

The Hartford - Should the Board Open the Door to Chubb?

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Decision scope: Whether and how to engage with Chubb after its unsolicited, nonbinding proposal

The decision

On March 18, 2021, The Hartford Financial Services Group's board is weighing how to respond to an unsolicited proposal from Chubb. The Hartford has confirmed receipt and said its directors are carefully considering the proposal with financial and legal advisers. Later that day, Chubb publicly disclosed that it had proposed \$65 per Hartford share on March 11, with consideration in a mix of stock and cash, the majority in cash. Chubb invited private discussions and said no agreement had been reached. [P1] [P2]

The board's immediate choice is about process. It could authorize limited discussions and diligence while retaining the ability to reject the proposal; it could decline engagement and focus on The Hartford's standalone plan; or it could ask Chubb for fuller written terms before deciding whether to meet. What should the board do, what conditions should govern its next step, and what evidence would change its view?

The proposal is not a signed agreement or a complete term sheet. The public disclosures do not give the exact cash and stock proportions, exchange ratio, any price protection for Chubb shares, financing details, closing conditions, or a target-specific synergy and integration-cost analysis. The board has not publicly stated a valuation, fairness conclusion or recommendation. [P1] [P2]

The offer as publicly described

Chubb said its March 11 proposal was \$65 per Hartford share. It described that amount as a 26% premium to an unaffected 20-day volume-weighted average price of \$51.70 through March 10. Chubb characterized the proposal as a mix of stock and cash, with the majority in cash. Those are bidder statements; the full offer letter and detailed consideration mechanics are not public. A premium to a selected trading benchmark is not by itself a valuation of The Hartford's standalone prospects or the value of the proposed combination. [P1]

The Hartford's earlier March 18 statement confirmed the unsolicited, nonbinding approach and said the board was carefully considering it with advisers in light of long-term shareholder interests. It did not disclose Chubb's price or consideration mix. Chubb's later release that evening supplied those terms and said it had not received a response on the proposal's merits as of its release. [P1] [P2]

Exhibit 1. Publicly disclosed proposal facts and open terms

Item	What was disclosed by March 18	What remains unknown publicly
Headline value	\$65 per Hartford share, as stated by Chubb	How Chubb derived its valuation or whether it would improve it
Premium reference	Chubb's stated 26% premium to \$51.70 unaffected 20-day VWAP through March 10	Whether the reference period is an appropriate measure of standalone value
Consideration	Mix of Chubb stock and cash; majority cash	Exact split, exchange ratio, share-price protections and tax treatment
Process	Chubb invited private discussions; no agreement reached	Diligence scope, timing, confidentiality terms and any commitment requested
Transaction case	No target-specific synergy or integration-cost bridge disclosed	Benefits, costs, regulatory/capital constraints, financing and closing conditions

Source: P1, paragraphs 1-4. Proposal descriptions and premium calculation are attributed to Chubb. "Unknown publicly" refers to the cited releases, not proof that the parties lack other information.

The standalone business the board must assess

The Hartford entered the proposal process with a substantial operating business and its own strategy. For 2020, it reported \$2.1 billion of core earnings, up 1% from 2019, and \$1.7 billion of GAAP net income, down 17%. Core return on equity was 12.7%; GAAP return on equity was 10.0%. Book value per diluted share was \$50.39, or \$47.16 excluding accumulated other comprehensive income. Core earnings and core ROE are company-defined non-GAAP measures; they should not be treated as interchangeable with GAAP results. [P3]

Results differed across businesses and periods. The fourth-quarter Commercial Lines combined ratio was 91.8, compared with 98.2 a year earlier; the company cited 1.3 points of direct COVID-19 losses in the quarter. Group Benefits recorded \$152 million of fourth-quarter excess mortality before tax, primarily due to COVID-19. These results show both underwriting performance and pandemic exposure, but one quarter does not establish normalized future earnings. [P3]

Management's stated priorities included underwriting and product capabilities, ease of doing business, digital technology, the Spectrum small-commercial offering and a new AARP auto and home product rollout. The 2020 Form 10-K described Hartford Next as a multiyear expense-reduction program. Management estimated cumulative savings relative to 2019 of \$106 million in 2020, \$350 million in 2021 and \$500 million in 2022, alongside program costs of \$153 million, \$110 million and \$77 million, respectively. The 2022 estimate therefore implies \$423 million of net savings before tax for that year. These are management estimates; the filing does not establish how much would persist after the program. [P4]

The company had also authorized \$1.5 billion of share repurchases from January 1, 2021 through December 31, 2022, and increased its quarterly common dividend by 8% to \$0.35. These announced capital-return plans form part of the standalone context; they do not establish what distributions would occur during a transaction process. [P3]

Exhibit 2. Selected FY2020 and Q4 2020 measures

Measure	Reported result	Scope and caution
FY2020 GAAP net income	\$1.7bn; down 17%	Consolidated; reported GAAP measure
FY2020 core earnings	\$2.1bn; up 1%	Consolidated; company-defined non-GAAP measure
FY2020 GAAP / core ROE	10.0% / 12.7%	Different earnings definitions; not directly interchangeable
Book value per diluted share	\$50.39; \$47.16 excluding AOCI	Ex-AOCI is an adjusted presentation; not offer value
Q4 Commercial Lines combined ratio	91.8, versus 98.2 prior year	Period-specific underwriting measure; company cited 1.3 points of direct COVID losses
Q4 Group Benefits excess mortality	\$152m before tax	Primarily attributed by the company to COVID-19

Source: P3, consolidated results tables, top-line bullets and management comments. Dollar amounts are U.S. dollars. The filing and release definitions govern; no normalization is supplied here.

