

The Hartford Financial Services Group, Inc.

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FQ2 2023 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.85	1.88	▲ 1.62	2.00	7.86	NA
Revenue (mm)	6092.86	6049.00	▼ (0.72 %)	6160.47	24547.31	NA

Currency: USD

Consensus as of Jul-28-2023 5:12 AM GMT

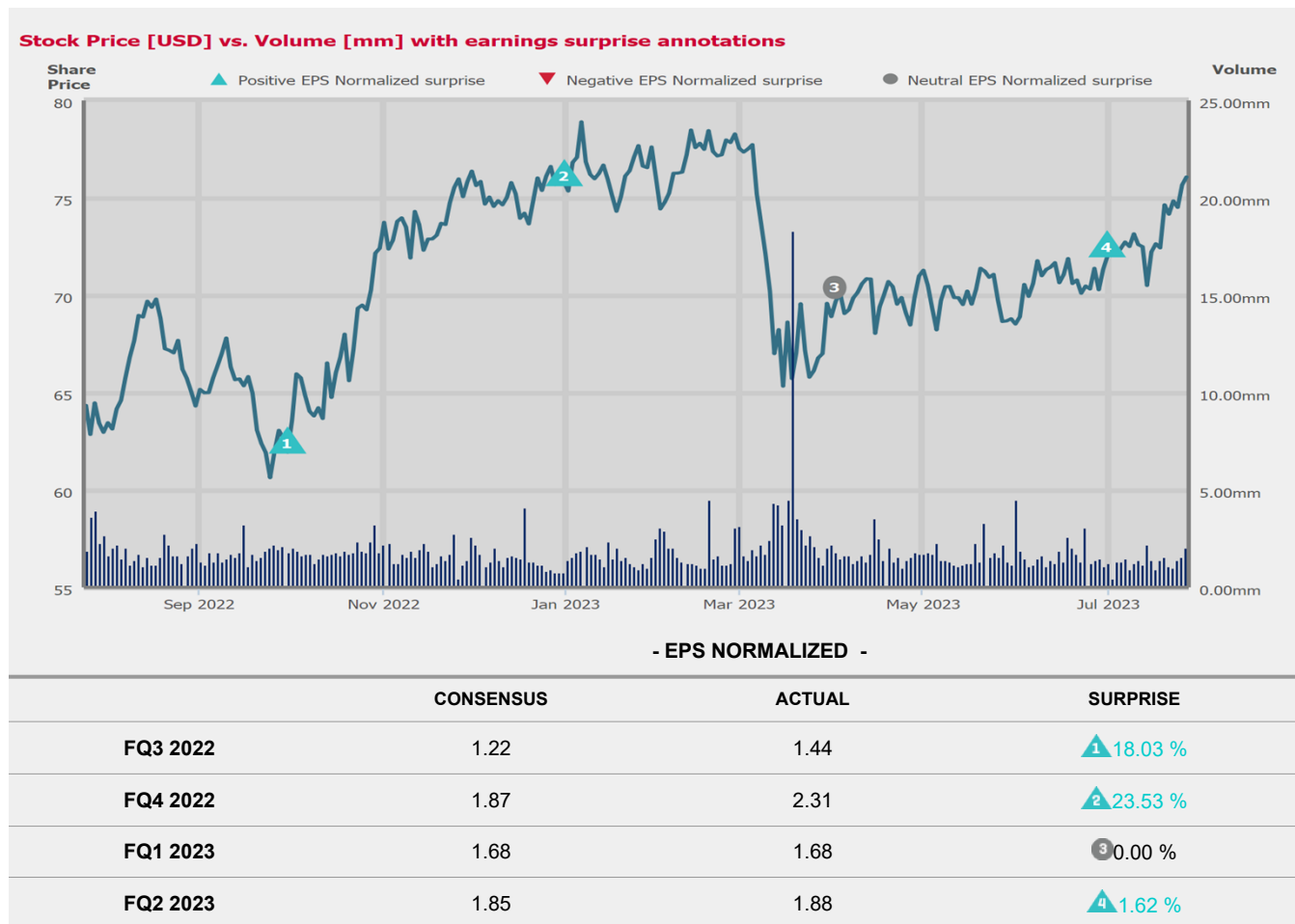


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Presentation

Operator

Good morning, and welcome to The Hartford Second Quarter 2023 Financial Results Conference Call and Webcast. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Susan Spivak Bernstein. Thank you. Please go ahead, ma'am.

Susan Spivak Bernstein *Senior Investor Relations Officer*

Good morning, and thank you for joining us today for our call and webcast on second quarter 2023 earnings. Yesterday, we reported results and posted all the earnings-related materials on our website.

For the call today, our participants are Chris Swift, Chairman and CEO of The Hartford; Beth Costello, Chief Financial Officer; Jonathan Bennett, Group Benefits; Stephanie Bush, Small Commercial and Personal Lines; and Mo Tooker, Middle & Large Commercial and Global Specialty.

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 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. Last night, we reported strong financial and operational performance for the second quarter, completing a successful first half of the year. While we and the industry continue to navigate a dynamic market environment, including elevated catastrophe losses and persistent inflationary pressure in personal auto, once again, we achieved exceptional results in Commercial Lines and outstanding performance in Group Benefits.

