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PRESENTATION

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Good morning. My name is Oksana Lukasheva, and thank you for joining us for Hanover's Future Forward, our 2021 Investor Day. We have a tremendous team here to share with you how the strengths of our franchise and our agility will drive superior value for our shareholders.

Jack Roche will begin the agenda today with a strategic update. Following Jack, Dick Lavey and Bryan Salvatore will provide an overview of our personal and commercial businesses. We will then have a short break, followed by a Q&A session.

Next, you will hear from Will Lee regarding our innovation and digital agenda; and Mark Welzenbach, who will discuss our claims competitive advantage. Jeff Farber, our Chief Financial Officer, will conclude the program with a review of our long-term financial targets. We will hold a second Q&A segment following Jeff's presentation.

I trust you've seen our press release about our third quarter catastrophes to date, including ida that we published yesterday. And while today is all about our long-term strategy and performance, we will answer your questions in the Q&A.

Please be aware that the content we share today will be available on our Investor Relations website for replay following the program. It is important to note that statements made during today's presentation and responses to your questions today will include forward-looking statements concerning management's expectations, guidance, goals and objectives, among other similar matters.

Actual results may differ materially from those anticipated. Please refer to the forward-looking statement section in our filings with the SEC for additional risk factors. Additionally, today's material will reference certain non-GAAP financial measures. A reconciliation of these measures to the closest GAAP measure can be found in the presentation posted on our website.

To kick things off, we will begin by hearing some of the Hanover's agency partners. Following this, it is my pleasure to introduce our President and Chief Executive Officer, Jack Roche. Let's get started.

(presentation)

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Good morning, everyone, and thanks for participating in our Investor Day. I couldn't be more excited to update you on our company's progress, and share our enthusiasm for the next leg of our journey. We have ambitious plans to translate industry change into a real opportunity for our company.

These are dynamic and exciting times, and we're positioned for success and to build on our track record. We're ready to capitalize on these dynamics as the industry transforms. And we're proud of the progress we've made over the last 5 years and the execution of our strategy that we laid out in 2017, but we're most excited about our position and ability to go to the next level.

Over the next 3 hours, we will make our case for why we are a compelling investment for both existing shareholders and for those considering initiating a position. The key takeaways that we want you to come away with our differentiated and winning strategy enables us to accelerate our growth going forward. Our specialized capabilities across the enterprise position us for continued profitable growth and true market leadership.

We are advancing innovation, technology and data analytics to further elevate our performance. We'll continue to be disciplined financial managers and deploy our capital thoughtfully. And last but not least, we are committed to the ESG mandate, and running our company with all of our key stakeholders in mind.

Today, we are in the best financial condition and position in our company's history. We're approaching \$5 billion in net written premium and market cap. We have a focused and specialized portfolio with significant headroom.

Our agency and consumer-centric strategy is unique and is resonating with our agents. We're the most diversified company of our size, and we're delivering strong results across the portfolio. All of that enables us to expand our business with the best agents across the country. As we reflect on the last 5 years, we're proud of the execution and superior results.

We met or exceeded most of our key metrics despite the challenges that presented themselves in 2020. Jeff will speak to our financial story later in the program, but our track record is quite good, and importantly, sets us up nicely for future success.

Our Chaucer divestiture in 2018 was highly accretive to shareholders, including \$850 million of capital return. And it allowed us to focus entirely on our U.S. operation. All in, we delivered top quartile returns and strong growth while making meaningful investments in our future.

This gives us great confidence as we share our goals for the next 5 years. I'd like to take a few minutes to update you on the evolution of our company strategy and how we are embracing the dynamic environment around us. We have meaningful competitive advantages as we pursue our vision to be the premier property and casualty franchise for top agents.

As you'll see today, we've further enhanced our corporate strategy, building on our momentum and our capabilities. We will continue to advance our unique agent partnering approach. Our specialized products and capabilities are driving profitable growth and further enhance its relevancy with our top agents. We are increasingly focused on our customer value proposition, and I look forward to sharing more about that in a bit.

Importantly, our strategic enablers make those advantages sustainable. We know the world is changing rapidly, and we have attracted outstanding talent and built a unique culture. Our most important competitive advantage is our talent and culture. And we are an attractive employer. And our aim is to be a true admirable company. These are truly dynamic times in our business and our world.

We rebuilt this company with the expectation that agility and embracing change would become increasingly critical. We're showing you here some market dynamics as well as our response and our approach to this most dynamic time. The distribution consolidation continues to be quite robust, and agents are becoming more strategic and operational savvy as the independent agency system strengthens.

Technology, data and analytics are enabling carriers and agents to better serve customers become more efficient and further differentiate themselves. Customer expectations are clearly changing and traditional operating models will become increasingly insufficient.

We're seeing loss patterns and profit pools change, influenced by weather, social inflation, business model transformations and more. Last but not least, we are all witnessing the dynamics in the workforce, heavily influenced by the pandemic. We pride ourselves on our ability to analyze past trends and anticipate new ones, which we believe will be critical to our success going forward.

Our distribution strategy and analytical approach enable better focus on these emerging customer demands. Our enhanced capabilities are allowing us to pursue targeted but meaningful changes in our operating models and underwriting and pricing approaches.

The P&C industry is very fragmented, and our focus on industry sectors and customer solutions is a powerful combination. And companies that attract and engage top talent will win, and we believe that plays to our advantage. One of the hallmarks of our company is our distinctive distribution approach. Our field leaders are charged with selecting the right partners in each territory that have the right business mix and that will value our approach. We remain disciplined on that approach and we're bringing sophisticated tools to the partnering process.

The combination of our distinctive product offering and consultative partnership model are powerful. Never has a property and casualty carrier develop such trust that agents are willing to engage in this proprietary data exchange. And the cumulative data that we assemble from these consultative arrangements provide tremendous insight into broader market opportunities and informs our business strategy.

All of this leads to accelerated growth and deeper penetration with our partners. And we know that the depth and breadth of our relationships translates into better results for our company and for our agents. We're often asked, how is agency consolidation and the agency consolidation trends impacting our company. And we're proud to tell you that our distribution approach is clearly benefiting us as the business consolidates. We are driving increased access to the sectors that we are pursuing without diluting our distribution strategy.

As this slide shows you on the left-hand side, we have developed 30% more headroom over the last 5 years. Large and midsized agents have acquired roughly 450 existing Hanover agents, often providing resource and capital for growth. These agents have also acquired a number of non Hanover appointed agents, and we've selectively appointed some and decided to move past others.

In total, we've appointed approximately 600 new agents over the last 5 years, while trimming a little over 200 agents that did not meet our partner expectations. As you can see, we actively manage our agency plan to achieve our financial goals and deliver real franchise value to our partners.

Another important aspect of our strategy is building our specialized capabilities for profitable growth and increased relevancy with our agents. Many agents are focusing on specific industry sectors and specialty lines. And our ability to assemble additional specialized capabilities is an important part of our value proposition.

We purposely avoid the commoditized areas of the business. And our Personal Lines strategy is a perfect example of that, where we moved aggressively towards our account strategy and away from the monoline automobile business. In Small Commercial, we're one of very few companies with a broad underwriting appetite and set of capabilities, including our BOP and CPP accounts, many specialty lines that are complementary and a world-class service center.

In middle market, we're almost exclusively focused on specific industry sectors where we have expertise. And oftentimes, we're able to deliver a total account solution. And we're hyper focused on building our specialty businesses and platform, which is leading our profitable growth and aiding our relevancy to our agents.

Our broad-based profitability across the enterprise positions us for growth in this very dynamic market. We're generating double-digit ROEs across our major business segments. And therefore, or have very limited re-underwriting plan moving ahead.

We have tremendous headroom across all of our businesses and geographies. We're gaining momentum in Personal Lines and Small Commercial based on the investments we've made in our platforms. We have plans for new capabilities, additional field resources and new agency appointments,

and we will selectively pursue new states in Personal Lines. This translates into growth and diversification from both the business mix and a geographic perspective.

I would like to drill down further on our commercial line specialized capabilities. Bryan will speak directly to the specialty businesses that generate over \$1 billion of premium today. But this exhibit combines our specialty businesses with additional highly specialized areas that reside within our core commercial lines business.

The distinction we make between these businesses is how we bring the expertise and the products to the market. In the specialty businesses, we have dedicated business units that work with dedicated experts in the more sophisticated agents, which is critical for both underwriting and agency engagement. In Small Commercial and Middle Market, we bring specialized offerings to a wider group of agents with what we call a hybrid model. That's where we have real dedicated experts within the core commercial area that work closely with our middle market and small commercial underwriters to make sure that we can bring that expertise smoothly to more agency partners that value our franchise more broadly.

Collectively, these commercial lines businesses make up over \$1.5 billion of our portfolio, and they're generating industry-leading returns and growth. We will further capitalize on the small and low middle market sectors with this combination of dedicated and hybrid business models, especially as more of the business becomes specialized and more count-oriented over time. Increasingly important to our strategy is our enhanced focus on the consumer.

Our Personal Lines strategy paid huge dividends for us and our agents as we transitioned to our account focus. We see a similar opportunity to address the Commercial Lines fragmentation that's been created over the last 2 decades, mainly driven by carrier strategies.

As shown in the chart, we are unique in Personal Lines in the IA channel in our account orientation with 86% of our business as a whole account. The middle market staff that sit beside this illustrate the progress we've made to drive account approach in specific sectors within the Middle Market business. And we believe as we do that only in Middle Market, but in Small Commercial also, that we will derive normalized benefits as will our agents and our customers in ease of doing business and reduction in coverage gaps and better servicing customers' needs, all of that leading to higher retention and account tenure, which we all know translates into better underwriting margin.

I'd like to further illustrate this point by looking at our technology and life sciences practices and illustrate the advantages of both dimensions of our strategy. Over the last 10 years, our most profitable and fastest-growing specialty business actually resides in our core Commercial Lines business. The technology business has over 30 fully dedicated professionals that work directly with the Middle Market and Small Commercial underwriting teams. We focus on smaller accounts that generate approximately \$15,000 in average premium that include coverages in the core lines as well as the highly specialized ones like professional liability and cyber.

Our ability to bring real expertise and customized solutions to this sector efficiently to over 1,000 agent partners is truly distinctive. And today, we generate over \$175 million in premium with a combined ratio in the high 70s, and we're consistently growing the business double digits year in and year out. We believe we have significant opportunity to continue profitable growth in the fragmented market as it exists today and pursue account-centric approach in targeted sectors going forward.

We estimate that there's over \$20 billion opportunity for business that agents control all lines and the lines of business are split between carriers. We're focusing on specific sectors that lend themselves to a more account-centric approach and then capitalizing on that opportunity. We believe that the industry and consumers are looking for more streamlined solutions in the smaller account arena, particularly as we move toward a more digital landscape.

So our strategy is truly resonating with our agents more than ever, and our strategic business enablers will ensure our sustainability. These strategic enablers are as important as the strategic levers we pull to generate profitable growth. We have become a truly attractive employer and increasingly an agile innovator. And we're working hard to be perceived as an admirable company by all of our key stakeholders.

Our ability to attract top talent to innovate and show agility and do right by all of our stakeholders is an important element of this company. We care deeply about our employees, our agents and our communities, and that shows up every day in our actions. We're embracing the change that

surrounds us inside the P&C sector and more broadly. We're simply not satisfied in having a good run. We're building a great company that is excited about the future.

Our commitment to our future is demonstrated in the technology investments we've made over the last 5 years while generating very strong financial results. You see the chart on the left that shows we invested heavily in technology infrastructure and platforms in a very strategic way. Will Lee, our Chief Information and Innovation Officer, will provide more detail later today. But I'm extremely proud of the focus of our IT spend on the right areas that helped us improve our operating environment and establish a strong foundation to build on.

We can now focus even more on the customer-facing opportunities ahead, along with enhancing our operating environment and efficiencies. Agents now see us as an industry leader based on the progress we've made as well as the innovation pilots that we've deployed.

There are a few areas that showcase the progress across the value chain, from the front-end customer and agency interface to the back-end service, including material improvements in claims. Each of our major business units have positioned themselves well with their platforms and our coordinated efforts across the enterprise are translating into meaningful efficiencies and higher agent and customer satisfaction. We've streamlined underwriting applications reduced quote time of our small commercial product by 50%.

Our Personal Lines agent NPS score increased 20 points. We prefilled 65% of our personal lines quote fields and 70% of our claims leverage predictive analytics. Looking ahead, we believe our Claims organization continue to be a strong contributor to our business and financial results. Technology and digital capabilities have yielded approximately 60 basis points reduction in ULAE since 2017.

Moving ahead, our 5-year forecast contemplates material improvements in our efficiencies and customer experiences, and we're targeting 80 to 100 basis points improvement in LAE. Based on these continued investments, we have challenged the claims team to push even harder, including some potential indemnity savings. But we're reluctant to plan for those intended impacts given the dynamic loss cost environment and all that affects our loss ratios. That said, we have tremendous confidence in the Claim team and I know Mark feels the same way.

As the industry transformation accelerates and innovation becomes more critical, we believe our people and culture are our greatest asset. We attract and retain high-quality insurance professionals based on our company's momentum and reputation for engaging our workforce. Our CARE values were created through an employee-driven process and we live those values every day.

We are driving significant training and raising performance expectations with respect to leadership, inclusion and diversity and employee development. All of these critical initiatives gained momentum over the last couple of years despite the pandemic and the remote environment, a true testament to our strong culture and employee engagement. We couldn't be more excited about our future and our ability to meet the higher demands that surround us.

