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TRV - Q1 2013 The Travelers Companies, Inc. Earnings Conference Call

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## OVERVIEW:

Co. reported 1Q13 net income of \$896m, operating income of \$887m, and diluted operating EPS of \$2.31.



## CORPORATE PARTICIPANTS

**Gabriella Nawi** *Travelers Companies Inc - SVP of IR*  
**Jay Fishman** *Travelers Companies Inc - Chairman and CEO*  
**Jay Benet** *Travelers Companies Inc - Vice Chairman and CFO*  
**Brian MacLean** *Travelers Companies Inc - President and COO*  
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## CONFERENCE CALL PARTICIPANTS

**Michael Nannizzi** *Goldman Sachs - Analyst*  
**Josh Stirling** *Sanford C. Bernstein & Co. - Analyst*  
**Charles Sebaski** *BMO Capital Markets - Analyst*  
**Amit Kumar** *Macquarie Research Equities - Analyst*  
**Michael Zaremski** *Credit Suisse - Analyst*  
**Gregory Locraft** *Morgan Stanley - Analyst*  
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**Randy Binner** *FBR & Co. - Analyst*  
**Jay Gelb** *Barclays Capital - Analyst*  
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**Brian Meredith** *UBS - Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to the first quarter results teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question and answer session. As a reminder, this conference is being recorded on Tuesday, April 23, 2013. At this time, I would like to turn the conference over to Ms. Gabriella Nawi, Senior Vice President of Investor Relations. Ms. Nawi, you may begin.

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### Gabriella Nawi - Travelers Companies Inc - SVP of IR

Thank you, Andre. Good morning, and welcome to Traveler's discussion of our first quarter 2013 results. Hopefully all of you have seen our press release, financial supplement and webcast presentation released earlier this morning. All of these materials can be found on our website at [www.travelers.com](http://www.travelers.com) under the investor section. Speaking today will be Jay Fishman, Chairman and CEO, Jay Benet, Vice Chairman and Chief Financial Officer, and Brian MacLean, President and Chief Operating Officer. Other members of senior management are also in the room available for the question and answer period. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will open it up for questions.

Before I turn it over to Jay, I would like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The Company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those projected in the forward-looking statements due to a variety

of factors. These factors are described in our earnings press release, and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements.

Also in remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement, and other materials that are available in the investor section on our website. And now, Jay Fishman.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Thank you, Gabi, and good morning to everyone. Thank you for joining us today. Before turning to our results this morning, I want to take a moment and comment on the events of the last week. No doubt, someone will ask about the cost of the events in Boston or in West, Texas. Well, right now, we don't expect either event will be meaningfully costly to us. My real answer is that the human cost is stunning, and we are reminded of the fragile nature of the world in which we live. Our sympathies go out to everyone affected in these horrific events, and we will do all we can to help them in the recoveries. As we are reminded of September 11, we wish only the best for the folks in Texas and embrace fully the sentiment of Boston Strong.

Now turning to our results, we are very pleased to report a strong start to 2013, with operating income of \$2.31 per diluted share, which is the highest quarterly operating income per share since Travelers' initial public offering in 2002. Both net and operating income increased 11% from last year's first quarter results to \$896 million and \$887 million, respectively, producing a return on equity of 14.1%, and an operating return on equity of 15.8%. Our margins improved significantly, with a GAAP combined ratio of 88.5%. Importantly, underlying underwriting margins increased across all our business segments, in large measure, the result of the pricing and underwriting actions we have taken over the last few years. Our 90.8% underlying GAAP combined ratio was an improvement of almost 4 points from the prior year, as earned rate increases outpaced expected loss trends in each segment.

While we are certainly pleased with these results, we will continue our strategy of taking the steps necessary to continue improving accident year profitability and returns. Our focus is evident in the production statistics for each segment this quarter. Renewal rates were at or above levels achieved in recent quarters, and exceeded expected loss cost trends in each segment. In addition, retention rates remain at very high levels. We also saw modest new business growth in Business Insurance. And while new business in Personal Insurance remains meaningfully down from historical levels, it was consistent with fourth quarter 2012 levels. Brian will take you through the details by segment.

Next I would like to comment briefly about our total return to shareholders, as measured by the net stock price change plus cumulative amount of dividends over the same time period, assuming dividend reinvestment. We have shown this information in the past, and believe it is an important measure of our long-term success. The universe you see on slides 4 and 5 contain the 20 largest S&P financial companies by market capitalization, as well as companies in our P&C insurance peer group. As slide 4 demonstrates, our total return to shareholders for each of these periods is impressive. Slide 5 shows the return on a Treynor risk-adjusted basis. And amongst these companies, we are first on a one and five-year basis, and sixth on a three-year basis. These results are very gratifying.

It is worth noting that over the last five years, the compound annual growth rate in our book value per share has been 9.4%. In earnings per share, it has been 8.6%, and in dividends per share, it has been 9.7%. If we include the dividend increase announced today, it is 11.5%. Before I turn it over to Jay, I want to take a moment and extend the best wishes of 30,000 Travelers employees to our friend and colleague, Chuck Clarke. Chuck is retiring after 55 years, indeed a lifetime of service with Travelers. It is not possible to overstate the impact that Chuck has had on so many of us at Travelers, and we will all benefit from his powerful legacy for many years to come. He is the best in our business, and we all wish him the best in this next chapter in his life. I will miss him more than I can express. With that, let me turn it over to Jay.

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

Thanks, Jay. As Jay said, we are very pleased with our first quarter results, as well as our liquidity and capital positions. Operating cash flows of approximately \$530 million was strong, despite higher than normal claim payments that were related to Storm Sandy. We repaid \$500 million of debt that matured in March and maintained our strong cash position, ending the quarter with holding company liquidity of just over \$1.5 billion.

We continue to generate more capital than what is needed to support our businesses, so we returned \$476 million of excess capital to our shareholders through dividends of \$176 million, and common share repurchases of \$300 million, consistent with our ongoing capital management strategy. And we announced an increase in our quarterly dividend from \$0.46 per share to \$0.50 per share, an increase of almost 9%.

