% to 7% margin during the year. And as I said, we are both in our life book and disability book putting additional price into our pricing models that we're going to try to achieve, obviously, as we go forward. So price, particularly in the Life side is probably going up 2% to 3%, and then roughly 1% to 2% for disability.

So our incident trends, I would say, as we sit here today, have stabilized. There was a little concern that we had in the fourth quarter heading into this quarter that they might be rising faster than we expected, but that is not the case. So I think that's the color I can try to give you right now, at least.

**Operator**

The next question today comes from Greg Peters of Raymond James.

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

Great. everyone. So the first question I wanted to ask was around employee retention and recruiting. One of the other brokers had mentioned on their call that they were seeing elevated turnover of underwriters at the carrier level. And I'm just curious about what the Hartford is seeing and what their perspective is around recruiting and retention in very difficult employment markets?

**Christopher Jerome Swift**
*Chairman & CEO*

Yes, I'll start and then I'll ask Doug to add his color, Greg. Yes. Talent retention is obviously key to most of any businesses, right? I mean, you got to put a high-quality team on the field every day and compete, which I think we've done extremely well over an extended period of time. That said, we haven't been immune to, I'll call it, elevated people movement, particularly in an environment where a lot of organizations were allowing employees to work from home or just work from just about anywhere.

So I would say for calendar year '21, our, I'll call it, turnover rates were probably elevated in the 3 to 4 to 5-point range depending on business unit or function. I would say, though, that they've stabilized here in the first quarter. I thought it took an appropriate thoughtful point of view on bonuses and salary increases.

So -- we're working hard at it. And the best way that we can combat people leaving us is to make sure our leaders and middle managers are really tuned into their people. Their needs, their desires, their career goals and objectives, giving them clear feedback and having that sense of belonging that we're invested in their career. And I think that's part of our cultural advantage that we have.

But Doug, what would you say on the specifics of underwriters that are distributed throughout the country?

**Douglas Graham Elliot**
*President*

The area is a top 3 item for us across our leadership ranks. We're talking about it. We're working on it. And the other thing I would share, Chris, is we've had some very significant hires ourselves in the past 90 days. So I feel really good about some of the talent that has joined The Hartford. I like where we are. We've worked hard at it, and I think it will continue to be an asset for us as we compete forward.

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

Got it. And the second question, I wanted to pivot, Doug, I think in your comments, you talked about how in the Commercial Lines area, your reserving has contemplated the loss cost trends, the social inflation, the supply chain issues, et cetera. And there's rhetoric in the marketplace right now. I'm not sure if it's going to come in the pass, but there could be further disruptions in supply chain as we move through the balance of the year. And I'm just curious from your perspective how you look at data as you see that? And do you make changes now? Or do you wait until it materializes? just some granularity with respect to your approach on that.

**Christopher Jerome Swift**
*Chairman & CEO*

Greg. Let me just start, and then I'll ask Doug. So as I tried to say in my commentary, we're optimistic that some of the supply chain shock due to demand, the demand side of the equation is starting to ease, particularly as we head into the second half of the year. Now the other shock, obviously, on the supply chain from manufacturing and the war in Ukraine and China's locked down, are new factors that will continue to impact just our overall view of cost of goods sold through our supply chain. So those are the dynamics.

But at least from what we could see right now there's a level of optimism that a lot of this is going to work through the system. Maybe not as quick as we initially expected. But I think beginning in the fourth quarter heading in '23, we could be in a different position. Doug?

**Douglas Graham Elliot**
*President*

The only other item I would add is that I did comment that we had adjusted primarily in auto physical damage or supply chain loss trends around severity. So our expectation in December and our reality in March were slightly different. We made those adjustments.

Lastly, I'd point out, we make very specific quarterly calls in both our planning and our reserving. So know this is a quarterly March every 90 days, as we close our books, we make sure that everything we can see in our results and anticipate and the risks around this, we built into those calls. But the machine is finally tuned to have a 90-day period by period March. And so yes, as we -- if we feel more pressure in the back half of the year, we will deal with it. But right now, we're hoping for some easing as we move July through December.

**Operator**

The next question today comes from David Motemaden from Evercore ISI.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

It's sort of a related question for Doug. Just a question on the loss cost trends. Doug, you had mentioned some puts and some takes, but net-net came in, in line with your expectations. Wondering if you could just elaborate a bit more on what you're seeing by line.

**Douglas Graham Elliot**
*President*

Well, I'd start with just my last comments, which is one of those puts was a little bit more pressure in [indiscernible]. So we adjusted for supply chain. Generally, our frequency is holding. So I feel good about our frequency calls and what we're seeing with experience. And we're watching medical carefully. But so far, we feel pretty good about what we're seeing in the medical front.