We're committed to strong financial discipline and Top-quartile performance. We're embracing the newest techniques to prudent risk management, earnings diversification and portfolio management. And our company's governance is robust and we've never had a stronger and more diverse Board of Directors that challenge us regularly and push us to be the admirable company we aspire to be.

So all of this positions us well to build on our track record and deliver on our ambitious but achievable financial targets. Over the next 5 years, we aim to elevate our game and take advantage of our strong position. Jeff will elaborate on our financial targets and aspirations in more depth later but I'm excited to share our updated long-term financial goals that reflect our confidence in our team. We have established a long-term ROE target of 14%, 7% net written premium growth or better, which should translate into earnings per share growth of 12% to 13% and book value per share growth of 7%. We have confidence in our ability to deliver on these goals and build on the track record over the last 5 years.

Our plan is to take this \$5 billion company exiting 2021 and profitably grow to \$7 billion by 2026, leveraging our strong position in the IA Channel, gaining share and attracting additional quality agents to our franchise, expanding our specialized capabilities through new products and capabilities and attracting more talent to the firm, and driving more innovation and leveraging technology solutions to accelerate growth and operational efficiencies.

In closing, our company is on the move and embracing the change that surrounds us. Our leadership team is second to none and is highly engaged in growing our enterprise. We have a differentiated strategy that is working. Our specialized capabilities are delivering terrific returns, enabling us to elevate our growth. Our investments in our future are paying off and positioning us to drive sustainable top performance. We have a strong commitment to delivering shareholder value, supported by our rigorous financial management and our commitment to ESG. We are convinced that our very best days are ahead of us.

Thank you very much for your attention this morning. And now I'll turn the program over to Dick Lavey.

Richard William Lavey - *The Hanover Insurance Group, Inc. - Executive VP & President of Hanover Agency Markets*

Thank you, Jack, and good morning. I'm very excited to have some time with you to showcase our personal lines, our small commercial and our middle market businesses. During my time, I intend to provide a brief profile of each business, share our view on what's distinctive in each of those businesses and provide some insight on the growth levers that we see over the next 5 years.

Before I get into each business, though, I'll start with 5 overarching themes. First, we are hitting target returns consistently in these portfolios, which means we're poised to grow. We're not shackled with major portfolio fixes or re-underwriting initiatives. So that's awesome. Secondly, we've invested over \$100 million in the last 3 years on product, on platforms and on analytics, while we've been hitting those target returns. It's really critical that we stay relevant to our partner agents and to our customers and again, these investments will help us drive growth. Third, our distribution strategy. We have a highly selective approach, coupled with a highly analytic approach using our Agency Insight tool and process. Together, these allow us to boldly say that we know our agents better than any market in the business. And I know that's a bold statement, but we absolutely believe that to be true.

You're going to hear me reference Agency Insight a number of times during my discussion. And I'm going to show you a short video at the end of my presentation to give you some more description and some agency testimonial on that. But for those who are not aware, Agency Insight is a proprietary analytic tool that allows us to do a full evaluation of our partner agents book of business.

The fourth important point the we have an unrelenting focus on driving for the full account, and that's really driven by a full range of specialized coverages that you heard quite a bit from Jack about, and I'll speak to as well. And then lastly, we're skilled portfolio managers to have sustainable profit and growth. This comes from a crisp articulation of the right mix of business in the right geographies. So it's not a uniform approach. The intersection of class or industry and line of business matters a lot, very important.

So at the end of 2020, this portfolio of businesses was about \$3.6 billion. You can see it's mostly 50-50, slightly more Personal Lines, but nicely balanced Personal Lines and Commercial Lines. And we expect to grow this portfolio to \$5 billion over the next 5 years. So that's about a 6% compounded annual growth rate, again, while consistently hitting our target returns.

To accomplish this, we know how critical agility and insight and discipline are because as Jack described, we're certain that the market environment is going to continue to evolve. We're competing under very dynamic conditions these days. We know agent consolidations will continue. We know that pricing trends will change over that time, profit pools will shift. But we believe that our agility and our connectedness to the market puts us in a unique position to respond to those dynamics.

So I outlined here four kind of major responses: The first is our highly analytic approach to distribution and consultative approach. That really drives an informed growth strategy; secondly, the modernization of our platforms unshackles us from some of our legacy systems like PMS. And that's going to pay big dividends. We'll more easily be able to ingest insurtech capabilities and plug into new distribution platforms; and then third and fourth, digital and analytics become absolutely critical and essential as we know, for pricing sophistication, for underwriting and risk selection and for customer interaction.

So we believe our responses position us incredibly well and favor a midsized company like ours that has a culture of collaboration and performance excellence. As we stare down this \$1 billion growth challenge, our exclusive use of the independent agent comes sharply into focus, particularly as we drive for more market share within the channel. And we're not shy about our independent strategy. As you know, we're strong believers

based on the facts that the channel has incredible resilience in the sectors in which we play right, which is really important. Customer segmentation is very important as you analyze this. The chart here shows the role that the IA channel plays in serving customers in these three segments that I'm discussing. So virtually 100% of the middle market business is driven through the IA channel.

So we see that as about a \$94 billion market. About 70% of Small Commercial is in the IA channel, about \$105 billion. The remaining portion of that is predominantly in the captive channel. And then in Personal Lines, 36% of Personal Lines business is driven through the channel, \$130 billion market. This market share has been stable for 15 years or more. Certainly, business has shifted around, particularly in the Personal Lines space, but the IA channel value proposition continues to resonate and has for years. That shifting, as I said, is mostly relevant to the PL discussion. We've seen some shift to the direct channel, about 20% share. But importantly, the IA channel has been stable. So the IA channel has been winning in the account space from the Captives and the Directs have been winning the Monoline auto and whatnot from the captive. So you see business shifting around, but stability in the amount of business that's driven through the IA channel.

Some other signs of confidence that we see for the IA channel, the captive channel is converting to IA. We see big companies announce initiatives by Nationwide and Allstate to move to the independent channel. Venture capital dollars, we've seen billions of dollars, over 700 investments made in the agent business. It's an annuity-like return, as we know, in the range of 25% to 30% EBITDA or better. So very attractive. And then thirdly, the insurtechs certainly have become enablers to the Channel. We see a lot of partnering with the Channel and with carriers in the Channel. So that's a sign of stability. We're really well positioned. We understand this dynamic really well. We are rich in insight, and we think we're a winner in the space.

So let's start with small commercial with that as a backdrop. I'll start by saying that in Small Commercial, we are winning. When you look at our key performance indicators, they are top decile; retention, new business, new business growth, pricing, all of those are in the top decile. And the smart investments, which I'm about to describe that we've made, I believe, will continue to have us win in this space. Really proud to say that our approach in the under-50 employee segment is one of the broadest in the market.

We can accommodate a variety of risks in this segment from the simple risks that go straight through the point-of-sale systems that are out there to a more complex risk that doesn't necessarily fit on a BOP, needs to be put on a commercial package policy. All the way through to admitted specialty coverages in professional liability, management liability, marine and then finally into the E&S space, where a certain coverage might need it to be appended to a part product or a package product. That's unique.

So this visual that I have here showcases a really broad capability set. And as agents continue to consolidate and accumulate more small commercial business as they buy down into the agency stack, so to speak, they are buying smaller agents that have a lot of small commercial business and a lot of personalized business. We solve that problem for them as they're trying to find carriers that can be fulsome providers to these clients.

So you pair that broad industry appetite with a best-in-class customer service center whereby we do the servicing on behalf of our agents, deliver certificates of insurance, et cetera, we really help the agents with their own economics in this sector. Our business is 70% account, where we're writing more than one line of business, reducing the renewal costs of having to go to multiple carriers, so a huge advantage. And this is where our agency insight approach is very robust in this space. Agents are really trying to understand their own economics. They have an imperative to do so. So I'd like to say one by one, we're helping agents in this country figure out the right approach to how to handle small commercial.

Our growth engine is powered by our new quoting and issuance platform called TAP Sales. So we are now live in 30 states with our first product called Business owners Advantage, it's a BOP product on a package chassis, and we couldn't be more thrilled. This has been 3 years in the making and to have it in the marketplace, getting the reactions that we're getting is really terrific.

So what is it? This picture on the left shows you that there's 3 layers to this. It's a full stack replacement. This platform is a complete overhaul for us. On the front end, the top of the stack is the front end. It's a new user interface sitting on the desktop of all the producers or account managers and CSRs within our agencies. The middle layer is an upgraded product, new classes, new coverage, new pricing algorithms. And then the back end is a new policy administration system. So again, removing us from PMS, awesome benefits.

To the right, you can see we showcased a few of those. Top of the stack for me is the pricing sophistication that this enables us to bring to market. finding the right price for the best risks. We've gone from 4 tiers to now 75 tiers, 70% now straight through processing where it isn't touched, so very efficient. 250 additional classes, 12 more states. And the net result of this is that we are literally 50% faster when looking at, say, a single property risk fewer clicks, fewer screens or intuitive workflow, drop-down menus, radio buttons, all of that accumulates to a very efficient pricing and issuance of business. It's a game changer. We'll be adding more comp and auto products next into '22 and a little bit beyond. And going forward, we expect a 2- to 3-point annual growth improvement as a result of this investment.

The feedback has been awesome. Users love the design, the intuitiveness of it, how logical it is, how fast it is. These are a handful of quotes that we've pulled from some of the agents as we've launched it. It's being called best in market. They love our new quote proposal. Ease of doing business that were you always hear about when you talk about small commercial, and we've really hit a home run on that front. So I couldn't be more excited about it.

So as we look at the growth levers for this segment, you take that value proposition, I just described a broad capability set, a highly efficient point of sale, and this will drive a 7 %, 7-plus % compounded annual growth rate for the next 5 years for us. I lay out here four main levers we're going to get there. The first is distribution expansion. We do add agents every year, so about 125 agents very thoughtfully, right? This does not dilute our franchise. This business is widely distributed, so you need to appoint more agents to get access to more of this business. So we've given ourselves about \$15 billion of additional access with these new appointments. We'll be very strict and disciplined about that.

Market consolidation, working through our agency insight process, we identified business that's better suited with the Hanover for the customer and the agent economics. That's about 15% of our new business every single year. So we expect that to continue, if not increase, based on the consolidation trends. And then third, the product enhancements that I discussed, new classes, new states, importantly, that specialty collaboration, and Bryan will get into this, we'll discuss it more how important it is for our teams to collaborate both in person but also through our technology investments. And then, of course, tap sales is at the bottom, underpinning all of this. very excited to see this business flourish.

Okay. So let's do a double click on middle market next. In the middle market business, being relevant to our agents is essential to a thriving partnership. Agents spend considerable energy sourcing this business with dedicated expert producers so they need the best carriers to help them develop insurance solutions for those clients that they're sourcing.

So our approach in middle market is an industry-specific specialized approach. We spend tremendous energy focused on building data-informed, localized strategies whereby we pair together the best industries and the lines of business, that intersection in each of our geographies. And this is informed by the Agency Insight data that we have. We know what industries need to be served in particular geographies with the agents that we do business with.

Critical that we're a long-term capacity in Middle Market. We're not in and out of markets. We need to be healthy and stable to assist and be a growth partner. So that's very important.

Our industry-specific capabilities really span the vertical. So from underwriting, to loss control, to claims management. It's an expertise-based model. So we spend a lot of time and energy making those connections. Big efforts on pricing sophistication and underwriting analysis, bringing new tools and analytics to the underwriter desktop so that they can be as thoughtful about the underwriting process as possible, putting significant dollars and energy into that.

The world is complex. It's true in Small Commercial, but a very true in Middle Market where new exposures are emerging. The world is getting more complex, not less. So our underwriting prowess and our sophistication to keep pace is important. So the 105 underwriters we have distributed through the country form a really strong network and make sure that they have the right expertise.

So this view shows you that our Middle Market business is very well balanced. When you view our Middle Market portfolio from an industry class and a geography lens, which this does, you'll see that many of the slices of the pie, so to speak, are similar, right? It's -- we're not overweight in any particular class or geography, which is really important, as you know, from a portfolio management perspective. As new exposures emerge or

adjustments need to be made, it's not felt too widely on the book. And maybe more importantly, in many geographies, Hanover shows up with a broad offering.

You could see in the industry classes, our top 6 industries, real estate, manufacturing, educational institutions or private schools, construction, human services, not profit -- not-for-profits and technology. So those are our biggest both business segments in our book but also in our new business targets.

So when you think about the growth levers in Middle Market, it's about having focused effort to match our capabilities that I discussed with the opportunities that emerge from our agents, the agent producers. I'll start by saying we really believe we have all the agents we need in this segment. I've discussed adding new agents in small commercial. But in middle market, when we look at the appointments that we have, we really cover 80% of that \$94 billion market. So we don't need to be appointing more agents.

So it comes -- so the growth levers are about being very targeted and pipelining business with our agents using our independent -- I'm sorry, using our agent insight tool and just our daily interactions and driving that with discipline into Salesforce, which we have now have on all of the Middle Market underwriting desktops. So we've got this tight system to stay very close to the business that's coming in and how we can position ourselves to write the business that we like.

We target certain industries, as you'd expect, in those geographies, Casualty Centric Industries, in particular, technology, manufacturing, construction are of keen interest for us. And last -- and thirdly, I would say this connectedness to specialty, you'll hear that theme once again in Bryan's discussion as well. But at the middle market level, those field underwriters connecting and trying to round out accounts is really critical. And again, our size company is a benefit in that, that were not siloed. We actually do talk across business segments and we're able to put accounts together.

