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HIG - Q1 2016 Hartford Financial Services Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 core diluted EPS of $0.95.

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PRESENTATION

Operator

Good morning. My name is Chris and I will be your conference operator today. At this time I'd like to welcome everyone to The Hartford's first-quarter 2016 financial results conference call. (Operator Instructions)

Thank you. Sabra Purtill, Head of Investor Relations, you may begin your conference.

Sabra Purtill - *The Hartford Financial Services Group, Inc. - SVP and Head, IR*

Thank you. Good morning and welcome to The Hartford's webcast for first-quarter 2016 financial results. The news release, investor financial supplement, slides and 10-Q for this quarter were all released yesterday afternoon and are posted on our website.

I did want to take this opportunity to apologize for the technical difficulties that delayed the posting of the supplement yesterday. While we do not expect to have this issue again, I wanted you all to know that we file the 8-K with the news release and supplement before we post the supplement on the website. And that's usually within just a few minutes after the news release comes out.

So even without yesterday's snafu you can always find the supplement in the 8-K before you will see it posted in the financial results section of our website. Just a heads up because we know that earnings nights are pretty hectic.

Our speakers today include Chris Swift, Chairman and CEO of The Hartford; Doug Elliot, President; and Beth Bombara, CFO. Following their prepared remarks we will have about 30 minutes for Q&A.

Just a few notes 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 forward-looking statements and investors should 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, which are available on our website.

Our presentation today also includes several 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 supplements.

I will now turn the call over to Chris.

Chris Swift - *The Hartford Financial Services Group, Inc. - Chairman, CEO*

Good morning, everyone, and thank you for joining the call. I am generally pleased with our results this quarter, particularly in Commercial Lines and Group Benefits, each of which delivered strong margins. We grew book value per share, excluding AOCI, 7% over the past year and achieved a 10.3% core earnings ROE, excluding Talcott. We repurchased $350 million of shares during the quarter and plan to complete our buyback program by the end of 2016.

However, core earnings were down 15% over last year as we continued to face some of the same headwinds from the second half of 2015. First, personal auto loss cost trends remain challenging, which impacted margins and led to strengthening reserves for the 2014 and 2015 accident years. Second, Commercial Lines performance has been very strong but competition continues to intensify, making it more challenging to grow at acceptable returns. And third, consistent with capital market activity, limited partnership investment income remained low, similar to the second half of 2015, with an annualized yield of only 1%. This was a difficult comparison with the first quarter of 2015, where returns averaged 14%.

Given these headwinds, I am pleased with the continued progress we have made in most of our lines of business. Doug and Beth will go into further detail about first-quarter performance, but I would like to touch upon a few highlights, both positive and negative.

We generated strong margins in Commercial Lines, supported by underwriting discipline across all of our businesses. Our all-in combined ratio improved 4.8 points due to lower catastrophes and higher favorable prior-year development, while the combined ratio, excluding catastrophes and prior-year development, improved 2.8 points to 89.6. Group Benefits remained strong with a core earnings after-tax margin of 5.5%, topline growth from good January sales performance and solid in force book persistency. Although Mutual Funds core earnings were down slightly, the business continues to deliver steady investment performance and had positive flows in equity funds.

In February, Barron's recognized our 2015 investment performance, naming Hartford Funds as a top 10 fund family for the third time in the last four years.

While many of our businesses sustain their track record of underwriting improvement, Personal Lines results were disappointing overall. The combined ratio, excluding catastrophes and prior-year development, improved slightly to 89.7, but this was entirely attributable to the very strong homeowners results due to lower non-cat weather and fire losses. However, personal auto results deteriorated with a 1.6-point increase in the combined ratio, excluding catastrophes and prior-year development.

Doug will talk about the underlying trends that contributed to this results as well as the initiatives we have underway to improve profitability, including pricing actions.

Given these trends and the time needed to implement responsive actions that earn in, we currently expect the 2016 Personal Lines combined ratio, excluding catastrophes and prior year development, to be at or above the high end of the 90 to 92 outlook we provided in February.

Turning from our financial results, I would like to provide an update on a few recent investments in products and distribution that make us a broader and deeper risk player.

On March 16 we announced our agreement to acquire Maxum Specialty Insurance Group, a well-respected E&S insurer with an experienced management team and a strong underwriting culture. The addition of Maxum will further strengthen our market leadership in Small Commercial by extending our product capabilities, adding E&S talent and helping to improve the customer and agent experience. We are hard at work on our integration plans.

Our management team recently spent time with Maxum employees, introducing them to the extended team and to the opportunities The Hartford will bring to their business.

