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PRESENTATION

Jay Gelb - *Barclays Capital - Analyst*

Good morning, everyone. I'm Jay Gelb from Barclays. Thank you for joining us today. Before we kick it off with Jay Fishman from Travelers, as you all know, today is the 12th anniversary of the September 11 attacks, an event that affected us all in many different ways. To show respect to those that lost their lives on that tragic day, please join me in a moment of silence remembering the victims.

Thank you. It's our great pleasure this morning to have Jay Fishman, Chairman and CEO of Travelers with us today. Jay has been a fixture at the Barclays, and before that, the Lehman Financials Conference, and we thank him for his continued support. Travelers is one of the largest commercial and personal lines, property, casualty companies in the United States, with a superior long-term track record. So with that, I'll turn it over to Jay.

Jay Fishman - *The Travelers Companies, Inc. - Chairman & CEO*

Thank you, Jay, and good morning, everyone. And for 7:30 in the morning to show up for an insurance presentation, I'm impressed. I had a feeling I was going to be talking to my partners here this morning, and that would be it. And Jay, thanks for that, just the observation. Barclays, we're remembering, as someone who was born and raised in New York, that event is seared in my memory. And it is unfortunately too easy in the course of oppressive business to forget, and it's very appropriate to take a minute and remember. So thank you.

Before I begin, a little bit like singing the national anthem at a baseball game, I just want to point out that the slides at the end of the presentation are the typical disclaimers with respect to financial information. The presentation contains important disclosures about forward-looking statements and non-GAAP information. In particular, please note that actual results may differ materially from what is indicated by forward-looking statements. And with that, let's turn to the presentation.

It's nice to be here with you this morning. I have a couple of important topics that I want to cover. In some respects they are holdovers from our last earnings release and follow-ups to some issues that were raised in the sessions. And I was debating whether to do this at the end or the beginning, but let me just update two important financial measures that are relevant. First Catastrophes, this is the third quarter. As we stand at through the two months of this quarter, Catastrophes are \$30 million after tax. That's a round number. Approximately \$30 million after tax. And a not insignificant amount of that is actually development from events from the second quarter. The third quarter, as everyone knows, has been benign and quiet from a wind storm perspective.

And two, just to update our share repurchases, this is actually through yesterday for the quarter, we are at \$633 million of shares repurchased through yesterday. That brings our total for the year-to-date numbers up to \$1.6 billion and change, I believe. I'm sorry, \$1.2 billion and change. I beg your pardon. I'm sorry. \$1.233. I'm so glad Jay Benet is sitting in front of me.

Alright. Let me return to the presentation. This is a slide that we -- I think a lot of people think of as a throw away. We don't. This is as core to the way we run our business and the way we think as anything there is. It has been our long-term financial strategy. We have included it in presentations dating back, I believe, to 2005. It is the way we are committed to creating value for shareholders. We believe that we have a series of substantive, sustainable competitive advantages that will convert to top-tier profitability, given the fact that we are an industry that is so GDP-driven. We will be generating capital that is substantially in excess of our needs to support growth within the business, and we will take the excess capital, return it to shareholders. And through that we will create, hopefully, a mid-teens return on equity over time, and through that create a shareholder value.



In the context of long-term performance, since we started on the program of buying back shares which I think was in the middle of 2006, we've actually bought back over half the shares that were then outstanding. And the cumulative return on equity dating back to 2005 at this point is about 12.9%. And I'll take you through that in a moment. It's important because it is the way -- it is not just a financial strategy, it's the way that we price the business, it's the way that we think about it, and it forms the way in which we run our operations and manage our people.

Now we have said for some time that this goal was not achievable in today's environment. And this is the balance between the over time comment -- important that it's highlighted red -- and of the moment. With interest rates that still notwithstanding the fact that they're higher than they were a few months ago, they're still at historic lows. It is not possible at this point in time to generate that goal. We will, though, leave it aspirational, and we will pursue it. And so in the beginning, in pursuit of it, starting in 2010, we began to pursue rate gains to push price on the products that we sold, both in our Commercial businesses, as well as in our Personal businesses. We very intentionally, after the financial crisis, decided not to be active in the market. It wasn't at all clear what the environment was going to be like, and how customers would respond to requests for increase in price. So from 2008 to 2010, the rate was largely flat, somewhat negative, but largely flat for us in the Commercial businesses.

