HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-K
February 24, 2012

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3317783**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT
(ALL OF WHICH ARE LISTED ON THE NEW YORK STOCK EXCHANGE INC.):

Common Stock, par value $0.01 per share

Depositary shares, representing interests in 7.25% Mandatory Convertible Preferred Stock, Series F, par value $0.01 per share

Warrants (expiring June 26, 2019)

6.10% Notes due October 1, 2041

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

None

Indicate by check mark:	**Yes**	**No**
if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	þ	
if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.		þ
whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	þ	
	þ	

whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) þ

The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2011 was approximately $11.7 billion, based on the closing price of $26.37 per share of the Common Stock on the New York Stock Exchange on June 30, 2011.

As of February 17, 2012, there were outstanding 440,237,475 shares of Common Stock, $0.01 par value per share, of the registrant.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement for its 2012 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
TABLE OF CONTENTS

Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as anticipates, intends, plans, seeks, believes, estimates, expects, projects, and similar references to futu
Forward-looking statements are based on our current expectations and assumptions regarding economic, competitive and legislative developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the Company). Future developments may not be in line with management s expectations or have unanticipated effects. Actual results could differ materially from expectations, depending on the evolution of various factors, including those set forth in Part I, Item 1A. Risk Factors and those identified from time to time in our other filings with the Securities and Exchange Commission. These important risks and uncertainties include:

- challenges related to the Company s current operating environment, including continuing uncertainty about the strength and speed of the recovery in the United States and other key economies and the impact of governmental stimulus and austerity initiatives, sovereign credit concerns, including the potential consequences associated with recent and further potential downgrades to the credit ratings of debt issued by the United States government, European sovereigns and other adverse developments on financial, commodity and credit markets and consumer spending and investment, including in respect of Europe, and the effect of these events on our returns in our life and property and casualty investment portfolios and our hedging costs associated with our variable annuities business;
- the potential impact or consequences of our ongoing evaluation of the Company s strategy and business portfolio, which may lead us to pursue one or more transactions or take other actions, including the discontinuance or placing in run-off of certain lines of business and/or the pursuit of strategic acquisitions, divestitures or restructurings, and the potential that any of the foregoing transactions or actions may not be achievable or that the benefits anticipated to be gained thereby may not be obtained;
- the success of our initiatives relating to the realignment of our business, including the continuing realignment of our hedge program for our variable annuity business, and plans to improve the profitability and long-term growth prospects of our key divisions, including through opportunistic acquisitions or divestitures or other actions or initiatives, and the impact of regulatory or other constraints on our ability to complete these initiatives and deploy capital among our businesses as and when planned;
- market risks associated with our business, including changes in interest rates, credit spreads, equity prices, market volatility and foreign exchange rates, and implied volatility levels, as well as continuing uncertainty in key sectors such as the global real estate market;
- the impact on our investment portfolio if our investment portfolio is concentrated in any particular segment of the economy;
- volatility in our earnings and potential material changes to our results resulting from our adjustment of our risk management program to emphasize protection of statutory surplus and cash flows;
- the impact on our statutory capital of various factors, including many that are outside the Company s control, which can in turn affect our credit and financial strength ratings, cost of capital, regulatory compliance and other aspects of our business and results;
- risks to our business, financial position, prospects and results associated with negative rating actions or downgrades in the Company s financial strength and credit ratings or negative rating actions or downgrades relating to our investments;
- the potential for differing interpretations of the methodologies, estimations and assumptions that underlie the valuation of the Company s financial instruments that could result in changes to investment valuations;
- the subjective determinations that underlie the Company s evaluation of other-than-temporary impairments on available-for-sale securities;
- losses due to nonperformance or defaults by others;

the potential for further acceleration of deferred policy acquisition cost amortization;
the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;
the possible occurrence of terrorist attacks and the Company s ability to contain its exposure, including the effect of the absence or insufficiency of applicable terrorism legislation on coverage;
the possibility of unfavorable loss development including with respect to long-tailed exposures;

the difficulty in predicting the Company s potential exposure for asbestos and environmental claims;

Table of Contents

- the possibility of a pandemic, earthquake, or other natural or man-made disaster that may adversely affect our businesses and cost and availability of reinsurance;
- weather and other natural physical events, including the severity and frequency of storms, hail, winter storms, hurricanes and tropical storms, as well as climate change and its potential impact on weather patterns;
- the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- the Company s ability to distribute its products through distribution channels, both current and future;
- the cost and other effects of increased regulation as a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), which, among other effects, has resulted in the establishment of a newly created Financial Services Oversight Council with the power to designate systemically important institutions, will require central clearing of, and/or impose new margin and capital requirements on, derivatives transactions, and created a new Federal Insurance Office within the U.S. Department of the Treasury (Treasury);
- unfavorable judicial or legislative developments;
- the uncertain effects of emerging claim and coverage issues;
- the potential effect of other domestic and foreign regulatory developments, including those that could adversely impact the demand for the Company s products, operating costs and required capital levels, including changes to statutory reserves and/or risk-based capital requirements related to secondary guarantees under universal life and variable annuity products or changes in U.S. federal or other tax laws that affect the relative attractiveness of our investment products;
- regulatory limitations on the ability of the Company and certain of its subsidiaries to declare and pay dividends;
- the Company s ability to effectively price its property and casualty policies, including its ability to obtain regulatory consents to pricing actions or to non-renewal or withdrawal of certain product lines;
- the Company s ability to maintain the availability of its systems and safeguard the security of its data in the event of a disaster, cyber or other information security incident or other unanticipated event;
- the risk that our framework for managing business risks may not be effective in mitigating material risk and loss to the Company;
- the potential for difficulties arising from outsourcing relationships;
- the impact of potential changes in federal or state tax laws, including changes affecting the availability of the separate account dividend received deduction;
- the impact of potential changes in accounting principles and related financial reporting requirements;
- the Company s ability to protect its intellectual property and defend against claims of infringement; and
- other factors described in such forward-looking statements.