Underlying all that, is this underwriting capacity and how important it is to the free up our underwriters to do the job of -- the technical job of underwriting. We've introduced some new capabilities, whereby we're automating the data collection and the presentation of that data to the underwriting desktop. So they're not out searching for it, spending time doing that process.

So what used to take often 2 hours to do, now is 20 minutes or less. That frees them up to have capacity to do what I just described. This is absolutely an expertise-based model. Talent matters. And we believe our culture, coupled with our partnership approach that we take in the model is really a magnet for the best underwriters in the business. So very bullish about this.

Okay. So let's now go to Personal Lines. And I'll start by saying that our Personal Lines portfolio is built on a full account and preferred customer base. And we think that's the recipe for continued success in Personal Lines in the independent agent channel.

I'll start with a reminder of where and how we play in Personal Lines. Statistically, we love to start with is that 86% of our business is a full account where we have the auto and the home, potentially the dwelling fire, the umbrella or the watercraft or some other coverages, that's an incredible accomplishment and kind of a coveted place to be in the PL space in the channel.

This picture on the left shows you our appetite we would play in what call the Middle Market space as defined by the coverage A or replacement cost for Personal Lines in \$250,000 to \$750,000 to replace a home. That would fit on our platinum package. We're also in stepping into the emerging affluent market. That segment has been called a lot of things, but I think emerging affluent is a good tag. That steps us up from \$750 million to about \$3 billion. Those types of risks fit on our prestige package. So in both of those, we target higher auto liability limits customers. So \$100,000 and \$300,000 limits in about 95% of the case. So that's a really good proxy for preferred mix that we have in the segment.

We're not in the nonstandard business. We write limited model line, as you can tell from our percentages. And we think about potentially stepping up our game into the future into higher net worth, I say higher net worth because we'll do that thoughtfully and kind of stair step it. As an example, we might go to a \$5 million coverage A before we do anything further, it's a totally different operating model. So we need to be thoughtful about that.

We have a 20-state footprint, Eastern kind of zone, Eastern Hemisphere, so to speak. We have a dedicated underwriting model in personal lines, which is unique. So underwriters have direct access to underwriters when they pick up the phone, they know who to call. So that helps build this partnership in Personal Lines.

We truly have a market-leading customer service center in Personal Lines where we handle all of the servicing for our agents, and we actually answer the phone in their agency name, which shockingly is unique in our business. That's about 1/3, a full 33% of the business. Our agents have trusted us to handle the servicing for them. And lastly, but very importantly, we have upgraded our quoting and issuance system in Personal Lines a number of years ago, ahead of Commercial Lines. So we did that one first. And we got similar results and similar kind of feedback. So we have a market-leading point-of-sale system in the marketplace today. So that's an overview of our Personal Lines segment.

As I said, our entire strategy in Personal Lines is really built to serve accounts. So I thought it would be helpful to share a little bit more about that. We've done this agency insight process on about 75% to 80% of our best partners in Personal Lines. And the left-hand exhibit on this slide shows you that we have the most accounts, the most number of accounts within our agencies than any other carrier. So that is powerful, powerful position. We have a full suite of ancillary products as well in the lower right-hand corner, you see the set of products that we have, some newer ones that we've introduced an upgraded motorcycle policy, a cyber policy, home business with what's been going on during the pandemic, that was relevant. So we have a full suite of products now.

We've invested significantly in self-service. So customers can do the majority of their servicing needs on any advice that they choose. We are expanding telematics in the upper right-hand corner. We started in the team segment with safe team, but we've been -- we now offer that to all customers. As we know, telematics in the IA channel is a challenge. The adoption rate is slow. So -- but we're trying our best to push directly to consumers on this. And in the meantime, getting creative with how we can capture some of those important data elements like mileage in other ways. So through car packs is the way that we're accomplishing that. So we're able to accomplish some of what telematics accomplishes in different ways.

Very excited about the Prestige launch. So I thought it would be worth a little bit more on that. I'll start by saying that we got pulled into this segment, our agents asked us as we were doing analysis with them, they saw a white space in this segment, whereby maybe the high net worth carriers, little too inflexible, overclub it with coverage, perhaps and national carriers or standard carriers have inadequate coverage, so to speak, in many cases. So our Prestige solution hits that sweet spot by being thoughtful about how to serve this segment a little bit differently. Important coverages, and these are just a few examples, like on the auto side, of having an agreed value to your auto, OEM parts, an important element that high net worth carriers certainly drive. So that's on the auto side.

On the home side, things having a cash-out option, if your house burns down and you don't want to rebuild, you cut a check. That's a unique feature in high net worth. And having flexible coverage B and C. So other structures and content, you may not need as much of that. So our Prestige product allows you to flex up and down.

So those are just a few examples of the flexibility and uniqueness of this product. We're having really impressive results, and we see this an important growth driver into the future. On the right-hand side, you can see some of those results just relative to our existing book, 2x the account, almost 2x the account at average premium, 3x the umbrella penetration and 2.5x the scheduled property that you see coming on to these policies. So the engagement rings or the art schedules. So super excited about this.

So let's talk about the growth levers. Similar to small commercial, you'll see here in Personal Lines. We have a few important growth levers that when combined, we see this business growing about 6% a year into the future. I'll start similar to Small Commercial with distribution expansion. So similarly, access to more in the marketplace. We're adding about 125 agents per year. We've gained about \$7 billion of market access in recent years. Market consolidation, really important in this segment as agents think about how to do Personal Lines more efficiently, helps us how do we drive a deeper relationship with Hanover. And I'm proud to say in the last 2, 2.5 years, our agents have looked -- asked us to look at over \$100 million of business and whether or not the customer would be better fit into those products I described, Prestige or Platinum. So we do all of that work when they ask us that. We grab the data, we do the quoting. We do -- we assist with the customer communications to make that happen. So that's the first one or the second one, excuse me.

Product enhancements, of course, tremendous opportunity to round out accounts, gain more share of the customer wallet. These are high-margin lines that I described. And we know the powerful impact it is. When you can round out an account and get to 3 or 4 lines of business, that customer has about a 99% retention. They do not leave an agent or a carrier if they've stitched together multiple accounts. It's a real stickiness to it. I also mentioned Prestige, again, we think will be over \$300 million in the next 3 years. So a lot of upside.

Maybe before I leave the slide, I'll just offer a comment on something a bit more contemporary with what we're seeing in the marketplace. As we know, with the pandemic frequency benefits that we've experienced, we've been very thoughtful about our pricing strategy and the response to those frequency benefits. I'm really proud of Dan Halsey and his team and how they've thoughtfully adjusted our renewal pricing to hang on to our profitable accounts, thoughtfully tweaked our new business pricing to capture more share of these profitable accounts. And we will be equally thoughtful with our migration plan back as those frequency benefits shrink over time. And there's plenty of scenarios that we've laid out to watch for certain things, what leading indicators, how we know where this goes. But we do believe we have a benefit that will persist perhaps longer than other carriers based on our customer profile, both geography and customer segment. So really excited about our Personal Lines business.

So I'll end by reinforcing my optimism overall about our approach. We're healthy. We've made significant investments that are mostly in the rearview mirror that will pay dividends into the future. Our Small Commercial business, we see growing 7% plus consistently. Our middle market business, 5% consistently, and Personal Lines, in that 6% range. So I hope that the growth levers I've outlined and the uniqueness of our value proposition really resonates.

I'll end with, as I said, a short video about our agency insight tool and process. You'll hear from our agents on that. But I'll just say that there is no other offering like this in the marketplace. You'll hear that from our agents, but this power of partnership we have and this uniqueness that we have with this tool really, really resonates. After that, I will welcome my colleague, Bryan Salvatore, to lead a great discussion on our specialty capabilities. So thank you for listening.

(presentation)

Bryan James Salvatore - *The Hanover Insurance Group, Inc. - Executive VP & President of Specialty*

Good morning. I'm Bryan Salvatore, and I'm pleased to speak with you about the Hanover Specialty business. For us, that starts with sharing that we view our specialty offerings as an important differentiator for Hanover with our agents and our customers. The specialty capabilities along with our account-centric focus, help agents efficiently solve for a range of customers' risks. And this differentiates us with our agents.

Additionally, our Specialty business has grown and matured into a large and diversified portfolio over the last several years and delivers strong and consistent profitability to Hanover. It's from this position that we expect to meaningfully and profitably grow Specialty over the next 5 years to \$1.7 billion in net written premiums.

Our range of products for retail agents with small to midsize customers is unique, one of the broadest in the market space. These, alongside our core commercial capabilities, make a real winning proposition with our agents. We have 8 different businesses with 18 product areas and dozens of products that contribute to our compelling offering to Hanover's retail agents.

To highlight a few, we are one of the leading carriers in the Marine business. We have a large diversified and profitable management liability and professional liability businesses, and we also have rapidly growing and highly profitable E&S and health care businesses. And as I briefly mentioned, our emphasis on coordination across all of Core Commercial enables us to effectively deliver account-centric solutions, including multiple lines of business in a way that is differentiated and highly valued by agents and customers. This includes increasingly leveraging digital technology and more efficiently and easily service Small Commercial customers.

We have built specialty up to over \$1 billion in annual net written premium through organic growth as well as a series of acquisitions. Our acquisition interest has always centered around expertise and technology. So beyond the premium itself. And these businesses are now fully integrated into our Hanover proposition.

The combination of our organic growth and our acquisitions enabled us to double the size of Specialty in 10 years, achieving a 6.9% CAGR. And as we achieved this, we increasingly focused on growing our specialty casualty businesses, including management liability, E&S liability, multiple professional liability lines, such as lawyers, accountants, miscellaneous professionals and health care. These have diversified our book of business into a very balanced portfolio, and the limit profile attached to all of these is very beneficial.

If you consider our Specialty offering to retail agents, we are optimally positioned. We have a breadth of product capabilities that agents routinely need and are often associated with large national specialty carriers. At the same time, we provide services and an approach the agents often expect from a regional carrier, such as local delivery and coordination across core lines. And we provide a highly-rated customer service center experience across numerous specialty lines.

As you can see, our breadth of products is very strong compared to our regional competitors and compares very well to our pure Specialty competitors, especially when you consider the needs of our agents. And our capabilities, such as national scope, the service center support, coordination across lines, really compares favorably to both the regional competitors and the pure Specialty competitors.

Since we last talked to you about Specialty during our 2017 Investor Day, Hanover Specialty has matured nicely. Today, Specialty delivers strong and consistent profitability. And we are confident in our ability to continue to deliver sustainable profitability. This is due to our existing and broad and balanced portfolio mix, which we continue to thoughtfully expand. The approach we take to aggressively managing any underwriting action that is needed, the discipline portfolio management process that we execute and our rigorous expense discipline. This comprehensive and disciplined approach has enabled us to substantially reduce our combined ratio over the last few years, including reducing our expense ratio by over 2 points. And this disciplined approach really supports our confidence in our growth expectations. And this is further supported by our double-digit growth in the first half of 2021. We like the health and the mix of our portfolio and see great opportunities to grow with our agents.

So in this dynamic marketplace, with the breadth of our portfolio, along with we have built and the disciplined execution that drives profitability all combined with the strength of Hanover's distribution, we are well positioned to deliver solid profitable growth.

As we do so, our strategic focus is on continuing to advance technology to meet the needs of our agents for greater efficiency in coverage placement and servicing of customers along with improving our own efficiency. We will also continue to build on our existing Hanover relationships, while thoughtfully executing our targeted wholesale strategy to complement our retail distribution.

Lastly, I will provide a bit more detail on our growth expectations. You can see that our expectations for normal business growth continue to make an important contribution. And we will leverage strategic initiatives to accelerate growth. I will frame these in the context of advancing technology and optimizing distribution.

Our technology initiatives include building on recent low-touch and no-touch capabilities that have enabled growth in several of our areas, including Marine, professional liability and management liability. And in terms of optimizing our distribution, we will grow newer practices that we build for our agents, such as financial institutions and our retail E&S practice, and we will thoughtfully grow our cyber practice. We will also be launching selected new products for our agents, including the Specialty general liability product. And lastly, we will drive the targeted customer and specialist distribution plans. These combine to enable us to deliver about 10% CAGR and achieve \$1.7 billion by 2026.

As I wrap up, I would like to introduce you to 2 of our Specialty leaders, Helen Savaiano and Sarah Medina. I'm excited that they'll speak to you about our management liability practice and our professional liability practice. Their presentations will really help bring home some of my comments. Thank you.

Helen Ryan Savaiano - *The Hanover Insurance Group, Inc. - President of Management Liability*

Hanover executive and management liability provides robust insurance products and risk management services to small and middle-market nonprofits, private companies and financial institutions. It also protects the leaders and owners from allegations of wrongful acts in the course of running their businesses.

Now I joined Hanover about 12 years ago from W.R. Berkley to build the executive and management liability practice from scratch. Today, we are over \$100 million in profitable business, and we're a mature and growing business. We're also very competitive with the largest best-in-class national carriers that occupy our space.

As many of you may know, the executive liability business can be volatile based upon litigation trends, constantly evolving business regulations, social movements and economic environments. And despite these challenges, our business has proven to be resilient to various market conditions and economic cycles.

We consistently delivered top quartile ROE results in Hanover Specialty. We've also demonstrated overachievement in our year-over-year combined ratio results, which you can see from the graph, is 90.5% on a 4-year average. How have we achieved these results in a 100% organic business and consistent high single-digit growth? Well, we have and will continue to focus in a laser-like way on the most profitable products and lines of business. Crime is one instance. It's not only one of the most profitable lines in Hanover Specialty but in the specialty market as well. And we also focus on small and middle market private companies, not public companies. Our customers are Main Street America, those businesses that run the American economy.