And then in 2010 when we began to become convinced that interest rates would stay at these reduced levels for longer rather than shorter times, and then, two, exacerbated by what appeared to be changing weather patterns, no comment here about climate change. A simple observation about the short-term impacts of changing weather, more inland wind, more tornado, more hale than we have previously been experiencing, and as a consequence we began to seek rate. We began in 2010. We accelerated it in the revenue. It was in the first quarter of 2011 in our Commercial businesses that we actually began to achieve rate gains in excess of loss trend, meaning margins began to expand. So we began to improve profitability relative to this long-term goal.

Now in the context of where we stand at the moment, this is it. The reported return on equity, 15% for the first six months of this year, 11.8% for last. We've attempted to normalize for those things that might be considered to be either unusual or non-recurring. But you bring that all the way down to operating return on equity, adjusted for let's call them unusual items, meaning we exclude favorable reserve development. We count favorable reserve development or unfavorable should it ever happen to us. It is substantive. It's real. But it's not the way that we think about achieving returns. And so we get down to that kind of bottom line of 12.8% and 13.9%. Important that 110 basis point expansion in returns reflects largely the effective rate gains in excess of loss trend. So it's working. It's moving us in the right direction though we still have work to do. 13.9% obviously doesn't put us in mid-teens return on equity over time, so we will continue to pursue this but we are moving very, very much in the right direction.

The context of how the shares have reacted to stock price over that time, this is Travelers compared to the 20 largest Standard and Poor's financial companies, and a whole host of other selected financial companies that we consider interesting or competitors. And you can see on a 5-year total return basis, amongst this list we're actually first in total return. In the top section on a 3-year, 1-year, you've got some noise out of the positioning on this as a result of companies that struggled through the financial crisis and have recovered partially. But you've got a sense of the long-term success of the strategy relative to the share price.

In terms of the effect of raising rates, this is a number that we disclosed at the last earnings call but somehow just didn't seem to impact people. The underlying underwriting margin, meaning the effect of rate gains since 2011 is, as we stand today, resulting in an annualized increase in after-tax operating income of just over \$1 billion. That's \$660 million in our Commercial businesses, and \$365 million in Personal insurance. So we take a step back and we say we are very much headed in the right direction, and the granular, active approach has been very, very successful in improving profitability.

Now as it relates to the Commercial businesses, let me be 100% clear. Nothing is changing as it relates to our strategy or tactics. We continue to pursue rate, we continue to pursue improved profitability, and to the extent there was any confusion that came out of the second quarter call with respect to a change in our Personal lines positioning and I'm going to talk about that, to the extent that people perceive that it was in any way related to the Commercial business, that was incorrect. We remain business as is, as stated in Commercial. We continue to pursue rate gains. And so I'm going to go through a little bit of that with you, and talk a little bit about rate retention and mix.

Probably the single biggest question that we get asked is when we meet with folks is, is rate peaking? Are rate gains peaking? It's a question that we actually don't entirely understand. We suspect what people really mean is, is the rate of improvement in your underlying underwriting margins

beginning to slow down? Meaning to the extent that you continue to get rate gains in excess of loss trend, improvement continues in underwriting margins. I think what people are trying to ask is do we foresee that the rate of growth in those numbers is beginning to slow? I'm not sure that that's the question but that's what I believe it is.

It also -- the question has an underlying assumption that rate somehow is independent of actions that underwriters actually take in the marketplace, that somehow rate is a magically-determined number on a board somewhere, and that we can look at it and determine if it's higher or lower. And nothing could be further from the truth. Rate is determined by an underwriter, and an agent, and an individual account, and a negotiation, and a process. And so if someone asks, what's the competitive environment like, or are you having a more difficult time achieving rate gains? Those are questions that we understand. But the passive kind of question of has rate peaked is one that really does not confuse us, but it's a question that we almost don't see the substance in the question trying to -- attempting to answer it. And particularly so when people focus on singular numbers, and the incorrect assumptions that you can get when you do that.