So all in, as we go through, and you know we've got probably close to 40 lines that we're looking on a quarterly basis. I'd say largely, our calls are holding and other than a few adjustments. First quarter came in as expected.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

Got it. Okay. And then switching gears to the Benefits business. Chris, I hear your comments, your expense ratio coming in around $26 million for the year. I guess I'm wondering within that, it sounds like you're having higher staffing for the short-term disability claims. Is there a rule of thumb that you can give us -- for example, for every $10 million of short-term disability claims, it's an extra $1 million or $2 million in extra claims handling expenses. And I guess, how should we think about that as we enter into a more endemic state of -- with COVID?

**Christopher Jerome Swift**
*Chairman & CEO*

Yes. I don't have a metric that I can give you today. I think the surge that we really felt beginning in late third quarter into the fourth quarter and then early which is sort of unprecedented as far as volume. We did build some new digital claim intake tools that helped relieve some of the call center pressure. But still had to process thousands and thousands and thousands of claims.

So just know that we -- as much as we had some elevation of expenses, our Hartford next objectives for this business are still being met. We did, as I said in my prepared remarks, take the opportunity to look at investing maybe a little faster than we thought. So that will -- that is part of what's driving that. And as I said, that's mostly in the digital area and continuing in claims.

So -- but all that is still contemplated, David, in achieving our 6% to 7% margin for the year. So top line is growing a little faster now than we thought after a little slow start. So when you put the overall equation together of top line loss cost trends coming down, particularly as the pandemic in the second half of the year here seems to be less severe on mortality in achieving a 6% to 7%, which translates into strong ROEs on our capital. I think that equation is somewhat -- is what we like. And your expense ratio point, expense ratio will come down just a little longer. It will take just a little longer than we initially thought.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

Got it. And appreciate the investments and capabilities, the accelerated investments that you had mentioned. So if I could just follow up on your comments there. Could you size how much that was during the quarter? And so we could just sort of think about -- and I guess, maybe think about how much more on the comp -- on those accelerated investments we should think about?

**Christopher Jerome Swift**
*Chairman & CEO*

Look, I tried to guide you a little bit for the full year. So just think of the full year expense ratio guide that I gave you. And we will talk about '23 and beyond at the right time, but that's not -- we're not ready to do that right here today, David.

**Operator**

The next question today comes from Michael Phillips from Morgan Stanley.

**Michael Wayne Phillips**
*Morgan Stanley, Research Division*

Doug, you mentioned in Personal Auto 6.2 rate, and I think you said about half your book. I'm wondering is what's needed from here in auto just taking rate in the other half? Or is there more need on top of what you already taking in that current half of 6.2?

**Douglas Graham Elliot**
*President*

Mike, it's an ongoing matter, right? So we're continuing to assess loss costs and assess our rate adequacy state by state. As you know, this is a rolling state program. So as I mentioned, about half of our book now has achieved filed increases over the past 3 to 4 months. We've got second quarter rolling right now. So I've got expectations of second quarter, I've got expectations for third quarter. I can tell you that based on the loss cost coming in, in the last week, we probably adjusted our third quarter view in the last 7 days. So it is active, real time, and we will continue to manage to make sure we've got enough rate in that book based on all of the tools available to us.

**Michael Wayne Phillips**
*Morgan Stanley, Research Division*

Okay. And then just a quick one here. You had some favorable development in small commercial. I'm wondering if you can talk about what drove that.

**Douglas Graham Elliot**
*President*

The favorable development was primarily workers' comp, and it was primarily in accident year '17 and prior -- '18 and prior, I guess. So we've left the last couple of accident years alone, wanting them to mature, but our book continues to look very healthy in those at accident years and our ex-rate of call. And so yes, we did release a fair amount in the workers' comp area.

**Michael Wayne Phillips**
*Morgan Stanley, Research Division*

Okay. And just confirm, as you said, you're just holding steady on the 2020 and 2021?

**Douglas Graham Elliot**
*President*

Correct.

**Operator**

The next question today comes from Alex Scott from Goldman Sachs.

**Alexander Scott**
*Goldman Sachs Group, Inc., Research Division*

First one I had is just on the P&C side. I guess in small commercial, there is, I think, favorable non-cat weather called out a little bit in home, too, it sounded like I think by some of those items to help us take through the impact on the loss ratios?