We also recorded on a consolidated basis, pretax net favorable prior year reserve development of \$231 million for the quarter, which was lower than the \$304 million we reported in the prior year quarter. And each of our segments once again saw its reserves develop favorably. I should point out that this quarter's reserve development included an unusual item of \$42 million pretax charge precipitated by legislation in New York related to the New York Fund for Reopened Cases for workers' compensation. Business Insurance accounted for a little less than half of this quarter's total reserve development. Favorable development in BI was driven by better than expected loss experience and general liability for accident years 2003 and prior, as well as accident years 2004 through 2010, resulting from a more favorable legal and judicial environment than we had expected, and by property loss development for accident years 2010 through 2012.

I should also note that BI reserve development was reduced by the \$42 million pretax charge precipitated by the New York legislation concerning workers' comp that I mentioned previously, and excluding the impact of this legislation, our workers' comp reserves were essentially unchanged for all accident years. The rest of this quarter's favorable reserve development primarily resulted from better than expected loss development in bond and financial products contract surety business for accident years 2006, '07, '08, and '10, better than expected loss development in several international businesses within FPIL, and better than expected cat and non-cat loss development in Personal Insurance homeowners business for accident year 2011. On a combined statutory basis for all of our US subs, accident years 2003 and prior, as well as accident years 2004 through 2011 all developed favorably in the quarter, while accident year 2012 developed very slightly unfavorably.

And finally to update you on Storm Sandy, our current estimate of total ultimate losses is now \$1.011 billion net of reinsurance and pretax, down \$13 million from our fourth quarter 2012 estimate. Finally, all of our capital ratios remained at or better than our target levels at the end of the quarter. Net unrealized investment gains were approximately \$4.4 billion pretax or \$2.9 billion after-tax, a slight decrease from the beginning of the year due to the rise in interest rates that took place during the quarter. And book value per share was \$68 or 7% higher than at the end of the prior year quarter, and 1% higher than at the beginning of the year. So with that, let's have Brian talk about the operations.

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

Thanks, Jay. I will go through the segment results in some detail, but the overall headline from an underwriting perspective is the margin expansion that we saw in all our business segments. Beginning with Business Insurance, we continue to be extremely pleased with the fundamentals of the business. The combined ratio for the quarter of 89.4% improved slightly versus the prior year, while the underlying combined ratio, which excludes the impact of cats and prior year development, improved by more than 4 points. As always, there is some non-run rate items in the quarter, but 3 points of the improvement was driven by earned rate increases that exceeded loss cost trends. Net written premiums increased 5%, with the largest increase in workers' compensation, driven by higher rate and exposure in our guaranteed cost and national account business.

Turning to the production statistics, starting on page 11, overall retention was in line with recent periods at 80%. Pricing remains strong, with renewal premium change over 10%, and new business volume was up slightly from recent quarters. Drilling into the pricing results, the renewal premium change was driven by pure rate increases of 8% and exposure of over 2%. The rate gains we achieved this quarter were up slightly from both the previous quarter and the first quarter of 2012. Rate increases ranged from 6% to 10% across all lines, and were once again led by workers' compensation and commercial auto. As we have explained before, when comparing the quarter's data with prior periods, keep in mind that the data develops over time and can bounce around a bit, and this is especially true of exposure.

On slide 15, we show our commercial accounts rate change and retention data for the first quarter of 2013, as compared to the first quarter of 2012. This slide presents a summarized view of how we analyze the pricing and retention on our renewal book to ensure we are taking the right actions. The data is segmented by the individual accounts long-term loss ratio, with the bars on the left representing our best performing business, accounts with long-term loss ratio of less than 60%, and the bars on the right representing our worst performing businesses, that is accounts with long-term loss ratios exceeding 90%.

The results show that retention is stronger for the better business, and the rate change is dramatically higher on the poor performing accounts. I would emphasize that this is summarized data, so don't over analyze the precision on the page. But what this data continues to tell us is that our underwriters are making the right targeted rate decisions, class by class, account by account. So with the continued improvement in pricing and loss trend holding across Business Insurance at about 4%, we continue to see meaningful margin expansion.

In our Financial, Professional & International Insurance segment, the combined ratio for the quarter was 82.3%, an improvement of 5.5 points year-over-year. The underlying combined ratio improved nearly 4 points, driven by underwriting actions across the segment, along with increased rate in our management liability business. This marks the ninth consecutive quarter of improving underlying loss ratios for the segment. Net written premiums increased by 7% in the quarter, driven primarily by lower reinsurance costs across the segment. Gross written premiums showed a modest increase of about 1% in the first quarter, driven by strong rate gains in our management liability book of business, partially offset by a slight decline in surety premium. All in, a great quarter for the segment.

In Personal Insurance, operating income was up significantly versus the first quarter of 2012 due to higher underlying underwriting margins, lower levels of catastrophe losses, and higher net favorable prior year reserve development. The combined ratio for the quarter of 89.4% improved more than 8 points versus the first quarter of 2012, while the underlying combined ratio showed more than a 3 point improvement year-over-year. Looking specifically at auto, we continue to be very pleased with both pricing and retention, with renewal premium change of nearly 9%, and retention at 81%, both in line with recent periods, while new business volume was down year-over-year. What these results demonstrate is that we have been successful in achieving rate increases on the renewal book, but our pricing actions have meaningfully impacted our new business, and we are watching this trend carefully.

Turning to auto profitability, the underlying combined ratio of 94.4% was an improvement of over 1 point versus the prior year quarter, reflecting the earned impact of the written rate gains we have achieved over the past several quarters. It is important to remember that there is a significant amount of seasonality in losses for this line, and the first quarter loss ratio typically runs a little below the full-year average. I would also note that the unfavorable prior year development in this line is due to a slight increase in our estimate of Sandy auto claims. Regarding loss cost trends, we have been talking to you about increasing bodily injury severity for more than a year, and we were encouraged that the bodily injury severity trend we saw this quarter remained consistent with what we have seen in the previous two quarters. In addition, earned pricing remains in excess of our current view of loss trend. And assuming loss trend remains at this level, we will see year-over-year auto margins expand for the remainder of 2013.