So let me take you through. This is sort of a mix. It's a mix of some real data. I'm going to give you a little bit of insight into the sausage factory here. And an illustration of the way that rate can operate. So here's a baseline case. This is now our Commercial businesses we're speaking about. So the baseline case, I'm going to show you an analysis of rate change at 8% for the overall portfolio. In the initial case a \$3 billion portfolio -- and I'll explain why that's relevant in a second -- with retention of 81% across the entire portfolio. And that's going to produce an indicative underwriting profit looking forward of just under \$1.1 billion.

Now, I'm going to show you a theoretical calculation where the rate is higher. It's 9%. Retention is at 81%; that stays the same. But in fact the indicative profitability is lower than the 8% case.

Then I'm going to take you through one where it's a 7% rate change, so 100 basis points lower than the base case. And again, retention is the same, and in fact the indicative underwriting profit is higher than the base case. Somewhat counter-intuitive to what industry observers tend to think that the single headline number, without an understanding of the underlying dynamics, really is important. It's important but it's not dispositive. It's important but it's not dispositive and we're going to show you that.

This is an interesting analysis. We have historically shown you 3 bands in our business -- 3 loss ratio bands. And as I've said repeatedly on these calls, that's a summary of the way we look at it. This is a little expanded view. I'm going to show you that in this particular case, we actually look at 5 separate bands. Now this is a \$3 billion portfolio. It is our Commercial businesses that we use segmentation on. There are certain businesses where this kind of segmentation strategy simply is not operative. And we'll talk about that at a different time. But it's the bulk of our businesses. You can see here a couple of things.

First -- and this is actual data now -- the summary at the top here as of the end of the second quarter for these commercial businesses. Bands 1 and 2 are the best performing bands. Bands 4 and 5 are the poorest performing bands. So at that point, 25% of our business, and these lines still remain in bands 4 and 5, so there remains opportunity to improve the profitability of the book. 37% is in band 3. If you were to segment that into a greater array, you would find a number of bands that look more like 1 and 2, and you'd find a number of bands that look like 4 and 5. Simply to imply that there is still plenty of room here for us to improve the underlying profitability of the business, and Bill Cunningham says on these calls, and it's this data that causes him to conclude that, that the benefit will really come from the right side of the chart, the lesser performing business more than it will on the left.

As business moves to the left, we focus much more on retention than on rate gains. It's nice that we get rate gain in excess of loss trend, even at those highest performing buckets so that margin continue to expand, but our focus to the left is retention, our focus on the right is rate gain or loss of business. And you can see, these are the actual retentions of the buckets, and these are the actual renewal rate change. I think this is 6-month data for this book of business. So retention at the best core of 85%, down to the worse of 69%, and rate growing from 5% up to 20% in band 5.

Now the business is 81% retained. The loss ratio -- this is not the immediate loss ratio. This is our long-term look at loss ratio. A very important thing to understand. It's 62.5% coming into the renewal process. That ratio for what we renewed goes down to 60.4%. So you get a 210 basis point improvement in the loss ratio from the non-renewal action, and then you get the impact of rate. So the renewal rate change will cause a 4.5 point decline in loss ratio, because rate pulls premium up. Losses stay the same and so the percentage drops. And the loss trend is at 4% frequency and



severity. That moves the loss ratio up. But it's a 2.1% improvement in the underlying loss ratio. So you go from 62.5% down to 58.3% on a renewed basis. And the indicated underlying profit on that book is just a little under, for the renewal period, the 12-month period, \$1.1 billion. This is before expenses.

And again, there's a lot of real data in here. There's some -- the only reason that we're not sharing everything is the competitive dynamic of some of the information here. But this is a real case of \$3 billion, the distribution amongst the segmentation is real.

I'm not sure how many companies can even do this. I know we can. I know we operate this way. But I don't know how many companies can actually segment their business as granularly as this. And in many of our businesses, we segment them even further. We're choosing here, obviously for competitive reasons, not to provide the breadth of segmentation that we -- and this is not just segmentation on loss ratio, just to make that clear. I'm not going to disclose how it is we classify it, but it is indeed more than that.