Also, we intentionally place our experienced underwriters in the right jurisdictions and geographies where the underwriters truly understand the competitive market and have relationships with leading agents. I have to add, our underwriters are not only expert in underwriting, but they are well schooled in sales excellence, sales effectiveness and best practices. They work thoughtfully and hand-in-hand with their Core Commercial colleagues and their specialty colleagues to source the best local and regional business. We're combining our strategy and strong financial results with creative innovation and smart investments.

Investments include a virtually no-touch digital capability. For example, we partnered with Hub International on a digital platform in less than 2 years, we were able to access all their offices across the country. In our first year, we had greater than 80% growth. We leveled that to 13% year-over-year growth and the business is profitable. The development of this capability can and will be leveraged with other forward-thinking partners.

We've also developed a unique small business workflow, which provides a streamlined low-cost conversion of small business from our partner agents directly into our customer service center. The business is highly renewable and outperforms on a loss ratio basis.

Finally, we continue to invest in top underwriting talent in sub specialty complex business like financial institutions where experience and expertise as well as underwriting judgment are key to our profitability. And while our financial institution business is still nascent, they have exceeded top line and bottom line goals year-over-year.

Going forward, we're highly optimistic about our continued success and profitable growth in executive and management liability lines. Our detailed analysis tells us we have a potential of a \$1 billion in appetite market. So we will continue to thoughtfully manage our portfolio and anticipate in and invest in our target customers. Thank you.

Sarah M. Medina - *The Hanover Insurance Group, Inc. - President of Professional Liability*

Let me provide some information on our professional liability practice.

My underwriting career over the last 20 years has been focused within the professional liability industry, including at The Hartford, leading parts of professional business there. At the Hanover, since we first entered the professional liability arena in 2008, we've grown considerably. And we now have a well-diversified portfolio across 7 distinct product lines. This includes 4 traditional E&O products, lawyers, miscellaneous, architects and engineers and accountants, as well as 3 health care product lines. Our \$200 million plus book today is a result of organic growth as well as business that we acquired through our retail distribution channel and through disciplined product expansion.

This is particularly prevalent within the accountant segment of the portfolio where we were able to gain considerable scale with the onboarding of a large focus specialist business in 2017. And we're now one of the top 3 writers of this coverage in the country. Our broad yet disciplined appetite

and our admitted and surplus lines product capabilities elevates the relevancy that we bring to over 1,400 retail specialists and wholesale trading partners. We've been able to deliver targeted returns and strong rate increases and profitability within each line. And this is a testament to the deep partnerships that we have with our agency base.

We have a best-in-class team of underwriters located throughout the country and they're closely aligned with our field and our Small Commercial counterparts. Several of our underwriters also handle more than 1 line of coverage. This multiline expertise leads to improved turnaround time and streamlined points of contact that drives stronger relationships with our agents.

But to amplify Bryan's earlier point, a key component to our success within Professional is our ability to provide total account solutions for our agents. In addition to Professional Lines, we frequently write management liability, cyber as well as small commercial products. For example, within Allied Healthcare today, we regularly partner with Small Commercial to write some property and auto coverages in conjunction to professional and general liability for many of our urgent care and community center facilities.

We also leverage our customer service center to handle a growing amount of this business on behalf of our agents. With many carriers only offering service for standard lines in their service centers, Our CSC support for Specialty is a strong and unique competitive advantage.

We've successfully onboarded numerous books of business from many agents within Professional, providing expanded coverage and comprehensive risk management and claims support. We offer multiple digital solutions, including agent portals and API connectivity that drive efficiencies and expense savings in our agents business. APIs are huge for our agents, especially in the micro and small segment, and we are growing fast.

While we do selectively entertain risks in the middle market space, primarily within Allied Healthcare, our focus in the majority of our placements are in the small firm arena. This small firm business outperforms the mid to large portion in the industry and it has much less volatility and severity. The limit profile, with the majority of limits \$2 million or less, is highly favorable, and our strategy is to disproportionately grow in this segment.

This is also where we see the largest opportunity residing with our agency base and we have a granular view into opportunities at a state, agent and account basis. And while this segment is price sensitive, we are able to achieve rate in excess of loss trend.

So as you can see on the slide, we have significant headroom with our agency base within Professional to continue to profitably grow. Our commitment to further invest in our talent, our technology and our product offerings will continue to position us well as we move forward to deliver strong returns to our shareholders. Thank you.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

We will now move to a short break followed by questions and answers. (Operator Instructions)

Following Q&A, we will move into the second half of our program that includes detail on the Hanover's advancements in the area of innovation and claims as well as a discussion of our financial targets.

Thank you for your participation, and we will be back shortly.

(Break)

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

And we're back. We will now begin our first Q&A session. Oksana Lukasheva here from behind the scenes, and we have Sadie our phone bridge operator today.

Sadie, the line is yours.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And for our first question, we have Paul Newsome from Piper Sandler.

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Thanks for the analyst meeting. I was hoping we could talk a little bit more about the various business lines growth prospects. And what are the expectations for their growth that's through market share gains or through what you think is the exact growth of the business? Are there particular businesses where you're really just thinking you're going to grow with the industry in total? Or are there some where you really think you're going to end up having most of your growth coming from share gains from other competitors?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Yes. Thanks, Paul, for that question. And as you saw from our commentary as well as the goals that we've established for ourselves, we're very confident that we can accelerate growth as our portfolio is performing well, and our profitability is very broad-based. So we believe that combined with the environment that we're operating in lends itself to accelerated growth moving ahead.

Specific to your question, we are looking at each business in that regard. What is that waterfall, if you will, towards growth. In all our businesses, penetrating our existing agents with our existing capabilities is job 1. We have plenty of headroom, plenty of profitability. All of our businesses, most of our geographies are ready elevated growth. And so that is our primary focus.

In addition to that, you're seeing, for example, in specialty, as Bryan articulated, new products and capabilities. We are witnessing some exposure in some of the classes and targeted sectors that we're in, and that's highly beneficial. We're obviously getting some growth through the rate environment that's out there. We are selectively adding new agents, particularly in Small Commercial and Personal Lines to further diversify our earnings streams and our growth.

So I think overall, what you should see is that primary driver of our growth is taking the incredible set of capabilities that we have and the agency followership that we've also created and bringing that together to get to the next level. That is the most accretive growth that we can generate and everything else is important in terms of getting to the next level and we have those levers to pull but we're most excited about penetrating our current businesses into the agency force.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Sadie, next question, please.

Operator

And for our next question, we have the line of Grace Carter from Bank of America.

Grace Helen Carter - *BofA Securities, Research Division - Research Analyst*

Thank you. Can you all hear me?

Richard William Lavey - *The Hanover Insurance Group, Inc. - Executive VP & President of Hanover Agency Markets*

We can hear you, Grace.

Grace Helen Carter - *BofA Securities, Research Division - Research Analyst*

Okay, cool. When you all talked about selectively adding new agents, I was wondering if kind of go over the vetting process for new agents and which characteristics tend to be the most predictive of a successful partnership?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Yes. Thanks, Grace. Let me just start by giving you a couple of thoughts about how we approach that. And I think Dick might be able to give you that next level of detail looking for in terms of the selection process.

Overall, as I said in our prepared remarks, a lot of the distribution sources that we're able to add are coming to us from our existing agents buying down into the distribution system. And as I said in my presentation, we're not adding all of them just because the larger agents are buying agents, but we're getting an opportunity to bring some of those agents into the fold and to leverage our existing vetting process to simply get more distribution points. Beyond that, we are looking at some select agents and particularly in some of the newer geographies to further expand our presence and our diversification.

So Dick, maybe you can build on that on how we maintain our discipline when we do select new agents, whether they're coming from consolidation or directly?

Richard William Lavey - *The Hanover Insurance Group, Inc. - Executive VP & President of Hanover Agency Markets*

Yes, Grace, I would start by saying it begins with an evaluation of the way the agent thinks about partnership, and we assess their sales culture, the way they think about value -- a value orientation versus a price orientation, very important to us. As you know, we have a very selective distribution. So we spend a lot of time making sure that it's a match to our philosophy that they're willing to sit down and put a long-term growth plan together such that Hanover can become a very meaningful carrier for them. They're not just another capacity on the shelf. So that's kind of the highest level.

Then, of course, we dive deep into analytics before we appoint a new agent. So we deploy our agency insight tool on new appointments, right? So it begins with a trust at the very beginning of the relationship. We exercised our entire agency insight tool on the majority of new appointments where we analyze the kind of business that that agent has, how do they think about rounding out full accounts versus split accounts, do the industries match in the business segments that we play? So we then come back to them and present a view of their business and whether or not we think we would be a good match. So it starts philosophically, then we dive down deeper into analytics and then we shake hands and decide to move forward.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Do you have a follow-up question, Grace?

Grace Helen Carter - *BofA Securities, Research Division - Research Analyst*

Sure. I was wondering when you were talking about new states in personal lines, I mean if this is kind of an extension of your existing footprint or if you're thinking of more just totally new regions? And how recent elevated CAT activity over the past few years might kind of influence your expansion plans?

Richard William Lavey - *The Hanover Insurance Group, Inc. - Executive VP & President of Hanover Agency Markets*

Yes. I think when we think about how we grow our company, expanding into new states in personal lines is one of the options we have. And we think about that in terms of -- we've gotten to the point where we have almost competing priorities for where we allocate our capital and where we allocate our investments. So we -- personal lines is a very important part of our business. It's contributing nicely to our broad-based profitability. And heretofore, we have been looking at adjacent states, Maryland, Pennsylvania, Vermont. We have been reluctant, frankly, to go out West and to expand our geographic footprint in personal lines materially because we have so much headroom.

And we also have such aspirations in areas like specialty commercial, where we want to focus some energy. So we're excited about the Personal Lines business and our ability to go into new states. But for the reasons you described, we want to make sure that we're getting our property to casualty balance right, and we're growing in a diversified way, and we consider that as we prioritize Personal Lines state expansion in that process.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Grace, with respect to recent CAT activity and how that impacts, as you know, we have certain states that we don't do Personal Lines business and some of those being Florida and California and certainly CAT activity and the coastal aggregations are one of the reasons that we don't do Personal Lines business there. We're continually looking at weather patterns and issues and thinking about rate and coverages and aggregations and certainly, Ida in the Northeast causes us to continue to look at that. So we'll continue that process as we always do.

Operator

Next question, we have Michael Zaremski from Wolfe Research.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Former Research Analyst*

I guess this is a broader question or can encapsulate a lot of initiatives. But if I look at the increased ROE target, it appears to be driven by kind of a combination of improvements in the LAE ratio and also in the separate expense ratio. And clearly, if you look at your trends over the last many years, you've been successful in improving those ratios. So just kind of curious, is it just continuing -- continued blocking and tackling, and it just continued to execute on a number of initiatives that are kind of already in place and new ones you kind of -- you have kind of coming into the business?

Or is it mostly driven by just your top line growing kind of faster than the industry average? And how much is kind of just natural operating leverage? Just maybe any kind of color into these processes since it's tough for us to kind of get a feel from the outside?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Mike, as you know, Mark Welzenbach, our Head of Claims, is going to speak after the Q&A session. And then I will also speak. So we'll cover those issues in detail, particularly Mark will talk about the new platform that he's put in place and the value of leverage from the growth as well as the activities that he's put in place around artificial intelligence, data analytics, all those things. I think you'll see a little bit of fixed cost reduction coming out of the claims department as well as the leverage from the growth on our fixed costs. And then separately, we'll talk about some upside. We haven't baked any additional expense reduction or indemnity reduction into our plan. But we'll talk about the possibility of those either adding upside or protecting for unforeseen outcomes.

Mark Joseph Welzenbach - *The Hanover Insurance Group, Inc. - Executive VP & Chief Claims Officer*

Yes, Mike, I would just build on that in that, one of the reasons why we are as confident as we are and can put out what we call ambitious but achievable goals is that we -- we're at a point now where the maturation of our business and our ability to produce good, stable loss ratios allow us to grow at an accelerated pace and to, frankly, gain that expense leverage, right? We invested in a lot of new geographies and new businesses. We built in a lot of technology investments, and we've been extremely disciplined along the way. We're proud of the expense improvement that we've created over the last few years.

So it's the combination of all of those that give us real confidence moving ahead that we should be able to be scalable. We should be able to drive to the next level and derive improved expense positioning. And if the growth isn't exactly what we planned for, we have many levers to be able to adjust, and that's what gives us confidence to put those kind of goals out there.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Would you have a follow-up, Mike?

Michael David Zaremski - *Crédit Suisse AG, Research Division - Former Research Analyst*

Yes. Great. I mean I don't want to steal thunder from a later presentation. So feel free to answer this -- feel free to tell me as in later. But Jack, you mentioned kind of the word "dynamic loss cost environment" earlier in the presentation. Maybe at a high level, you guys can talk on both the property versus the casualty side? I mean it feels like property is kind of been higher than expected, driven by weather, although Hanover has done -- feels better than the industry. And then you're also hearing more and more firms going to talk about on the casualty side, there seems to be at least a reprieve more recently on the social or casualty inflation side during the pandemic. So any comments would be great.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Yes. I think those comments are spot on, Mike. I think this is -- I've been at this business for 3.5 decades, and I've never seen loss trends as dynamic as they are. And that's not necessarily a bad thing, particularly for the better companies. But clearly, we're seeing more property volatility, both weather and non-weather. We're seeing changes in litigation trends and social inflation, somewhat mitigated by the pandemic environment, but likely to return in some level. We also saw with workers' compensation trends going the other way. I don't think any of us anticipated over the last 6 years that workers' comp trends would become so helpful, frankly, and actually benign.

