

# The Hartford Financial Services Group, Inc.

## NYSE:HIG

### FQ4 2021 Earnings Call Transcripts

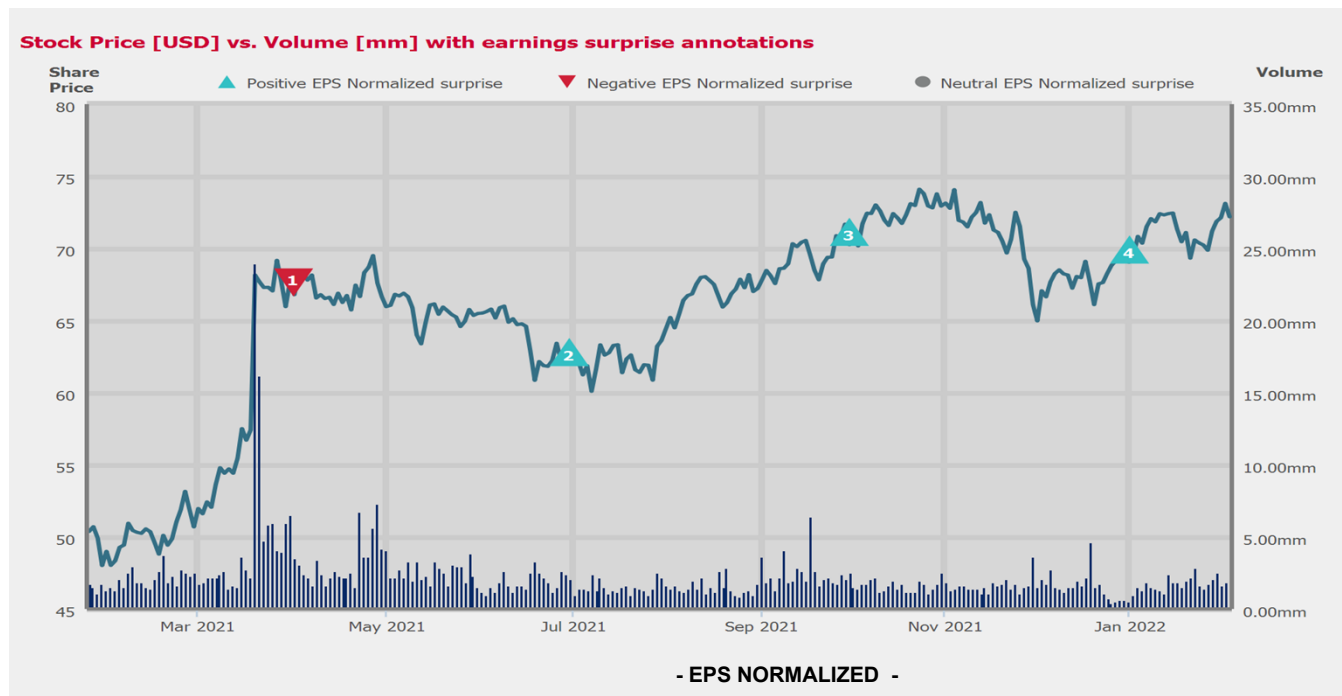
Friday, February 04, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.52	2.02	▲ 32.89	1.53	5.66	6.15	▲ 8.66	6.84
Revenue (mm)	5377.35	5816.00	▲ 8.16	5530.60	21794.38	22390.00	▲ 2.73	22194.90

Currency: USD

Consensus as of Feb-04-2022 5:03 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	0.57	0.56	▼ (1.75 %)
FQ2 2021	1.34	2.33	▲ 73.88 %
FQ3 2021	0.86	1.26	▲ 46.51 %
FQ4 2021	1.52	2.02	▲ 32.89 %

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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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# Presentation

## Operator

Good morning, and welcome to the Fourth Quarter 2021 The Hartford Earnings Webcast. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Susan Spivak, Senior Vice President, Investor Relations. Please go ahead.

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

Thank you, Andrew. Good morning and thank you for joining us today for our call and webcast on fourth quarter 2021 earnings. Yesterday, we reported results and posted all of the earnings-related materials on our website.

For the call today, in order of speakers will be 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.

A few final 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 materially differ. 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*

Good morning, and thank you for joining us today. In 2021, The Hartford delivered strong financial performance across the organization as we continue to execute on our strategy and realize the growing benefits of investing in our businesses. At our Investor Day in November, we shared our road map for maximizing shareholder value and demonstrated how we are executing in a more consistent and sustainable way. Our targeted priorities will continue to produce results that drive profitable growth, enable market-leading ROEs and deliver consistent capital generation while at the same time sustaining our top-quartile ESG performance.

As evidence of our ability to drive profitable growth, core earnings were up 10% in the fourth quarter to \$697 million, and full year core earnings grew to \$2.2 billion. Book value per diluted share, excluding AOCI, was up 8% from year-end 2020. And the core earnings ROE of 12.7% for the second consecutive year.

During the quarter, we also returned \$620 million to shareholders through share repurchases and common dividends, bringing total capital return for 2021 to \$2.2 billion. These strong results are the product of an extremely attractive portfolio of businesses and target investments over the last several years to generate strong, sustainable cash flow. Going forward, we will continue to prioritize investments for future organic growth, along with dividends and share repurchases, in our capital allocation decisions.

The Hartford's businesses have distinct advantages of their own and complement each other extremely well, sharing deep underwriting and risk management expertise, tools, insights and distribution. Across the portfolio of businesses, we will continue to invest in claims, analytics, data science and digital capabilities to ensure superior performance. All the businesses possess exceptional talent that fully embrace The Hartford's winning behaviors and passion for execution.