In terms of the transaction process, we filed our Form A with the Delaware regulator this month and expect to close the acquisition in the third quarter. We are all eager to begin working together and to demonstrate the power of our joint capability, once this deal closes.

We also announced the expansion of our international insurance placement capabilities for Commercial Lines customers. Our new alliance with AXA Corporate Solution enables us to offer US customers coverage for their international exposures - with the primary focus on developed markets such as Europe and Asia. The Hartford will maintain underwriting and pricing control of these policies and will assume 100% of the risk through a reinsurance agreement with AXA.

Aside from these two projects, we are hard at work on other initiatives and investments to accelerate premium growth and improve our operating capabilities. I look forward to sharing our progress with you in the future.

Before turning the call over to Doug, I would like to comment on some of the changing dynamics in the P&C industry. Some carriers are retreating or refocusing their businesses due to poor underwriting results, while others are undergoing strategic leadership changes. Technology-based disruption is accelerating, affecting all industry participants. At the same time, we see competition intensifying, continued low interest rates and loss cost challenges such as in personal auto.

We recognize the challenges posed by these dynamics, and I remain confident in our ability to navigate this more difficult environment, including the work required in Personal Lines. The Hartford has a strong foundation and an experienced management team with the resolve to maintain underwriting discipline and expense control. We are reacting to these changes in the landscape and are focused on execution.

Now I will turn the call over to Doug.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Thank you, Chris, and good morning, everyone. We started 2016 with strong results in Commercial Lines and Group Benefits, continuing our solid execution from 2015 and successfully adapting to a changing competitive landscape. Results in Personal Lines were disappointing as we took reserve actions to address emerging auto liability loss cost trends.

I'll share more on Commercial Lines and Group Benefits in a moment, but first I'd like to cover our results for Personal Lines.

Core earnings for Personal Lines were $23 million for the quarter, down from $75 million last year. Catastrophe losses were $22 million higher than in 2015, which was a particularly light cat quarter for Personal Lines. First quarter of 2016 included several well-documented storms in Texas, where we have teams currently deployed to assist our customers.

Also included in core earnings this quarter is $65 million pre-tax of adverse auto liability development, primarily related to accident years 2014 and 2015, partially offset by favorable development in property. The adverse auto liability development for accident year 2014 resulted from bodily injury severity trends with losses emerging more slowly than we expected. As more claims from this accident year are reaching settlement, we recognize that our previous reserve estimates were too optimistic.

For accident year 2015, our auto liability booking reflects the higher severity estimates carried forward from 2014 as well as increased frequency trends. Our revised estimate of ultimate frequency trend for the third and fourth quarters of 2015 is now approximately 1 to 2 points higher than we estimated at year end, reflecting the continued reporting of bodily injury claims from those accident quarters.

That puts our frequency call for the second half of 2015 in the mid-single-digit range. The Personal Lines underlying combined ratio, which excludes prior-year period development in catastrophes, was 89.7, improving 0.2 points from last year. Favorable non-catastrophe homeowner losses and

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a lower expense ratio more than offset adverse auto losses. Frequency, which picked up in the second half of 2015, appears to be moderating somewhat in the current accident quarter at 2%. Severity, on the other hand, has notched up to 4%.

Overall, we believe that our loss cost trends are consistent with recent quarters. However, as frequency and severity matures, our accident quarter estimates may change.

As we continue to analyze the underlying trends and understand what is driving them, we nevertheless recognize that we need to take actions to address the profitability of our auto book. We are working aggressively on several fronts. First, our rate filings in the first quarter of 2016 were double the number from first quarter of last year, representing an average rate change in the applicable territories of 6.5%. The number of rate filings we have planned for the full year is 40% higher than in 2015 with an average increase in those territories of 6.6% in direct and 8.5% in agency.

Given that we mainly issue 12-month policies, much of the 2016 filed rate change will earn into the book in 2017.

Second, in addition to addressing the underlying market trends with rate, we're taking other targeted actions to improve our profitability. In agency we have terminated 2,200 unproductive relationships, de-authorized 2,300 agents from the AARP program and rolled out a new compensation structure focused on key partner agents.

Agency written premium was down 8% in the quarter. However, AARP agency was up 6%. We expect this shift in business mix toward AARP members and our more highly partnered agents to contribute to improved profitability over time.

On the direct side we're targeting our marketing spend to more adequately priced customer segments and addressing underperforming business with targeted pricing and underwriting adjustments. Our program with AARP remains the cornerstone of this business. We are confident that we have head room for growth with the current membership base. And as we have seen over many years with this business, we will continue to deliver both strong customer value and profitability.