Any forward-looking statement made by the Company in this document speaks only as of the date of the filing of this Form 10-K. Factors or events that could cause the Company s actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

Table of Contents

PART I

Item 1. BUSINESS

(Dollar amounts in millions, except for per share data, unless otherwise stated)

General

The Hartford Financial Services Group, Inc. (together with its subsidiaries, The Hartford , the Company , we , or our an insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of investment products and life, property, and casualty insurance to both individual and business customers in the United States of America. Also, The Hartford continues to administer business previously sold in Japan and the United Kingdom. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford s subsidiaries. At December 31, 2011, total assets and total stockholders equity of The Hartford were $304.1 billion and $22.9 billion, respectively.

Organization

The Hartford strives to maintain and enhance its position as a market leader within the financial services industry. The Company sells diverse and innovative products through multiple distribution channels to consumers and businesses. The Company is continuously seeking to develop and expand its distribution channels, achieving cost efficiencies through economies of scale and improved technology, and capitalizes on its brand name and The Hartford Stag Logo, one of the most recognized symbols in the financial services industry.

The Company is currently focused on a customer-oriented strategy and organized around four divisions: Commercial Markets, Consumer Markets, Wealth Management and Runoff Operations. In the last two years, the Company announced the sales of certain businesses that are not core to its focus and strategy. The Company continues to evaluate its strategy and business portfolio with the goal of delivering shareholder value. As this review is ongoing and no decisions have yet been made, the following discussions of the Company s business and any forward-looking statements contained herein assume a continuation of the Company s current business focus and, as such, are subject to change based on any actions taken as a result of the Company s ongoing review.

As a holding company that is separate and distinct from its subsidiaries, The Hartford Financial Services Group, Inc. has no significant business operations of its own. Therefore, it relies on the dividends from its insurance companies and other subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of The Hartford Financial Services Group, Inc. may be found in the Capital Resources and Liquidity section of Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

The Company maintains a retail mutual fund operation whereby the Company, through wholly-owned subsidiaries, provides investment management and administrative services to The Hartford Mutual Funds, Inc. and The Hartford Mutual Funds II, Inc. (collectively, mutual funds), consisting of 57 non-proprietary mutual funds, as of December 31, 2011. The Company charges fees to these mutual funds, which are recorded as revenue by the Company. These mutual funds are registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by the Company. In the fourth quarter of 2011, the Company entered into a preferred partnership agreement with Wellington Management Company, LLP (Wellington Management) and announced that Wellington Management will serve as the sole sub-advisor for The Hartford s mutual funds, including equity and fixed income funds, pending a fund-by-fund review by The Hartford s mutual funds board of directors. As of December 31, 2011, Wellington Management served as the sub-advisor for 29 of The Hartford s non-proprietary mutual funds and has been the primary manager for the Company s equity funds.

Reporting Segments

The Hartford is organized into four divisions: Commercial Markets, Consumer Markets, Wealth Management and Runoff Operations. In 2011, the Runoff Operations division was formed to reflect the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance. As a result, the Company conducts business principally in nine reporting segments, and segment data for prior reporting periods has been adjusted accordingly. The Hartford includes in its Corporate category the Company s debt financing and related interest expense, as well as other capital raising activities; banking operations; certain fee income and commission expenses associated with sales of non-proprietary products by broker-dealer subsidiaries; and certain purchase accounting adjustments and other charges not allocated to the reporting segments.

The following discussion describes the principal products and services, marketing and distribution, and competition of Commercial Markets, Consumer Markets and Wealth Management. For further discussion on the reporting segments, including financial disclosures on revenues by product, net income (loss), and assets for each reporting segment, see Note 3 of the Notes to Consolidated Financial Statements.

Table of Contents

Commercial Markets

The Commercial Markets division is organized into two reporting segments; Property & Casualty Commercial and Group Benefits.

Principal Products and Services

Property & Casualty Commercial provides workers compensation, property, automobile, liability and umbrella coverages under several different products, primarily throughout the United States, within its standard commercial lines, which consists of The Hartford s small commercial and middle market lines of business. Additionally, a variety of customized insurance products and risk management services including workers compensation, automobile, general liability, professional liability, fidelity, surety, livestock and specialty casualty coverages are offered to large companies through the segment s specialty lines.