I am incredibly proud of the resiliency demonstrated by our team, especially over the last 2 years. This speaks to our character, focus on continuous improvement and commitment to all our stakeholders.

Let's now turn to highlights from the quarter, which illustrate how our business strategy translates into financial performance. In Commercial Lines, the positive momentum continued with stellar margins in double-digit top line growth, reflecting higher new business levels, continued strong retention and solid renewal price increases. Looking ahead to 2022, we expect strong growth and earned pricing to continue to exceed loss cost trends in most lines, resulting in further margin improvement.

Personal Lines delivered solid operating performance in a dynamic market environment. I am pleased with the progress being made as we advance the rollout of our new Prevail product and platform that provides a more contemporary experience to our unique AARP customers in the 50-plus age segment. We are closely watching the impact of inflation on loss costs and responding with underwriting and pricing actions. We anticipate slightly higher underlying combined ratio in 2022.

Turning to Group Benefits. Earnings continued to be impacted by the ongoing pandemic with elevated life and disability claims. Despite pandemic headwinds, performance across Group Benefits remained solid and key business metrics demonstrate our market leadership position. Fully insured ongoing premium was up 5% in the quarter, reflecting increased sales as well as growth in new premium from existing customers. Persistency was above 90% and increased 1 point over prior year.

In 2021, our sales growth benefited from the initial expansion of paid family medical leave in several states. Adjusting for that onetime lift, we are off to a good start with January '22 sales being on par with prior year. For the full year, we are expecting premium growth in the 2% range compared to 2021.

Within our long-term disability book, claim recoveries remain strong. Claim incidents and short-term disability is highly elevated due to COVID, while long-term disability incidence rates have shown modest signs of increases as we have been experiencing and, in turn, will be incorporated into future pricing assumptions.

The Omicron variant has driven the most recent surge in cases. Initial effects of Omicron are more impactful for short-term disability, but the lag between infection and in death makes it challenging to predict future mortality. Estimates of expected cases vary widely as do perspectives on the final resolution of COVID as an endemic virus.

For 2022, we are estimating between \$125 million and \$225 million of pretax losses due to the broad effects of the pandemic, including short-term disability and excess mortality, which we expect to impact results primarily in the first part of the year. Our excess mortality estimates are based on the best data we can gather regarding COVID trends and reflect our optimism for the remainder of the year. This optimism is principally due to the population continuing to get boosted and the Omicron being less lethal. In addition, as advanced therapeutics make their way to the market and into the hands of the medical community, there is an expectation of fewer deaths for those who contract the virus.

Though uncertainty remains, I am encouraged as we progress through 2022 the pandemic will shift to a regional endemic state with more treatment options available. Excluding any pandemic-related effects for both life and disability, we expect the core earnings margins to be between 6% and 7%, consistent with our long-term margin outlook for this business.

Turning to the macroeconomic environment for 2022. I am optimistic the business environment will be one in which The Hartford will prosper. We expect that consumer capacity to spend will remain strong, which will drive economic growth. The U.S. unemployment rate has fallen to 3.9% and is likely to fall below pre-pandemic levels of 3.5% by year-end, and we are seeing signs of increases to workforce participation.

In 2022, we expect inflation to be challenging in the first half of the year. However, as supply chains gradually improve, consumption transitions from goods to services and interest rates rise, we believe core inflation in the second half of the year will decline to the 3% range. Lower unemployment and mid-single-digit GDP growth is supportive of our employment-centric workers' compensation and Group Benefits businesses. An expanding economy is also a catalyst for growth across Commercial Lines, particularly in Small Commercial with higher new business formation.

While monetary policy normalization may lead to volatility in the capital markets, our well-diversified and high-quality investment portfolio is constructed to withstand this market dynamic. With a favorable macroeconomic backdrop, profitable growth, expanding margins in P&C and Group Benefits and proactive capital management, we are well

positioned based on our current pandemic assumptions to generate a 13% to 14% core earnings ROE in 2022 and continuing into 2023.

before I close, I want to speak to our ESG achievements and our commitment going forward. We have been consistently recognized for our efforts and progress, setting us apart from our competitors. Most recently, The Hartford was named the #1 insurer and 14th overall on America's Most JUST Companies list. The recognition we continue to receive is a testament to our long-standing commitment to sustainability and the dedication and hard work of our teams that make these priorities core to who we are. ESG leadership remains a critical component of our value-creation strategy as we continue to deliver strong financial results alongside positive outcomes for all stakeholders.

In closing, we began 2022 in a very strong competitive position with sustainable advantages and a winning formula to consistently achieve superior risk-adjusted returns. This is a direct result of our performance-driven culture and the significant investments we have made to transform the organization into one with exceptional underwriting tools and expertise, expanded product depth and breadth and industry-leading digital capabilities, complemented by a talented and dedicated employee base. We will continue investing for the long term to become an even more differentiated competitor, all while producing financial results. I am confident that The Hartford has never been in a better position to continue to deliver on our financial objectives and enhance value for all stakeholders.

Now I'll turn the call over to Beth.

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

Thank you, Chris. Core earnings for the quarter of \$697 million or \$2.02 per diluted share reflects strong P&C underwriting results and a significant contribution from investments, partially offset by the continued impacts of the pandemic in Group Benefits. Commercial Lines reported 14% written premium growth in the quarter, reflecting an increase in new business, strong policy retention and exposure growth. The underlying combined ratio of 88.9% improved 1.8 points from the fourth quarter of 2020 due to lower COVID losses and improvement in the loss ratios in Global Specialty, workers' compensation and property.