**Christopher Jerome Swift**
*Chairman & CEO*

When you roll it up, Alex, at a commercial level, the non-cat inside commercial is about 1 point. So the good weather, non-cat. The other lines, a little pressure on the marine loss, but the other lines are tens of points that add up to good news. So in general, on commercial, when we started the year, we forecasted a couple of points of underlying improvement, about half of that coming from loss and the other half come from expense. 90 days in, we're basically right on that. So we feel good about the start to the year, and I think it's right on our expectations.

**Alexander Scott**
*Goldman Sachs Group, Inc., Research Division*

Got it. And then maybe one more question on group for you. I guess when we think about COVID hospitalizations declining and as you've sort of seen that progress through the first quarter and into April. Are there lagged impacts that we should consider for disability? Or should those claims come down pretty real time with what's going on in the environment for COVID?

**Christopher Jerome Swift**
*Chairman & CEO*

Yes. I don't know, Alex, if you're referring to short-term disability, long-term -- long COVID, but I will make the assumption that you're talking about more long COVID, which is significantly lagged. And I think we've talked about it in prior settings. I mean we are seeing a modest amount of claims coming in from long COVID meet the definition of a long-term disability. And then obviously is dictating some of the pricing expectations that are changing to get more rate in the book to cover some of that. .

So yes, long COVID is real, and we're trying to manage it the best we can from a claims side and then also from an economic side.

**Operator**

The next question today comes from Andrew Kligerman from Credit Suisse.

**Andrew Scott Kligerman**
*Crédit Suisse AG, Research Division*

I just want to get a little more granular on some of the earlier questions. Doug, on the personal lines, you talked about half the book having achieved filing and that your real time on rates. I'm just kind of interested, particularly in the auto line with a 2.9% rate increase in the quarter. That's about 70% of the premium that you write in personal lines. Do you need that kind of 2.9% for the next few quarters as you look out? And again, I understand it's real time, but to stay in that 90% to 92% underlying, is it going to be a while before you can take your foot off the pedal?

**Douglas Graham Elliot**
*President*

Andrew, I would suggest that our rate need is more aligned with the rate achieved in the first quarter. So we're headed towards 6% to 7%. So that's what the 6.2% is what I shared in my script. I expect the second quarter rate to be in the 5% to 6% range, and we'll talk more in 90 days about the third quarter. But -- so when I step back, no, the 2.9% is not going to be adequate to cover where we are with loss costs now, which is why our filings are in excess of 5.

**Andrew Scott Kligerman**
*Crédit Suisse AG, Research Division*

Got it. Very helpful. And then with regard to work comp, Doug, you mentioned a slight decrease in pricing. I'm going to assume that means 1% or less. And then with that, could you give a littel color on the loss costs in that particular line? How much are they up?

**Douglas Graham Elliot**
*President*

Well, workers' comp is a line has gone through a lot in the last 3 years with the pandemic. As we look at it today, no question that we are focused on filings as we work our way into this year and anticipate another round for 2023. There is headwind in the filing space. As you know, we essentially have negative filed rates across the marketplace that we are working to selectively underwrite our way through. Very pleased with what we've done to date, but I can't argue that there aren't headwinds in front of us. I think we'll be effective as we work our way through. Our signs relative to loss trend right now, we're still sitting on our long-term trends, right? So we still look at medical in that mid-single-digit range and then to be a little bit less than that. Frequently, as I mentioned before, has been largely in check.

And then I would add to you that we're getting a little bit of benefit from wages. So we're seeing increased wages in our payroll. And as I've noted before, increased rates is a positive for us as we think about our roll forward loss ratio. So a lot of work to be done, continued progress on the audit premium front, so positive audit. So yes, there are some puts and takes in workers' comp. I think our performance in the quarter was outstanding, and we'll manage our way through the headwinds as they come at us over the next 18 months.

**Andrew Scott Kligerman**
*Crédit Suisse AG, Research Division*

Great. And if I could just sneak one quick one in on Group. 5.7% at core margin, excluding pandemic-related being a little beneath mortality that's exceeding your expectation? Are you seeing any pressures there from a mortality standpoint non-COVID?

**Christopher Jerome Swift**
*Chairman & CEO*

Andrew, first point, 6 to 7, we will achieve that this year. So as we said in our prepared remarks and we addressed 1 question, there is a little bit of seasonality in our LTD picks in the first quarter that are generally normalized, you'd be able to see that. So I think that's impacting the 5 7. I would also say though that we probably had on a pretax basis, $15 million to $20 million of elevated mortality claims in our AD&D book and waiver book that were just random events, accidents are up, particularly motor vehicle accidents. There's -- unfortunately, there's a number of other accidents that are occuring. So I would say those 2 things probably put the most pressure on that 5 7 number, but we're still confident in the 6% to 7% for the full year.