Looking at homeowners, pricing was also very strong, with renewal premium change coming in at 12%, down slightly from the fourth quarter of 2012, but up more than 2 points year-over-year. Retention remains strong at 84%, while new business volume was meaningfully lower than the prior year quarter, due to the execution of our pricing, underwriting, and deductible strategies. The underlying combined ratio for the quarter of 81.1% improved more than 4 points over the prior year quarter, benefiting from a lower level of non-cat weather and fire losses, along with earned rate increases that exceeded loss cost trends.

So a very strong underwriting result, but given the ongoing volatility of weather patterns, we will continue to implement, improve underwriting pricing and terms and conditions. Overall in the segment, there was progress on the underlying fundamentals, along with some benefit from the lower weather-related losses. It is still a work in process, and we will continue to execute on our strategy in order to further improve our results. With that, let me turn it back over to Gabi.

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**Gabriella Nawi** - *Travelers Companies Inc - SVP of IR*

Thank you. Andre, we are ready for the question and answer segment. If I could ask you to please limit yourself to one question and one follow-up, thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from the line of Michael Nannizzi with Goldman Sachs. Please proceed with your question.

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**Michael Nannizzi** - *Goldman Sachs - Analyst*

Thanks. And just -- I had one question, Brian, in -- you talked about Personal Lines. You talked about the rate gains you are getting, both on the homeowners and the auto side. But I think in the Q, the outlook, you mentioned that you expected profitability to be roughly in line with what you saw in 2012. Just trying to square those two, those two items and just one follow-up. Thanks.

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

So, and specifically, I just want to make sure. That is a homeowners --

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**Michael Nannizzi** - *Goldman Sachs - Analyst*

I think you said in the Q, I think it said the outlook for Personal Lines overall was at, profitability should be in line with 2012, or you would expect it to be in line with 2012. And just given that you are taking mid to high single-digit, in some cases double-digit rate gains, I am just trying to understand how -- why that number shouldn't be better next year than this year?

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

This is Jay Benet. What we tried to say in the Q was, that we had last year were various quarters that had favorable weather, favorable fire losses, and as you can easily understand in the homeowners, it is very difficult to predict, what a normal level of these things are. So thinking about what the outlook for the year was in homeowners, our view was, well, they were favorable last year. So whatever normal is this year, sounds like it should be a little higher.

So despite having this underlying concept of rate exceeding some view of loss trend -- and that is a pretty difficult concept when you get into a business that has so much of its losses tied up in weather and fire-type events. We do feel that there is an improvement in profitability coming about through pricing versus this concept of loss trend. But that improvement will be offset if the other levels of losses go back to whatever quote, unquote normal is. It is a very difficult equation if you will, to try to come up with an outlook for that business, but that was our best shot as it relates to homeowners. And then, on the auto side the view was a little marginal improvement based upon pricing, where it is today versus in that business, a much better view as to what loss trend looks like. So on the other hand --

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Better meaning more, more accurate, more predictable?

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

Yes, yes, yes.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Yes.

**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

So looking at the two combined, one getting better, one, if things go back to normal in homeowners, and who knows whether they will, getting a little less margin. The two of them should kind of offset and the profitability should be roughly the same level.

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Understood. Okay. Great. Thank you. And then just in Business Insurance, we certainly saw exposures kind of pick up in some of the, in some of the reporting that you provided us with. Just trying to understand, so you have got -- so you are taking rate. You are expecting to continue to do that. Your retention is not falling and you are seeing exposures lift. Is that exposures on the business that you had, or is that potentially being impacted by new business, or new, new endorsements on old business? Thanks.

**Brian MacLean** - *Travelers Companies Inc - President and COO*

Michael, this is Brian. So the exposure numbers we show are all on a renewal book for starters, driven by a whole bunch of things. In property, for example, there has been a lot of movement to improve insurance to value. So that would -- we could have the exact same building, but getting a different insurance to value on it and that would be driving exposure up. It can be more employees in workers' comp. It could be more vehicles, more receipts on a GL rating. So it can be a whole -- all of those different things. As I mentioned in my comments too, I would also point out that the granular nature of the exposure data in particular on commercial accounts moves around a bit, as premium audits come in, et cetera. So, so there is a lift there, but maybe not as dramatically as some of that data shows. It moves around.

**Michael Nannizzi** - *Goldman Sachs - Analyst*

And the premium audits have been trending in which direction recently?

**Brian MacLean** - *Travelers Companies Inc - President and COO*

For the last several quarters, they have been pretty flat. They rose dramatically as we came out of the 2008-2009 time period. But for the -- yes, and clearly, it is positive. Premium audits of returns are the traditional 2 points positive on average.

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Great. Thank you.

**Operator**

Our next question comes from the line of Josh Stirling with Sanford Bernstein. Please go ahead.

**Josh Stirling** - *Sanford C. Bernstein & Co. - Analyst*

Hi, good morning. Thank you for taking the call. So this is obviously a great quarter. And as we work through results, we are starting to see some players get more comfortable with margins, and obviously Travelers has been the leaders thus far in raising pricing and talking about sort of accident



years being not a target. I am curious to get a sense of how far you think we may have to go in pricing. You are guiding to continued pricing in '13 and your outlook in the Q and would love to get a sense of how much further accident year sort of margin expansion you think that the industry needs to get back to target?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Josh, it's Jay Fishman. I can't speak to the industry or any other company. I can tell you what we are doing. We are going to continue, and it is driven by two factors. First, the weather remains unpredictable, and just more uncertain than it has in many years. And that's been the case for the last several years and these have been driving much of our actions. But the other part is that as our investment portfolio continues to mature, the effect of reduced interest rates will continue to push the fixed portion of net investment income down over the next several years.