In Personal Lines, the underlying combined ratio of 95.9% includes the effect of an increase in auto claims frequency and severity. New business premiums grew 16% with increases in both hot auto and homeowners. P&C current accident year catastrophes in fourth quarter were \$22 million before tax, which is net of reinsurance recoveries of \$39 million under our aggregate catastrophe cover. As a reminder, this cover attaches once qualifying CAT losses exceed \$700 million.

As it relates to our CAT reinsurance program, we renewed the program on January 1, 2022, at only a modest increase in cost with no changes in structure. We have included a summary of our program in the earnings slide presentation.

P&C prior accident year reserve development was, in core earnings, was a net favorable \$144 million, driven by a decrease in reserves for workers' compensation, catastrophes, package business and personal auto liability, partially offset by adverse Navigators reserve development. In total, for the quarter, we incurred \$43 million of adverse reserve development subject to the adverse development cover, of which \$18 million was ceded to the cover. We have cumulatively ceded \$300 million of losses the coverage limit under the treaty.

Outside of core earnings, we also recognized adverse development of \$155 million before tax for asbestos and environmental, with \$106 million for asbestos and \$49 million for environmental. During this year's reserve study, we saw a decline in asbestos claim filing frequency, which was more than offset by an increase in defense cost and claim settlement rates and values.

For environmental, the reserve increase was primarily due to the settlement of a large legacy pull ash remediation claim, an increase in legal defense costs and higher site remediation cost. While the \$155 million of reserve development was economically ceded under the adverse development cover, we took a charge to net income for the deferred gain on retroactive reinsurance. To date, we have ceded a little over \$1 billion to the adverse development cover with \$485 million of limit remaining.

Turning to Group Benefits. The core loss of \$12 million compares to core earnings of \$49 million in fourth quarter 2020. The core loss reflects continued elevated excess mortality losses in Group Life, higher short-term and long-term disability claim incidents and an increase in the expense ratio.

When we shared our third quarter results, the reported U.S. COVID death rate has started to decline from the August surge. Unfortunately, the decline was short-lived as the death rate ticked up again in December. Using CDC-reported COVID deaths, we currently estimate U.S. deaths for the fourth quarter will be about 126,000, just slightly higher than 124,000 deaths for third quarter. The death rate for those under age 65 is down slightly but still higher than the first quarter of 2021.

Our estimates for all-cause excess mortality in the quarter is \$161 million before tax compared to \$152 million in the prior year quarter. The \$161 million included \$176 million with dates of loss in the fourth quarter, partially offset by favorable development on prior quarters.

The disability loss ratio was elevated 6.5 points over the prior year due to higher claim incidence levels for both long-term and short-term disability. In the quarter, we increased our 2021 long-term disability accident year estimate to reflect modest increases in claim activity. Additionally, short-term disability claims in the quarter were elevated due to COVID, and we did not experience a corresponding decrease in non-COVID claims as we did earlier in the pandemic. When adjusting for excess mortality and COVID-related short-term disability impacts, the core earnings margin was 7.8%.

Lastly, the expense ratio for Group Benefits increased by 1.7 points compared to the prior fourth quarter. The expense ratio was impacted by higher compensation costs, an increase in technology costs and higher staffing costs to handle elevated claims. In addition, the fourth quarter of 2020 benefited from a reduction in the allowance for doubtful accounts. Partially offsetting these expense increases were incremental Hartford net expense savings and the effect of earned premium growth.

Hartford Funds core earnings for the quarter were \$60 million compared with \$46 million for the prior year period, reflecting the impact of daily average AUM increasing 20%. Total AUM at December 31 was \$158 billion. Mutual Fund net inflows were positive for the fifth consecutive quarter of \$358 million.

The Corporate core loss was \$41 million compared to a loss of \$51 million in the prior year quarter. The lower core loss was primarily due to an increase in net investment income related to a higher level of dividends received on equity funds.

Across the enterprise, we continue to execute on our Hartford Max operational transformation and cost-reduction plan, achieving \$423 million of expense savings through year-end 2021. We remain on schedule to achieve savings of \$540 million in 2022 and \$625 million in 2023.

Turning to investments. Our portfolio delivered another outstanding quarter. Net investment income was \$573 million, up 3% from the prior year quarter, benefiting from very strong annualized limited partnership return of 22%, mostly driven by private equity funds. The total annualized portfolio yield, excluding limited partnerships, was 3.1% before tax for the fourth quarter and the full year.

Looking forward to 2022, we would expect our total annualized portfolio yield, excluding limited partnerships, will be slightly lower than in 2021 as the reinvestment rate continues to be low -- be below the average sales and maturity yields on the portfolio as well as an expected reduction in returns within the equity portfolio and nonroutine income items such as make-whole payments.

The portfolio credit quality remained strong with no credit losses on fixed maturities in the quarter. Net unrealized gains on fixed maturities before tax were \$2.1 billion at December 31, down from \$2.5 billion at September 30 due to marginally higher interest rates and wider credit spreads. Book value per diluted share, excluding AOCI, rose 8% since December 31, 2020, to \$50.86, and the trailing 12-month core earnings ROE was 12.7%.

During the quarter, The Hartford returned \$620 million to shareholders, including \$500 million of share repurchases at \$120 million in common dividends paid. As of December 31, \$1.3 billion of share repurchase authorization remains for 2022. From January 1 through February 2, we repurchased approximately 2.5 million common shares for \$180 million. Cash and investments at the holding company were \$1.9 billion at year-end. As a reminder, included in the holding company cash at the end of the year are the proceeds from the September debt issuance, which we intend to use to redeem \$600 million of hybrid securities in April 2022. During the fourth quarter, we received approximately \$440 million in dividends from subsidiaries and expect between \$1.7 billion and \$1.8 billion in 2022.