So I think what that says for us and why I'm so proud of the company that we're building is that we are able to anticipate trends beyond just looking in the rearview mirror. If the traditional methods of roll forwards and analyzing past trends and relying on purely actuarial approaches is going to be insufficient and already is. So that's what gives us confidence is that we believe we have with our claims analytics, with our actuarial community, with our integrated approach to looking forward at loss trends, that is a competitive advantage of our company. And I think it needs to be as these dynamic trends present themselves.

Operator

(Operator Instructions) For our next question, we have Meyer Shields from KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Can you give us a sense as to the pricing and economic expectations that are sort of the base for net premium growth expectations?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Yes. Overall, in the forecast that we presented and the goals that we've established, we've assumed that we can cover loss trends with pricing realizing that, that will take a lot -- there'll be a lot of puts and takes in that. But we are assuming that based on our capability and based on the way we anticipate loss trends that we can cover loss trend with the pricing that we're able to get in the marketplace.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Because our businesses are so diversified, in the earlier periods, you see commercial lines across the board getting more rate above loss trend. And at the moment, Personal Lines is getting great, probably not as strong as long-term loss trend, but we still have some lingering frequency benefit. And our model assumes those trends reverse and they return to a level of normalcy over time. So we feel very comfortable with our assumptions around growth and then -- and the relative loss trend. Any follow-up, Meyer?

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Yes, absolutely. You mentioned actually more times than expected cyber coverage in -- within the various segments. I was hoping you could maybe discuss some of Hanover's recent experience? We know that, broadly speaking, there's been a huge uptick in ransomware events. What are you seeing in your book?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

So let's be clear, though, that while we want to show folks that we are up to speed and very capable of understanding the cyber line of business, we are not leading our growth with cyber. We're being very conservative. We believe over time that is a line of business and apparel that needs to be -- that all good carriers need to have a skill in. And we invested a couple of years back and some real skill in the cyber world so that we could not only round out our packages in a very limited way coverage-wise, but also be able to look out into the future and figure out where our place is. So Bryan, maybe you could elaborate on how we approach that and maybe address the issue of kind of ransomware and how we're -- what we're seeing.

Bryan James Salvatore - *The Hanover Insurance Group, Inc. - Executive VP & President of Specialty*

Sure. And I did speak about this a little bit as well, right? And I think it is important to point out that when we've been investing in cyber, our focus has been driving real strong discipline and capability across our platform. So we built out really good risk services capability. We strengthened our claims capability. We've driven discipline across the different parts of Hanover that provide cyber. We stay very, very low in terms of our limit profile, in terms of the types of customers we're focused on. Our growth has been muted because we've been thoughtful about what we're seeing in the current environment.

So is there activity in the ransomware space? Yes. Everybody is seeing that. Are we -- is it really materially feeling it? Not really, because of the way we've approached it. I do think, as Jack pointed out, that as the market continues the way it's been going and the reaction of our competitors, this could be an area of opportunity for us going forward, but we're being very careful right now. Thanks.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

All right. So we have some good questions in the chat as well. So we'll move on to those. So one question comes from the desk of Bob Farnam. Can you give us any examples of the specialty GL product that you are introducing soon? So we're staying on specialty.

Bryan James Salvatore - *The Hanover Insurance Group, Inc. - Executive VP & President of Specialty*

Yes, sure. So when you think about specialty general liability, the areas that -- or the bigger spots are the owners, landlords and tenant, OLT and product's liability. And those are definitely specialty exposures, risks. You don't often see them covered by a lot of standard line markets. That's where we're focusing on. I would say though that we're staying true to our segment, right? We're staying in the middle market, a smaller account space. We're focusing with our retail agents. And I think I would add that there's a lot of energy around this.

Whenever we launch a product, we look at our agency insights to see is this something that's interesting and needed by our agents. And we test it with our agents. And so as we start to come forward with this, the energy level with our agent is really quite high. But again, we're going to stick to our small to middle market space, and we're very much focused on making sure we have the right specialized underwriting to support this. Thanks.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Another question from Bob. Do you have any ambitions to become a truly national player rather than a super regional?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Well, thanks for that question because we're quite proud of the way we built out this company over the last decade plus to be a national carrier, at least from a commercial line standpoint. We have filled out our footprint substantially in commercial lines, not only in the core commercial areas with small commercial and middle market underwriters located in each of the major areas and territories. But also over the last 5 years, Bryan specialty businesses have really put a lot more resource out into the field to have a more fulsome set of capabilities in most of the key geographies across the country.

In Personal Lines, we're actually quite content with being one of the better super regionals in the country. I'll remind you that of all the independent agency controlled Personal Lines business, approximately 65% to 70% of it is controlled by regional companies. And we think of ourselves as the best regional company in the Personal Lines space. We have the opportunity to grow over time and to build out that footprint, but we don't feel the need or the obligation to do so.

And so we have prided ourselves in kind of bringing the best of both, bring the capabilities of a national company and the intimacy and the partnerships and the relationships of a regional company, and we like that aspect of our value proposition to our agents.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

There is a clarifying question from the buy side. Is the 2% to 3% growth increase on small commercial, total commercial? Can you please size the premium base?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

I'll take that, Jack.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Sure.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Yes. That 2% to 3% that we were referring to is specific to small commercial. And that business today is about \$1 billion with us. So really excited about, as you heard in my presentation, we feel incredibly proud of how far we've come in small business and the brand that we've established. And we think nobody is better positioned in this business than we are based on what's going on in the agency channel. So that 2% to 3% is specific to small commercial.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

That's the mix change, Right?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

A mix change, Yes.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

So staying on small commercial, the new TAP sales small commercial BOP platform looks exciting and seems to be a best-in-class platform similar to a peer like Hartford who has a grade BOP platform. Is there any risk that the new BOP platform causes loss ratio changes versus the older platform? Just trying to gauge where the THG will be monitoring and adjusting the platform's algorithms given that clearly will accelerate sales?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Yes. Great question for us. Do we think hard about the performance of that business segment and the platform itself, frankly, is going to give us more confidence that our performance will accelerate. The specifics that -- or the refinement in the pricing segmentation that we have. And as you saw in my presentation, going from 4 to 75 tiers is going to help us actually price better at the best risks, but also charge more for the acceptable risks, but that may deserve more price.

So in fact, I think it's going to improve our profit performance. Importantly, we also gained Google-like-type information in analytics that's going to allow us to track the business as it flows through the new platform. So we're confident that this is actually going to both grow and improve profitability.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

And I'd like to just build on briefly in that. I think most of our investors know that our small commercial proposition is as much about how we interface with our agents and help them get more efficient over time, consolidate some of their markets, become more account-centric. And so it's our profitability and our growth in small commercial is as much about how we work with agents and really extract the best business than it is to over rely on a point-of-sale system or the algorithms.

And I think that's an important distinction. There are markets out there that think it's all about pricing every risk that comes through the pipes. And frankly, that is not how we approach small commercial. We're much more strategic about our small commercial acquisition of business through our partner agents and the point-of-sale system now takes us to the next level of ease of doing business and pricing sophistication.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

We have another question from Bob Farnam. You have some very capable competitors that like you are continuing to evolve and improve. What gives you the confidence that you can keep ahead of the competition, particularly national players that are larger and better capitalized?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Well, Bob, we agree. This is a competitive business, and we never discount our better competitors. That said, I think we believe that as a mid-sized company that is investing in our future is building robust capabilities to compete with the better markets. We do not feel disadvantaged in terms of scale in the businesses that we choose to play. And we avoid, frankly, the businesses where we think scale is the dominant factor of success.

So as we move forward, I can promise you, we take that skeptical view of where we go and where we don't go and make sure we stay on the sectors of the business where we can be advantaged, and then leverage our agility as a mid-sized company to move faster and to collaborate more within. And as you think about the dynamic loss trend environment, I believe our company in its size gives us a material advantage in terms of really working together to understand where the business is going versus where it's been historically. And we're anxious to prove that over the next 5 years.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

We have another clarifying question from the buy side. Slide 41 says that Agency Insights drives consolidation of accounts according to -- accounting for 15% of new business and small accounts. Recall you previously targeted 30% of new business coming from that. What changed there?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Okay. So Agency Insights is an absolutely critical tool for us as we work to build partnerships and our growth strategies with each of our agents. The 15% refers to business that comes to us in blocks or chunks, so to speak. But the higher percentages that were referencing the question, frankly, can speak to other sources of new business that comes. So it could come in as a pipelining of a particular account. It could come from a strategy that is developed as part of our Agency Insight.

So Agency Insight brings a broad set of growth initiatives. So you kind of can parse them into different components. So whether it's 15% to 20% or 25%, it really depends upon what you're encompassing all of those initiatives that you encompass into that full number. So it's an incredible tool to help drive our partnerships.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Maybe just speak to our overall confidence in growth because at the end of the day, Agency Insights and our consolidation of markets, we think more and more agents are leaning on us to help them get organized around their small commercial strategy and get more programmatic about how they get more efficient and frankly, get more client centric. And so that's when our consultative capabilities, including the Agency Insight tools, is helpful, but you're seeing all of our capabilities elevate our growth. And as we look into the future, our expectations for growth in small commercial are our only building.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Perfect. So I will read one more question, after which we will have to resume the program. If inflation, both economic and social, is higher than anticipated, how will that impact your growth expectations?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

We're clearly watching the inflation trends as you would expect. And we're not getting caught up in the debate about whether it's transitory or more permanent. We're looking at how inflation affects the various aspects of our P&L and our analysis of trends going forward. So Jeff, I don't

know if you want to comment further on it? But I would just say from my vantage point, I believe we are in a very good place to incorporate inflationary effects in our pricing and also look at it all the way through into our investment portfolio and be prepared for some elevation.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

We have a very thoughtful process of how we assess all of the inflation trends and what the impact might be over time on all aspects of our P&L. And so we look at things that offset each other, things that we need to deal with. It could be workers' comp where you've got wage inflation and that helps premium. It could be the general liability, which is based on receipts. And finally, we also have net investment income, which is obviously based on interest rates. And so inflation and interest rates will naturally offset one another. So I think we've built conservative views into our model going forward, and we feel very comfortable that we can achieve them.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

All right. Thank you very much, everyone. We will now move to short video, showcasing your -- our technology and innovation progress, followed by a presentation from Willie, our Chief Innovation and Technology Officer.

(presentation)

PRESENTATION

Willard Ty-Lunn Lee - *The Hanover Insurance Group, Inc. - Executive VP, Chief Information & Innovation Officer*

Good morning, everyone. I have the pleasure today to talk to you about our innovation and technology units at the Hanover. This is a perfect time for this conversation. As the video shows, we've been really quite busy over the years, building out our ecosystem. And at the same time, technology has become such a core strategic lever for the Hanover and the P&C industry in general.

So what I'm planning to do today is just to give you a walk through some of our past projects, but then at the same time, give you a glimpse of our future through our dual horizon operating model. After our session, you should feel confident that we're spending our money wisely and that we will not be left behind in this dynamic P&C environment.

So 3 points today that I just -- are our key takeaways. So the first is in our multiyear legacy modernization project is winding down. We're getting to the place where the result is that our ecosystem allows us for all the optionality and flexibility we need to innovate for the future. The second is that, as the modernization efforts go down and our business capabilities and the investments go up, we have a dual horizon operating model that helps us make the right business decisions around optimizing today versus transforming for the future inside of our value chain.

And then the last point is in that second horizon, we have a team of people that are co-piloted by our innovation and business units that are focused on scouting ahead and making the most informed view of our changing landscape. So though our wallets may not be as thick as others, through our people, process and technology, we believe we're advantaged to accelerate our learnings in this complex environment. We may not have all the answers today, but we feel as though we can manage through this complex environment going forward.

So let's go into a little bit of detail into the legacy modernization. So myself as the CIO, this is something I'm very proud of and excited, because over these years, we didn't take any shortcuts as we upgraded and replaced almost every single platform in our value chain. This was tough work, but we're finally in a place today where we have the optionality needed for the future. So as we replaced and upgraded these point-of-sale systems, the policy admin systems, the claims system, the billing system, our commissions and the list goes on, we also built out the foundation for our digital analytics capabilities.

And finally, underneath all of that is still our strong foundation of our information security and infrastructure that will take us into the future. And then from a financial perspective, as this work winds down, we're entering into a total cost of ownership model that will not go sideways as we get to be a little bit more complex with third-party integrations and so forth into the future where we will be able to scale and grow without any outsized expenses. So now as we think about some of the projects that we've done inside of that legacy transformation, we'll start at the front end of the value chain with our point-of-sale systems.

So we -- in a previous conversation, we -- with Dick, we had talked about the CL TAP sales project. We've done exactly the same projects within Personal Lines and Specialty as well that reap the same benefits that we got inside of commercial. So what we did in all of those projects was that we built world-class workflows and UIs to help our partner agents gain the efficiencies that they want in the quoting process. But at the same time, we also externalized our rating, we externalized our underwriting rules so that we can constantly adjust to the market and fine tune our own straight-through processing and appetite, and we're doing all this without having to put code out to production.

Moving on to further down the value chain into our underwriting process. So this problem we look at it is much more of a user experience approach where we took all the disparate systems that the underwriters used, integrated them together. We served up the data at the right place at the right time in the process so that they can make the decisions quickly and then we ultimately reduce their quoting time for the underwriters. And then also at the same time, from a data perspective, we retained all of the quoting and submission data so that we can continue data mining to ensure that our pricing and our appetites are aligned with the current market.