We have provided those projections to you previously. Well, actually, they are more than projections -- they are almost the actual number, such as the bonds as they mature will be reinvested. So we will -- and I would refer you back to that schedule to get some sense of that impact. So that net investment income will continue to decline for the next several years, at least unless interest rates change, the weather remains very unpredictable and uncertain. So we are going to keep going.

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**Josh Stirling** - *Sanford C. Bernstein & Co. - Analyst*

That's helpful, Jay. The other thing that's surprising about this, just as a follow-up, a couple of years back, it was clear that, that it was easier to maintain margins and maintain sort of pricing in the soft market in the sort of smaller areas and Personal Lines. But it sounds like, if I am interpreting what you are saying correctly, that you think that there is more pricing momentum to continue in sort of the larger midmarket commercial accounts, national accounts businesses as opposed to the smaller businesses and Personal Lines. And I am wondering if you can talk about, one, I guess if that is right, but then also sort of underlying that, sort of how those two different markets have diverged, and what we all ought to understand about how they operate differently? Thank you.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

No worries. We tend to think of those markets really in three segments. And even that is an understatement of what the real environment is, but we tend to think of small middle market individually underwritten accounts, and then the national accounts business. And certainly, over a long period of time, the competitive dynamics in the national accounts arena, and particularly has been more dramatic than the level of competition in the smallest accounts. In fact, if I recall correctly, I don't think that renewal price change in our select business actually ever went negative. We should check that. But that is my recollection. I don't believe that it ever did.

And obviously, it did in middle markets. And for those who engage in the real national accounts business, and I would observe that our participation in that segment is actually relatively modest. That has been the most competitive. So that is an historical framework, I think around which to think of pricing. For what has happened over the last several years, we have been successful at passing along price increases, both in our small commercial business, as well as our middle market individually underwritten businesses. And I am not sure that the difference is in the ability to pass, or at least as measured by rate gains or renewal price change in the small business, I don't think that there has been a significant difference in the ability to be successful in those two segments.

The dynamics are quite different on the individually underwritten business. It is account by account. It is in many cases loss-driven. It is the experience of the individual account. In select, you are dealing with class underwriting. And so you are dealing with -- think of it as one with Personal Lines, price established for a class of business. So the nature of the underwriting decisions are different. But the results are -- been interesting in that we have been successful at getting rate gains in that small end, as well as the individually underwritten business that are largely in the aggregate the same. But do you want to talk about national accounts at all, or -- I am looking at Brian.



**Brian MacLean** - *Travelers Companies Inc - President and COO*

Yes, I mean, national accounts is a little bit more of a service model. A lot of what we do there, the majority of what we do on the casualty side is all loss responsive. And the market conditions have been such that our service capabilities have been viewed very favorably, and so the pricing is improved there pretty dramatically. But -- and we have done really well there. So we feel good about -- we are not a large casualty risk taker in that space.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

And that is an important distinction. We, our -- in our national accounts business, we will write national property on a guaranteed cost basis. We will do that. Our casualty business, both in terms of liability, as well as in particular workers' compensation is largely in one fashion or another, a fee for service business, where we are managing a claim on behalf of the client. So we are not, as one would think of it, a guaranteed cost risk taker in the larger end of --

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

The risk we would take there, would be excess --

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

It -- yes, yes, exactly right. I hope that is helpful.

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**Josh Stirling** - *Sanford C. Bernstein & Co. - Analyst*

Thanks very much.

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**Operator**

Our next question comes from the line of Charles Sebaski with BMO Capital Markets. Please proceed with your question.

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**Charles Sebaski** - *BMO Capital Markets - Analyst*

Good morning. Thank you for taking my call. I just had a question about the Personal Lines business, and the change in PIF this quarter. While the retention seems to be holding constant on both the agency auto and agency homeowners, there has been a pretty significant decline in PIF year-over-year. Wonder if you could give us some more insight on it, just a rate change or a competitive dynamic shift?

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

Yes, so this is Brian. I will start. We are -- we are clearly watching that closely. So obviously, in our statistics, you can see the renewal book is performing well. We feel great about that. The actions that we are taking, and we believe it is very directly tied to the actions we are taking from a pricing, deductible, underwriting perspective, specifically on the last point there on homeowners is impacting our new business volumes and our competitive position in the marketplace. And like I said, we are watching it closely and we are going to continue to manage it. But we are committed to improving the profitability there. Jay?



**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

No, I think you expressed it right. In the homeowners business, our sense is -- and this is more anecdotal than we can -- than factual, our sense is that the increase in minimum deductibles in particular, in not an insignificant number of states, to really try and bring the policy back towards its historical intent, is having an impact on new business competitively. It had been our hope I think more than anything else, that the weather changes that are, that we are confronting, those are systemic. They are not unique to us. They are systemic, and that any thoughtful underwriting-driven company would in the long run evaluate how you make a reasonable return in that business. So we have taken the steps that we think make sense for us.

We are not going to allow our business to continue from a policy in force standpoint to decline in double digits for long, without beginning to take other steps that we might have to take. Now one of those steps is not to re-engage in the business and make substandard returns. So we will have to wrestle with the strategy and how we implement that in the marketplace, if what we are doing now strategically and tactically doesn't turn out to be competitively viable. And that is why Brian's comment that we will continue to watch this carefully.

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**Charles Sebaski** - *BMO Capital Markets - Analyst*

And then I guess just sort of a follow-up to that, any thoughts on how the direct to consumer channel is sort of coming along? Or any growth plans to sort of push that line, either advertising or otherwise accelerate the development of the business?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Not, not yet. We continue to -- the test that we are actually continuing to do internally, we refer to as little America. Our little America test is -- I don't know whether it is two or three states. But we are actually doing pricing testing in those two states, picking states where our agency business is not nearly as prominent as other states, so we can determine the pricing elasticity of the product and what actions we take and what drives volumes. We are -- we also believe in learning about this, that the notion of what I will call traditional advertising, media-based advertising, that may have run its course. Meaning, we are just not convinced that taking a substantial amount of resources and applying it in traditional media channels actually is going to result in a growth strategy for business. So we have been deeply exploring digital, and the way to drive digital business around it which we think, at least at this point, has been more viability to it and a greater impact.