Looking forward to 2022, our views for the financial outlook are largely unchanged from those we shared at Investor Day. We expect to generate profitable growth in both P&C and Group Benefits, subject to some uncertainty with the level of

excess mortality. This, coupled with our capital management plans, provides the path to a 13% to 14% ROE for 2022 and into 2023. We look forward to updating you on our progress.

I'll now turn the call over to Doug.

**Douglas Graham Elliot**  
*President*

Thank you, Beth, and good morning, everyone. 2021 was an impressive year for The Hartford's Property & Casualty business. We achieved substantial progress on each of the 5 critical strategy drivers as outlined during our Investor Day, and the financial results were simply outstanding.

Across the 5, our expanded product breadth is driving top line growth across each of our commercial businesses. Advancements in technology and data are fueling straight-through processing in Small Commercial; speed-to-market improvements in Middle & Large Commercial; and the launch of our new Personal Lines' product, Prevail.

Our distribution footprint is stronger than ever with expanded capabilities to meet changing customer needs across multiple channels. The Hartford's strong focus on customer experience is distinguishing our marketplace execution. Our Small Commercial digital experience was rated #1 in the industry by Kenova, and Net Promoter Scores have significantly improved in Middle & Large Commercial, putting us in the top tier of national carriers.

Finally, talent powers our engine and continues to be a differentiator. The combination of these critical drivers has delivered full year 2021 Property & Casualty written premium growth of 9%, an underlying combined ratio of 89.4 and core earnings of \$2 billion. The underlying combined ratio was 3 points lower than 2020, and core earnings were 17% higher. Our momentum in the marketplace is evident with several consecutive quarters of strong top line growth and underlying margin improvement.

Let me dive a bit deeper into each of our business line results before closing with several comments about 2022. The Commercial Lines underlying combined ratio was 89.1 for the year, 6.4 points lower than prior year, improving 3.6 points ex COVID.

The margin improvement throughout the year was driven primarily by strong earned pricing, outstanding underwriting execution and the impact our Hartford Next expense program. Commercial Line top line performance was also exceptional, growing 12% year-over-year and 14% in the fourth quarter. Small Commercial closed a year of record performance and continued market leadership with written premium eclipsing \$4 billion, an increase of 11%. Fourth quarter written premium growth was even stronger at 17%. Policy count retention increased 2% -- 2 points in the quarter, driven by consistent pricing and underwriting, and in-force policies grew 6.5% versus prior year. The continuing benefit from an improving economy, including rising payrolls, contributed to both the year's and the quarter's top line result.

Small Commercial new business of \$673 million for the year was up 21%. Fourth quarter new business was \$162 million with growth of 6%, an excellent result given the economic rebound during the last quarter of 2020. New written premium growth was significant across all distribution channels, and our market-leading BOP product, Spectrum, continues to have strong traction.

In Middle & Large Commercial, written premium increased 12% for the year and 14% in the fourth quarter. Middle Market new business of \$532 million increased 11% for the year, with significant contributions from our core general industries book as well as our specialized verticals. Quote and hit rates for the year both improved over 2 points from 2020, reflecting our growing momentum, deeper product suite and improving underwriting execution. We continue to balance the rate and retention trade-off while maintaining disciplined underwriting and leveraging our risk segmentation tools to drive profitable growth.

Global Specialty produced a strong year with annual written premium growth of 13% and 11% in the quarter. New business of \$912 million for the year or growth of 21% was equally impressive, and policy retention remained strong throughout the year in the mid-80s. The breadth of our written premium growth continued to be led by wholesale, U.S. financial lines and environmental. Global REIT also had an excellent year with written premium growth of 21%.

Let's move to pricing metrics and loss trends. U.S. Standard Commercial Lines renewal written pricing was in line with the prior 2 quarters and continues to exceed loss trend across most products. Ex workers' compensation pricing was



6.5 in the quarter, with workers' comp pricing coming in at 1.2%. Within middle market, ex comp pricing also remained sequentially consistent at 8%.

In Global Specialty, U.S. pricing in the quarter was still quite good at 9%. U.S. wholesale achieved 12.7%; and ocean marine, 13.5%. Fourth quarter pricing gains in the international portfolio of 11.6% remains strong. Across Commercial Lines, loss trends and loss ratios for the year were largely in line with expectations.

For the year, the ex CAT current ex year loss ratio improved 4.9 points with a fourth quarter reduction of 190 basis points, benefiting in part from lower COVID losses. Ex COVID, this loss ratio improvement of 2.1 points for the year and 60 basis points for the quarter. Loss ratio improvement in the fourth quarter was driven by strong earned pricing and favorable property frequency, partially offset by a few large property losses across our book.

Shifting over to Personal Lines. The underlying combined ratio for the year increased 6.8 points to 89.9. Auto results were impacted by increasing vehicle trips and miles traveled. Liability frequency in the quarter continued to run favorable to expectations. However, physical damage frequency ran a bit worse. Auto severity remains elevated, primarily driven by rising wages and supply chain pressures on the cost of used cars and parts.

In home, full year and fourth quarter frequency was better than our expectations. However, higher claim severity from elevated building material and labor costs drove the underlying loss ratio up over 3 points for the year and the fourth quarter.

Written premiums declined 1% for both the year and the fourth quarter. However, I am encouraged by the improving growth profile in the second half of 2021. We see positive signs with rising conversion rates, steady retention and slightly improved industry shopping for our 50-plus cohort as included in J.D. Power's reported data.