Highlights of the second quarter include: top line growth in Commercial Lines of 12%, including double-digit contributions from each business with an underlying combined ratio of 88.3. Group Benefits fully insured premium growth of 7%, with a core earnings margin of 7.6%. Strong investment performance with increasing fixed income portfolio yields and a trailing 12-month core earnings ROE of 13.6%, while returning \$484 million of capital to shareholders. These results only strengthen my confidence in our ability to deliver a 2023 core earnings ROE in the range of 14% to 15%.

Now let me dive deeper into our second quarter performance for each of our businesses. Momentum is strong in Commercial Lines. I expect continued top line growth at highly profitable margins during the second half of 2023, with full year underlying combined ratio targets unchanged. In Small Commercial, written premium of \$1.3 billion and new business of \$237 million continue near record high levels. Our best-in-class packaged product, which we call Spectrum, continues to outperform in a competitive marketplace. Spectrum new business premium of over \$100 million was up 23% over prior year. Our unmatched ease of doing business with agents and customers and our unrivaled pricing accuracy and consistency remain important drivers as demonstrated by strong sales and retention and a 6% year-over-year increase in policies in force.

In addition, written premium for our excess and surplus lines binding product eclipsed \$50 million in the quarter, up nearly 60% from a year ago, with new business growth of just over 85%. Our expanding wholesale broker relationships are expected to drive continued robust growth and profitability for this important line. In short, Small Commercial continues to deliver outstanding results with industry-leading products and digital capabilities and is on track to exceed \$5 billion of annual written premium in the near term.

Middle & Large Commercial had an exceptional quarter. Written premiums were at their highest levels ever, up 12% in the quarter, driven by strong momentum in new business with elevated submissions and hit rates along with increasing average account premium. Cross-sell activities remain in full force and are helping to drive new business results. Written premium grew across almost all lines with excellent growth in our construction, energy, and entertainment verticals.

In addition, we are particularly pleased by the 24% top line growth in middle-market property lines, which remains a key area of focus and accretive part of this business. Looking across the enterprise, as discussed in prior quarters, we are taking thoughtful and disciplined steps using industry-leading tools to grow our property book within favorable market conditions. These efforts should put us in a position to expand commercial property written premium to approximately \$2.5 billion or up 25% by year-end. Underlying margins in Middle & Large Commercial were also at record levels, reflecting advancements in data science capabilities, industry-leading pricing and underwriting tools and exceptional talent, all of which position us well to maintain profitable growth in this business.

Global Specialty continues to deliver outstanding results with net written premium growth of 15% in the quarter. New business growth and improving renewal written pricing were important contributors. In addition, we remain excited about our position in the wholesale market and the ongoing benefits to the top line from our broadened product portfolio. U.S. ocean marine, environmental, international and global reinsurance all achieved double-digit top line increases. Our underwriting discipline, along with enhanced capabilities developed over the past few years, are driving targeted market share gains with a stellar underlying combined ratio that has hovered in the mid-80s for the past 5 quarters. In short, our execution has never been stronger.

Turning to pricing. Commercial Lines renewal pricing of 5.2% compared to 4.5% in the first quarter. Excluding workers' compensation, renewal pricing rose to 7.5%, up 0.8 sequentially with accelerating pricing in property and auto. Across commercial, property pricing is well into the double digits with auto in the high single digits. Pricing in other liability and casualty lines also remained strong, while public D&O pricing remains challenged. In addition, workers' compensation pricing remained slightly positive.

All in, our strong written pricing performance in Commercial Lines, combined with stable loss cost trends, bolsters my confidence in our ability to maintain or slightly improve margins going forward.

Moving to Personal Lines. Persistent severity loss increases in auto have had a meaningful influence on overall industry results. We continue to respond with significant pricing actions. During the quarter, we achieved renewal written price increases of 13.8% and expect acceleration to above 20% by the fourth quarter. As loss cost trends emerge, we will aggressively push for appropriate rate actions.

In homeowners, renewal written pricing of 14.4% in the quarter comprised of net rate and insured value increases outpaced underlying loss cost trends. We are very selective and actively manage our homeowners book at a state and territory level, diligently managing risk and growth with sophisticated underwriting capabilities that allow us to effectively manage new business risk selection.

A few examples of our risk management include the action we took many years ago to stop writing new homeowners business in Florida, a conservative stance on coastal CAT risk and wildfire mitigation efforts that have yielded strong outcomes. We are on the right path in Personal Lines, driving towards appropriate pricing and managing exposure and growth while continuing to serve our customers with award-winning service.

In Group Benefits, I am pleased with both top line and bottom line performance, including an outstanding core earnings margin of 7.6%. Group disability continues to post strong results driven by favorable long-term disability incidence trends and claim recoveries. In group life, the loss ratio was up versus prior year. Mortality losses in the second quarter continued to run above pre-pandemic levels but improved sequentially. Looking at the top line, growth was driven by book persistency above 90% plus strong year-to-date new sales. Overall, the strength of our diversified product portfolio as well as our commitment to outstanding customer experience through the use of data and technology resonates in this marketplace, giving us a leadership position.

Moving now to investments. I want to highlight another quarter of strong performance as fixed income yields continue to trend higher with solid credit results. Beth will provide further details.