So people would say, gee, is rate going up or rate going down? So let me give you an example. Now, we're going to compare this to the base case. The base case was a rate gain of 8%, if you remember. Here's a case where we're going to 9%. And you can see in the renewal rate change that we're at 9% in green. If you do exactly the same arithmetic against this portfolio, you actually find that the indicated underwriting profit declines by \$5 million. And the key to this is in the renewal rate change, and the retention by bucket. So you can see that compared to the base case in bucket 1, the retention is 85% down to 83%. And you can see that rate's actually up from 5% to 6%. So the red and the green in the renewal rate change and retention lines here are relative to the base case. And so you'd look and you'd say well, here's a 9% rate change and an 81% retention, and in fact the indicated underlying profitability is actually down. Somewhat counter-intuitive to what, sort of, industry observers tend to think.

And as we caution people to not react to tenths of changes in the rate, so now here's a case where it's a 100 basis points change, and it's actually moving in a direction that people would not intuitively think. Now this doesn't mean it happens this way, but it can. This example is well within the range of reason. It's not at the bounds of probability. If you look at these numbers, it's a very reasonable case in, of course, managing the book of business.

Now here's -- and of course the combined ratio on the same mathematical basis goes from 62.5% down to 58.9% and that's the arithmetic. We have a case now where, compared to the base case of 8%, we're going to 7%. So we'd say it's actually 100 basis points lower. Retention remains the same at 81% across the whole book, and you can see again the red and the green changes of rate and retention. When you do the arithmetic on this basis, you actually end up with a \$9 million increase in indicated underwriting profit relative to the base case, compared to what one would intuitively think which is a lower rate would produce a decrease.

Now again, not at all outside of the range of reasonableness. If you look at the renewal rate change by segmentation band or the retention by segmentation band, there's nothing odd or unusual about these numbers. A perfectly reasonable way to end up.

Now to the extent one doesn't have this kind of data, this is the comment we make all the time. The significance of having this data is the ability not just to get an absolute number, but to get the absolute number the right way by individual segmentation bands so as to increase profitability. Key. Critical for success. Absolutely critical for success.

Now if you put the two together, and sort of compare it to when we get asked the question, has rate peaked? One way to think of the question, has rate peaked, is the simplistic view that the entire portfolio has a renewal rate change of 9%, the entire portfolio has a retention of 81%, even by segmentation band. And what you see is that the indicated underwriting profit would be \$4.3 billion. Now this is on a \$12 billion portfolio. What I've done is, I've taken the concepts that we just took you through, and we're applying it now to our entire business insurance segment which is \$12 billion. So it's not real data, I'm not making any forecast, I'm showing you arithmetic and how important the segmentation of the analysis is. You'd end up with \$4.33 billion.

Now relative to a case where it's 7%, so the rate's down 2 points, a simplistic arithmetic exercise would result in \$190 million lower indicative underwriting profit. That's what people would say. Rate lower, underwriting profit lower. That would be the sort of traditional thinking. But here's the actual arithmetic. So rather than having \$190 million decline, we're going down from -- and I'm not telling you that we've gone from 9% to 7%. I'm simply giving you an arithmetic exercise here. If you went from 9% to 7% and you went from 9% to 7% this way, you'd actually have a \$56



million improvement -- improvement in underlying underwriting margin. Again, incredibly counter-intuitive to what most industry observers think. And so just a critical thing to really understand. IBNR. The number is interesting but not entirely relevant. It's useful to have the overall number, the rate gain and the retention. But without being able to understand and see the granularity of how it's being applied, you cannot make an assumption about the change in profitability of the portfolio.

And so as we caution people to not react to tenths or even half points, here's an example of 200 basis points in a very reasonable way producing an incorrect answer. So a reasonable question is so where are you in rate? So this is the data for the first two months of the third quarter. With all the cautions that I just spoke about, don't overreact to tenths. A tenth of data means nothing. A tenth worse means nothing. You need to know what's happening underneath, but people seem to be fascinated by the number. So here it is. So its 7.2% renewal rate change for our entire business insurance segment. Retention actually ticking back up to 80% from 79%. Because exposure is moving positively, renewal premium change, up to 9.3%. So these are the numbers.