While Personal Lines clearly has challenges to address, I'm very pleased with our results in Commercial Lines, where we continue to prioritize retentions and margins over growth amid increasing competition. We delivered core earnings of $249 million with a combined ratio of 91.1. This was an earnings increase of $15 million from first-quarter 2015 and a combined ratio improvement of 4.8 points. Lower property losses, favorable prior-year development and improved workers compensation margins were largely offset by a decline in net investment income of $37 million after-tax.

Catastrophe losses for the quarter were $14 million less than in 2015. While first-quarter catastrophe losses were above our expectations in both 2016 and 2015, this is typical volatility associated with storm activity. Intense weather in the Southwest, particularly late in the quarter, has continued into April and we are fully engaged to meet the needs of our customers.

Renewal written pricing in standard Commercial Lines was 2% for the quarter, flat to the fourth quarter of 2015. I am very pleased with this outcome and our continued balance of retention, pricing and new business.

Loss trends and workers compensation remain favorable and returns are within our target range. We released workers compensation reserves across Commercial Lines, reacting to the favorable emerged frequency we have experienced in more recent accident years, along with the continued benign severity trends.

We had adverse development in general liability including the GL component of the Small Commercial package business, often referred to as business owners' policy or BOP. Within certain risk classes we have seen an increase in claims with greater complexity and likelihood of litigation. Losses on these claims have tended to emerge more slowly and we have revised our estimates accordingly.

Looking at Small Commercial, the business continues to perform extremely well. Strong margins posted again this quarter, along with continued topline growth, reflect the momentum we have generated in this key market segment for us. The underlying combined ratio was 86.7, 2.9 points better than last year.

The improvement was driven mainly by favorable non-catastrophe property losses and a modest improvement in workers compensation results.

Written premium was up 2% in the quarter, reflecting strong retention and solid new business growth, even as competitive conditions intensify. New business of $146 million was up 4% from 2015.

Moving over to Middle Market, we posted an underlying combined ratio of 92, improving 1.7 points from first quarter of 2015. The improvement is largely driven by favorable non-catastrophe property losses and continued margin improvement in workers compensation.

Written premium declined 4% in the quarter. We are pleased with our retentions and ability to maintain solid pricing levels.

However, new business was down $21 million versus last year. Our submission flow was off 7% this quarter versus a year ago as well as more accounts falling outside our underwriting and rate adequacy thresholds. I suspect that higher retentions across our competitors, coupled with our targeted underwriting message, are driving this result.

We expect moderated business levels over the next few quarters as we balance growth aspirations with our objective to maintain the improved profitability that we have worked hard to achieve.

Within Specialty Commercial, the underlying combined ratio of 94.3 improved 4.8 points versus prior year, reflecting particularly strong margin improvement in National Accounts and Financial Products. Favorable prior year development in Financial Products contributed to Specialty Commercial's combined ratio of 76.5. This is based on our continued favorable experience in D&O.

National Accounts continues to perform well under market conditions very similar to Middle Market. Competition is intense but we are comfortable with our retentions and the new business accounts we are winning.

Finally, circling back to Group Benefits, we delivered solid results with core earnings of $48 million, down approximately 8% from 2015, producing a core earnings margin of 5.5%. The main drivers to the decline were lower net investment income and slightly higher losses, offset by lower expenses. The overall performance of our group life and disability book remains strong and I am pleased with our operating performance.

The modestly higher loss ratio is primarily due to the year-over-year volatility in AD&D claims and disability severity, driven by slightly higher average wage on recent claims.

Looking at the top line, fully insured ongoing premium was up 1% for the quarter. Overall book persistency on our employer group block of business continues to hold around 90. Fully insured ongoing sales were $266 million for the quarter. This was our second-highest sales quarter over the past six years, surpassed only by first-quarter 2015, which was exceptionally strong.

In summary, we are well-positioned across Commercial Lines and Group Benefits to meet the challenges of increasingly competitive conditions. We are focused on retaining our accounts and maintain margins. And in Personal Lines we are aggressively addressing loss trends through numerous pricing and underwriting actions.

Let me now turn the call over to Beth.

Beth Bombara - *The Hartford Financial Services Group, Inc. - CFO*

Thank you, Doug. I'm going to cover the other segments, the Investment portfolio and our capital management actions before we turn the call over for questions.

Mutual fund core earnings were down $2 million from the first quarter of 2015, due to the impact of lower average AUM. Total AUM was down about 6% from a year ago, consisting of the 3% decline in Mutual Fund AUM, principally due to market levels, and a 17% decline in Talcott AUM, primarily reflecting surrender activity.