Before concluding, I would like to comment on the advances we continue to make in technology and the competitive advantage it brings to our businesses and distribution partners, along with a superior customer experience. At our Investor Day in November of 2021, I highlighted the significant investments we had made in our core technology platforms which were allowing us to extend our digital and data capabilities. Back then, we were already focused on leveraging artificial intelligence to enhance execution, and today, AI is mainstream at The Hartford. The breadth and depth of our data and analytics and AI has grown into all parts of our business

and is enabling greater agility and faster decision-making, while improving and streamlining the experiences of our customers and distribution partners.

While some organizations talk about what they expect to do in the future, we are already doing this at scale. With several hundred AI models in production and driving business results, we believe our capabilities are leading edge. Let me give you just one example of how we are already using what we call our information advantage, fueled by advanced analytics and AI to drive results. We developed an award-winning medical record digestion and extraction tool that has transformed the way we conduct our workers' compensation business. This tool ingests and translates medical records into digital content, characterizes the data and highlights relevant information.

In workers' compensation, we are streamlining the adjudication process by suppressing 30% of the extraneous information contained in medical records that otherwise results in significant distraction or lost time to our claim handlers. Since inception of this tool, we have processed more than 500 million pages of medical records, and perhaps more importantly, established a foundation for next-level AI use cases across our business. When it comes to generative AI, we are actively experimenting with this technology in a highly controlled environment.

Now Hartford understands the potential of this technology, and we believe we're at the forefront in piloting use cases that will augment the capabilities of our employees. All the transformational work we have done over the past 3 or 4 years has put us in a strong position to accelerate our market-leading competitive advantage, driven by technology, data science and our experienced workforce.

In closing, we have a unique portfolio of diverse yet complementary businesses that contribute to our industry-leading returns. As we have reached the midpoint of 2023, it's a good time to reiterate our strategic priorities that we believe will continue to drive our success.

First, leveraging our product breadth and competitive advantage across the P&C and Group Benefits platforms will drive profitable organic growth. Second, underwriting discipline will guide a balanced risk profile, supporting long-term book value growth. Third, we will continue to prioritize digital analytics and data science investments that enhance the customer and agent experience to improve underwriting and claims decision-making. Finally, we believe ROE is the ultimate measure of quality underwriting, execution on priorities and prudent capital deployment. As such, we will continue to focus on exceptional ROE performance. We will continue to deploy excess capital in a thoughtful manner, prioritizing shareholder return and investments in future growth. Results over several successive quarters affirm that this strategy is working. With our strong track record, we are confident in our ability to deliver core earnings ROE in the 14% to 15% range.

Now I'll turn it over to Beth to provide more detailed commentary on the quarter.

Beth A. Costello
Executive VP & CFO

Thank you, Chris. Core earnings for the quarter were \$588 million or \$1.88 per diluted share. In Commercial Lines, core earnings were \$493 million. Our commercial book posted a very strong quarter and first half of 2023 with an underlying combined ratio of 88.3 and 88.4, respectively. Small Commercial continues to deliver excellent results with premium growth of 11% and an underlying combined ratio of 89.7. The quarter included higher non-CAT property losses within our packaged product as compared to the prior year quarter. Overall, we are pleased with the performance of the entire book evidenced by the 12th straight quarter of an underlying combined ratio of below 90.

Middle & Large Commercial delivered both a record for written premium of \$1 billion and an underlying combined ratio of 88.7. This was a 4.2-point improvement from the prior year, including favorable non-CAT property losses and expense ratio improvement. Global Specialty's underwriting margin was a strong 85, a 1.9-point increase from a year ago, primarily due to slightly elevated losses in a runoff line with our international book and a higher expense ratio due to a business mix in Global Re and higher underwriting and technology costs.

In Personal Lines, core loss for the quarter was \$57 million with an underlying combined ratio of 101.7. Homeowners underlying combined ratio of 79.6 was in line with expectations. Auto results reflected continued liability and physical damage severity pressure. The auto underlying combined ratio was in 111.8 for the quarter which is 11.8 points higher than the prior year quarter and is 5 points above our revised expectations from April and includes 3 points related to losses in the first quarter. This increase to our expectations is attributable primarily to a higher-than-anticipated number of large bodily injury and uninsured motorist claims.

For auto liability, we recorded no net increase in prior year reserves as increases of about \$60 million for accident year 2022 was offset by improvement primarily in accident years 2019 to 2021. As Chris indicated, we continue to pursue rate increases to offset the loss cost trends we are experiencing. Written premium in Personal Lines increased 6% over the prior year, driven by steady and successful rate actions. In auto, we achieved written pricing increases of 13.8% and earned pricing increases of 8.5%.

In homeowners, we achieved our highest written and earned pricing increases in over a decade of 14.4% written and 12.7% earned for the second quarter. The expense ratio decrease of 2.7 points was primarily driven by lower marketing spend. With respect to CATs, the industry experienced another quarter of elevated losses resulting in our Property & Casualty current accident year CAT losses of \$226 million, which includes the impact from tornado, wind and hail events across several regions of the United States. And while catastrophe losses were significantly elevated for the industry, our results were only slightly higher than expectations. Our effective aggregation management and underwriting discipline, especially in certain higher-risk states, helped limit our losses from convective storms in the quarter.