Now in our Commercial businesses, because we also give that, this is our individually underwritten businesses, so a much smaller portion of our business insurance segment. 7.8% rate, retention ticking up to 82%. Exposure is somewhat more complicated in these segments. It's a topic that I'll take on at a different time. It has to do with auto premiums and the way they affect the data. That exposure modestly negative so renewal premium change at 7.4%. But again, caution everyone not to overreact to changes. Now I'm not saying that it either is better or not better, but the headline number is I'm sure it's interesting but I hope I demonstrated that it is not dispositive in the direction of underlying profitabilities. So it's close-up Business insurance, segmentation critical, and pricing and retention, and the ability to actually maximize the effect on profitability. We utilize segmentation by class or by account, wherever we possibly can as we seek to optimize the results while minimizing disruption to agents. A simplistic view of rate and retention can give you very, very incorrect results.

And lastly we remain very pleased with the execution of the strategy of seeking improved rate, and we remain committed to it in our Business insurance business. Let's be clear about that. We continue to seek improved rate gains, we continue to seek improved profitability, as we continue to seek mid-teens return on equity over time. So to the extent that anyone was confused about our strategy in business insurance, I hope I've clarified that adequately.

Importantly, let me turn to Personal insurance. Talk about two topics that are related. The impact of comparative rating technology which we've spoken about but we'll give you some information on it. And then we have in the last two weeks announced and introduced a new updated program of Quantum Auto, Quantum 2.0. It has certain features that I'm going to take you through because we think it's significant.

First, this is what's been happening in the personal insurance marketplace. Carriers, particularly direct writers, spending extraordinary amounts in advertising, significantly focusing on saving money for the customers. Consumers are responding to all of that with a meaningful increase, but I would argue not exclusive focus on price in the purchase decision. It is not independent of other factors, but it's becoming increasingly more important.

In independent agents, the adoption of comparative rating technology has enabled them to meet the demands of customers who are seeking a greater emphasis on price far more efficiently, more easily than it was previously. The summary of it all is if there's an increased significance of price, purchase, consumer and the sale of the agent transaction.

The way comparative raters work, the agent gets customer information and puts it into a simultaneous multi-carrier quoting engine. We participate in these, have from the early days. There's an immediate response, and I'll show you a screenshot in a second. This actually shows a comparison of carriers, and the agent will make a preliminary carrier selection. Then subject to the customer's agreement, they'll actually go out and order reports. That's when money begins to get spent. So there is an important step in there. They'll confirm the selection and then they end up with a bindable quote.

This is actually what a screen looks like. This is -- you can see the agent input in the middle section. The policy limits are \$100/\$300/\$100. And the agent can actually request how the information is to be arranged. So in this case we've taken the premium from low to high which is often how they request it. And you can see the 12-month premium for this particular risk of \$1,419 paid in full. And then there are two options on the right. One is \$50/\$100/\$50. The other is \$250/\$500/\$100. And it lays out that the quote. It also will give the agent information of what discounts are being

applied. You can see the various discounts by different carriers. And if the comparative rater has 10 carriers, and those 10 carriers are with that agent, there will be 10 of these and they will be all listed out.

The data is compelling. If you are not first or second in this selection process, the likelihood of actually getting the business is low. You don't have to first in terms of low price. There are other things that are considered. There are things that are considered by the agent predominantly, but also by the customer. But being in that first or second position is critical for long-term success.

Now it's changing the business in a couple of ways. This is the first. This is actually our quote volume. Going back to 2008 you can see that the comparative rating technology, the actual quotes that we're issuing has almost doubled, or actually has doubled in this period of time from about 1.4 million to now just under 3 million quotes. We're being quoted everywhere, and if we're on the agent platform, we will be quoted along with anybody else who's on that platform. And you can see that our proprietary system is declining in terms of quotes. And this, we suspect, will continue in more and more, and the quotes will be delivered through the comparative rating technology. We're now about 80% of our overall quotes are coming through that platform.