Standard commercial lines seeks to offer products with more coverage options and customized pricing based on the policyholder s individualized risk characteristics. For small businesses, those businesses whose annual payroll is under $5 and whose revenue and property values are less than $15 each, coverages are bundled as part of a single multi-peril package policy marketed under the Spectrum name. Medium-sized businesses, companies whose payroll, revenue and property values exceed the small business definition, are served within middle market. The middle market line of business provides workers compensation, property, automobile, liability, umbrella and marine coverages. The sale of Spectrum business owners package policies and workers compensation policies accounts for the majority of the written premium in the standard commercial lines.

Within the specialty lines, a significant portion of the specialty casualty business, including workers compensation business, is written through large deductible programs where the insured typically provides collateral to support loss payments made within their deductible. The specialty casualty business also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. Captive and Specialty Programs provide insurance products and services primarily to captive insurance companies, pools and self-insurance groups.

Group Benefits provides group life, accident and disability coverage, group retiree health and voluntary benefits to individual members of employer groups, associations, affinity groups and financial institutions. Group Benefits offers disability underwriting, administration, claims processing and reinsurance to other insurers and self-funded employer plans. Policies sold in this segment are generally term insurance, allowing Group Benefits to adjust the rates or terms of its policies in order to minimize the adverse effect of market trends, declining interest rates, and other factors. Policies are typically sold with one, two or three-year rate guarantees depending upon the product.

In addition to the products and services traditionally offered within each of its lines of business, Commercial Markets offers The Hartford Productivity Advantage (THPA), a single-company solution for leave management, integrating the insurer s short- and long-term group disability and workers compensation insurance with its leave management administration services.

Marketing and Distribution

Standard commercial lines provide insurance products and services through the Company s home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The products are marketed nationwide utilizing brokers and independent agents. The current pace of consolidation within the independent agent and broker distribution channel will likely continue such that, in the future a larger proportion of written premium will likely be concentrated among fewer agents and brokers. Additionally the Company offers insurance products to customers of payroll service providers through its relationships with major national payroll companies.

Specialty lines also provide insurance products and services through its home office located in Hartford, Connecticut and multiple domestic office locations. Specialty lines markets its products nationwide utilizing a variety of distribution networks including independent retail agents, brokers and wholesalers.

The Group Benefits distribution network includes an experienced group of Company employees, managed through a regional sales office system, to distribute its group insurance products and services through a variety of distribution outlets including brokers, consultants, third-party administrators and trade associations.

The Company is engaged in a nationwide joint sales initiative across standard commercial lines, specialty lines and Group Benefits, facilitating the marketing of both integrated and traditional products and services across commercial markets.

Table of Contents

Competition

In the small commercial marketplace, The Hartford competes against a number of large national carriers, as well as regional competitors in certain territories. Competitors include other stock companies, mutual companies and other underwriting organizations. The small commercial market has become increasingly competitive as favorable loss costs in the past few years have led carriers to differentiate themselves through product expansion, price reduction, enhanced service and cutting-edge technology. Larger carriers such as The Hartford have improved their pricing sophistication and ease of doing business with agents through the use of predictive modeling tools and automation which speeds up the process of evaluating a risk and quoting new business.

Written premium growth rates in the small commercial market have begun to rebound, while underwriting margins have been pressured by increases in loss costs, particularly in workers compensation, and higher catastrophes. A number of companies have sought to grow their business by increasing their underwriting appetite, appointing new agents and expanding business with existing agents. Also, carriers serving middle market-sized accounts are more aggressively competing for small commercial accounts as small commercial business has generally been less price-sensitive.

Middle market business is characterized as high touch and involves case-by-case underwriting and pricing decisions. Compared to small commercial lines, the pricing of middle market accounts is prone to more significant variation or cyclicality over time, with more sensitivity to legislative and macro-economic forces. The economic downturn which began in 2008 has driven a reduction in average premium size as shrinking company payrolls, smaller auto fleets, and fewer business locations depress insurance exposures. Additionally, various state legislative reforms in recent years designed to control workers compensation indemnity costs have led to rate reductions in many states. These factors, characterized by highly competitive pricing on new business, have resulted in more new business opportunities in the marketplace as customers shop their policies for a better price. In the face of this competitive environment, The Hartford continues to maintain a disciplined underwriting approach. To gain a competitive advantage in this environment, carriers are improving automation with agents and brokers, increasing pricing sophistication, and enhancing their product offerings. These enhancements include industry specialization, with The Hartford and other national carriers tailoring products and services to specific industry verticals such as technology, health care and renewable energy.

Specialty lines is comprised of a diverse group of businesses that operate independently within their specific industries. These businesses, while somewhat interrelated, have different business models and operating cycles. Specialty lines competes on an account- by-account basis due to the complex nature of each transaction. Competition in this market includes other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. The relatively large size and underwriting capacity of The Hartford provides opportunities not available to smaller companies. Disciplined underwriting and targeted returns are the objectives of specialty lines since premium writings may fluctuate based on the segment s view of perceived market opportunity.