Fund performance remained solid with 56% of all funds and 68% of equity funds outperforming peers over the last five years. Net flows were a negative $186 million as positive equity net flows were more than offset negative flows in fixed income. Over the last 12 months net flows were a positive $776 million. Talcott's core earnings declined from $111 million in the first quarter of 2015 to $77 million, slightly below our outlook as limited partnership income was significantly below our 6% annualized return assumption.

Limited partnership returns impacted all of our segments, which I will cover in more detail in the investment section. Surrender activity was lower than last year at 6.7% for variable annuities and 4.4% for fixed annuities. Annualized surrender rates in the first quarter of 2015 were at elevated levels of 10.9% and 6.2%, respectively, as they included the impacts of several contract holder initiatives, all of which concluded in 2015.

Corporate reported a slightly better core loss of $51 million compared to a core loss of $62 million in the prior year. The primary driver was lower interest expense due to our debt capital management program.

Turning to investments, our before tax portfolio yield excluding limited partnerships was 4.1% this quarter, consistent with both the first and fourth quarters of 2015. Nonroutine investment income such as make-whole payments on bond calls, was minimal this quarter, totaling $6 million before tax compared to $26 million in the first quarter of 2015. The P&C portfolio yield, excluding limited partnerships, declined to 3.8% from 4% in the first quarter of 2015, primarily due to lower nonroutine investment income and a reinvestment rate over the last 12 months that was lower than the overall portfolio yields.

This quarter's yield improved slightly over the 3.7% achieved in the fourth quarter, primarily due to lower investment expenses.

Pretax investment income from limited partnerships was $8 million or an annualized yield of 1%, compared with $99 million or a 14% annualized yield in first-quarter 2015. While returns on limited partnerships are volatile, our annualized return over the last three years was 9%, well in excess of our 6% planning assumption.

The decline in income this quarter is due to losses on hedge funds and lower income on real estate funds compared to the prior year, which benefited from gains on sale of underlying properties.

Our hedge fund performance has generally been better than the Global Hedge Fund Index. However, hedge funds in general have not performed well recently and we have been reducing our allocation to them over time.

The credit profile of the investment portfolio remains strong. Total impairments and mortgage loan valuation reserve charges in the quarter were $23 million before tax compared with $42 million in the fourth quarter and $15 million in the first quarter of 2015.

Energy-related credit impairments have increased in the past year as credit deterioration and downgrades continue in the sector. Our energy portfolio totaled $2.4 billion at March 31, 2016, down from $2.5 billion at year-end 2015 and $3.7 billion at year-end 2014, a reduction of 36% over the past five quarters. We sold about $200 million of energy exposure during the quarter, resulting in a net realized loss of about $30 million before tax. As energy prices have remained volatile, and we continue to manage our exposure proactively with a preference to own higher-end quality credits that we believe can withstand a "lower for longer" price environment.

To conclude on earnings, first-quarter core earnings per diluted share were $0.95, down 9% from first-quarter 2015, largely due to decreased limited partnership income and the results in personal auto. The 12 months core earnings ROE was 8.8% in total and 10.3%, excluding Talcott. The P&C core earnings ROE was 12.7% and Group Benefits of 10.2%. These are strong results, given the difficult operating and capital markets environments over the past year.

Turning to shareholders equity, book value per diluted share excluding AOCI rose 7% from a year ago, resulting in total shareholder value creation including dividends over the past 12 months of 8.7% versus our target of 9%. During the quarter we repurchased 8.4 million shares for $350 million at an average price of $41.72 per share. During April as of the 27th, we have repurchased $105 million, leaving $875 million remaining under the authorization.

As you know, we tend to be consistent in our approach to repurchases, and expect to use the remaining authorization over the balance of the year.

To conclude, in 2016 we remain focused on maintaining margins in Commercial Lines and Group Benefits and working to improve performance in Personal Lines. Despite challenging capital markets, our investment portfolio continues to perform well and we are focused on effectively and efficiently managing the runoff of Talcott.

I will now turn the call over to Sabra so we can begin the Q&A session.

Sabra Purtill - *The Hartford Financial Services Group, Inc. - SVP and Head, IR*

Thank you, Beth. Just a reminder that we have about 30 minutes for Q&A. If you have to drop off or if we run out of time before we get to your question, please email or call the IR team today and we will follow up with you as soon as possible.

Chris, could you please repeat Q&A instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jay Cohen, Bank of America Merrill Lynch.

Jay Cohen - *BofA Merrill Lynch - Analyst*

I'll start on the personal auto side. I was a little surprised, even though you talked about pressure that you saw and you took the reserve action, when looking at the accident year ex-cat combined ratio for auto, it actually got quite a bit better than second half of last year.