Total net favorable P&C prior accident year development was \$39 million with \$38 million in Commercial Lines as reserve reductions in workers' compensation and catastrophes were partially offset by modest reserve increases in general liability, assumed reinsurance and bonds. In Group Benefits, core earnings in the second quarter were \$133 million with a core earnings margin of 7.6%, reflecting strong premium growth and long-term disability results. The year-to-date margin of 6.4% is at the midpoint of our full year range of 6% to 7%.

The group life loss ratio of 84.1% increased 5.5 points versus prior year. Approximately 4 points of that increase is due to favorable prior period reserve development recorded in second quarter 2022. The remainder of the increase is primarily due to higher severity in the current quarter. Group disability continues to deliver strong results with a loss ratio of 67% for the quarter. The expense ratio improved 70 basis points and reflects strong top line performance and expense reductions related to The Hartford Next Initiative, somewhat offset by the continued investment in new capabilities to meet our customers' evolving needs and drive greater efficiency.

Fully insured ongoing sales in the quarter of \$151 million contributed to a year-to-date sales total of \$625 million. This, combined with the excellent persistency Chris noted in his comments, resulted in fully insured ongoing premium growth of 7% for second quarter. The economy remains quite resilient with solid employment levels and wage growth, both of which continue to have positive effects on the business.

Our diversified investment portfolio produced strong results. For the quarter, net investment income was \$540 million. Our fixed income portfolio is continuing to benefit from higher interest rates. The total annualized portfolio yield, excluding limited partnerships, was 4% before tax, modestly higher than the first quarter. Our annualized limited partnership returns were 2.9% in the quarter. Results within the first half of 2023 were stronger than expected given the resiliency of private equity returns, and we remain on track to achieve our expected full year 2023 target of 4% to 6%.

The overall credit quality of the portfolio remains high with an average credit rating of A+. Given the interest in the real estate sector, we wanted to provide an update regarding that portion of our investment portfolio, which remains consistent with what we discussed in our first quarter earnings report. As we mentioned, less than 10% of our commercial mortgage loan portfolio is in office exposures, all of which we view to be top-tier properties.

During the quarter, 2 loans were fully repaid for approximately \$90 million and manageable maturities are expected in the second half of 2023 and 2024. All loans remain current with respect to principal and interest payments with no delinquencies. CMBS holdings and credit quality are also largely unchanged given lower new issuance and limited trading activity. Our high-quality non-agency CMBS portfolio is primarily conduit focused and has limited exposure to office loans. Holdings are supported by diversified underlying pools of property and have significant credit support to absorb individual loan losses with manageable near-term maturities.

Turning to capital management, during the quarter, we repurchased 5 million shares for \$350 million. At the end of the quarter, we have \$2 billion remaining on our share repurchase authorization through December 31, 2024. Our second quarter results demonstrate that our franchise is well positioned to deliver consistent sustained industry-leading results. We believe that we have the strategies, talent and technology in place to continue to succeed.

I will now turn the call back to Susan.

Susan Spivak Bernstein
Senior Investor Relations Officer

Thank you, Beth. Operator, we have about 30 minutes for questions, and we will take our first question.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Alex Scott from Goldman Sachs.

Taylor Alexander Scott

Goldman Sachs Group, Inc., Research Division

First one I had is just on the comments you made on property growth earlier in the commentary. And I was just interested in how your catastrophe budget and what you'd expect from CAT losses will shift over the next year. Certainly, the CAT performance this quarter was quite good. So I'm just trying to get a feel for how that's shifting, if at all.

Christopher Jerome Swift

Chairman & CEO

Alex, thanks for joining us. As we talked about, improving and growing our property book and capabilities was paramount. And I'm pleased to report on a quarter-over-quarter basis, our property totals are up about 23% on a written premium basis. Pricing for the portfolio is up 15%. A couple of standout data points there. Large property is up almost 70% with 18 points of rate; wholesale properties, up 25% with 29 points of rate; and then our Global Reinsurance business is up about 50% with its property component and 30 points of rate.

So you can see, I think we're executing well in an attractive marketplace, and we feel good about what we're producing. I would just share with you that we're not taking on consciously sort of CAT-exposed property. I mean we want broad-based property coverages, primarily the fire peril. And if it comes along with some incremental or limited CAT exposure, we'll take it and price the CAT risk appropriately. So you should not think this is a CAT play for us, but rather a broad-based property approach. And every year, we provide our CAT loads to you. We feel good about our CAT loads for this year even with some slight elevation in the first half of the year. But that's what I would share with you, Alex.

Taylor Alexander Scott

Goldman Sachs Group, Inc., Research Division

Got it. That's helpful. And then in Commercial on underlying, anything you'd call out in terms of normalizing items? I mean, I guess, pretty squarely in your range that you guided to, but just trying to think through where our baseline is and how the acceleration in pricing can benefit underlying from here.

Christopher Jerome Swift

Chairman & CEO

Yes. I will share with you and sort of reprise what we talked about in the first quarter, but at a high-level summary, nothing's really changed from what we've talked about in the first quarter. We still feel good about the guidance that we put out. We're executing well. And remember, the fundamental thesis of the improvement in between years was loss ratio improvement, expense ratio improvement, and we were going to fight some headwinds in our workers' comp business. So all 3 of those components are playing out almost exactly as we've foreseen.