For specialty casualty businesses, written pricing competition continues to be significant, particularly for the larger individual accounts. Carriers are protecting their in-force casualty business by initiating the renewal process well in advance of the policy renewal date, effectively preventing other carriers from quoting on the business and resulting in fewer new business opportunities within the marketplace. Within the national account business, as the market firms, more insureds may opt for loss-sensitive products in lieu of guaranteed cost policies.

Carriers writing professional liability business are increasingly focused on profitable private, middle market companies. This trend has continued as the downturn in the economy has led to a significant drop in the number of initial public offerings, and volatility for all public companies. Also, carriers new business opportunities in the marketplace for directors & officers and errors & omissions insurance have been significantly influenced by customer perceptions of financial strength, as investment portfolio losses have had a negative effect on the financial strength ratings of some insurers.

In the surety business, favorable underwriting results over the past couple of years have led to increased competition for market share, setting the stage for potential written price declines and less favorable terms and conditions. Driven by the upheaval in the credit markets, new private construction activity has declined dramatically, resulting in lower demand for contract surety business.

Group Benefits competes with numerous other insurance companies and other financial intermediaries marketing insurance products. This line of business focuses on both its risk management expertise and economies of scale to derive a competitive advantage. Competitive factors affecting Group Benefits include the variety and quality of products and services offered, the price quoted for coverage and services, the Company s relationships with its third-party distributors, and the quality of customer service. In addition, active price competition continues in the marketplace resulting in longer rate guarantee periods being offered to customers. Top tier carriers in the marketplace also offer on-line and self service capabilities to agents and consumers. The relatively large size and underwriting capacity of the Group Benefits business provides opportunities not available to smaller companies.

In the commercial marketplace, the weak economy has prompted carriers to offer differentiated products and services as a means of gaining a competitive advantage. In addition to the initiatives specific to each of The Hartford s Commercial Markets lines of business noted above, the Company is leveraging its diverse product, service and distribution capabilities to deliver differentiated value in the market, while simultaneously increasing its ability to access to its own diverse customer base.

Consumer Markets

The Consumer Markets division constitutes the reporting segment.

Principal Products and Services

Consumer Markets provides standard automobile, homeowners and home-based business coverages to individuals across the United States, including a special program designed exclusively for members of AARP (AARP Program). The Hartford s auto and homeowners products provide coverage options and customized pricing tailored to a customer s individual risk. The Hartford has individual customer relationships with AARP Program policyholders and as a group these customers represent a significant portion of the total Consumer Markets business. Business sold to AARP members, either direct or through independent agents, amounted to earned premiums of $2.8 billion, $2.9 billion and $2.8 billion in 2011, 2010 and 2009, respectively. Consumer Markets also operates a member contact center for health insurance products offered through the AARP Health program, which is in place through 2018.

Marketing and Distribution

Consumer Markets reaches diverse customers through multiple distribution channels including direct sales to the consumer, brokers and independent agents. In direct sales to the consumer, the Company markets its products through a mix of media, including direct mail and ecommerce marketing, television and advertising, both digitally and in publications. Most of Consumer Markets direct sales to the consumer are associated with its exclusive licensing arrangement with AARP, which continues until January 1, 2020, to market automobile, homeowners and home-based business insurance products to AARP s nearly 37 million members. This agreement provides Consumer Markets with an important competitive advantage given the number of baby boomers over age 50, many of whom become AARP members during this period.

Consumer Markets is focused on targeting specific customer groups and writing business through partnerships and affinities other than AARP. During 2011, the Company entered into affinity agreements with the American Kennel Club, Sierra Club and the National Wildlife Federation. In addition to selling product through its relationship with AARP and other affinities, beginning in 2012, the Company will market direct to the consumer within select underwriting markets, acquired through partnerships or list acquisitions, and to consumers in geographies where it is especially competitive.

The agency channel provides customized products and services to customers through a network of independent agents in the standard personal lines market. These independent agents are not employees of The Hartford. An important strategic objective of the Company is to develop common products and processes for all of its personal lines business regardless of the distribution channel. During 2011, the Company substantially completed the rollout of its Open Road Advantage product and, as of December 31, 2011, this product was available in 44 states across the Company s distribution channels, including direct and through independent agents. In addition, as of December 31, 2011, the Hartford Home Advantage product was available in 38 states across similar distribution channels as the Open Road Advantage product.

Competition

The personal lines automobile and homeowners businesses are highly competitive. Personal lines insurance is written by insurance companies of varying sizes that compete on the basis of price, product, service (including claims handling), stability of the insurer and brand recognition. Companies with recognized brands, direct sales capability and economies of scale will have a competitive advantage. In recent years, a number of carriers have increased their advertising in an effort to gain new business and retain profitable business. This has been particularly true of carriers that sell directly to the consumer. Industry sales of personal lines insurance direct to the consumer have been growing faster than sales through agents, particularly for auto insurance.

Carriers that distribute products mainly through agents compete by offering agents commissions and additional incentives to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering on-line and self service capabilities to agents and consumers. More agents have been using comparative rater tools that allow the agent to compare premium quotes among several insurance companies. The use of comparative rater tools has further increased price competition. Carriers with more efficient cost structures will have an advantage in competing for new business through price. The use of data mining and predictive modeling is used by more and more carriers to target the most profitable business and carriers have further segmented their pricing plans to expand market share in what they believe to be the most profitable segments. Some companies, including The Hartford, have written a greater percentage of their new business in preferred market segments which tend to have better loss experience but also lower average premiums. In addition, a number of companies have invested in telematics the use of devices in insured vehicles to transmit information about driving behavior such as miles driven, speed, acceleration, deceleration and are using that information to price the risk. Companies that are the first to introduce telematics may enjoy a competitive advantage through favorable risk selection.