So all this is also being done in a scalable cloud platform where we know we need the instant on-demand compute power needed to crank through some of these complex models. And then finally, we get to our digital capabilities. So much of our time was spent in creating a bunch of customer self-service capabilities within our Personal Lines area. But we soon realized that our Small Commercial customers, essentially from a digital perspective, needed those same capabilities that our Personal Lines customers had.

We were able to leverage the system that we used in Personal Lines for Commercial Lines. And though at the same time, you would think one is customer base, while the other one is sort of company owner-based, through our digital -- our data strategy, we were able to make this work in both use cases for this platform. So at the end of the day, with these digital capabilities, much of this is about data enablement. So for us, that means we have -- foundationally, we have clean data, it's governed and that there's common definition across our enterprise.

So now moving on to our dual horizon approach. This is basically it's an operating model that gives us the decision framework to be able to continue making the right investment decisions. So it forces us to be clear on the portions of the business and the value chain where we're optimized and sustaining. And then also the errors in the value chain where we believe we have a strategic advantage, and we're looking to reimagine and transform. So we obviously cannot reimagine the entire value chain all at once. So this also is a framework that helps us prioritize the things that are important and have a sequence that makes sense.

So as we think about that second horizon, we're out navigating those transformational opportunities with an integrated team that continuously challenges our future thinking and helps us paint the picture of how things may look down the road using a series of filters. Personally, I've been in multiple business unit roles at the Hanover, and I've walked in the business leaders shoes and know firsthand how important it is to have an integrated approach to problem solving for the future. This is a multidimensional problem with technology, industry trends and strategy that have to come together in a cohesive plan.

This is a huge advantage for us, where we have the cross-functional athletes that can lean in together and collaborate effectively. And then finally, when we're -- when we think about the work that has gone through that filter, here are some focus areas that we're looking at in that transformation horizon. So I'll go through the first one very quickly around the agent engagement. So this is a hot item in the industry today. There's lots of technology that's getting thrown at this problem. Essentially, it's the problem of being trying to solve for a small commercial account being placed at an agency in an effective, efficient way.

So nirvana for an agent would be that they put their data in once into a system, the data goes out to 3 or 4 different carriers, we consume that data and bring them back a bindable quote. Hopefully, that's an apples-to-apples comparison with the other carriers. So the way we look at trying to problem solve through this is by partnering with some of the best in the industry. So some of these folks we've been partners with since day 1

when they opened their doors as an insurtech. Others like Evans, we've been partnering with them for years, solving a plethora of different agency efficiency problems.

So we believe we have the right balance between being able to influence the outcomes of what happens in these use cases. But at the same time, we're giving them back valuable information as they're trying to fine tune their own products going to market. So the output of all of these test-and-learn pilots continuously help us update our views on where we think the puck will ultimately go. So in conclusion, as we think about why we believe we're going to be advantaged for the future, we're soon going to be done with our modernization efforts and we have this dual horizon operating model that we believe are going to keep us balanced between investments of today versus tomorrow's future.

At the same time, our technology platform has been created with all the flexibility and agility for us to be able to reimagine the parts of our value chain that create the most strategic advantage for us. And at the same time, we won't have an outsized total cost of ownership technology spend. And finally, from a transformation horizon, we have the business innovation and IT athletes that are the glue that play in between the white spaces and that will create those integrated solutions. So we know that the world is going to change today, and we know when we've built the people, process and technology to pave the road for the future.

So I thank you for your time today. We're now going to be transitioning into our claims discussion, and we're going to start with a quick video, and then Mark is going to come online after that.

(presentation)

Mark Joseph Welzenbach - *The Hanover Insurance Group, Inc. - Executive VP & Chief Claims Officer*

Good morning, everybody. My name is Mark Welzenbach, and I'm the Chief Claims Officer here at the Hanover. We don't often speak externally about our claims capabilities in this organization, but the truth is we have a terrific claims organization. And so I'm happy to have an opportunity to speak with you today about our capabilities. So I know that I'm late in the day in terms of presentations. You've heard a lot of information already. And so I thought I'd make it easy for you at the outset here by just giving you the 3 key takeaways that I'd like you to have coming out of this session right up front here.

So here are the 3 things I'd like you to take away, and then we'll go into the details. The first is we have very broad and sophisticated capabilities, and we contribute meaningfully to the bottom line success of this organization. The second is, we've invested very heavily in analytics, data, robotics, technology, and we're using those capabilities to really transform the way we do our business and claims from soup to nuts.

The third thing I want you to take away from this is we expect that we're going to get very meaningful benefits in terms of our performance out of all of these things that we're doing, not the least of which is an 80 to 100 basis point improvement in ULAE ratio over the next 5 years.

So with that, let me get into a little bit of the detail, and I'm going to start by talking about our capabilities and claims. So I'll start by saying that our philosophy is that we don't enter a new business or a new product line unless we first have the claim capabilities to support it. So as our company has grown in geographic footprint, as we've grown in terms of product lines, claims has actually been right there, if not ahead of the businesses in terms of developing the capabilities to manage that.

Now we have a ton of capabilities. I could spend probably 30 to 45 minutes talking about them, but I thought I would just hit a few highlights here to give you some context. So the first is we have our own captive staff council organization that manages the vast majority of our litigation, does it in a very cost-effective fashion and gets great results. We have a dedicated catastrophe team that handles well over 90% of all of our catastrophe claims internally. We have complex loss adjusters supporting all of our business lines, and these are individuals who have more than 15 or 20 years of experience in the industry.

Many in the Casualty Lines have law degrees. We have a dedicated specialty operation serving our specialty organization, and that includes cyber capabilities. We have full-time casualty nurses on staff that support medical decisions and medical causation issues managed by our adjusting staff. We have extensive medical and pharmacy networks to support what we do in workers' comp. We have a dedicated fraud investigation team. We

use best-in-class vendor tools. And we are very rapid about service here. So we have our own proprietary customer service training that is mandatory for all of our employees to go through. And we have relationship managers who support from a claims perspective, the very special relationships that we have with our agents.

And our results speak for themselves. You can see this on the slide here the exceptional results. We have a very highly competitive LAE ratio, which I'll talk a little bit about later. We have customer Net Promoter Scores in the mid-70s here, which are well ahead of most of our competitors, 10 to 15 points ahead of many of our competitors. We have top quartile loss ratios in this organization, and claims certainly contributes to that. and we have highly engaged and highly satisfied agent partners as a result of the service that we provide.

Now our capabilities go well beyond the technical capabilities that I talked about a few minutes ago. As I mentioned at the outset here, we have invested very heavily in change management, analytics, robotics, resources and capabilities, and you see those highlighted on the slide to the left here. We have implemented a number of efficiencies over the last several years, and we have taken some of those efficiency dollars that we've saved and we've reinvested them in these capabilities. And we've done that because we believe that analytics, predictive models and AI offer an opportunity for us to dramatically change how we do our business.

And we have already started to do that and realized some benefits. So it's this opportunity that I want to talk about going forward here. So I'm going to leave the conversation about our claims capabilities. And let's talk about the go forward of what we're doing because there's some pretty exciting stuff that's happening. So one of the early benefits that we've gotten from these investments on the analytics side, in particular, is substantially increased insights into our claims and our business operation in a way that improves results.

Claims files and claims data are rich with actionable information and insights if harvested properly, and we've been spending a lot of time doing that. So examples of what I mean by that and some of the value that we get. So claims outcomes, as an example. I mentioned our super service results previously. So while we get outstanding results from a service perspective, digging deeper into our claims data and looking at service results by cause of loss might help us identify some causes of loss that we don't have as good a service response to thereby providing an opportunity for us to improve those results.

While we get great indemnity results with, say, return to work claims and workers' comp or general liability slip and fall claims, looking at the claims data a little bit more deeply allows us to identify variability and performance across our industrial ranks, which again speaks to opportunity to improve results.

From a business insights perspective, by using claims data to monitor environmental changes that are happening that are critical to understanding the business, things like change in litigation rates and activity, increased surgeries and treatment, trial results, what's happening with labor and materials inflation, potential return to work headwinds, employment practice trends and the like. By monitoring those things upfront, we're able to get early insights that allow us from a business perspective to stay ahead of the curve from a pricing and a risk selection perspective.

Now one of the unique things that we're doing is text mining adjuster notes using AI. By doing that, we're actually able to augment the financial information and the coded information that we get from claim files and get deeper insights into our business. So for example, looking at adjuster notes allows us to get information on vehicle speed that might be helpful in understanding what is driving increase in auto accidents or severity or perhaps being a leading indicator to severity.

By looking at notes and claims files, we can actually find out when accidents are happening by time of day. And I'm not just talking about auto accidents. I'm talking about slip and fall claims, I'm talking about workers' comp, lost time injuries. By looking at information and claims files, we might, as an example, identify that in a certain jurisdiction. Contractors are much more aggressively and earlier getting involved in property losses, which might have an impact on frequency, which might have an impact on reporting patterns and severity. So all of these insights allow us either to fashion claim strategies, pricing and underwriting strategies or perhaps risk management strategies to help mitigate some of the exposure.

So this work that we're doing is very impactful. It's ongoing and it's supported by a very close partnership between the claims organization and the business and finance teams in -- across the enterprise. So as beneficial as the insights that I just talked about are, what we're most excited about

is using these change management and analytics capabilities to really transform our organization. We've been on this journey for several years, have already realized a number of benefits and have more opportunity ahead.

The journey that I'm talking about focuses on 3 key areas of opportunity, and those areas are all supported by specific and measurable objectives, and you see those on the slide to the left. And those 3 areas focus on improving the customer experience, using digital capabilities, improving our expense ratio by leveraging analytics, by leveraging robotics, by leveraging AI to improve the way we do our operations. And the third focus is on improving indemnity results.

So I want to take a few minutes, I want to talk about each of these areas. So let me talk first about enhancing our customer experience. So what's the objective here? The objective is to provide a quick, easy, low-touch self-service process for routine claims that can be done completely through a smart device. And I provided a simple auto example here that I'll walk you through, but think about the same thing for small property claims for work comp medical-only claims. But let's walk through the auto example here, so I can show you a little bit of how this might work.

So Aaron, one of our policyholders, has a small auto accident. So Aaron uses her smart device, probably her telephone, to begin the process of reporting the claim. Using an interactive virtual assistant on our phone, she's able to actually start the claims process, providing some basic information. Now behind the scenes, we have predictive analytics running that validate that there was no fraud, to validate that this is a simple auto accident. And when the system has done that, it prompts Aaron to use her phone to take a series of photographs, which are then uploaded again through the phone.

Behind the scenes, we have artificial intelligence that is actually using those photographs to write an estimate on the spot and to give Aaron an estimate live. From there, Aaron has prompted to go to another page, which now outlines all of our body shops and allows her to go online and actually select a shop, make an appointment, drop off the car, pick up a rental car. She can then use that phone, again, going forward, to track the status of the vehicle repairs. She will get a notification electronically when the vehicle is ready. And when that's done and she picks up the car, we dispatch payment in an automated way.

Now this is pretty impressive. We've actually moved well beyond theory, and we've launched several core enablers that are already providing benefits. So you see some of those over here, again, on the slide to the left. We have a self-service photo app. We have a predictive loss determination tool. We have a predictive fraud tool. We have digital payment capabilities, and upcoming future investments are also highlighted. The last few pieces that we need to put this picture together and make it real or in process at this point in time.

Now the benefits of this are pretty clear. First, you have a very easy and contemporary customer experience, probably a faster cycle time. And the ancillary benefit of all of this is it's reduced task for adjusters, which actually makes them in their lives better because these claims are typically pretty processed and phone intensive.

So now let me move on to talk a little bit about what we're doing on the operational efficiency front. So on this front, what's the objective. We want to use AI and automation to enable either straight through process or extremely low touch on simple claims. We want to reduce task work on all claims. So there's -- we believe that there's an opportunity with every claim in the organization to do some things to reduce the touches that the adjusters put into those claims. We also want to increase the work that could be done virtually versus in the field because it's a lot less expensive to do the work virtually.

The benefits that we're targeting for this, lower operating costs obviously, but also redistributing adjuster time to higher-value activities because we think, in doing that, we can improve outcomes and we can actually improve retention of our staff. And so you see here from the slide on the left, what's the objective here? In the prior world, when we started this, about 90% of the claims were handled in what I would call a traditional fashion, which is very heavy touch, very labor intensive, very phone intensive.

We want to flip that in the future so that we ultimately get to a point where about 80% of our claims are either no touch or extremely low touch. Now again, we've moved beyond theory to actually launching and leveraging capabilities, and you see some of those highlighted on the slide, and I'll walk you through a few of these. So from an auto perspective, 3 things that I want to highlight here. We have a predictive estimating tool that

allows us based on some very early information in the claim file to identify whether an estimate involves a high, moderate or low or no-touch opportunity.

We're working on AI at this point in time that can actually write an estimate based off a photo. So we're very close to what I talked about in the previous example. From a liability perspective, we actually have a tool, AI tool that reads files, pulls out information, populates a tool and actually makes liability recommendations to our adjusters.

On the property front, we're utilizing drones, which not only provide a quicker and safer way to get estimates on roofs, but the drones download information through a software package into software that's used by our adjusters to write the estimate. And by doing that, it reduces the labor by the adjusters in prepopulating that information by about 75%. We also have a portal that allows our insurers to go directly into a tool that we use to build inventories and reprice lost or damaged goods and insurers can actually do that in a self-service fashion, which makes it easier for them and removes work from our adjusters.

And then lastly, we're working with the vendor on a capability that allows an insurer to take an array of photographs of their home, of their building. And from that, we can build a 3D model, which allows us to adjust that loss and to write an estimate virtually.

So all of these things are very impactful in terms of reducing expenses.