And Prevail, our new product, is now available in 8 states with the rollout significantly expanding in 2022. While we remain pleased with the quality of our new business, pricing is a top priority. More on that in a moment.

Before I turn the call back to Susan for Q&A, I'd like to share a few thoughts about 2022. Consistent with Investor Day, we continue to project 2022 Commercial Lines written premium growth between 4% and 5% with an underlying combined ratio between 86.5 and 88.5. Coming off significant 2021 growth of 12%, 4% to 5% is a strong target for this year. We expect to return to more historical patterns of workers' compensation exposure growth, counterbalanced with rising wages in 2022. The projected underlying combined ratio is approximately 2/3 loss ratio and 1/3 expense.

Renewal written pricing in Commercial Lines, excluding workers' compensation, is expected to run in the mid-single digits with certain Global Specialty lines such as wholesale and U.S. ocean marine closer to double digits. Workers' compensation pricing is projected to remain competitive, especially in Small Commercial. Renewal written pricing is projected to be flat to slightly negative.

Across Commercial Lines, we expect earned pricing will continue to exceed loss trend in most lines, except workers' compensation. In Personal Lines, we expect auto frequency to modestly increase but remain below pre-pandemic trajectory. Persistent building and material inflation, increasing labor costs and supply chain disruptions throughout '22 will continue to impact severity. As a result of these trends, our auto and home regulatory filings have ramped up significantly over the last 90 days. I expect this elevated filing activity to continue throughout the first half of the year.

To ensure our initial price points reflect our most current view of loss trend, we have been deliberate and thoughtful with an adjusted Prevail state launch schedule. All in, we expect 2022 Personal Lines underlying combined ratio of 90 to 92.

In closing, 2021 was an outstanding year for our Property & Casualty business and a strong validation of our multiyear road map. Our Commercial Lines business, buoyed by the improving economy, grew at a double-digit clip. Strong pricing earned into the commercial book driving lower current accident year loss ratios. Each commercial business delivered strong execution and improved accident year performance. And early results from the launch of Prevail in Personal Lines demonstrate encouraging signs that our cloud platforms with contemporary product design features will compete well into the next decade. The seamless integration of our product portfolio, technology and analytics, distribution and talent have driven our success in the marketplace.

As I expressed at our November Investor Day, I'm extremely pleased with our 2021 performance. The results are strong and sustainable, as is our future. I look forward to updating you all on our 2022 performance with our first quarter call.

Let me now turn the call back to Susan.

**Susan Spivak Bernstein**

*Senior Investor Relations Officer*

Andrew, we're ready to take questions.

## Question and Answer

### Operator

[Operator Instructions] The first question comes from Andrew Kligerman with Credit Suisse.

#### **Andrew Scott Kligerman**

*Crédit Suisse AG, Research Division*

So just taking a deeper look at the Personal Lines area. It looks like you came in at an auto combined ratio of 105.4. And you're in the midst of rolling out the Prevail program. So I'm wondering how long it takes to kind of get those rate increases in place. And when do you think you could get to the loss ratio in an attractive range and where that might be?

#### **Douglas Graham Elliot**

*President*

So a few different questions inside. Let me see if I can uncouple and answer them. First point I'd make is that, from a seasonal perspective, our fourth quarter loss ratio is our highest quarter in the year and consistent with our planning and history and also performance in 2021. I just want to note that, right? It runs 3 to 5 points on average per year higher than our number for the year. So that is inside the fourth quarter.

Secondly, as I said in my remarks, we have rolled out 8 states. By the end of 2022, we expect to be in more than 40 states. So an aggressive rollout, although we have delayed a few states based on our rework around supply chain. We are actively working 45 states right now from a filing perspective. I think you've seen our pricing progress over the last couple of years, we report it in the supplement, relatively steady over that period of time. So our rate need 9 months ago was relatively small.

That has changed as we've launched supply chain. And Andrew, we're reacting to that on a weekly basis. So aggressive approach to what we're doing with filings happening by the week, by the month, aggressive in first quarter, second quarter. And I expect over the next 5 months, we'll be largely through that effort. And you'll continue to see as we work our way through 2022 the results in our written pricing as demonstrated in our supplement.

#### **Andrew Scott Kligerman**

*Crédit Suisse AG, Research Division*

I mean it sounds like you're very confident in trajectory. As I think about Personal Lines in general fitting in with the Property & Casualty business, do you see that as a fit -- as the core fit? And is that a business that you feel is necessary to be in over the long haul?

#### **Christopher Jerome Swift**

*Chairman & CEO*

Yes. Andrew, it's Chris. I would say, yes, we see it as a fit. We like the business. Obviously, over the years, we've improved our contractual relationship with AARP and extended it for 10 years. So I think of it as primarily an affinity direct marketing business with 2 great brands, meaning AARP and The Hartford.

So -- and then particularly with the modernized product, the platform, our digital emphasis, I think we can really make something happen here that we hadn't been able to do before just given some of the contractual arrangements. So it's a preferred segment we like. And I think we've got a good brand in there. And it's not unusual for commercial line carriers. They have personal lines operations, and we think it contributes to our overall profile and our overall earnings and ROE components.

### Operator

The next question comes from Tracy Benguigui with Barclays.

#### **Tracy Dolin-Benguigui**

*Barclays Bank PLC, Research Division*

Just maybe a quick follow-up on what you were just talking about. You mentioned some contract changes. I guess I'm wondering, the last time the industry had to correct pricing on auto back in 2015 and 2017, you may not have been able to be as agile. And I'm wondering how the playbook may change now because I believe now you have more 6-month policies versus 12-month policies. Were there any other structural changes that would make you more agile this go around?