Table of Contents

Wealth Management

The Wealth Management division consists of the following reporting segments: Individual Annuity, Individual Life, Retirement Plans and Mutual Funds. Wealth Management provides investment products for over 7 million customers and life insurance for approximately 711,000 customers.

In the fourth quarter of 2011, the Company announced that Wellington Management Company, LLP (Wellington Management) will serve as the sole sub-advisor for The Hartford s non-proprietary mutual funds, including equity and fixed income funds, pending a fund-by-fund review by The Hartford s mutual funds board of directors. As of December 31, 2011, Wellington Management served as the sub-advisor for 29 of The Hartford s non-proprietary mutual funds and has been the primary manager for the Company s equity funds.

As part of the Company s strategic decision to focus on its U.S. businesses, the Company suspended all new sales in its Japan and European operations in the second quarter of 2009 and divested its Brazil joint venture, Canadian mutual fund business and its offshore insurance business in 2010. Runoff businesses, including International Annuity, Institutional Annuity and the Private Placement Life Insurance business, previously reported as part of Wealth Management are now included in the Life Other Operations segment of the Runoff Operations division formed in 2011.

Principal Products and Services

Individual Annuity offers individual variable, fixed market value adjusted (fixed MVA), fixed index and single premium immediate annuities in the U.S.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, and term life.

Retirement Plans provides products and services to corporations, municipalities, and not-for-profit organizations pursuant to Sections 401(k), 457 and 403(b) of the Internal Revenue Code of 1986, as amended (the Code), respectively.

Mutual Funds offers retail mutual funds, investment-only mutual funds and college savings plans under Section 529 of the Code (collectively referred to as non-proprietary) and proprietary mutual funds.

Marketing and Distribution

Individual Annuity s distribution network includes national and regional broker-dealer organizations, banks and other financial institutions and independent financial advisors. The Company periodically negotiates provisions and terms of its relationships with unaffiliated parties. The Company s primary wholesaler of its individual annuities is Hartford Life Distributors, LLC, and its affiliate, PLANCO, LLC (collectively HLD) which are indirect wholly-owned subsidiaries of Hartford Life, Inc. HLD provides sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States.

Individual Life s distribution network includes national and regional broker-dealer organizations, banks, independent agents, independent life and property-casualty agents, and Woodbury Financial Services, an indirect, wholly-owned subsidiary retail broker-dealer.

Retirement Plans distribution network includes Company employees with extensive retirement experience selling its products and services through national and regional broker-dealer firms, banks and other financial institutions.

Mutual Fund sales professionals are segmented into two teams; a retail team and an institutional team. The retail team distributes The Hartford s open-end funds and markets 529 college savings plans to national and regional broker-dealer organizations, banks and other financial institutions, independent financial advisors and registered investment advisors. The institutional team distributes The Hartford s funds to professional buyers, such as broker-dealers, consultants, record keepers, and bank trust groups.

Competition

Individual Annuity competes with other life insurance companies, as well as certain banks, securities brokerage firms, independent financial advisors, asset managers, and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service. Individual Annuity s annuity deposits continue to decline due to competitive activity and the Company s product and risk decisions. Many competitors have responded to the equity market volatility by increasing the price of their living benefit products and changing the level of the guarantee offered. Management believes that the most significant industry de-risking changes have occurred. In 2011, the Company continued to enhance its variable annuity product designed to meet customers future income needs while abiding by the risk tolerances of the Company.

Individual Life competes with other life insurance companies in the United States, as well as other financial intermediaries marketing insurance products. Product sales are affected primarily by the availability and price of reinsurance, volatility in the equity markets, breadth and quality of life insurance products being offered, pricing, relationships with third-party distributors, effectiveness of wholesaling support, and the quality of underwriting and customer service. The individual life industry continues to see a distribution shift away from the traditional life insurance sales agents to the consultative financial advisor as the place people go to buy their life insurance. Individual Life s regional sales office system is a differentiator in the market and allows it to compete effectively across multiple distribution outlets.

Retirement Plans compete with other insurance carriers, large investment brokerage companies and large mutual fund companies. The 401(k), 457, and 403(b) products offer mutual funds wrapped in variable annuities, variable funding agreements, or mutual fund retirement products. Plan sponsors seek a diversity of available funds and favorable fund performance. Consolidation among industry providers has continued as competitors increase scale advantages.

Mutual Funds compete with other mutual fund companies along with investment brokerage companies and differentiate themselves through product solutions, performance, and service. In this non-proprietary broker sold market, the Company and its competitors compete aggressively for net sales.