So that is at least a learning in the process, that it is possible that American eyeballs are just exhausted from auto insurance ads, and to become another name in that quest, may not make a great deal of sense. And lastly, we watch with interest who responds. And we are always wrestling -- not wrestling, that is actually an incorrect word. We are evaluating, is perhaps better, the dynamic of who responds in that channel, the nature of the customer. And always wanting to make sure that when we are ready to launch this more substantively, that we really understand the customer that is responding and we like that customer. And so those are still learning points for us. And until we really feel comfortable that we know what we are doing, and we have a likely successful outcome, we are going to keep testing and making sure we wire the thing up properly.

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**Charles Sebaski** - *BMO Capital Markets - Analyst*

All right. I appreciate the input.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Thank you.

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**Operator**

Our next question comes from the line of Amit Kumar with Macquarie. Please go ahead.



**Amit Kumar** - *Macquarie Research Equities - Analyst*

Thanks, and good morning, and congrats on a very strong quarter. I guess, two quick follow-up questions. First of all, if I look at slide 14 for other Business Insurance, it seems that that exposure rebounded meaningfully over the past few quarters. Can you just sort of delve a little bit deeper into the cause for that?

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

Yes, so this is Brian. A decent amount of that business is property. So it has got our national property business there. It has got our marine business there. As I said, insurance to values improved pretty significantly there. So we have had some movement. And some of the other activity in oil and gas has moved there. So it is a couple specific things. I wouldn't read robust economic growth into it.

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**Amit Kumar** - *Macquarie Research Equities - Analyst*

Okay. That's helpful. I guess the only other question is going back to the charge regarding to the New York Fund for Reopened Cases. Can you sort of just expand on that? And is that the fund which will close at 1/1/2014? I guess what I am trying to figure out, is there a possibility as more new claims come in, could there be further adjustments down the line? Thanks.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Sure. You're welcome. This is Jay Fishman. And yes, this is the fund that will close 1/1/14 as a result of legislation undertaken in New York, and your question actually is quite relevant. The \$42 million pretax that we provided is an actuarial estimate of the amount of reopened claims that we otherwise would have been -- that would have been cedeable to the fund. And as a consequence, we did not build into original loss estimates -- loss picks if you like, in our workers' compensation business. And now that is the best estimate we have, given all the data that we have, of the amount that will no longer go back to that fund. So we have to provide for the reserve levels. And in fact the reserve, the claim activity is different from that actuarial estimate, yes, we will have a variance to that \$42 million prospectively. It can go up or down obviously, and -- but the answer to your question is, yes, that is correct.

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**Amit Kumar** - *Macquarie Research Equities - Analyst*

Okay, thanks. (Multiple Speakers).

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

There isn't anything structural that will require us to take further action. If we -- if our estimate is right, we think we have appropriately assessed the liability.

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**Amit Kumar** - *Macquarie Research Equities - Analyst*

Got it. Okay, thanks. Thanks for the answers.

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**Operator**

Our next question comes from the line of Michael Zaremski with Credit Suisse. Please go ahead.



**Michael Zaremski** - *Credit Suisse - Analyst*

Hi, thanks. I was hoping we could flush out the audit premiums impact during the quarter. I believe it was a component of healthy growth in at least one line. And I was curious if it benefits the combined ratio, in a way that we should be cognizant of as well?

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

This is Brian. I am thinking through the question for a second. But I don't think it has any impact on the combined. As we say on the pages of -- what I am looking at the page numbers 11, 12, 13, those are illustrative production statistics that we use in managing the business. And particularly in commercial accounts, how the true-ups of audit premiums flow through that data develops over time. But from a loss projection, from a loss ratio perspective, I don't think it has any impact.

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

Without getting into the details of accounting, we have this thing called earned but unbilled amounts on the balance sheet, that is trying to take into account everything we know about the particular policy holders that we have. So there is really nothing about the audit premiums per se, that are going to drive a major change in combined ratio any given quarter. It is just all part of the entirety of the estimation process. And then as far as the overall level of audit premiums this year in the first quarter versus last year, there really wasn't a significant change in the dollar amount. So as it relates to premium differentials from one quarter to the next, it is not driving that either.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

We actually make an estimate and accrue on a regular basis the amount of estimated audit premiums that we project. And then obviously, as each policy ends and each policy audit occurs, we will make an adjustment to that accrual either up or down, depending on it. In the financial crisis, what happened -- the reason that it became a more substantive issue was that we had never actually seen audit premiums go negative. We were not accruing on the premise that they would be negative. So we had significant adjustments then relative to that. But now it is more consistent with historical patterns, and is -- the answer is no. (Multiple Speakers). I need to correct one thing I said earlier. I am reminded by Bill Cunningham who is here. I said I couldn't -- I didn't recall that select RPC had ever been negative. And in fact, it was in the -- (Multiple Speakers). RPC in the fourth quarter of '08, it was the -- the others were third quarter of '08 and first quarter of '09, it was flat. The fourth quarter of '08 it was modestly negative. So apologies for sort of my memory not being perfect on that.

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**Michael Zaremski** - *Credit Suisse - Analyst*

That is very helpful. And lastly, so I see the Travelers stock valuation has increased fairly meaningfully. And I noticed that share repurchases plus the dividend lagged net income by a fair amount this quarter. Is that due to the debt repayment, or should we -- or is there a change in philosophy on it prospectively?

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

Yes, there is no change in philosophy. As we have said before, there is a lot of timing differential to take place as to when you earn the money, what monies are up at the holding company versus in the operating company. But there is absolutely no change in philosophy.