I would have thought, given the pressure that you saw, you would have kept a relatively high loss pick. I'm wondering why it got better from the second half of last year.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

I can go back and look at those numbers specifically, but obviously we had pressure in the back half of last year as talked about in the last couple of quarters, particularly on the frequency side.

This year, as I commented, our frequency is in better shape. But overall, our loss trends are generally similar. The rating actions, though, that we were starting to take last summer are earning their way in. So we are now starting to begin, just begin, to see the impact of the changes that we are rolling through the book. So we are trying to offset what we are seeing in loss trend with actions we are taking to combat that.

Beth Bombara - *The Hartford Financial Services Group, Inc. - CFO*

I just wanted to add to that. The other thing you have to keep in mind, too, is there is seasonality in the auto results. So we typically, when we look at the compare, would go to the prior year, where you will see that our combined ratios on an ex-cat, ex-prior development for auto, are up. So you do have to keep in mind the seasonality.

Jay Cohen - *BofA Merrill Lynch - Analyst*

That's really helpful. But it sounded as if the claims trends, the claims experience you had in second half of last year, hasn't gotten worse; you just needed to go back and make sure the reserves from 2014 and 2015 were right. But it doesn't sound like these have gotten even worse from where you were second half of last year. Is that fair?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

What I would say is that we did see a little uptick in the frequency of our second half. And maybe this is just a good moment for me just to define the frequency.

I think it's a complicated measure and I think it's important that we all understand exactly what we are saying. So let me just say this.

For us frequency does not solely equal just the number of accidents. Frequency is a function of the number of accidents and the number of coverage elements associated with the original collision. So, for example, a given accident will receive an initial report, essentially, of physical damage or a collision claim.

But as that claim develops, additional coverages may be involved such as medical, uninsured, underinsured or uninsured or other BI elements. As a result, our method for calculating frequency includes both the collision but also the other coverages involved. And so what we saw in the first quarter was a development on the BI side of our frequency for the second half of 2015. It was not a development of the number of collisions but it was the BI associated. And we include that in our calculation when we share our ultimate picks of frequency.

And maybe one last clarifier -- when we do share frequency trends, we are providing an estimate of claim accounts developed to ultimate for that accident period. Based on accidents and related claim reported, we estimate how many more claims we expect to be reported for that accident period and that becomes our frequency measure. So it's not a calendar year end take across claims, it's not some of the other things that may be others may be reporting.

Ours is our best shot at the ultimate frequency in the quarter. And what changed in Q1 for 2015 was the BI components of our collision claims second half of the year.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Got it. That's helpful. Thanks, Doug, for that clarification.

Operator

Ryan Tunis, Credit Suisse.

Ryan Tunis - *Credit Suisse - Analyst*

I'd like to hear Doug talk a little bit more about the competition in middle markets. I think along those lines, just seeing renewal rate increases in standard commercial holding at 2%, retention did dip a little bit -- just curious. Is it fair to say that, given where pricing is now, the strategy is to maintain margin even if it potentially comes at the expense of some growth and some retention?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Ryan, that's a really fair way to say it and I'm very pleased with the first quarter in Middle Market. We are seeing intensified competition. Very satisfied with our pricing performance and extremely pleased with our solid retentions.

When I step back, though, I want to be thoughtful about how we draw the line around new business. And you just saw that our dollars were down. But we are satisfied we are making good choices, and I'll make that trade any day because we've worked too hard to get our profitability to where it is today to let that move back in a different direction. So that is the balance that we are trading on across all desks across the country. I'm pleased with the first-quarter start to 2016.

Ryan Tunis - *Credit Suisse - Analyst*

Okay. And just to follow up on Jay's question, I think what I'm just trying to get comfortable with is what we saw in the back half of last year, it sounds like, is a lower initial frequency that developed into something higher over the next six months or so. And now you are saying in the first quarter you had a lower number.

How can we get comfortable with the fact that over the next couple quarters with that -- I think you said 2% frequency in 1Q wouldn't develop into something like 6%? Are you reflecting that elevated BI frequency development in the way you picked the 1Q reserves, if that makes sense?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

So we have tried to understand the dynamics of what happened in the back half of 2015 and build some of those indications into the way we are projecting first quarter of 2016. Obviously, there's a different economic and driving climate. We understand that. We are trying to build that into our predictions. But we are fairly satisfied that we feel like we have a good shot at what we think happened in the first quarter, have reflected that in our financials.

But I will say this to you, that the market has changed on us. It's the reasons that our filings are up -- we are pricing for a different level of market in auto activity. And I think between what we're doing on the pricing side and the actions we are taking on book management, we expect to see improved progress in our auto book of business in the coming quarters, maybe not all of it in Q2, but certainly the back half of the year we expect to see demonstrable progress in our auto results.