There's also -- remember, we talked about an earned premium impact that was slightly more leveraged on the second half of the year. So earned premiums will continue to increase through the compounding effect of rates. So I still see that and expect that in the second half of the year. The second point that we talked about was a mix more towards property and other lines that have just lower loss ratios that would mix in to help in improvement.

And the third thing that, again, we see every month when we review results with the team, our underwriting initiatives and how we're looking at terms and conditions in a thoughtful way continue to produce a loss ratio benefit. So you put all that together, it is still what we believe will emerge on a full year basis.

To your specific point, Alex, on any unusual items in the quarter, I would say there's probably 0.5 of a point or 0.5 point in total headwinds primarily from the non-CAT property losses that Beth talked about. We had favorability in Middle, had some offsets in Small. And then we have a runoff line of business, aviation war, in our international book. That business has been run off in the last 3 quarters, but we did have \$5 million of losses there. So I put those 2 pieces together, and I would normalize a full 0.5 point off of what we printed right now.

Operator

Our next question comes from Mike Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Great. A question on workers' comp. A couple -- it's been interesting hearing a couple of competitors but also broker talk about seeing a bit of an inflection in healthcare inflation on the medical side. I'm very cognizant and we are that Hartford has an extremely strong franchise in comp, highly profitable line of business. But -- and we just heard your comments too about kind of your confidence in margins. But just curious if you are seeing anything there on the margins in terms of an uptick in medical inflation impacting -- I guess, it could be Group Benefits too.

Christopher Jerome Swift
Chairman & CEO

Yes, I would say it's easier on Group Benefits because we don't -- we're not exposed to medical inflation there. Remember, our Group Benefits business, we replaced wages and don't have any exposure to sort of medical cost in total. And then what I would say, Michael, on comp, obviously, we have a lot of data points. We operate in all 50 states. But generally, our medical severity trends are consistent with what we talked about in the first quarter and lower than the 5% that we assume in our pricing and reserving. I'd say they're probably 50% lower at this point in time. Obviously, we're well aware of what's happening with broad-based medical CPI, but we're somewhat insulated from that. And we've talked about the reasons before, whether it be contracts on a state-by-state basis, our ability to challenge appropriate medical bills that are established to us.

And remember, we -- our biggest component of medical is usually physician visits. And we're not paying for a lot of hospital stays and really big medical procedures. So it's behaving very well. But we do keep an eye out for it for any changes or adjustments we need to make.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And my follow-up is just on loss cost trends on the -- more on the Commercial side, not on the Personal Lines side. It's good to see there's been some pricing momentum for Hartford as well. But just curious if loss costs are also inching higher, probably so there's still probably a good delta between pricing above loss trend. But curious, we're continuing to see a bit of reserve efficiencies for many in commercial auto and GL. And I don't think Hartford has been fully immune to that. So curious if loss cost trends also kind of maybe inching higher too.

Christopher Jerome Swift
Chairman & CEO

Well, you're right to say that generally, loss cost trends have had a -- or our pricing has had a healthy margin above trends, and that trend continues here into the second quarter. So we're pleased with the margin. And I would say for us, again, given our book of business, which is geared towards small and middle market enterprises, our loss cost trends have been fairly consistent. So I don't see anything in aggregate that is putting too much pressure on our trends at this point in time. So I would just say they've been consistent, Michael.

Operator

Our next question comes from Mike Ward from Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

Maybe just on non-CAT property in small and middle. Was it -- would you characterize that as a net benefit or a net headwind for Commercial Lines in the quarter?

Christopher Jerome Swift
Chairman & CEO

Yes, I would say it was a net headwind. That's what I said about that 50 basis points or 0.5 point of higher than expected property -- non-CAT property losses. And then if you put the aviation war losses that we booked in there, and that's in the international division, not small or middle, that's the 50 basis points of pressure I would normalize out.

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Michael Augustus Ward
Citigroup Inc., Research Division

Got it. Got it. Maybe on personal auto. Just curious, do you feel like the pricing that you've gotten in the quarter, was it what you expected? Is there -- is it more difficult with the regulatory environment? Or is it just severity is just higher than expected?

Christopher Jerome Swift
Chairman & CEO

Well, where do we begin? Again, if I look at how we thought about how the year was going to play out, it's totally different, honestly. I think the level of inflation pressure, the stickiness of it, particularly in physical damage, it's just overwhelmed many industry participants. So then the BI component, the severity ticked up a little bit for us. We had a little bit more uninsured motorist claims this quarter. So it's just really been a challenge.

What I would say on the positive side though is we're getting rate. We're -- the team is pushing really hard for rate that we could just file and use or file in those states that we need to get pre-approval. We're working the system as hard as we can. Both Beth and I talked about the rate increases that we got in this quarter, and we expect to have a written rate increase of 20% by the end of the year. And I suspect once we plan for '24, we'll probably be in that range of written rate need in '24 to get the book back to target profitability.

But when I put it all together, it's overwhelmed our judgments and estimates. Our judgments turned out to be too light as we're halfway through the year. And if you look at really what we printed on a 6-month basis, we're probably 8 points above our guidance for the full year. And that's probably a minimum of where the full year is going to come out at this point in time. But again, the positive news I want to leave you with and the optimistic side is we're executing well on our rate plans. We're really proactive with making the needed adjustments in a timely fashion, and that will continue into 2024 aggressively to get our book to target profitability probably in early '25 now.