**Douglas Graham Elliot**  
*President*

I guess a few things, Tracy, I would point out. You're right. Our Prevail product is a 6-month product for auto. So that changes the dynamics of how we'll manage the product to speed and our flexibility around that. There is also a feature of lifetime continuation in the old product that now is not with the new product going forward, essentially across the country. So yes, we think we have a much more nimble approach, a contemporary product and excited about the early results, but we have a lot of work in front of us in '22 to get it rolled out across the country.

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

Okay. Great. Just to be clear, that's just in Prevail and not in AARP?

**Douglas Graham Elliot**  
*President*

That is -- the new product is 6 months is Prevail, correct.

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

Yes. Okay. Got it. It looks like Hartford -- yes.

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

Tracy, it's Chris. Just one point of emphasis. Doug, obviously, is thinking about Prevail and then our existing in-force book and all the work that we have to do. But even in our existing 12-month policy, new business only does not have a lifetime continuity agreement. So we have the ability over the last 18 months or so, 12 months, when we're writing new business with AARP, even in the non-Prevail product, we are not writing new business with lifetime continuity agreements. So -- but the vast majority of the in-force still obviously has lifetime continuity. So just -- one just little nuance.

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

Okay. That's really helpful. Maybe shifting gears. I noticed The Hartford lost AOCI during 2021, and it looks like that may happen given higher interest rates. But I also noticed at the same time, you're shortening the duration of your P&C assets from 5 years back in September 2020 to 4.3 years now at year-end. Is that something we could expect to continue? And I'm just wondering how important AOCI is in the way you manage capital.

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

Yes. Tracy, I'll take that. I don't see that as a significant change. Some of that is also related to just the change in the duration of the liabilities. But we did shorten duration in what we refer to as our surplus assets just given our views of what's happening with interest rates. So some of the sales that we did in the fourth quarter were on the longer end. But I would say that it's not a significant change, but again, just our way of positioning the portfolio. We do look at AOCI in total. But again, I wouldn't characterize some of the changes we made in anything all that significant.

**Operator**

The next question comes from Elyse Greenspan with Wells Fargo.

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

My first question is on the capital side. You bought back \$1.7 billion in '21. That's ahead of kind of the \$1.5 billion that you had pointed to for '21 and then also for '22. And given the dividends that you laid out with your outlook from the subs over the coming year, it seems like you could probably finance more than \$1.3 billion. So is there some upside to the 2022 capital return plan? And how should we think about the timing of getting the share of that and perhaps exceeding that?

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

Elyse, I would start, and then Beth can add her commentary. Yes, we're pleased with our capital management actions over the last years and equally what we believe we're going to continue to do going forward. But it's premature right now to start to speculate what are we going to do for the rest of the year and into '23. I think we've always been clear with you when we change our views and have additional excess capital to allocate, we'll communicate with you.

But right now, we want to finish our existing program, obviously, see how the year plays out, make sure we're funding all our internal growth opportunities. And then, Beth, you might comment upon S&P, just see where that falls out. But those are the parameters that we just think about over a longer period of time. But what would you add?

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

The only thing I'd add, Elyse, I really look at the additional amount that we did in '21 is just an acceleration of what our plans were for 2022. I mean, as you know, we typically do look to execute our capital management plans ratably over the period. But we're not agnostic to share price, and our program does provide us flexibility to react when movements in share price make it attractive for us to maybe repurchase a bit more than we had originally planned. And as Chris said, we're executing on the total authorization of \$3 billion and very pleased with that.

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

And then my follow-up is on loss trend within Commercial Lines. So when you set your underlying margin guide for '22 and also when you make the comment like you would expect pricings to continue to exceed loss trends, what do you guys see in the loss trend environment? And how -- what's embedded there within your 2022 guidance?

**Douglas Graham Elliot**  
*President*

Elyse, I would say that largely '22's loss trend picks are consistent with '21. Comp was certainly consistent vis-à-vis both frequency and severity. We've talked about medical severity up over mid-single digits and then the higher middle digits, and frequency has been pretty favorable.

The one tweak we have made in the last couple of years -- I guess 2 tweaks. One is we're aware of and focused on supply chain. So where supply chain is hitting, building construction, property, et cetera, we bumped up that trend a little bit. And we continue to watch excess trend as well. So casualty excess is an area where we've been in the high single digits and remain there for '22.

**Operator**

The next question comes from Greg Peters with Raymond James.

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

I'm going to -- my first question is going to focus on the growth outlook for Commercial Lines that you reiterated in Slide 9 of your investor deck. And I guess what I'm trying to do is we're looking at the pieces here, the strong results of '21. We're looking at Slide 10, where you show the continuing positive trend of rate. And just sitting back here from the cheap seats, it looks like the 4% to 5% targeted growth for '22 looks to be low-hanging fruit, especially in the context of a rate environment that continues to be favorable as it relates to price over loss cost trends. So I thought maybe you could give some additional color on that.

**Douglas Graham Elliot**  
*President*

Yes. So let me try, Greg, I'd start with across commercial, our 3 big businesses. As we've mentioned, there's been a little bit of tailwind behind us from economic growth, right, coming through exposure and premium audits, primarily in the workers' comp area. So when you think about it as an example, Small Commercial, which is up over 10% for 2021 in the 12% range, we share with you PIF change in the supplement. PIF is running new policies in-force at 6.5, right? So customer count is up. The rest of that is roughly exposure, plus or minus, and it varies by line of business. But it gives you a sense that we see quite a bit of tailwind, more tailwind in '21 from exposure than we had seen prior, certainly relative to '20 when the market went the other way and even historically.