Exhibit 3. Hartford Next management estimates

Year	Cumulative savings vs. 2019	Program costs	Net savings (expense) for year before tax
2020	\$106m	\$153m	(\$47m)
2021	\$350m	\$110m	\$240m
2022	\$500m	\$77m	\$423m

Source: P4, Item 7, Hartford Next table, printed pp. 46-47. Savings are cumulative estimates relative to the 2019 baseline. Net savings (expense) equals estimated savings less program costs: \$106m – \$153m = (\$47m) in 2020, \$350m – \$110m = \$240m in 2021, and \$500m – \$77m = \$423m in 2022. These are management estimates before tax, not audited realized savings. The filing does not establish persistence after the program.

A large potential counterparty, with an unproven combination case

Chubb's 2020 Form 10-K reported \$191 billion in assets at year-end, operations in 54 countries and territories, and six business segments: North America Commercial P&C, North America Personal P&C, North America Agriculture, Overseas General, Global Reinsurance and Life. Its scale and range of businesses make it a consequential counterparty. They do not demonstrate that a combination would create value for Hartford shareholders, policyholders or other stakeholders. The public proposal materials contain no Hartford-specific synergy estimate, integration plan or capital-allocation case. [P5] [P1]

Insurance combinations raise questions beyond corporate scale: the fit of underwriting portfolios and distribution, talent retention, systems and claims integration, insurance-entity capital, and regulatory review. The public disclosures at the cutoff do not resolve how Chubb would address those issues in a combined company. Students should distinguish a plausible mechanism from evidence that the mechanism applies to this proposal. [P4] [P5]

The board's process alternatives

Authorize limited private engagement. A defined process could seek the full terms, clarify the stock component and its protections, request a target-specific combination case, and permit comparison against an independently developed standalone valuation. The board would need scope, confidentiality, timing, adviser roles and explicit conditions for pausing or ending discussions. Engagement would not itself accept the proposal or commit the company to a transaction. [P1] [P2]

Decline engagement and pursue the standalone plan. The board could conclude that it lacks a sufficient basis to divert attention or share information, and direct management to execute its underwriting, product and Hartford Next priorities. This preserves focus but places weight on forecasts and execution targets that investors cannot fully evaluate from consolidated historical results alone. [P3] [P4]

Request complete written terms first. The board could ask Chubb to provide a detailed proposal before opening broader discussions. This may improve the information available for initial assessment while limiting premature engagement. Chubb may or may not provide more detail without access or dialogue; the public record does not say.

Decision assignment

You advise the Hartford board on its next process step. Recommend whether to authorize limited discussions, decline engagement, or request complete written terms first. Specify the information the board should require, how it should protect an independent assessment, and what conditions would prompt it to continue, pause or end the process. Address the strongest argument against your recommendation.

Use the \$65 headline proposal and the standalone evidence, but do not equate the bidder's premium reference with intrinsic value or assume that the announced cost target will be fully achieved. Separate reported results, company forecasts, bidder statements and your own assumptions. No recommendation, fairness opinion, detailed transaction terms or later outcome is supplied.

Sources and conventions

Information is limited to public material available through March 18, 2021, end of day Eastern Time. This cutoff includes Chubb's 6:45 p.m. ET release and follows The Hartford's earlier March 18 confirmation. No subsequent disclosure or transaction outcome is part of the student information set.

- **P1:** Chubb, "Chubb Confirms Submission of Preliminary Proposal for Strategic Business Combination to The Hartford," March 18, 2021, paragraphs 1-4.
- **P2:** The Hartford, "The Hartford Confirms Receipt Of Unsolicited Proposal," March 18, 2021, paragraphs 1-2.

- **P3:** The Hartford, Q4 and FY2020 results and 2021 outlook, February 4, 2021, top-line bullets, consolidated results tables and capital-management discussion.
- **P4:** The Hartford 2020 Form 10-K, filed February 19, 2021; Part I, Item 1, “Strategic Priorities,” printed pp. 6-7; Item 7, Hartford Next table, printed pp. 46-47; relevant risk factors and MD&A.
- **P5:** Chubb 2020 Form 10-K, filed February 25, 2021; Part I, Item 1, “General” and “Overview.”

The accompanying research dossier records academic source access limitations and evidence gaps. Industry research is not a deal-specific valuation or outcome forecast.