A few of the results that we've gotten early on in the process here, 79% of our auto losses are not handled virtually. Over half of our property losses are handled virtually. Over 85% of our work comp medical bills are paid straight through processing. 100% of our glass and tow claims are straight through processed, real savings associated with all of these things.

So moving on to the final piece here, improving indemnity outcomes. We certainly don't want to forget about this. We spend over \$2 billion annually on indemnity, and we have been focused on this for a number of years. What's the objective here? Better results by using smart tools to improve the quality of decisions made by our adjusters and to create consistent and repeatable outcomes across all staff.

Now we've been on a journey, and you see that again on the slide to the left here. We started by using industry-leading partner tools. You see some of those tools identified there. What do these tools do? They help us with bodily injury evaluations. They help us with fraud determinations. They help us with medical necessity, pricing, cost of goods and labor, et cetera. Largely, what they do is they improve accuracy, and they save time.

And we've harvested benefits from this already. We've now moved to the next level of this, which is now doing proprietary things with robotics and machine learning. Robotic data mining and decision recommendations, predictive tools, next best action recommendations, management intervention flags. These are the next evolution in the progress down the indemnity path. And again, over on the left, you see that we have taken this beyond theory, and there are a number of capabilities that we have built.

Now I'll just highlight a couple of these here just to give you a flavor for some of the things that we've done here. So we have a social media tool that constantly trolls social media on open claims to identify instances where behavior by claimants is inconsistent with the medical claims that they're making, indicative of fraud. We have large loss predictors to allow us very early in the life of the file to predict whether a large -- whether a loss is likely to be large and to get that triage to the right place.

We have law firm performance benchmarking tools that allow us to compare law firms outside panel law firms side by side, handling the same cases and make determinations of which law firm to select based on the law firm that gets best results and does it in the most cost-effective fashion.

As I mentioned before, we have comparative negligence decision tools that are actually supported by robotics that actually harvest information and make recommendations to the insured. So again, well down the path here of getting to where we want to be, which is ultimately having 100% of our claims in the future supported in some way by AI, which, again, will improve the quality of decisions and consistency across the organization.

So I'll wrap with a couple of thoughts here. As indicated at the outset, we said that we've established very specific and measurable objectives of how we want to improve the organization. We've tracked a few here, and I've laid 3 out for you here. Loss cost improvements. We have quantifiable

benefits over the last several years of what we've done from an indemnity perspective. Net Promoter Score has continued to improve with the additional insights that we have gotten. And you see from an LAE perspective there that we've generated savings that have actually reduced our overall ratio. So this gives us a lot of confidence that we're on the right track, that there's more benefit to come and that our efforts are paying off.

Lastly, I'll close by highlighting something that we are particularly proud of. We've built very strong capabilities, invested in our future while maintaining a top quartile expense ratio, as you see here. And this is consistent with our goal, which is to get strategic advantage by investing very purposefully and thoughtfully and by operating more creatively than our competitors.

So that's the presentation for today. I hope this was helpful. Again, a lot of information. I come back to the 3 things that I talked about at the outset that I'd like you to remember, broad capabilities, sophisticated organization, transformational activities underway that are generating measurable, harvestable benefits. So I appreciate your time.

And with that, I will turn it over to our CFO, Jeff Farber.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Good morning. I'm really excited to be with you here today, and I have the opportunity to talk about our financial strength and our opportunities.

What I really want to get across with you today are 3 primary messages. Our track record is very strong in terms of consistent earnings and top quartile ROE. And our balance sheet is rock solid. We also, with our strategy and our opportunities, we've got a compelling proposition to build shareholder value, and it really relies on expense leverage, claims opportunities and growth and profitable growth. And finally, rigorous financial discipline is a big enabler. Conservative reserving, a terrific investment portfolio and rigorous capital allocation and capital management really will drive us, and I'm going to take you through each of these one at a time.

So let me just show you some examples of our proven track record since 2017. On the upper left-hand corner of the slide, you can see our operating ROE. And we have a consistent pattern of improvement and also top quartile ROE. In the bottom left-hand corner, you can see low cat volatility for the Hanover relative to our peers. In the upper right-hand corner, a very interesting metric. We like to look at the quarterly volatility relative to our peers. So we took the last 18 quarters since the beginning of 2017, and we arrayed our combined ratio alongside those of our 25 peer companies. The peer average was 7.7% standard deviation. The top quartile was 4.3%. And our metric was a 1.9% standard deviation. So low volatility of combined ratio at a strong profitability is very valuable.

And then finally, we've delivered a total shareholder return since 2017, which is above our peer set. In addition, the sale of Chaucer in 2018 and the return of capital, holding Chaucer over a 7-year period had a 20% annual IRR, which is quite attractive by any standards.

So this is the money slide, and this is a real driver. I know Jack talked about it, but these are ambitious but attainable goals, and we're very comfortable with them. The 5-year compound annual growth rate of net written premium of 7% and the growth rates of earnings per share and book value per share of 12% to 13% and 7% to 8%, respectively, create a lot of value. That, combined with a even stronger ROE target of 14%, creates enormous value for shareholders going forward.

I'd like to take you through every step of the model, and I'm going to do that in terms of ROE. But before I do that, I want to spend a little bit of time taking you through the drivers of EPS growth, which is 12% to 13% compound annual growth rate over 5 years.

We start with 2021. And with the growth, which is terribly important, we get improved -- we get margin on that growth. Second, the big driver is the leverage that we get from expenses from our fixed expenses there. And we have a strong track record of getting that leverage over the last 4.5 years, and we'll continue to do that.

Finally, Mark Welzenbach talked about claims operating model design changes, his new platform and various initiatives. That's going to create reductions in those costs and EPS improvement. And then net investment income. As our portfolio grows, our cash flow grows, we increase our earnings per share because of it.

So let's look at ROE for a moment. The levers are slightly different, and they behave slightly more differently. First, moving from mid-12% to 14% is ambitious but attainable. The underwriting leverage on expenses is very powerful with the growth. And I'm going to show you each one of these individually.

Claims, there'll be 2 levers within claims, both operating model changes as well as, simply, the benefit of growth on our fixed costs and claims. And then finally, net investment income. Even though net investment income is growing, because of interest rates, it's not going to grow as quickly as our premium or our capital. So it partially offsets the important increase levers for ROE, and I'll show you each of those right now.

Before I do that, growth is really the straw that stirs the drink. It's all about growth. And my colleagues have taken you through all of the drivers, all of our value propositions, all the important strategies to grow this. We're very fortunate to have each and every segment performing very well. It gives us the opportunity to grow all segments meaningfully. But you can see there are different growth rates among the segments. What that drives is some slight mix changes for the different segments. So Personal Lines and middle market mix shrinks a little bit. And the Small Commercial and Specialty segments actually increased a little bit in terms of their mix.

All right. Let's get to the ROE drivers as we promised. So moving from mid-12% to 14%, the biggest individual component is that \$2 billion of growth that we get over a 5-year period, we get an important increase in the value by decreasing the expense ratio.

So this chart, I think you'll be familiar with, as you've seen it really over the last 4 years, this is the next 5 years. We are planning on at least a 20 basis point annual improvement in our fixed cost leverage. At least 20 -- some years, it's 20; some years it might be 30. Over the 5-year period, it's 130 basis points. You think about that as expressed in terms of ROE, and it's very, very powerful. After that expense ratio improvement and that leverage still gives us plenty of dry powder to be able to invest in growth and innovation along the way.

Mark Welzenbach talked extensively about his new platform, the digital, the data, the analytics, all of that. And it's really very powerful. The operating model, the new platform, the artificial intelligence, the automation, the data, the analytics, it's driving straight-through processing enhancements. And we're going to capitalize on those over the next 5 years. Then simply, the leverage that we get on our fixed cost and the claims department from the growth adds meaningful improvement as well.

And finally, partially offsetting some of these terrific improvements in ROE is our net investment income. Not surprising, our invested assets grow very substantially over the 5-year period. Our cash flows grow substantially over the 5-year period. Net investment income grows. Unfortunately, with the lower interest rate environment, our earned yield will decline over the 5-year period. So net investment income with our conservative portfolio will grow, but not as quickly as premiums and not as quickly as our capital. So it has a partial offset to the ROE improvement.

As a CFO, I believe financial discipline is a big enabler, a big driver of success and of creating shareholder value. The notion of our conservative reserving creates an uncertainty buffer for us and protects ourselves going forward. Second, our enterprise-wide risk management and our volatility management has caused us to be less volatile than some of our peers and is a real differentiator. Third, underwriting expertise is a hallmark of our firm and really strong and our innovation as well. And finally, capital allocation in a rigorous way and being good stewards of excess capital and managing it carefully have served us well and will continue to do so.

Let me just drill in deeply a little bit on capital allocation and management. I'm sure you recall in 2018 when we sold Chaucer, we made a capital allocation decision that our capital is better served elsewhere. In 2019, upon the late 2018 sale, we took \$850 million, which was the capital created, and we returned all of it to shareholders. \$550 million of it was through share buyback and \$300 million through special dividend.

If you look at the left side of this chart, the consistent pattern of increasing ordinary dividends and attractive timely stock buybacks is evident. And these numbers are excluding the \$850 million of Chaucer capital returned on the left side of the page. In the center of the page, you can see the share count. And it's pretty obvious the share count has gone down steadily. These obviously do include the Chaucer share buyback of \$550 million. But the return of capital through stock buyback is a very powerful driver of reducing the share count and an even more powerful driver of earnings per share increase.

Whenever you build a strategy and whenever you put a model around it, there are judgments that one has to make, and not everything can possibly be in that model. What we've done is we've thought of some things that we didn't put in our model but create upside for us, and they're displayed on this page. The first is inorganic growth opportunities. And by that, I mean efficient M&A, low capital, creating capabilities, product enhancement, geographic enhancement. There are opportunities for us to create upside to the model.

Second, Mark, in his claims presentation, talked about indemnity improvement. We've challenged our claims team with all the work and all the money and all the great activity that we've done there to be able to find indemnity savings. They're very confident they can do that, and I think they can leverage the data, the analytics, the innovation in doing that. I want to be clear, we have not included that in our model.

And finally, expense efficiencies. We have included the leverage of fixed -- on fixed expenses from our growth, but any other activities to reduce our fixed expenses have not been included in our model. To the extent we want to create upside to the model or we want to protect potential downside of something that is unforeseen. We always have that lever. And at the same time, we can continue to invest meaningfully in profitable growth and innovation.

Okay. I want to end at the same place where I began. And this is the money slide. These are ambitious but very attainable goals. The premium growth of 7-plus percent, EPS of 12% to 13% growth, book value per share, which is after ordinary dividends of 7% to 8%, combined with an ROE target of 14%, create a powerful and enormous value driver for shareholder value. So I feel really good about the opportunity in this model and our strategy going forward.

With that, that concludes my prepared remarks and all of our prepared remarks. I'd like to invite my colleagues up to take the chairs. And now we'll do our best to handle your questions and answer them right now. Thank you.

QUESTIONS AND ANSWERS

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

We will now begin the second part of the Q&A. And as last time, we'll go to the bridge first. Sadie, the line is yours.

Operator

(Operator Instructions) For our first question, we have Paul Newsome from Piper Sandler.

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I'd like to hone in on the financial goals, which are obviously a core part of what you're trying to talk to you about today, but my first question is, do the financial goals imply any change in your financial ratios, things like operating leverage or financial leverage over the next 5 years?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Not meaningfully, Paul. Financial leverage is, by and large, unchanged. And some of the operating leverage, I think, reduces a little bit, but it depends on the mix of business and the timing of growth. And we've got ample capital for the organic growth. And still, we'll have excess capital for other capital management.

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

And my second question is, how should we think about the sensitivity of the margin expansion versus growth? Is this a situation where if you grow x percent faster than your goal, we should expect sort of x percent additional improvement in the margins or the iterating margins? Or is it a much more -- how should we think about that formula?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

So what's most important, Paul, is really the combined ratio. And what we think about when we grow is what are the opportunities and how quickly can we grow? And what do we get in terms of the expense ratio improvement? Obviously, if we wanted to grow much more quickly, we would have impacts on the loss ratio, as you know. I think I'll let some of my colleagues amplify that.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Yes. I think, Paul, what we are trying to share in our goals is that we are ready as an organization based on the broad-based profitability and the confidence that we have in our businesses and our field leaders to accelerate our growth and really come in kind of above the industry average. And because of that, we do get a lot of expense leverage.

I think we've also proven, though, that we're underwriters. And that if the situation in any 1 given year causes us to take our foot off the gas a little bit, we also are pretty disciplined with regard to our expenses and how we ensure that we meet our combined ratio goals and deliver for our shareholders. And I think you saw some of that in the articulation in our technology infrastructure in that with all the heavy lifting for the most part behind us on legacy transformation and platform modernization, we have more optionality in terms of the pace of spend and where we spend.

So I think what we feel confident is that we believe we can grow. We believe that gives us great expense leverage, but we will make sure that we are not doing anything that compromises the loss ratio and deliver those goods in a slightly different way.

Anything else, Paul?

Operator

For our next question, we have the line of Meyer Shields from KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

So a very basic question, I guess. And I know you've touched on this, but it doesn't seem like you're anticipating significant changes to the accident year loss ratio. And am I correct in assuming that you've got the offset of the frequency benefit going away and rate versus trend? Is there anything else that we should be thinking about with regard to the accident year loss ratio over the next 5 years?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Well, I think the only way to really answer that responsibly is to say that we have a portfolio now that includes a great Personal Lines business, a great Core Commercial Lines business and a terrific Specialty business that we've never been better positioned to grow. And so -- and each of those, as you know, has a different kind of expense ratio and loss ratio to the combined ratio. In aggregate, though, we believe that we can price to loss trends and that we're pretty good at determining what those loss trends are. So in aggregate, we are contemplating a fairly stable accident year performance through that period and really enhancing our ROE through growth and through improvements, particularly in our claims efficiency.