Operator

Our next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Chris, maybe building off of that last comment because that was going to be one of my questions on personal auto. Recognizing, right, that's obviously been a hard business line for everyone in the industry. So when you say you're going to get back, potentially back to target profitability in early 2025, what -- do you envision needing double-digit rates between now and then? Or how are you seeing price and severity trend playing out over the next year-plus?

Christopher Jerome Swift
Chairman & CEO

Yes, with respect to sort of our prior views, I'm going to sort of hesitate to forecast too much, just given how just dynamic things are, Elyse. But what I would share with you, 2 important points. We do expect in the fourth quarter written rate increases in the book of about 20%. And again, an early view into '24 from our written price side is probably in that general range and vicinity.

We still see the stickiness and inflationary pressure on physical damage. And we're still cautious on what the BI, particularly the BI tort trends will be and then now the uninsured motorist trends, given where rates are most likely. So it's hard to predict, but as we sit here today, we think we need back-to-back years of about 20 points of rate increases in '23 and '24 into the book to get us to a place to be in a position to have targeted profitability in early '25.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then within Commercial Lines, in response to Alex's question, right, you confirmed, right, that the year is kind of trending as expected. You did highlight like some unearned rate, right, in the book. So is the right way to think about it that there could be a tailwind on the loss ratio just from that rate earning in, in the back half of the year, especially if loss trend is stable, like you said?

Christopher Jerome Swift
Chairman & CEO

Yes. Yes. I do believe the compounding effect of rate increases will increase. That was -- that's what our math shows, particularly in the second half. So yes, I think you got that right plus then the mix change and then the underwriting initiatives. And then we're still forecasting improved expense ratio in the second half of the year. So those are all the pieces, Elyse.

Operator

Our next question comes from Meyer Shields from KBW.

Meyer Shields

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

Chris, just trying to clarify, is the 0.5 point of non-CAT weather, is that the consolidated or commercial loss ratio?

Christopher Jerome Swift

Chairman & CEO

On commercial.

Meyer Shields

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

Okay. What about on the Personal Lines side?

Christopher Jerome Swift

Chairman & CEO

That wouldn't be a fair comparison to talk about commercial losses, how that impacts the Personal Lines. But I think you can do the math and add both pieces together if you're looking for a total P&C impact of those higher non-CAT losses. Is that what you're looking for, Meyer?

Meyer Shields

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

Yes, or just the Personal Lines impact.

Beth A. Costello

Executive VP & CFO

Yes. I just -- what I would say is on Personal Lines, especially if you look at homeowners, as I said, where we came in was pretty much in line with expectations. So I wouldn't point to any unusual non-CAT activity in that line.

Meyer Shields

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

Okay. That's helpful. Second question, also on Personal Lines. The expense ratio is actually doing well. And I was hoping you could just help us understand how much of that is reduced marketing and how much of it is incentive related?

Christopher Jerome Swift

Chairman & CEO

So Meyer, you were breaking up a little bit on me. I heard a question regarding expense ratio and what's driving the expense ratio improvement?

Meyer Shields

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

Yes, in Personal Lines.

Christopher Jerome Swift

Chairman & CEO

In Personal Lines?

Meyer Shields

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

Yes.

Christopher Jerome Swift
Chairman & CEO

Marketing. Mostly marketing, yes.

Operator

Our next question comes from Greg Peters from Raymond James.

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

Chris, Beth and team, maybe we can go back to the success you've been able to register in your commercial business from a new business production perspective. And I was struck by your comments around small business, Spectrum's growth. I think you called out E&S binding is another area of strong growth. And I just -- I'm curious about the effect of law of large numbers where incremental growth becomes more challenging. So how do you think about market conditions as you look, not today and what you've just reported, but you look going out into '24. Do you feel like your -- the customer strength is substantial enough that you can continue to put up these type of numbers? Or is there the potential that they could slow down if the economy sort of ebbs?

Christopher Jerome Swift
Chairman & CEO

Yes. No, I would say, and I'm going to ask Mo and Stephanie just to talk about what they feel in the market, market conditions and their ability to execute. But clearly, I believe, through the end of this year and into '24, I think, will be a market environment that is still robust from a rate and terms and conditions perspective. I think particularly in the property area, broadly defined, commercial property, homeowners property. And then if you look at some of the casualty lines, particularly commercial auto and some of the longer-tailed liability lines, I think it will be a conducive environment to grow and maintain or slightly expand margins going forward. So I'm pretty bullish on the next 18 months. But Stephanie first and then Mo, what would you say?

Stephanie C. Bush
EVP and Head of Small Commercial & Personal Lines

Sure. In Small Commercial, from a macroeconomic perspective, we continue to see signs of a healthy economy. Unemployment is low, new business starts in the Small Commercial space continue to be strong and still better than pre-pandemic levels. We still see strength in overall exposures. So we do not see any meaningful change, more of the same.

We're really pleased with the quality of our submissions and our submission flow. So I feel very positive in the quarter. We grew policies in force in every single line.

And as I've mentioned in the past, our agents, our distribution really respond to our overall business model. And then finally, I would add in the E&S Small Commercial binding space, very, very pleased with our results. We continue to see this to be a growing and profitable part of our business and we apply the same rigor and analytics to that book that we do to our admitted line. And we're really writing the business on our terms and price. So I'm very pleased with our execution and our position in the market.