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**Michael Zaremski** - *Credit Suisse - Analyst*

Thank you.



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**Operator**

Our next question comes from the line of Gregory Locraft with Morgan Stanley. Please proceed with your question.

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**Gregory Locraft** - *Morgan Stanley - Analyst*

Hi. Thanks. You are actually sitting at your target ROEs at least for one quarter. So I am wondering, did -- does that -- how does that shift your thinking in terms of managing the business? You are -- even in a low interest rate world, you are getting where you want to be, so how do things change?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Greg, we reflect, again, sort of the same comment I made earlier. The fact is, is that on an accident year basis excluding the favorable reserve development, we are, we are not at that level. That is going to be compounded by the fact that investment income in the fixed portfolio will continue to decline. That is a certainty, unless rates change. And then the third piece is that weather remains very unpredictable, and the fact that we had favorable non-cat weather in one quarter is certainly not enough for us to conclude that anything is different. So our analysis is largely the same, and so we are going to continue to keep pushing.

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**Gregory Locraft** - *Morgan Stanley - Analyst*

Okay. So in a way, you are basically normalizing all that stuff when you talk about that mid teens over time?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

We -- I am glad you said it. The slide is clear. It says mid teens ROE over time. And I, I said several quarters ago that that was not achievable in this environment. And on an accident year basis, I still don't believe that it really is. And as a consequence, and we were going to leave it in place as an aspirational goal. I think those are the exact words we used. And that is where we sit today, and as a consequence, we will continue to push.

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**Gregory Locraft** - *Morgan Stanley - Analyst*

Okay, great. And then perhaps the only negative thing in a very strong quarter was just, or just some clarification around the workers' comp reserve side. I understand the one-time charge, but there were no releases anywhere across the book in workers' comp. I m wondering, is that the first time that you haven't released from workers' comp reserves? And should we be concerned that the last couple years have developed unfavorably there?

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

This is Jay Benet. What I did say, was that there was no change really in workers' comp. I mean, this is the first quarter of the year, and workers' comp is a long tail line as you know. So we are not -- while we look at everything on a quarterly basis, we don't necessarily have adjustments to all of our reserves on a quarterly basis. So I wouldn't read into that other than, we put up reserves in the fourth quarter, and we still feel very good about where those reserves are. So we will see how they develop going forward.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

I would make an observation, even though it is not the question that you are necessarily asking. We were sure that somebody was going to ask us about frequency in workers' compensation, and the loss trend and kind of where things are in that regard. Harken to, just reflecting back on our



comment a couple of -- I think it was actually two years ago, year and a half, two years ago, which is that the frequency dynamic has indeed returned back to its long-term trend line, which is really good. It was the blip that we saw -- I think it was in '10. We attributed it to late filed claims as a result of the financial crisis. But that frequency line has now returned back to its long-term trend line. That is absolutely no guarantee that it will stay there. It is -- it may change next quarter. But we were just prepared for that question. We thought someone would ask. So we feel actually quite good about the workers' compensation business. We obviously do have a view on what the accident year returns are in the workers' comp line across all the businesses and we are very much on track.

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**Gregory Locraft** - *Morgan Stanley - Analyst*

Okay, great. Thanks. Congrats on the quarter.

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**Operator**

Our next question comes from the line of Larry Greenberg with Langen McAlenney. Please proceed with your question.

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**Lawrence Greenberg** - *Langen McAlenney - Analyst*

Thank you, and good morning. Brian, I know you said not to microscope slide 15 on the deck, the pricing changes by band. But I am just curious, the -- for the middle band, retention is down a decent bit versus a year ago, where the outside bands it has improved a little bit. I am not sure it matters, but I am just curious, do you have any theory what is going on there?

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

Yes, I think so. So part of it, the honest answer to that is probably the middle bar there in blue was a little too high a year ago.

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**Lawrence Greenberg** - *Langen McAlenney - Analyst*

Okay.

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

And as we looked at marketplace opportunity and the profitability on that business, that 60% to 90% loss ratio business, there is a wide band within that. So, so as I try -- as we try to emphasize, this is a real simplification of how we look at it. And in every one of our businesses, it is at least quintiles. And in many, it is deciles and we are looking at all the stuff in between. So I wouldn't read too much into that dip. A piece of it was I think, as we looked at the data a year ago, we began to execute more granularly there and push on the right accounts. So we actually feel good about the progress there.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Bill Cunningham, actually a year ago said that there was real opportunity or so he thought, particularly in the right side of this graph, the over 90% segment. And if you take a look at what has happened since, it just -- I mean, the results are just, you couldn't have scripted them much better. Retention remains at relatively, let's call them low levels, but rate is even higher. So again, just an analytical validation of the strategic and operational approach that he described a year ago.



**Lawrence Greenberg** - *Langen McAllenney - Analyst*

Right. Very helpful. Thanks. And then, just a quick follow-up on the direct business. I mean, your statutory underwriting loss there actually declined pretty significantly this quarter. Clearly, part of it was driven by less expense spend. And I am just wondering relative to your comments earlier, might we be looking for kind of a new baseline underwriting result there, thinking about it holistically?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

The result very specifically is a function of reduced national media spending, advertising, as we pursued this little America strategy. And Greg shared with me, it is two states that our media and digital spending has been very targeted. Because we are trying to generate activity and results in those states so we can learn about pricing elasticity. And as a consequence, the aggregate amount of spending is down. I wouldn't over react on a permanent strategic analysis, as to what we have been doing the last few quarters. This is a very targeted moment for us to determine pricing sensitivity. And as a result, less advertising spending is needed to generate the results.

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**Lawrence Greenberg** - *Langen McAllenney - Analyst*

So it is no top down decision at this point that we want to cut our losses, and not eliminate them, but we want to bring down our underwriting loss from this initiative?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

No, no, no, quite the contrary. We remain -- the best way to answer is, we remain committed to the strategy. And as I have said before, we want to make sure that we know that we have a financial success. It is -- it is far easier -- I am not saying easy, but it is easier to have a marketing success and a financial disappointment, and we are guarding carefully against that. And as a result, we want to make sure that not only do we have a pricing profile that is competitive for our brand, but that the pricing strategy there can produce a reasonable return. So that -- it just takes time for sales to occur, losses to emerge, and to evaluate the performance of the business.