**Operator**

Next question today comes from Derek Han from KBW.

**Dong Yoon Han**
*Keefe, Bruyette, & Woods, Inc., Research Division*

I had a question on the commercial premium growth. Obviously, it was strong in the quarter. The new business premiums within the middle market on the Global Specialty segment slowed a little bit. Is there anything meaningful in that? I'm just kind of curious if there was any cross-sell impact within those segments.

**Christopher Jerome Swift**
*Chairman & CEO*

I would characterize the quarter as reasonably strong for both Global Specialty and Middle large commercial, although flat and middle and large, still a very strong quarter. And we're being thoughtful about workers' comp and our aligned product strategy. So I look at our bottom and top line performance across all of our markets and feel really good about the start to the year.

**Dong Yoon Han**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it. That's helpful. And then my second question goes -- probably goes to Doug. You said that personal auto frequency is holding up pretty well. If you look at the underlying factors kind of driving that, are you seeing any increases in distracted driving? I know your customer mix is kind of unique from your peers, but just curious if you're seeing any of that impact.

We have statistics and we've read statistics. So we -- our numbers concur with that, but I can't suggest to you that our book on its own would drive all those statistics. So I'm not going to sit here and say that our telematics data is robust enough to kind of jump in the way or suggest otherwise. We are watching, driving, we're watching speed, we're watching time and day, all the factors that are important to our loss costs, and I think we made appropriate provisions in the quarter.

**Operator**

[Operator Instructions] The next question today comes from Tracy Benguigui from Barclays.

**Tracy Dolin-Benguigui**
*Barclays Bank PLC, Research Division*

My first question is on exposure growth. I recognize you disclosed policies and ports just for your small commercial segment, but it will be good to get a more general sense of the contribution from audit premium, you did mention lead inflation or any other type of linkage to GDP type of growth. And where I'm going with this, and I just want to better understand the contribution of exposure growth to overall commercial premium. And I'm also curious if you think there's a component of exposure that acts like rate?

**Christopher Jerome Swift**
*Chairman & CEO*

So let me tackle the first question. In our growth for mid and large and small commercial, I would suggest about half of that is coming from auto premium growth. So very strong audit premium of our workers' compensation book in both those books of business. As you know, we have no workers' compensation in global specialty. So those are the books that are impacted by that.

Relative to the 7.1, Tracy, I quoted in my script, which was our pricing in the quarter, all commercial ex workers' comp, 1.5 point of that, plus or minus, coming from exposure. So the rest of that would be underlying performance, freight. Doug, anything you want to add?

**Tracy Dolin-Benguigui**
*Barclays Bank PLC, Research Division*

Okay. Well, I'm sure Doug was going to chime in. Okay. So my second question is, how would you describe your annual portfolio turnover rate? So just looking at your 4.4-year asset duration, do you think something like 12% makes sense? I'm just trying to get a better sense of when you'll start earning in the higher new money yields.

**Beth A. Costello**
*Executive VP & CFO*

Yes, Tracy, it's probably in the 10% to 15% range. So what you're quoting is a reasonable estimate there as we look at it across the year.

**Tracy Dolin-Benguigui**
*Barclays Bank PLC, Research Division*

Okay. Cool. And just staying on that, and we did touch a pro last quarter. But I noticed that you were suddenly shortening your duration of your assets, it was 5 years back in September 2020. it looks like this quarter, you actually extended it just slightly. So should we think about the 4.4-year duration ticking from here?

**Beth A. Costello**
*Executive VP & CFO*

Yes. I mean as we talked about last quarter, we had seen the duration of the portfolio shortened. Some of that was in response to the liabilities. And also, as we looked at our surplus assets, it's our view on interest rates, we did shorten a bit anticipating a rise. Where we are today, I think, is appropriate when we kind of look at, again, our liabilities and so forth. And we're kind of consistently looking at that to determine if we need to make any changes as our liabilities move. But I wouldn't you to any anticipation of significant changes, but it can definitely move a bit quarter-to-quarter.

**Operator**

There are no additional questions waiting at this time. So I'd like to pass the conference over to Susan Spivak.

**Susan Spivak Bernstein**
*Senior Investor Relations Officer*

Thank you very much for joining us today. As always, please reach out with any follow-up questions.

**Operator**

That concludes The Hartford First Quarter 2022 Financial Results Webcast. Thank you for your participation. You may now disconnect your lines.