Reserves

The Hartford establishes and carries as liabilities reserves for its insurance products to estimate for the following:

- a liability for unpaid losses, including those that have been incurred but not yet reported, as well as estimates of all expenses associated with processing and settling these claims;
- a liability equal to the balance that accrues to the benefit of the life insurance policyholder as of the consolidated financial statement date, otherwise known as the account value;
- a liability for future policy benefits, representing the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums;
- fair value reserves for living benefits embedded derivative guarantees; and
- death and living benefit reserves which are computed based on a percentage of revenues less actual claim costs.

Further discussion of The Hartford s property and casualty insurance product reserves, including asbestos and environmental claims reserves, may be found in Part II, Item 7, MD&A Critical Accounting Estimates Property and Casualty Insurance Product Reserves, Net of Reinsurance. Additional discussion may be found in the Company s accounting policies for insurance product reserves within Note 11 of the Notes to Consolidated Financial Statements.

Reinsurance

The Hartford cedes insurance to affiliated and unaffiliated insurers for both its property and casualty and life insurance products. Such arrangements do not relieve The Hartford of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to The Hartford.

For property and casualty insurance products, reinsurance arrangements are intended to provide greater diversification of business and limit The Hartford s maximum net loss arising from large risks or catastrophes. A major portion of The Hartford s property and casualty insurance product reinsurance is effected under general reinsurance contracts known as treaties, or, in some instances, is negotiated on an individual risk basis, known as facultative reinsurance. The Hartford also has in-force excess of loss contracts with reinsurers that protect it against a specified part or all of a layer of losses over stipulated amounts.

For life insurance products, The Hartford is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. As of December 31, 2011, 2010 and 2009, the Company s policy for the largest amount of life insurance retained on any one life by any one of its operations was $10. For the years ended December 31, 2011, 2010 and 2009, the Company did not make any significant changes in the terms under which reinsurance is ceded to other insurers. In addition, the Company has reinsured a portion of the risk associated with U.S. variable annuities and the associated guaranteed minimum death benefit (GMDB) and guaranteed minimum withdrawal benefit (GMWB) riders, Hartford Life Insurance K.K. s (HLIKK), an indirect wholly owned subsidiary, variable annuity contract and rider benefits, and Hartford Life Limited Ireland s (HLL), an indirect wholly owned subsidiary, GMDB and GMWB annuity contract and rider benefits.

For further discussion on reinsurance, see Part II, Item 7, MD&A Enterprise Risk Management. Additional discussion may be found in the Company s accounting policies for reinsurance within Note 6 of the Notes to Consolidated Financial Statements.

Investment Operations

The majority of the Company s investment portfolios are managed by Hartford Investment Management Company (HIMCO). HIMCO manages the portfolios to maximize economic value, while attempting to generate the income necessary to support the Company s various product obligations, within internally established objectives, guidelines and risk tolerances. The portfolio objectives and guidelines are developed based upon the asset/liability profile, including duration, convexity and other characteristics within specified risk tolerances. The risk tolerances considered include, for example, asset and credit issuer allocation limits, maximum portfolio limits for below investment grade holdings and foreign currency exposure limits. The Company attempts to minimize adverse impacts to the portfolio and the Company s results of operations from changes in economic conditions through asset allocation limits, asset/liability duration matching and through the use of derivatives. For further discussion of HIMCO s portfolio management approach, see Part II, Item 7, MD&A Enterprise Risk Management Credit Risk.

In addition to managing the general account assets of the Company, HIMCO is also a SEC registered investment adviser for third party institutional clients, a sub-advisor for certain mutual funds and serves as the sponsor and collateral manager for capital markets transactions. HIMCO specializes in investment management that incorporates proprietary research and active portfolio management within a disciplined risk framework that seeks to provide value added returns versus peers and benchmarks. As of December 31, 2011 and 2010, the fair value of HIMCO s total assets under management was approximately $165.0 billion and $159.7 billion, respectively, of which $7.1 billion and $8.7 billion, respectively, were held in HIMCO managed third party accounts.

Table of Contents

Enterprise Risk Management

The Company has an enterprise risk management function (ERM) that is charged with providing analysis of the Company s risks on an individual and aggregated basis and with ensuring that the Company s risks remain within its risk appetite and tolerances. ERM plays an integral role at The Hartford by fostering a strong risk management culture and discipline. The mission of ERM is to support the Company in achieving its strategic priorities by:

- Providing a comprehensive view of the risks facing the Company, including risk concentrations and correlations;
- Helping management define the Company s overall capacity and appetite for risk by evaluating the risk return profile of the business relative to the Company s strategic intent and financial underpinning;
- Assisting management in setting specific risk tolerances and limits that are measurable, actionable, and comply with the Company s overall risk philosophy;
- Communicating and monitoring the firm s risk exposures relative to set limits and recommending, or implementing as appropriate, mitigating strategies; and
- Providing valuable insight to assist leaders in growing the businesses and achieving optimal risk-adjusted returns within established guidelines.

Enterprise Risk Management Structure and Governance

At The Hartford, the Board of Directors (the Board) has ultimate responsibility for risk oversight. It exercises its oversight function through its standing committees, each of which has primary risk oversight responsibility with respect to all matters within the scope of its duties as contemplated by its charter. In addition, the Finance, Investment and Risk Management Committee (FIRMCo), which is comprised of all members of the Board, has responsibility for oversight of all financial risk exposures facing the Company, and all risks that do not fall within the oversight responsibility of any other standing committee. The Audit Committee is responsible for discussing with management risk assessment policies and overseeing enterprise operational risk.