And I -- I am in -- we are in no rush. There is -- we are just not. It is -- there will always be another 25 year old generation that is coming of age that needs insurance. And I -- it is -- granted, there is certainly activity today. But we feel strongly having years and years ago now had a marketing success and a financial disappointment, but we are not going to go down that path. And just urgency is not -- to go quickly is not the measure here, it is to go successfully.

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**Lawrence Greenberg** - *Langen McAllenney - Analyst*

Thank you.

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**Operator**

Our next question comes from the line of Randy Binner with FBR. Please proceed with your question.

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**Randy Binner** - *FBR & Co. - Analyst*

Thank you. Question on reserves and the commentary that the legal environment is better than expected in the '10 to '12 accident years. I just was wondering, that is still -- we are seeing that across a bunch of companies. But it is still surprising to me that the legal environment was so good in that time, given the economy. So I would appreciate any color on kind of your thoughts on why that has been the case. Why you have had less exposure legal-wise on casualty lines in that period of time?



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**Doreen Spadorcia** - *Travelers Companies Inc - Vice Chairman*

Good morning. This is Doreen Spadorcia. I will try and answer your question. I will tell you we had exactly the same assumption when the economy started to turn. We were worried about, not only that, but political environment. So we watched down to the county what is happening around jury awards, settlements, et cetera, et cetera. And the best I can give you, is we think that the financial crisis probably encouraged people to want their dollars faster. And so there were opportunities for settling some cases, that maybe in the past they would have waited to see what the amount would have been.

We also took very targeted approaches in certain jurisdictions that we thought we had the ability to set some good precedent. But we have just found that the willingness for people settling has been -- they want to do that sooner rather than later. Whether that will continue, I don't know. We have also seen cases that have gone to verdict. We thought again, that there might be some view that this is a bad economy, people need the money, where people on the jury have said, this is a lot of money, given this economy. So even those things that have gone to verdict on some of the kind of GL and other things, they have been more reasonable than we anticipated going into this kind of economic environment. (Multiple Speakers). But again, that is just our view.

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**Randy Binner** - *FBR & Co. - Analyst*

It is not for lack of effort by the -- on the part of the trial bar though, right? I mean, they are very well kind of financed right now and very aggressive. So it is more people wanting their liquidity, is that -- I guess that is the take-away?

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**Doreen Spadorcia** - *Travelers Companies Inc - Vice Chairman*

I can tell you there is a lot of advertising still for the plaintiffs bar looking for different kinds of cases. There is unique financing tools that people are using around big kinds of lawsuits. So you are right in that regard. I just can tell you what we are seeing. So I don't know if that is across the board.

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**Randy Binner** - *FBR & Co. - Analyst*

That is very helpful. Just one more on reserves. And that is on -- it was '10 to '12 that developed most favorably from the commentary, but not kind of '08 and '09 and prior. So time marches on, and those years are getting seasoned. Is it -- are we getting to the point now where kind of the '08 and prior accident years kind of stop giving as much, from a redundancy perspective?

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**Jay Benet** - *Travelers Companies Inc - Vice Chairman and CFO*

This is Jay Benet. We -- I will answer the question by saying every time we provide information on reserves, it is our best estimate. And we don't have a crystal ball as to how these things are going to develop. I think, if you think of the arithmetic associated with reserving, as years mature, more and more claims are paid. More and more claims are settled. So it is logical to believe that as the accident years mature, there is going to be less development. But you just have to wait and see how these things actually take place. I mean, we certainly carry IBNR for all the years you mentioned. And sometimes you have large cases that you think are going to cost you X, and they will cost you less or a little more, whatever. So we would just have to see. But I think essentially, the less IBNR you have, the less uncertainty you have, all things being equal, the less development you'll have.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Some of this -- this is Jay Fishman. Some observers of the industry spend a lot of time commenting about reserve development from hard years, hard cycles, or soft years or soft cycles. And people who embrace that thinking can come to view that particular years will be more productive than



others. We just -- we don't agree with it, at least for us. I will speak about Travelers. We just don't believe that. We don't do it. We make our best estimates all the time. They are estimates for loss. Loss estimates are not driven by the revenue strength of that business. They are just not. So we don't look at any years necessarily as being more potentially productive than others. And as an old year rolls off, a new year comes on, and it just keeps going. So it is -- we just don't spend a lot of time obsessing about individual accident years and what they are producing.

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**Alan Schnitzer** - *Travelers Companies Inc - Vice Chairman*

Randy, it is Alan Schnitzer. I would also add to Doreen's response, that over that period of time that you mentioned, we also had other developments like the Private Securities Litigation Reform Act that was really pro-defendant, and made some cases harder to bring, other developments like the Class Action Fairness Act. There has been some important cases in the Supreme Court that I think have been some setbacks in some cases for the trial bar. So I think all those things contribute. We, for example, just had an important win at the Supreme Court on an interpretation of the Class Action Fairness Act in *Standard Fire versus Knowles*. And so, the cases go both ways, of course. But if you look back over the last five or six years, you would probably on balance and maybe just at the margin, but on balance see a slightly improving environment from the defense side.

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**Randy Binner** - *FBR & Co. - Analyst*

Thanks for all the responses. Obviously, it is a very good claims and underwriting result. Thanks.

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**Operator**

Our next question comes from the line of Jay Gelb with Barclays. Please proceed with your question.

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**Jay Gelb** - *Barclays Capital - Analyst*

My question has been answered. Thank you.

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**Operator**

Our next question comes from the line of Vincent DeAugustino with KBW. Please proceed with your question.