Same thing in middle that when we look at our business, up small teens, there's a fair amount of that coming from, what I would say, elevated exposure growth bouncing back over 2020. So when you pull some of that abnormal growth out, you get more a mid-single-digit-type run rate, and we think that's still a strong run rate. Now yes, we expect pricing to be strong. And yes, I'd like to see our PIF growth continue to grow. But I have to suggest to you that when we look at these growth rates, a good percentage, 50% to 60%, of some of those growth numbers are driven by exposure change that we expect will slow down quite a bit in 2022. Does that help a little?

**Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

Yes, it does. It's -- yes, that makes sense. Just trying to parse out what is due to economic rebound versus the rest of the ordinary business. A little hard for us sitting on the outside to figure out, if that makes sense to you.

**Douglas Graham Elliot**

*President*

The other last point I would share, Greg, is you also have to do a compare, right? So the compare against '20 for our '21 performance was an easier compare because of what happened in the second quarter 2020. We had a terrific year this year. Essentially, we rode through in terms of new business as much as we had expected 9 months ago for an 18-, 24-month period. So now all of a sudden, the '22 compare will become more challenging just because of the success we had in '21.

**Christopher Jerome Swift**

*Chairman & CEO*

Greg, make no mistake, I mean, we are focused on growth, right? We think it's a great time to grow given the environment. But you also know that a lot of our competitors think it's a good time to grow, too. So there is still a discipline that we still want the teams to have. We want them to be orientated to growth and taking risk and using all the sophisticated tools we have on the underwriting side. But it's not growth at all cost.

**Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

That makes sense. The other question I had, on Slide 18, and this isn't necessarily particular to you. It's an industry phenomenon. But the returns from LPs in '21 have been outstanding. And it doesn't seem like that's a sustainable result. And I guess what I'm getting at is, what's a normalized long-term expected return on your LPs? And is that sort of the number we should be using as we think about the contribution from that in '22 and beyond?

**Christopher Jerome Swift**

*Chairman & CEO*

Greg, I'm going to ask Beth to add her color. But you're right. I mean we've enjoyed 2 years of superior returns however you want to look at it, either from a mark-to-market side or a cash realization side. Some of our real estate investments have been just home runs across the board in addition to our private equity capability. So you're right, that can't continue at the same rate.

And Beth, what would you add?

**Beth A. Costello**

*Executive VP & CFO*

Yes. What I would add is as we think about the asset class and over the long term, we think about a return more in sort of the 8% to 10% range is how we think about what this asset class can deliver to us. Obviously, very pleased with the

results we had this year. And as Chris indicated, a significant portion of the gains that we had were actually realizations of asset sales and so forth in the underlying funds. So all in all, great performance, but I -- how you think about kind of 8% to 10%.

**Operator**

The next question comes from Mike Zaremski with Wolfe Research.

**Michael David Zaremski**  
*Wolfe Research, LLC*

Maybe a first question on Global Specialty. Any color on what's driving the reserve developments, especially now given that the ADC cover from Navigators, I believe, is exhausted?

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

Yes. Mike, I would share with you just a context on the ADC, why we put it in place. First was really the strategic opportunity to acquire the old Navigators and add to our capabilities. I think we've picked up a wonderful team culturally aligned with us and really doing great things in the marketplace.

Our Global Specialty book today, you could see in the supplement, is \$2.6 billion and is running strong overall profitability that we've worked hard to improve, particularly Doug and the Global Specialty leader team have really put our fingerprint on that business.

But back to the ADC, we put it in place because we knew they had some issues on their balance sheet. And the way we thought about financing with cash and using an ADC, I think, was the right decision. Obviously, we needed it and we are where we are today. But I would say going forward is completely different just given our fingerprints are all over it. When I look at their reserve positions and balance sheets right now, I'm really pleased where the Global Specialty balance sheet is in total for the future. So that's what I would say.

Beth, what would you add?

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

Yes. I agree on the comments on the overall balance sheet. And as it relates to the specific activity that we saw this quarter, it was primarily in financial lines and a little bit in life sciences, and really, just a reaction to some higher-than-expected large loss emergence. So as we looked at what we were experiencing and went to make our year-end picks, took all of that into consideration.

**Michael David Zaremski**  
*Wolfe Research, LLC*

Okay. Great. Yes. And I didn't -- overall reserve development was very healthy. I didn't mean to pick on it. I just know it's been recurring. So I felt like it was worth asking. Follow-up, just want to be clear on Personal Lines. Your results, like many others, in auto have deteriorated. And so just as we think about the outlook, and you gave us a number of initiatives you're taking to -- that should improve the loss ratio in auto. In terms of cadence, should we be thinking it's more kind of second half of the year loaded in terms of the improvement?

**Douglas Graham Elliot**  
*President*

So as our written pricing goes in, obviously, we'll be earning that heavier element second half of the year. Our loss trend picks, though, are spread throughout the year as we deem appropriate. And as I mentioned, although we think frequency will be just up slightly, we have leaned into supply chain on the severity side. So that is a part of our overall assumption. And I think on top of the trends we experienced this year, which are -- we all can see, as you look at loss ratio performance '20 versus '21, I think the combination of both this year's and our expectations for increased severity next year are reasonable selections that we made inside our business plan.