Ryan Tunis - *Credit Suisse - Analyst*

That's helpful. Thanks so much.

Operator

Michael Nannizzi, Goldman Sachs.

Michael Nannizzi - *Goldman Sachs - Analyst*

Just following up a little bit there, Doug, you guys talk -- it seems like where most of the conversation here has focused on the frequency trend from 2015, but it sounded like from your filing or your release that the charge was attributable both to a lift in severity on the 2014 book as well as frequency trend. Can you help us understand those components, the magnitude of the two? And if it's a base year in 2015 on severity -- how that impacted both 2014 and 2015 accident years on that front?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Sure, Mike. And good question, and multiple features to the question. A couple thoughts: 2014, our change in our reserve position clearly is driven by the bodily injury movement that we have now seen. I would start by saying that our early look on 2014 through the first 12 months, even into the early part of 2015, was very, very positive.

In fact, I would say that that year was running extremely positive, relative to the prior years.

And then things started to shift throughout 2015. And clearly, as we looked at that book of business the last 90 days, we have seen pressure there. So we went back and adjusted 2014.

It might be a surprise for people to understand how much of our open bodily injury claim book is still open, unpaid as of 12/31/2015. I'm talking about accident year 2014 unpaid at 12/31. Between 40% and 50% of our BI claims are still open.

That is the component that we have seen more pressure to close. Those that are closing are closing for greater dollars than we expected, and it is costing us greater dollars to defend those cases as well.

So what we saw through that loss component is what drove us to 2014. And then you are right; we rolled that change in 2014 through 2015 and also had to reestablish our expectations and our base for 2016 as well.

Michael Nannizzi - *Goldman Sachs - Analyst*

Can you give some dollars in terms of magnitude, how much was severity, how much was the 2014 issue, how much was the 2015 frequency issue?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

The 2014 issue was all severity.

Michael Nannizzi - *Goldman Sachs - Analyst*

Okay, I know but it's $52 million was the total charge. Right? Like development charge. So can you tell us -- I just want to understand the order of magnitude on the development dollars for the 2014 issue and the 2015 issue.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

So, the $65 million was 2014 and 2015 primarily, right?

Michael Nannizzi - *Goldman Sachs - Analyst*

Yes.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

And half of that was 2014, which was all severity. In 2015 --

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Michael Nannizzi - *Goldman Sachs - Analyst*

And the other half was -- okay.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Right, and in the 2015 year half of the $32 million-ish was frequency and half of it was severity.

Michael Nannizzi - *Goldman Sachs - Analyst*

Great. Thank so much for that. And also I guess, putting into perspective, Personal Lines, probably a quarter of your underwriting profitability on a run rate basis, looking at Commercial Lines here, you talked also or Chris talked in the script about running at the high end of the range on Personal Lines.

Where does 1Q put you on your scale in terms of Commercial Lines?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Mike, I would suggest this to you. When I look at Q1 2015 versus 2016, we ran 2.8 to 3 points better, ex-ex, year-to-year. Probably about half of that has been favorable property experience. The other significant chunk inside that change is our workers comp experience. I expect our comp experience to continue going forward. Based on all of what we can see inside our current signals, that to me looks repeatable as we move forward.

The property -- we had a very good quarter. I'm hoping for better quarters. I know we are taking better underwriting actions. But I can't count on all that property going forward. So I think there's maybe 1/3 to 1/2 of that that is repeatable. And I hope we can repeat the property as well.

Michael Nannizzi - *Goldman Sachs - Analyst*

Got it. And just -- go ahead, Chris.

Chris Swift - *The Hartford Financial Services Group, Inc. - Chairman, CEO*

I just wanted to follow up on Doug's point because when we look at our, particularly in our BI activity -- and Doug said we still have substantial reserves open for the older accident years. There does seem to be -- again, this is anecdotal right now. But there is a more litigious environment that we face.

So as Doug described, the elements of our severity -- there could be more of them. But there seems to be much more litigation, jury awards that are exceeding some of our initial expectations and reserve adjustments that we are reflecting through 2015 into 2016 here.

Michael Nannizzi - *Goldman Sachs - Analyst*

Great. Thanks so much.

Operator

Jay Gelb, Barclays.

Jay Gelb - *Barclays Capital - Analyst*

For Chris and Beth, I want to get your sense as to looking at the 2016 guidance that was provided last year. Do you still think it's achievable to get to the low end of that guidance of $1.575 billion of core operating earnings before the other legacy P&C impact?