At the corporate level, the Company s Enterprise Chief Risk Officer (ECRO or Chief Risk Officer) leads ERM. The Chief Risk Officer reports directly to the Company s Chief Executive Officer (CEO). Reporting to the ECRO are the Chief Insurance Risk Officer (CIRO), Chief Operational Risk Officer (CORO), and the Chief Market Risk Officer (CMRO). The Company has established the Enterprise Risk and Capital Committee (ERCC) that includes the Company s CEO, Chief Financial Officer (CFO), Chief Investment Officer (CIO), Chief Risk Officer, the divisional Presidents and the General Counsel. The ERCC is responsible for managing the Company s risks and overseeing the enterprise risk management program. The ERCC reports to the Board primarily through FIRMCo and through interactions with the Audit Committee.

The Company also has committees that manage specific risks and recommend risk mitigation strategies to the ERCC. These committees include, the Company and Division Asset Liability Committees, Catastrophe Risk Committee, Emerging Risk Committees, and Operational Risk Committee (ORC).

Risk Management Framework

At the Company, risk is managed at multiple levels. The first line of risk management is generally the responsibility of the lines of business. Senior business leaders are responsible for taking and managing risks specific to their business objectives and business environment. In many cases, the second line of risk management is the principal responsibility of ERM. ERM has the responsibility to ensure the Company has insight into its aggregate risk and that risks are managed within the Company s overall risk tolerance. Internal Audit forms the third line of risk management by helping assess and ensure that risk controls are present and effective.

The Company s Risk Management Framework consists of four core elements:

1. Risk Culture and Governance: The Company has established policies for its major risks and a formal governance structure with leadership oversight and an assignment of accountability and authority. The governance structure starts at the Board and cascades to a central executive risk management committee and then to individual risk committees across the Company. In addition, the Company promotes a strong risk management culture and high expectations around ethical behavior.
2. Risk Identification and Assessment: Through its ERM organization, the Company has developed processes for the identification, assessment, and, when appropriate, response to internal and external risks to the

Company s operations and business objectives. Risk identification and prioritization has been established within each area, including processes around emerging risks.

3. Risk Appetite and Limits: The Company has a formal risk appetite statement that is approved by the Company s ERCC and reviewed by the Board. Based on its risk appetite, the Company has implemented stated risk tolerances and an associated limit structure for each of its major insurance and financial risks. These formal limits are encapsulated in formal risk policies that are reviewed at least annually by the ERCC.
4. Risk Monitoring, Controls and Communication: The Company monitors its major risks at the enterprise level through a number of enterprise reports, including but not limited to, a monthly risk dashboard, tracking the return on risk-capital across products, and regular stress testing. ERM communicates the Company s risk exposures to senior and executive management and the Board, and reviews key business performance metrics, risk indicators, audit reports, risk/control self assessments and risk event data.

Table of Contents

Risk Exposures and Quantification

The Company quantifies its enterprise insurance and financial risk exposures using multiple lenses including statutory, economic and, where appropriate, U.S. GAAP. ERM leverages various modeling techniques and metrics to provide a view of the Company s risk exposure in both normal and stressed environments. ERM regularly monitors the Company s risk exposure as compared to defined statutory limits and provides regular reporting to the ERCC.

In order to quantify group capital levels, risk correlations and concentrations, and the potential benefits of risk diversification at an enterprise level, the Company performs stress testing and scenario analysis. The Company uses its Economic Capital Model (ECM) to quantify the value of risk management across the business lines and to advance its risk-based decision-making and optimization across risk and business. The Company also uses the ECM to inform the attribution of risk capital to each line of business. ERM supports the attribution of risk capital by line of business and the analysis of returns on risk capital in conjunction with the Chief Financial Officer.

The Company categorizes its main risks as follows in order to achieve a consistent and disciplined approach to quantifying, evaluating, and managing risk:

- Insurance Risk
- Operational Risk
- Financial Risk
- Business Risk

Insurance Risk

The Company defines insurance risk as its exposure to loss due to property, liability, mortality, morbidity, disability, longevity and other perils and risks covered under its policies, including adverse development on loss reserves supporting its products and geographic accumulations of loss over time due to property or casualty catastrophes.

Operational Risk

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Financial Risk

Financial risk is broadly defined by the Company to include liquidity, interest rate, equity, foreign exchange, and credit risks, all of which have the potential to materially impact the Company s financial condition. Financial risk also includes exposure to events that may cause correlated movement in the above risk factors.

Business Risk

The Company manages its business risk at all levels of the organization. The Company categorizes its business risk as strategic risk and management risk. Strategic risk is defined as the risk to the defined company objectives from adverse developments in the Company s strategy vis-à-vis changing market conditions and competitor actions. Management risk is defined as the risk to defined company objectives from the ineffective or inefficient execution of the Company s strategic and business decisions. Enterprise strategic and management risks are assessed through strategic, business and operating plan reviews, as well as through management self-assessment processes and benchmarking.