Any follow up, Meyer?

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Yes. One quick one because -- and I think it's either a question for Jack or for Will. But when we look at the industry's history over the last, I'll say, 5 years and overpriced workers' compensation relative to actual losses, and I was hoping you could take us through the capabilities that you now have to outsmart the industry if there's some other...

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Well, listen, I think you're right to point the finger at how a company anticipates go forward loss trends versus retrospectively looking at where loss trends have been. And I hope we've shared with you through not only the Investor Day presentations, but also in some of our other interactions and our performance that we have a lot of confidence in our ability to try to understand where the industry is going and adjust our underwriting and our pricing. And those 2 extremes, I think, are show how dynamic and how complex, I think, the environment has gotten.

No one in the industry expected that Commercial Auto would be as challenging as it's been, frankly, over the last decade. But this, too, will pass. We will, as an industry, and certainly, we believe we are, as a company, getting our arms around fundamentally different trends in the Commercial Auto line. And it also took a while for us and the industry to understand really some of the systemic changes in workers' comp that we're going to generate lower loss content. So we use those past understandings and the new set of capabilities to really focus our business going forward.

And what's different today than maybe even in the recent past is we ask all of our businesses and our line of business supporting cast to anticipate if our -- if the trends were to be worse than what we're anticipating, what would we be looking for? What would drive that? If the trends would be better than what we're contemplating in our picks, what would that look like? And so our quarterly drill, our quarterly business review now is very focused not only on what the trajectory and the performance of the business is, but how good were our hypotheses around those trends? And are we getting to that granular level?

And the last thing I would say on that is we have a substantial investment in our claims analytics capability that Mark has built that now allows us to look at those leading indicators and build on those hypothesis in a much more sophisticated way than we even did 3 or 4 years ago.

Operator

(Operator Instructions) For our next question, we have Grace Carter from Bank of America.

Grace Helen Carter - *BofA Securities, Research Division - Research Analyst*

Looking at the guidance for the next few years, I was wondering how we should be thinking about the normalized impact of fairly volatile items like catastrophes and alternative investment returns.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

So the information that we've put out there is obviously a plan between here and 2026. As we think about catastrophes, our cat load for 2021 was 4.9%. And I think on the \$300 million of alternatives, we guided to about \$7 million a quarter. I think those are pretty good forecast as we move forward. It's possible that the portfolio could get a little larger for alternatives, and we'll give more guidance at year-end for the 2022 year on both cat load as well as NII.

Might you have a follow-up, Grace?

Grace Helen Carter - *BofA Securities, Research Division - Research Analyst*

Sure. I mean thinking about the elevated cats year-to-date, and it sounds like the cat load should be relatively consistent with original guidance going forward, I was just wondering if there's been any changes to how you all are thinking about reinsurance and risk management from that regard.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

So we spend a lot of time talking and thinking about this, not just this year or this quarter, but really for a long period of time. We have a pretty robust risk management process and a very effective team that models cats that uses the industry-leading models and is really thinking about aggregations, particularly around flood, inland flood, as we've seen recently. So we're spending a lot of time looking at that.

From a reinsurance perspective, as you know, we have a property per risk program, which is a pretty effective and has relatively low limits or attachment points, I should say, compared to our peers. We also have a cat aggregation, which is a treaty, which is too early to participate since it starts July 1. And I certainly hope it does not participate or respond this year and that we have low cats for the remainder of our 12-month year, 7/1 to June 30.

And then we have our treaty, and our treaty attaches at \$200 million. And we think about from time to time, should we go lower, but if Ida is an example at 75, you'd have to go really low, and it'd be really expensive to do that. And I'm just not sure that's the best way to address quarterly volatility. I think overall, we can manage and handle through -- manage through this carefully.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

So we do have several questions on the console chat. The first one is coming from a buy-side analyst. What do you foresee as the biggest risk to achieve your ambitious financial goals?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Well, obviously, when we built our plans and thought out 5 years, we spent a lot of time building scenarios. And so what you see is the net result of a lot of the views of how the world could come at us, what different sectors and lines of business could -- how they could play out? And because we have such broad-based profitability, we're able to really kind of lean into the current environment and elevate our growth.

But I think as was articulated earlier, growth is something that is important to us to get to the next level of relevancy with our agents as well as to really acknowledge the expense leverage that we have in the system. And so in our scenario planning, we have worked hard to make sure how we would behave if the growth was not quite at the level that we're anticipating and to be able to deliver on that growth. But I think that's fundamental to our economic improvement.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Okay. Thank you. You have not specifically incorporated share buyback in your financial goals. To what extent will this action contribute to the achievement of your financial objectives? So that's the question from the same buy-side analysts.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

Sure. Thanks. We haven't specifically articulated what share buyback assumptions that we've used, but share buybacks are contemplated. So we've got a lot of capital that gets created through the earnings of the firm, as you can imagine. We have ambitious but achievable growth targets, and

a fair bit of that excess capital or that capital gets used or deployed in the organic growth. And then excess capital from there will be used to grow the ordinary dividend and for share buyback.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Thank you. One more question here. Growth. What are your thoughts on new business penalty and the interplay of unclear social inflation trends?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

I think it is absolutely crucial that every company has a clear understanding of not only how they're pricing their renewal book, but how they're pricing their new business and the mix of that new business coming through. And as you might imagine, we spend a lot of time on that in our quarterly business reviews and make sure that we have an understanding of how we price new business versus how we produce renewals and how that incoming new business looks vis-a-vis our renewal book in terms of the portfolio. We -- not to get too detailed, but we look at the business on what percent to standard in terms of credits that we apply. But as the business gets more and more proprietary, we also look at what was the business unit's projections on the kind of mix and the pricing levels that they were anticipating and how is that -- how is it coming through in terms of execution.

And overall, I can tell you that we have as much discipline as we've ever had in our pricing of new business versus our renewal book. And we will continue to be very disciplined on that because it's critical to your long-term profitability.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Thank you, Jack. Next question comes from a buy-side analyst as well. A lot of the presentation focused on growth, but are there any underperforming lines of business that you see as areas that might require targeted action or reduced exposure going forward? Commercial Auto, property in certain geographic markets?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

As you can imagine, in a \$5 billion portfolio, everything is not pristine and perfect. In aggregate, as we've said, we're in the best position we've ever been across not only our major business sectors, but also in most of our businesses and most of our geographies.

We just spent the last couple of days going through our field leadership meetings where each of our regional vice presidents in the field report back to us on not only how they're doing results-wise and where they are with their agency partner strategy and their distributions management, but also their readiness for growth. And what I love about that is it's where we take the businesses, and we intersect them with the geographies, and we get a clear view of what does growth look like in each of our key territories.

So do we have areas for improvement? There definitely are areas that have underperformed in the past but are on their way back to being more instrumental to our profitable growth. And I don't think we'll unpack all of those areas here, but Commercial Auto clearly is not our best performing line of business. We're throwing an awful lot of rate at it, and we will continue to do so. But you'll remember that because we're, for the most part, an account-centric kind of offering in most of the key sectors that we go after, there are some offsets. And the outperformance of our workers' comp line of business has somewhat offset some of the disappointment that we've seen in Commercial Auto. And in total, because we're not kind of chasing a bunch of monoline business, we have, I think, a more balanced and more overall profitable book of business.

So we have as much confidence as we ever had in our portfolio, and we're excited, frankly, to take on the opportunities that are being presented in the market.

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

And Jack mentioned this in an earlier question around growth, but we will not compromise our profit in order to chase growth. So we always have the opportunity to pause and make decisions around that and still protect our profit.

Oksana, earlier, we had a question in the earlier session about loss adjustment expenses. And Mark and I hadn't spoken yet, and we didn't have Mark up here. I wonder if that's a good place to talk about our history and our activity there. Could I ask Mark to cover that?

Mark Joseph Welzenbach - *The Hanover Insurance Group, Inc. - Executive VP & Chief Claims Officer*

I will jump in. Sure. Yes. I think, Jeff, you answered the financial aspect of that question, but I think another component of that question related to us relative to the peers -- our peers and how we kind of felt about that. And I'll answer it this way. So every carrier has different priorities and different focus. I think just depending on mix of business size, state mix, how you get your customers' customer base and whatnot.

So on the issue of relative to competition, while I find interesting what the competition is doing, we're not necessarily focused on it at the end of the day. I can't guarantee that at the end of the day, the trajectory that we're on from an LAE perspective is going to be outpacing all of our competition. What I can say is this. And in my presentation, I attempted to focus on the fact that it's not just about LAE. It's the balance of LAE. It's doing the right things around managing indemnity. It's creating a better customer experience. It's creating a better employee experience.

What we are doing in that space is proprietary. What we're doing in that space is unique to us. What we're doing in that space, I believe, gives us competitive advantage. And so when I think about the whole, yes, we will do things in order to manage expenses much more effectively on a go-forward basis, but we will also do it in a way that improves overall outcomes for the organization. And I think we're doing that overall better than many of our competitors.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

So we have one more question from noncovering sell-side analyst. With regard to the 14% ROE goal, what is the expected underlying risk-free rate that is built into the plan? Said another way, what is the spread over the risk-free rate that you are targeting?

Jeffrey Mark Farber - *The Hanover Insurance Group, Inc. - Executive VP & CFO*

So that sounds like a sophisticated MBA expert there who did that. Obviously, we do build a cost of equity, and we look at that. We follow the treasury forward curves to build our model. That's the way we look at NII. And so if you look at the, let's say, 7-year curve over the next 5 years, that's a pretty good surrogate. But we constantly are fairly slavish to cost of equity, and are we meeting and beating those targets and by how much? And I would say 14% ROE very handily beats those targets.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

So here's one more question. Do the efficiencies you gain offset some of the investments to yield expense ratio improvement through technology?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

I think one of the things we're most proud of over the last several years is that we have dramatically improved our expense discipline but also the way in which we measure aspects of our expense position today or the components of our expenses today and look at things that were previously important and constantly measure them against things that are increasingly important. And what you can see, not only in technology, but in some of the other capabilities we're building, whether that be digital or data analytics or even some of the marketing that is advantaging us going

forward, is that we're constantly looking at where do we want to spend the next \$10 million? And how does that compare to the last \$10 million we're spending today? And I think we're making tremendous progress, and it's a cultural thing within our company.

It's not just Jeff and I sitting around and figuring out who gets the last nickel. It's about the community of people that were involving in this to take this company to the next level and get excited about the future and what we need to invest in to get there. So I can assure you that we will continue to look at our marginal expense ratio and the expenses, frankly, on the margin and make room for the essential investments that will take us to the next level. We're excited about it. And frankly, we're disciplined to get that right.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

All right. So this will be the last question we will take. So as -- I was impressed with a pretty meaningful modernization and technology transformation at the company, but how do you translate technology investment into growth?

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Well, let's let our CIO do it since Will is not just our technology guy, he's been part of our business for over a decade. So give that one a shot, Will.

Willard Ty-Lunn Lee - *The Hanover Insurance Group, Inc. - Executive VP, Chief Information & Innovation Officer*

No. So with our dual horizon approach that we have when we talked about sort of the places where we want to optimize inside of the life cycle versus where we want to reimagine, I think it's a combination of that plus I had talked about sort of the collaborativeness of the teams between our business leaders, our IT leaders, our innovation athletes, as I was referring to them, where they really do understand the entire life cycle from distribution all the way down to billing and claims.

And I think having that full understanding of that life cycle is where the trick to all of this comes in as to like where are the places where we want to put our chips down, where do we want to make our investments. And those ultimately are the places where I think -- those are the things that come back to either expense improvements and growth initiatives. And we've shown the track record over the time we were doing all this modernization that we're able to execute on all those improvements.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

I think the only thing I would add is that we believe that over the next 5 years, business models will change even at a quicker pace. And if you believe that having a team with the business folks and the IT folks and all the other folks that contribute to the way we run our businesses, having them connected, anticipating how we can improve, how can we get more efficient, how can we get some of the rituals that this business has had between agents and customers and carriers, how do we clean up some of that and just, frankly, run the business more effectively, including claims, that is the kind of company that's going to win.

And I think -- I hope what we've shown you today is that we're that kind of company, that we have the ability to look across the value chain to be very focused on the sectors that we're in and have people, including all of our technology folks, engaged in that new horizon, that future horizon and help us imagine it, but invest at the right pace and try not to get there too quickly.

So we're excited about the way this is going forward. And I think technology will be an increasingly important part of how we get to the next level as a company and grow into the future.

Oksana Lukasheva - *The Hanover Insurance Group, Inc. - VP of IR & Financial Planning*

Perfect. Thank you very much. So this will conclude our Q&A session today. Thank you, everybody, for participating. And I will now turn it back to Jack for concluding remarks.

John Conner Roche - *The Hanover Insurance Group, Inc. - President, CEO & Director*

Thank you, Oksana, and thank you to all of you for participating in our Investor Day, albeit virtually this year. We really appreciate your time and your interest in our company. I hope if you've got nothing out of this meeting today, but that we are incredibly optimistic and confident in our ability to continue our track record and be a successful company.

We are excited about the change that's coming on us. We are respectful of the dynamic environment, but we've never felt more capable to take on the challenges that we face and to capitalize, frankly, on the opportunities that are before us.

So thank you for your time, and we look forward to connecting with many of you soon.

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