Chris Swift - *The Hartford Financial Services Group, Inc. - Chairman, CEO*

So the guidance that we provided at year end -- I think everyone understood the assumptions based in that, particularly as it relates to prior-year development, our investment partnerships, our combined ratio picks for Commercial and in Personal Lines. So we are out of the business of updating quarterly, but I think you determine the sensitivities, particularly as it relates to Personal Lines, particularly as it relates to our net investment income and partnerships. So I think you should be able to understand where that is coming out right now.

So as we sit here, one quarter into it, there's still three quarters to go. There's items that could break our way or things that we will need to continue to manage. So we're not giving up on the year and still feel that the guidance we gave was appropriate.

Jay Gelb - *Barclays Capital - Analyst*

Understood. And then for the return on equity profile, the 9% return on equity for the entire Company -- that was achieved during the trailing 12 months. But I'm wondering if there might be some more downside pressure to that level, especially given net investment income, if not the Personal Lines impact.

Chris Swift - *The Hartford Financial Services Group, Inc. - Chairman, CEO*

Yes; I think the prior comments and your question here go hand-in-hand. They are both obviously interrelated. To the extent that the numerator in the equation gets a little softer, that's going to affect the overall ROE. So I would agree with you that there are some pressures we face.

But we are only one quarter in, so we are going to continue to work very, very hard, Jay, as you know.

Jay Gelb - *Barclays Capital - Analyst*

Fair enough. Thank you.

Operator

Randy Binner, FBR.

Randy Binner - *FBR & Co. - Analyst*

I just wanted to follow up on some of the personal auto stuff again. So I think I was, just as a follow-up to everyone else, trying to get to the actual why claims are worse on the severity side. And I think there was a comment in there that litigation is broadly worse.

So I just wanted to understand that. It's not more accidents, necessarily; it's that more BI claims are developing poorly? So is that a result of litigation? Is it a result of people having worse injuries? Are you having an older driving population? Can you just flesh out what's actually happening there?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Sure, Randy. Let me take a crack at it.

We certainly felt an increase in collision frequency, physical damage frequency, second half of 2015. That appears to have settled down and our numbers in the first quarter are reasonably quiet, flattish. But as we shared with you last year, that's off a tough compare. So feel pretty good about collision accidents in the first quarter. Keep in mind weather was relatively tame, so have to understand that as well.

On the liability frequency, we are seeing more features, more BI components to the collisions that are being reported. And we are addressing them. So in 2015 the uptick in frequency was both more features, more coverages attached to those collisions. And that is rolling into 2016, relative to our expectations.

So we have reset baseline, if you will, for 2016. We have built in our pricing programs what we think are new norms for severity and frequency. And we are working our way through dealing with meeting an improved financial outlook and profile for this business. We will get there.

Randy Binner - *FBR & Co. - Analyst*

So when you say more features, is that because more coverages are wrapped together in the products you are selling? Or is it just a higher likelihood that someone has BI? Or is it more just that, because you have half your claims still open, the trial bar is being more effective at prosecuting those?

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Yes, it's not more features on the policy, for sure. What we think some of the condition is due to is that we are clearly seeing higher speeds on highways and more highway accidents. So with higher speeds, those are more difficult accidents with more people hurt and more damage caused by those accidents.

So I think it's the complexity and the speed of some of these accidents and we are feeling pressure inside our liability, bodily injury component of getting these cases closed.

Randy Binner - *FBR & Co. - Analyst*

You mentioned -- is that the industry norm to have half the claims still open? It seems about right, but I'm just wondering if that's normal and if, as part of these initiatives, in addition to just raising prices if there's anything you can invest in more on the claims side, if these are becoming more complicated claims.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

So a couple of parts to that answer. First thing is I think that that range of 40% to 50% of open bodily injury claims on an accident year that's 18 months out is completely within the norm. So I would start there.

Secondly, although I've talked about many of our underwriting and book management initiatives, there are equally as many claim initiatives that we are embarking on, both ourselves -- we are looking at system dynamics. We are looking at how we can cut data more effectively. And so there are a number of diagnostics that we are dropping on the desktops of our claim examiners so we can do absolutely the best job possible adjudicating claims.

Randy Binner - *FBR & Co. - Analyst*

Thank you, that's perfect. And I want to sneak in one more just to make sure it gets asked. I know that you have a cat budget for the second quarter which incorporates a lot of things that happen in May and June. But is it possible for you to comment if you are ahead of budget so far for April, in light of the continued storms in Texas?

Beth Bombara - *The Hartford Financial Services Group, Inc. - CFO*

Sure, I'll answer that. So yes, our budget for second quarter is $151 million. And we look at that evenly across the three months, a third, a third, a third. So if you think about a budget for April, about $50 million, we are running a little bit above that at this point. There obviously has been a lot of activity.