For further discussion on risk management, see Part II, Item 7, MD&A Enterprise Risk Management.

Regulation

Insurance companies are subject to comprehensive and detailed regulation and supervision throughout the United States. The extent of such regulation varies, but generally has its source in statutes which delegate regulatory, supervisory and administrative powers to state insurance departments. Such powers relate to, among other things, the standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; establishing premium rates; claim handling and trade practices; restrictions on the size of risks which may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values; and the adequacy of reserves and other necessary provisions for unearned premiums, unpaid losses and loss adjustment expenses and other liabilities, both reported and unreported.

Most states have enacted legislation that regulates insurance holding company systems such as The Hartford. This legislation provides that each insurance company in the system is required to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any entity in its holding company system. In addition, certain of such transactions cannot be consummated without the applicable insurance department s prior approval. In the jurisdictions in which the Company s insurance company subsidiaries are domiciled, the acquisition of more than 10% of The Hartford s outstanding common stock would require the acquiring party to make various regulatory filings.

Table of Contents

Certain of the Company s life insurance subsidiaries sell variable life insurance, variable annuity, and some fixed guaranteed products that are securities registered with the SEC under the Securities Act of 1933, as amended. Some of the products have separate accounts that are registered as investment companies under the Investment Company Act of 1940, as amended (the 1940 Act) and/or are regulated by state law. Separate account investment products are also subject to state insurance regulation. Moreover, each separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund that is also registered as an investment company under the 1940 Act (Underlying Funds). The Company offers these Underlying Funds and retail mutual funds that are registered with and regulated by the SEC.

In addition, other subsidiaries of the Company are involved in the offering, selling and distribution of the Company s variable insurance products, Underlying Funds and retail mutual funds as broker dealers and are subject to regulation promulgated and enforced by the Financial Industry Regulatory Authority (FINRA), the SEC and/or in, some instances, state securities administrators. Other entities operate as investment advisers registered with the SEC under the Investment Advisers Act of 1940 and are registered as investment advisers under certain state laws, as applicable. One subsidiary is an investment company registered under the 1940 Act. Because federal and state laws and regulations are primarily intended to protect investors in securities markets, they generally grant regulators broad rulemaking and enforcement authority. Some of these regulations include, among other things, regulations impacting sales methods, trading practices, suitability of investments, use and safekeeping of customers funds, corporate governance, capital, record keeping, and reporting requirements.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which The Hartford operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in certain countries are faced with greater restrictions than domestic competitors domiciled in that particular jurisdiction. The Hartford s international operations are comprised of insurers licensed in their respective countries.

In addition, as described under Legislative Developments, we are subject to a number of Dodd-Frank Act provisions. Failure to comply with federal and state laws and regulations may result in censure, fines, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of our operations and/or our employees. We cannot predict the impact of these actions on our businesses, results of operations or financial condition.

Intellectual Property

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property.

We have a worldwide trademark portfolio that we consider important in the marketing of our products and services, including, among others, the trademarks of The Hartford name, the Stag Logo and the combination of these two marks. The duration of trademark registrations varies from country to country and may be renewed indefinitely subject to country-specific use and registration requirements. We regard our trademarks as extremely valuable assets in marketing our products and services and vigorously seek to protect them against infringement.

Employees

The Hartford has approximately 24,400 employees as of December 31, 2011.

Available Information

The Hartford makes available, free of charge, on or through its Internet website (http://www.thehartford.com) The Hartford s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after The Hartford electronically files such material with, or furnishes it to, the SEC. None of the information made available on The Hartford s Internet website shall be deemed to be incorporated by reference herein. Information filed or furnished to the SEC may be read and copied at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website (http://sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

13

Table of Contents

Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the following risk factors, any of which could have a significant or material adverse effect on the business, financial condition, results of operations, or liquidity of The Hartford and could also cause the trading price of our securities, including our common stock and other equity-related securities, to experience significant fluctuations and volatility. The Hartford may also be subject to other general risks that are not specifically enumerated. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the Securities and Exchange Commission (SEC). The following risk factors are not necessarily listed in order of importance.

Our operating environment remains subject to uncertainty about the timing and strength of an economic recovery. The steps we have taken to realign our businesses and strengthen our capital position may not be adequate to mitigate the financial, competitive and other risks associated with our operating environment, which could adversely affect our business and results of operations.

The decline of certain global economies, including Europe, and the possible contagion effect, cast uncertainty regarding the timing and strength of an economic recovery, which negatively affected our operating environment in 2011. Continued high unemployment, lower family income, lower business investment and lower consumer spending in most geographic markets we serve have adversely affected the demand for financial and insurance products, as well as their profitability in some cases. Our results, financial condition and statutory capital remain sensitive to equity and credit market performance and effects of interest rates and foreign currency, and we expect that market conditions will put pressure on returns in our life and property and casualty investment portfolios and that our hedging costs (in particular with respect to our variable annuities businesses) will remain higher than historical levels. If global economies continue to decline, economic conditions do not broadly improve and real estate valuations do not stabilize and over time increase, we would expect to experience additional realized and unrealized investment losses, particularly in the real estate and financial services sectors. Negative rating agency actions