The important thing there is that this actually supports many of the expense changes we just announced back at the second quarter. The sales force, for example, an in-agent sales force is simply no longer necessary. The sales force previously would spend time making sure that any carrier, Travelers, but any company that had one, was quoted actively. That effort no longer is relevant. You will be quoted. You will be quoted with certainty. And so now it gets down to how is the quote presented, and how competitive are you and how does all that work?

Now in our personal insurance business, also getting back to 2010 and into '11, we took exactly the same approach that I described in Commercial. Because of interest rates, because of changing weather patterns -- not just in Auto, by the way, in Homeowner's as well -- and because in Auto, specifically, changing loss patterns, we made the decision to raise price. And we were hopeful that that would be sustainable. And it turned out that two things happened. One, our profitability most certainly improved. Margins began to expand and our returns in the business began to lift. Unfortunately, you can see as we're disclosing here, and have all along, the effect on new business has been significant and negative. So back in the first quarter of '11 we were doing \$171 million of new business. In the first quarter of '13 we were at \$86 million and \$90 million. That's not acceptable. That's a strategy that simply didn't work, and we suspect it worked as it relates to profitability, but it didn't work with respect to volumes. And so we're actually changing that, announced the first step of that in the second quarter, and a second step here today. It's critical, absolutely critical for our long-term success now in this business to be a low-cost producer with very effective pricing segmentation. Those are going to be the keys for long-term success.

So in the second quarter, we announced an expense reduction program of \$140 million pre-tax when fully realized. We actually had given notice to 450 employees through July. There was a substantial number that are coming through attrition, a restructuring charge of \$10 million in the third quarter, the majority of these savings are going to be in Auto. Nothing new on that page. All the stuff that was in the second quarter earnings release.

We are announcing a new Quantum Auto product, 2.0. The goal is to be a low-cost manufacturer of a highly sophisticated and segmented Auto product that successfully competes in the marketplace here in that, is competitive from a pricing standpoint, and -- and the and is underlined for a real reason -- generates an appropriate return. So first, we're taking all the underwriting data from Quantum 1.0, and funneling that into Quantum 2.0. These are simple examples of changes that are made in the underwriting and pricing arena. We have found that we are going to be waving the 4th and 5th year minor violations for drivers who have been incident-free for 3 years. We had a more stringent underwriting element in Quantum 1.0. As we back-tested it, it turned out it didn't matter. It was competitively problematic, and it didn't produce the desired loss trend. So this is a change we're making. There will be youthful driver leniency for tenured families. Again, I'm not just making this up. It's as a result of 8 years of experience of Quantum 1.0 and actually seeing loss data from it.

We are, of course, changing pricing in the sales to reflect the underwriting experience and improved returns. It will, of course, incorporate \$140 million expense program that we announced. And also, we've made the decision that we're going to lower the base commission by approximately 2 points in Quantum 1.0. This is a significant financial change here.



We do believe, and sure people have asked, how competitive is your compensation program? We absolutely believe the total compensation program for Quantum 2.0, we are very competitive with other large national carriers. There are certain large carriers that continue to pay base commissions that are lower. There are certain larger carriers that will pay more. We will fit, we think comfortably, in the arena of compensation. We're actually starting to roll the product out right now. We will do so in all but 3 states where we will not be subject to approval because I suspect credit scoring is really the limiting factor in those 3 states.

It will be used for new product with certain teams needing all new accounts. It will be sold into Quantum 2.0, and the product will be available to agents at their discretion for existing accounts. So an important dynamic.

So first, to begin to size for you what's going on here, the Auto insurance expense and unallocated loss adjustment expenses where the loss reduction program that we announced in the second quarter, the commission analysis here assumes that all of the premium that's available converts to the new commission. This is not a GAAP forecast. What we're attempting to do here is to show you order of magnitude of cost change, new product versus old product. It's a 12.4% reduction in the cost base, non-loss cost base, so a significant change there.

If all of that were invested in price, and it's not, we're going to allocate that between price and loss so as to improve margins. But if all of it were to be allocated to price, that would be -- to cost rather, sorry, to cost -- that would be about a 4.5% reduction in the combined ratio for Auto. This is a significant change here.