Christopher Jerome Swift
Chairman & CEO

Mo?

Adin Morris Tooker
EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution

Greg -- and maybe I'll take the 2 pieces. So for Middle & Large Commercial, I think submission activity is up. So we feel good about that and in that continuing throughout the course of the year. And then what's exciting, I think, is a lot of the capabilities we've been putting in the market over the past couple of years are -- we're feeling good about our ability to grow scale there. And Chris highlighted 3 in the script, talked about construction, energy, entertainment. So these are the verticals in Middle & Large Commercial that we think, on the back of that submission activity, we hope that the growth can continue through year-end. And then similarly for Global Specialty, the growth is broad-based, and that gives me great confidence for our ability to maintain them.

Christopher Jerome Swift

Chairman & CEO

And Greg, last point. I do think the E&S market will continue to be a market that's attractive from a risk-return perspective and ultimately, a pricing side. So again, I see the E&S market remaining healthy over the next 18 months.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

Fair enough. That's good detail. I wanted to pivot for my second follow-up question to your comments around technology. You spoke about generative AI. You spoke about the initiatives ongoing at the company. And then I'm looking at The Hartford Next slide, too. So I guess what I'm curious about is just the view on technology spend inside the organization. It seems like there's always a lot more projects that you could spend money on, but you have to exercise some discipline. So can you talk to us about how you expect the budget for technology spend to evolve over the next 18 months or so?

Christopher Jerome Swift

Chairman & CEO

Yes, I'm happy to just give you high-level commentary. Obviously, we will plan appropriately over the next 3-year time horizon. But I would say Hartford Next program actually helped fund a lot of the investments that we continue to make today. So I would say it's been a successful program. It's nearing its end. We do have a continuous improvement mindset, so there will always be opportunities to reduce expense and create greater efficiency while continuing to invest thoughtfully in the next generation of technologies.

Broadly defined, Greg, I mean we run a sort of a constrained model. Everyone needs to compete for capital with the appropriate IRRs on their projects over a multiyear period. And that's generally how we do it. I think we've shared with you, we do expect significant structural savings over a longer period of time, particularly as we take all our data and applications to the cloud. We'll move about 100 apps to the cloud this year. Our Global Specialty business is completely in the cloud right now with all its business and data and apps. And that will generate meaningful savings. I would say probably about more '25 and beyond because there is a little bit of an upfront invest.

So yes, we're really proud of the team and how thoughtful they are on creating the business strategies and then the linkage to technology to create that differentiation for us in the marketplace.

Operator

Our next question comes from Brian Meredith from UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

So one quick numbers question, a clarification on the Commercial Lines side. Chris, I believe you said you think that the underlying margins in Commercial Lines should be stable or improved on a year-over-year basis, and look through 6 months is about 60 basis point deterioration year-over-year. Do you still think that's achievable?

Christopher Jerome Swift

Chairman & CEO

Greg -- or excuse me, Brian, I'm looking at underlying combined ratio on a 6-month basis of 88.4 compared to 88.2 last year. So I don't know where your math is, but that's 20 basis points...

Brian Robert Meredith

UBS Investment Bank, Research Division

No, I'm talking about loss ratio. Underlying loss ratio.

Christopher Jerome Swift

Chairman & CEO

Excuse me, sorry. I'm putting the 2 together because as I just talked about, we are focused on expenses. So to not give us credit for it, Brian, I think it's just not proper. So I'm putting the 2 together. And yes, as I said in my opening comments, when I put the 2 together, I'd -- we are going to have year-over-year improvement from 88.3 last year to somewhere below that on a full year basis. So that's all I'll say.

Brian Robert Meredith

UBS Investment Bank, Research Division

Perfect. No, that's perfect. I appreciate that. Second question, just moving over to Personal Lines. I'm just curious, from a claims perspective in personal auto, is there anything that you're doing or can do to maybe help mitigate some of these inflationary trends that you're seeing or catch it quicker in data and analytics? And also on that, are you seeing any difference -- I know it's really new, but any difference in the Prevail experience versus your legacy book?

Christopher Jerome Swift

Chairman & CEO

I will -- I'll add some commentary and then maybe I'll ask Stephanie to add commentary, Brian. I would say we feel good about our data and analytics that we have deployed. But again, the inflationary pressures here is time to repair, is wages in these repair shops. It just -- there's just a lot of pressure on, I'll call it, the economic system. So I don't think it's a backlog. I don't think it's a surprise or anything that is sort of unusual that you could sort of detect with trend lines. It's just more expensive to repair cars these days because they have more technology in them, and there's been more severe accidents driven by higher speed. And then you put the labor constraint on to it.

So that's what I see. I think our claims team does a fine job, a good job. We got a network of claim specialists that we use that helps out on our economics that if -- to stay in the network. So our customers and our claim handlers are incented to stay within there, but there's freedom of choice of where a customer would want to get their car repair too. So that's what I would say. Stephanie, but what would you add?

Stephanie C. Bush

EVP and Head of Small Commercial & Personal Lines

I agree with your points on the claim. From a Prevail perspective, a couple of additional points I would make. One, we're live in 22 states, and we're going to roll out -- we've been rolling out additional 4 in the month of July. It's a small portion of our total book because, as you know, it's new business. We are very pleased with the attributes and the quality of that business that we're writing. It is meeting our expectations.