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**Vincent DeAugustino** - *Keefe, Bruyette & Woods - Analyst*

Good morning. Thanks for taking the question. Back to one of your earlier comments about auto loss cost trends maybe stabilizing a bit. I am curious if you think this is going to drive just a new-found rate competition in the personal auto industry? I mean, to your earlier comments, maybe not with Travelers, but is that something you might go to expect the industry to ramp up on?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Well, it is Jay Fishman. And then, I am going to turn it over to Brian. But my comment about loss stabilization was, at least mine was specific to workers' compensation, and it was a frequency comment where we had seen a tick up in frequency, and it generated a lot of questions over the last several quarters. So I was just commenting that the frequency trend was now back in line.



**Brian MacLean** - *Travelers Companies Inc - President and COO*

And maybe you are referring, Vince, back to my comment, where I was talking about auto severity. And so just to be crystal clear, we had been seeing for -- and this goes back a little over a year ago now, we started talking about a ramp up in auto severity. The good news is that that has leveled off third quarter, fourth quarter, this quarter at about the same level. But it is still higher than, higher than historical norms. So it is not the -- the rate of increase isn't increasing anymore, but we have still got the severity trend. (Multiple Speakers).

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

That is actually a very important point. When we say leveled off, we don't mean that severity has gone to zero. What we mean is the rate of increase is more consistent with --

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**Vincent DeAugustino** - *Keefe, Bruyette & Woods - Analyst*

Right.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Our own expectations, and to some extent, historical trends. But it is still increasing.

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

Yes, so we would -- we obviously don't know what the competitors are planning to do. We do know that the line, the personal auto line business has gone from a 94[%] to a 102[%] combined the last six years from, in the -- for the industry, in an environment with declining interest rates. So from a return perspective, it is not the healthiest line of business for the industry. And we do look at the publicly available rate filings of our competitors, and that may indicate some movement up, upward in pricing. But we will see what actually happens in the marketplace.

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**Vincent DeAugustino** - *Keefe, Bruyette & Woods - Analyst*

Great. Thank you. And then, winter Storm Nemo was -- I mean, at least from the northeastern standpoint was a fairly large storm event. But we haven't heard anything about Nemo, from really anybody yet this quarter. So is it safe to assume that from an industry standpoint or from Travelers' standpoint that was basically a nonevent?

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**Doreen Spadorcia** - *Travelers Companies Inc - Vice Chairman*

(Multiple Speakers). Yes. Let me just -- I am going to look that up really quickly.

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**Gabriella Nawi** - *Travelers Companies Inc - SVP of IR*

In the meantime, why don't we go to the next caller, and then we will come back on that.

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**Vincent DeAugustino** - *Keefe, Bruyette & Woods - Analyst*

Okay.

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**Gabriella Nawi** - *Travelers Companies Inc - SVP of IR*

Andre, if we can take the next and last question? Thank you.

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**Operator**

Thank you. Our final question comes from the line of Brian Meredith with UBS. Please go ahead.

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**Brian Meredith** - *UBS - Analyst*

Yes, thanks. Brian and Jay, I am wondering if you could talk a little bit about redistribution and kind of what their mood is right now? We are going into the third year of price increases, are they just getting tired of it? Are they accepting of it? What kind of has been the reaction?

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

Well, I think the numbers largely tell the story, although the senior team here spends a lot of time with agents and with brokers. If you had to do a short summary, you would say on the commercial line side, the agents feel terrific. They are just -- they are feeling really good and really supported and solid. They believe that they can talk to their customers, explain the rationale. The best remind their customers how long pricing went down, and actually do a pretty good job comparing where even in a lifted environment, how that compares to historical premiums. And so, they are feeling pretty good. I don't know if you agree with that, Brian. But --

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

I do. And we've spent in recent weeks, we have been out with agents a lot and talked to a lot of them. I think, again, not to overemphasize the data on slide 15, but how we execute in the marketplace and really doing it on a granular basis works with them. The more, the more we are having specific conversations about accounts or classes of business, the more focused that is, the better it will be received. The more it is viewed as just a broad brush approach to the marketplace, the more challenging it will be.

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**Jay Fishman** - *Travelers Companies Inc - Chairman and CEO*

And on the Personal Lines side, what we are hearing from them is what you see in the numbers, which is that our minimum, our change in minimum deductibles, our change in underwriting, our -- to some extent our changes in rate, are making us, causing us to be less competitive on new business. They share with us that the renewal book is fine. And I would say -- I don't know that that really reflects a mood, but this is a conversation that we have with producers and agents all the time. That they are certainly confirming to us, that for the moment, the strategies that we are taking in home and in auto on the new business side, I will say only, on the new business side only at least for the moment, is causing us to be less competitive than historically we have been. And we certainly listen to that, and we see it in the numbers, and no great surprise to us at the moment.

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**Brian MacLean** - *Travelers Companies Inc - President and COO*

Just -- and so just to circle back on the previous question, just a couple quick comments on the big winter storm that we had a couple months ago. We have clearly gotten some claim volume out of that. It hasn't been outsized. It was obviously contemplated in what we booked in the quarter. The -- a couple of comments, from an auto perspective, at least up here in Connecticut, Massachusetts, and the northeast, they really shut down the roads a lot. So there wasn't a lot of activity. And the type of claims that we get, the really damaging winter storm claims we get, tend to be when there is either really extended events, when the snow sits for months on top of roofs and you get damage there, or you get collapses. And fortunately in this event, although we got lots and lots of snow in a short period of time, it warmed up, it got cleared. And so it just wasn't a tremendous event, for at least us. And it doesn't appear to have been in the industry either so.

**Gabriella Nawi** - *Travelers Companies Inc - SVP of IR*

Great. We will -- it looks -- this concludes our call for -- I don't think we have any more questions in the queue. So if anybody has further questions, as always, Andrew Hersom and I are available in Investor Relations. Thank you, and have a good day.

**Operator**

Ladies and gentlemen, this does conclude the conference for today. We thank you for your participation, and ask that you please disconnect your lines.

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