**Beth A. Costello**

*Executive VP & CFO*

Yes. The only thing that I'll just add to that as it relates to trend, and I know Doug commented on this before, is just keep in mind that fourth quarter is always a high auto quarter for us from a seasonality perspective. And I think to the point as we look to get rate into the book as we think about increases in supply chain, I think when you look at the first half of the year in 2022 compared to the first half of the year in 2021, I'd expect to see things a bit elevated from there because we really started to feel supply chain in the latter part of '22 just from a compare perspective, if that's helpful.

**Douglas Graham Elliot**

*President*

Mike, maybe one other thought, too. I don't think it's well known. But when you look at loss cost inside Personal Lines auto, a significant component of that auto loss cost piece is liability. So supply chain is impacting just damn differently than liability. And not to be underestimated, liability has been performing for us. So knock on wood, we still have to watch and we have to perform through 2022. But more of that supply chain is sitting on top of physical damage, and physical damage is not 100% of the loss cost.

**Operator**

The next question comes from Gary Ransom with Dowling & Partners.

**Gary Kent Ransom**

*Dowling & Partners Securities, LLC*

I wanted to ask in Commercial Lines, whether there are any segments or lines where you were doing any meaningful true-ups at the end of the year. And in the back of my mind is just the casualty trends and the distortions that we've had, whether -- how you might have incorporated that into your final loss picks for '21?

**Douglas Graham Elliot**

*President*

Gary, when I think about accident year '21 to start, I would say, Beth, that very quiet activity. I mean, Gary, we had leaned into our loss trend selections in planning out the 2021 year. And as you know, in those casualty lines, unless there's some reason, real big reason, we don't come off those trend lines for multiple years.

And then as we always do every time we close the books, we're looking back on all the prior accident years, we got some pluses and minuses. The net of all that was generally a pretty favorable quarter relative to that, and we talked about Navigator. So I feel really solid about our balance sheet. I think we work hard at it. We assess it. And '21 performed basically in line with expectations with the exception of some of the pressures we saw from COVID and supply chain.

**Gary Kent Ransom**

*Dowling & Partners Securities, LLC*

Is there anything that I should read into the Small Commercial year-over-year comparison that was underlying was up a little bit?

**Douglas Graham Elliot**

*President*

We love that question. What I want you to read into Small Commercial is 88% and 17% growth in fourth quarter and over 11% in the year, right? So that business is hitting on all cylinders. We feel really good about our rate adequacies. We are strong across, Gary, all the lines inside Small Commercial. And I think the rollout of our new Spectrum product over the last 2 years has just hit The Street the exact spot we intended to. So no, I'm very bullish.

At some point, you have such strong profitability. We leaned hard into growth that we felt like it was the right time to do that. It was the right product mix. And I look back on '21, I'm not sure I would change anything in our Small Commercial performance.

**Gary Kent Ransom**

*Dowling & Partners Securities, LLC*



Fair enough. And if I could sneak one more in. When I look at all the favorable development, we had a lot from workers' comp and CAT. And I think I understand that. But the other one is package where you've had a very consistent pattern of favorable development. Is there any particular story behind that or line within that package that's driving that?

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

No. I wouldn't point to anything specific, Gary. I mean, again, as we evaluate the actual experience in both from a frequency and severity perspective, we've made some adjustments on that. I've been really pleased with how the line has performed over time, but nothing specific that I would point to.

**Operator**

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

**Joshua David Shanker**  
*BofA Securities, Research Division*

One more question on the ADC. I mean, maybe I'm wrong, but I feel back when that was created that is about \$300 million of protection. It seemed like a lot. And I remember having a discussion with you that the difference between buying \$200 million of protection and \$300 million wasn't materially a significant amount of money, so it made sense. And here we are, we've blown through it.

Given that you had the ADC, it gave you some comfort in your financials about taking those charges. Has that book seasoned to a degree that you're confident that the pick right now are probably very close to where they will ultimately lie? Or could there be some conservatism in your picks because you did have sort of the protection of the ADC to ring-fence your core earnings?

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

Yes. It's -- you've got a lot of different veins of thinking in there, Josh. What I would say is -- as I tried to say, we feel good about where the balance sheet is now. We put our fingerprints over it for the last 2.5 years, including new business. So we've got to position the way we want it, and that's what I would say.

**Joshua David Shanker**  
*BofA Securities, Research Division*

And I mean, look, it can go both ways. I'm just curious if -- I guess we'll leave it there. I don't think I'm going to get more out on this issue. So I'll leave it at that.

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

You're right.

**Joshua David Shanker**  
*BofA Securities, Research Division*

On the Personal Lines, look, you've been rerating your business for a long time, rewriting it. Is there any argument that your customers at this point are stickier than the average customers in the industry? They've been with you through a lot of rounds of rate changes and underwriting revisions, and you should have a higher persistency even in the face of higher prices compared to some peers?

**Douglas Graham Elliot**  
*President*

I think we have a strong customer base that believes in our product and our association with AARP. So in general, retentions, I expect to be strong. To me, one of the hallmarks of great retention is consistency in pricing and a super product. And I believe those are all priorities. They are in terms of our strategy and behaviors as we work through time. And I'm excited about the advancement of the contemporary product design that we're going to see with Prevail.

So we felt we needed to do that. It's been a big investment, a lot of work, but we felt like this was the right time for us to completely refresh and rebuild our product. So that, Josh, that degree of stickiness would not only stay the same but get stronger, and I think it will over time.

**Operator**

And unless there is time for any other questions, I see it is past the top of the hour. I would like to turn the conference back over to Susan Spivak for any closing remarks.

**Susan Spivak Bernstein**

*Senior Investor Relations Officer*

Thank you, Andrew, and thank you all for joining us today. If we did not get to take your question, please reach out to my office, and we will be happy to follow up. Have a good day.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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