So the month of April has come in strong as it relates to cat activity. And we will obviously continue to monitor it through the rest of the quarter.

Randy Binner - *FBR & Co. - Analyst*

Perfect, thanks.

Chris Swift - *The Hartford Financial Services Group, Inc. - Chairman, CEO*

Let me just make an observation. As Doug said I said in my prepared remarks, we are obviously not happy and disappointed just where we are at particularly in Personal Lines. But you should know that we are doubling our efforts down to fully understand these trends, take the litany of actions. And it's not only rate, as Doug said in his remarks.

There's a number of other actions that we are aggressively getting after. And just know that there is a tremendous amount of energy on the Personal Lines team to get our arms around these issues and get back caught up to trend.

So I'm confident we can get our arms around this. We know what needs to be done. It's going to take a little bit of time. But just know the energy and commitment that we are devoting to this.

Doug Elliot - *The Hartford Financial Services Group, Inc. - President*

Maybe one final comment, and this really is a comment across several of the questions today. I think we've commented over the years that our AARP business has been more profitable and continues to be. So as you looked into both my comments about our rating actions, which have a little more intensity around what we are doing in the agency space and also the fact that, if you look at the premium indications, I gave you some growth numbers and you have a sense that we are down overall in agency, and you saw based on my comments that we are up in AARP agency. I think that gives you a signal that our agency business is down significantly in the quarter.

We feel good about that mix. We are mixing toward the strength of this franchise, which is a mature driver. We are being thoughtful about our class programs. We are adjusting as we go. But I'm very confident that, based on all the actions we are taking, we are going to see progress over the course of 2016.

Randy Binner - *FBR & Co. - Analyst*

All right, thanks for the comments.

Operator

(Operator Instructions) John Nadel, Piper Jaffray.

John Nadel - *Piper Jaffray & Co. - Analyst*

Maybe a question for Beth -- but now that you have completed the original $1.5 billion dividend plan out of Talcott, the $500 million, $500 million and $500 million, and your stress scenario that you presented to us last quarter seems to indicate a pretty sizable capital cushion, I'm curious whether you have any intention at this point of going back to the insurance regulator to present perhaps another plan to extract more capital beyond the $200 million or $300 million normal dividend that you are already expecting to take out annually.

Beth Bombara - *The Hartford Financial Services Group, Inc. - CFO*

So for 2016, for the remainder of 2016, as we've said, we are anticipating taking out another $250 million in the second half. And for 2016 that is all we are intending to do at this point.

As we roll into 2017, we will obviously continue to look at overall capital generated in Talcott as well as just the runoff activity to determine if there's additional dividends beyond just that normal $200 million to $300 million. But that we would look to update more towards the end of this year.

John Nadel - *Piper Jaffray & Co. - Analyst*

Yes. I'm just curious about whether you have plans to -- not something that would necessarily be actionable in 2016, but you guys had obviously teed it up with the regulators sometime in advance of the $1.5 billion over an 18-month period of time. I'm thinking something similar to that. I'm looking at the policy counts and looking at the net amount at risk and the continued runoff of the annuity business. It looks like that might be setting up for some further opportunity. That's all.

Beth Bombara - *The Hartford Financial Services Group, Inc. - CFO*

Yes, and again, over time there obviously is additional capital that we will be able to extract. I believe I said in our last call that when I think about dividends for 2017, I think about them not being higher than what we are experiencing in 2016. So again, in 2016 we are doing $750 million. As I said, I would anticipate there would be some additional excess beyond what we are generating. But I wouldn't want you to think that there would be something above the level that we are seeing this year.

John Nadel - *Piper Jaffray & Co. - Analyst*

Okay. And then just around the $250 million, which is beyond the $500 million that was part of the original plan, I think at the past you have indicated that there's some sensitivity to that as it relates to the level of interest rates. Do you still feel comfortable, given where rates are?

Beth Bombara - *The Hartford Financial Services Group, Inc. - CFO*

Yes. I feel very comfortable with the $250 million, even with the interest-rate activity that we've seen, that as we think about sizing the dividends we take a lot of that into consideration from our stress scenarios and so forth. So I feel very good about our ability to do that.

John Nadel - *Piper Jaffray & Co. - Analyst*

Thanks so much.

Operator

I'm showing no further questions at this time. I'll turn the call back over to Sabra Purtill for any closing remarks.

Sabra Purtill - *The Hartford Financial Services Group, Inc. - SVP and Head, IR*

Thank you, Chris. And thank you all for joining us today and your interest in The Hartford. If you have any additional questions throughout the day, please don't hesitate to follow up with the IR team.

We wish you all a good weekend and good luck with the rest of earnings season. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.