And then the third piece that I would share is as we move forward, as you know, we've built that on a 6-month auto chassis. And so our ability to continue to get rate and get it in at a bit faster clip is also assisting, not only now in this environment, but over the longer term. So overall, we're really pleased with the business that we're writing.

Operator

Our next question comes from Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

Just a follow-up on Mike's question on loss cost trends. Even though you're seeing stability in loss trend, what kind of margin you're building for stuff you're not seeing now, but maybe on the horizon? Like you already spoke about seeing medical severity below your pricing reserving assumptions. Any color on stuff like social inflation, a rise of latent liabilities and claims frequency reverting back? It feels like it's down post-pandemic.

Christopher Jerome Swift

Chairman & CEO

Tracy, yes, I appreciate the question. Obviously, we pick a loss trend that contemplates a lot of the stuff that you talked about. So I can't break it down by product line for you. But just know that when we pick trend, particularly by line of business, particularly within GL, it does contemplate a lot of the social aspects that you talked about. Litigation financing is always top of our mind in some of these areas. And then you look at particularly terms and conditions and things that we're just not going to be exposed to.

The classic example is what we've done with pollution over the years with asbestos, how you exclude that on an absolute basis. Even the PFAS chemical these days, there's exclusions in our policies for those types of exposures, again, going forward. So again, I think our team is thoughtful from a risk side and trying to manage those long-tail either mass tort exposures that I think you're referring to.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

I'm curious, when did you put that PFAS exclusion in your policies? What year?

Christopher Jerome Swift
Chairman & CEO

I would say, Mo, 4, 5 years ago?

Adin Morris Tooker
EVP, Middle and Large Commercial, Global Specialty and Sales & Distribution

It's for those -- Tracy, it's for those industries where we think we have the exposure, there might be implicit exposure there. We started in the beginning part of 2022.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Would you think that pollution exclusion in GL is broad-based enough that it could include PFAS?

Christopher Jerome Swift
Chairman & CEO

What I would say in PFAS is, obviously, it's nothing new. We've been monitoring the exposures for many, many years. All the known exposure we have and discussion with our clients is included in our evaluation quarterly for reserving, and we make adjustments as we deem necessary. And also, part of our A&E cover that we've done with National Indemnity, the pollution portion of PFAS, not the bodily injury portion, but the pollution portion is available to be ceded to that cover.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Awesome. Just a really quick numbers question. So it looks like personal auto, your PIF declined year-over-year sequentially, and that makes sense given all the price increases. Why then is your retention going up? Is that a timing difference or something else?

Christopher Jerome Swift
Chairman & CEO

Yes. The honest answer is it's -- obviously, it's a calculation. Some of it could be influenced by our 6-month policy trend versus 12 months. But I'll have Susan follow up with you on the details of the calculation.

Operator

Our last question will come from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Chris, in your opening comments, you reiterated confidence in the 14% to 15% ROE. Obviously, we talked about the pressure we're seeing in personal auto. So it sounds like you do have some offsets or areas where you think you'll be better than original guidance. I realize you don't really like talking or updating guidance over the course of the year, but would be curious as to where you are seeing -- where you're more optimistic relative to your original targets?

Christopher Jerome Swift
Chairman & CEO

Well, what I would say is there's a lot of good things that are happening across the platform. Two of our biggest lines are performing well and probably better than we expected, workers' comp and disability. If I look at our investment portfolio, as far as yield, maybe slightly above where we planned. I think that will contribute. I think there will be a normalization of our non-CAT property losses that we talked about. We're out of the aviation war business. So that tail should be less impactful.

So I put those components to there. And even with the ongoing pressures, which I admit are continuing longer than we thought in Personal Lines, Personal Lines is still a relatively small business and its overall contribution to ROE will be muted by it just by its size. So we continue to buy in shares that we find attractive from a valuation side. So those are the component pieces I would share with you, Yaron.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Okay. I appreciate it. I would just note that I think the 2 larger businesses as of today, at least first half of the year, seems to be tracking in line with full year guidance. So I guess it would suggest further improvement or maybe in some cases, even significant further improvement from here?

Christopher Jerome Swift

Chairman & CEO

I'm going to resist talking about the future much more than I typically would.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Fair enough. And then maybe a quick one for Beth. I think new money rates have actually been coming down the last 2 quarters, if I look at Slide 13 of the presentation. Can you maybe talk about that?

Beth A. Costello

Executive VP & CFO

Sure. I think it's kind of mix, as you said, has been coming down from December. And one thing I would just point out is that when you think about our investment portfolio, and as we've said, we've not made any significant changes in how we think about asset allocation and so forth. But in any given quarter, what we're purchasing can change a bit. So if we look at where we are in second quarter versus first quarter and fourth quarter, a little bit lower in duration, a little bit higher in credit quality. So that mix can sometimes have an impact on how you just look at the sequential. What we're really pleased about is the differential between our reinvestment rate and the sales and maturity yield, still very healthy, and that's contributing overall to the improvement that we've seen in the fixed maturity yield.

Operator

We are out of time for questions. I would like to turn the call back over to Susan Spivak Bernstein for closing remarks.

Susan Spivak Bernstein

Senior Investor Relations Officer

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

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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