Now in terms of the pricing, this is a stata diagram, obviously, of pricing components, of Quantum 1.0 compared to Quantum 2.0. And you can see that a significant number of individual risks will receive a lower price under Quantum 2.0 than they would under 1.0. Not 100%. There are dots above the line, obviously. That's as a result of the underwriting learnings from Quantum 1.0. We've done a couple of things. One, we did a small scale market test to better understand price elasticity. We think we understand that far better than we did. And then we took these proposed prices, and we back-tested them using the competitive raters. Now we never know what competitive reaction will be and can't make that prediction, but subject to that change, we believe that Quantum 2.0 will meaningfully improve volumes and, importantly, and achieve target returns over time. So a significant reduction in cost, significant reduction in cost -- of course, this is Auto only we're talking about now, just to be absolutely clear -- Auto insurance, significant reduction in cost allocated between lower cost and price so as to improve margins. That's the goal here is to both improve margins, and lower cost and competitiveness and improve volumes. It's a sweet spot that we're seeking.

Now it's important, I think, that we recognize that it is not only about price. Agents have a view, customers have a view. Price is really important, but brand recognition matters, the capacity of the agent to provide service -- remember we are an independent-agent company -- to provide service and advice to customers remains critical from an agent as well as a customer's perspective. The ease of doing business matters, Claims service matters, it's not as if nothing matters. But things are changing, and there's a real skill of figuring out what changes have to be made to the business process to respond to the changing environment, and still keep the product competitive, but high quality. And that's, I think, one of our skills. I think it is one of the things that we do really quite well.

So just wrapping up, making sure there's no confusion here. Commercial insurance, we've got \$16 billion in annual premiums in total. We will continue to seek improved profitability through rate actions, or minimizing disruption. Great success to date, \$660 million after-tax improvement in underlying underwriting margins on an annualized basis.

In our Personal insurance, to remind everyone, we are also a homeowners company and we love the business. We do about \$7.5 billion in annual premiums. Half is in auto, half is in homeowners. The second bullet here, I think, is critical and is often missed. We have real success in the homeowners business. We've got a combined ratio, an average of 92% over the last 10 years. 9 out of the last 10 years we were under 100%. The only year, and that includes Rita, Katrina, and Wilma and Ike (inaudible), the only year that we had a combined ratio over 100 was 2011. That was Joplin, the tornadoes in Joplin, Tuscaloosa, and then Hurricane Irene. We will continue to capitalize on our homeowners' capacity and our interest in that business. We are not uniquely an Auto company. Our goal is to address customer needs, complete customer needs, and that is distinctive. It's not unique in the market, but it is distinctive, and we're going to continue to capitalize on that.

And then lastly in Personal Auto, significant cost reductions both within the operations as well as in the commission structure, enabling us to both lower price and improve margins -- and improve margins.



Quantum 2.0, just to be clear, is priced to achieve our target returns over time. That's our goal.

So that's our presentation. I know a lot for 7.30 in the morning. But important stuff and, Jay, I'm open to a question or two if people would like.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thank you. For Business insurance, are you saying you still feel you can drive further underlying margin improvement through the book ex Cat, Ex prior development?

Jay Fishman - *The Travelers Companies, Inc. - Chairman & CEO*

Absolutely. Yes. Very clear. Now you're not asking -- you're not asking is that going to continue to grow period after period, meaning is it going to continue to get bigger which is where we've been? I'm not making that prediction because I don't know. What I do believe is that there is significant opportunity to continue to get rate gains in excess of loss trend. And that's again, I think the question that you're asking now. Over time, everybody should recognize if we're really good at this, more of that business is going to move from segment 5 to segment 1. And that's going to change the absolute number. And I hope I demonstrated in this analysis that it should. That's good faith. And so we've got to manage the sausage, the number at the top is important but not, again, not dispositive. But yes, absolutely we believe that in Commercial insurance -- Business insurance, sorry, Business insurance.

Jay Gelb - *Barclays Capital - Analyst*

Unfortunately, we're out of time so please join me in thanking Jay Fishman from Travelers.

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