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Jay Cohen: Sorry for the delay, everyone. Stuff happens beyond your control. It's our pleasure to have Jay Fishman, head of Travelers, here with us. Jay started out in the financial services business. He transitioned to insurance in the 1990s, mid, late 1990s.

Jay Fishman: Early '90s.

Jay C: He's served as CEO of Travelers since the 2004 merger with St. Paul and it's been a busy decade with a lot changing. So we're happy to have Jay with us to talk about both the past and also the future. I had a question for you that I wanted to ask you and that is in the 1990s when you were at Citi I guess, did someone come up to you and say, "Hey, do you want to run Travelers," or did you raise your hand or join the Travelers? Did you raise your hand and say, "That's what I want to do?"

Jay F: So first, at the risk of embarrassing you, I have been around this industry now -- I always say I'm new to it but I'm not anymore actually and you're one of the best, no question. And we're here because you're one of the best in a world that's constantly changing. And Gabby, our head of investor relations when she first joined us said, "You don't understand. Everyone thinks the insurance industry is mystery meat. Nobody gets it." And you over many years, you get it. Quality work and always worth reading. Whether I agree with it or not, different story, but always worth reading, always worth reading.

Jay C: If you could say that one more time, we'll tape that for my father please next time.

Jay F: I had joined what was then called Primerica in 1989. I was, previously I was with Shearson Lehmann Brothers. Let's see, none of that's left anymore. I was with Shearson Lehmann Brothers and left and joined Sandy and Jamie and Bob Lipp and a group of others. My initial job was in '89 to be Bob Lipp's chief financial officer of the consumer financial services division, consumer lending, credit cards, the bank, Primerica Bank.

Bob and I became attached at the hip professionally. We just sort of saw the world the same way and I was so fortunate to have the opportunity to work for someone who was that experienced in operations and was willing to share it.

In '92, old Travelers, TIC, New York Stock Exchange, had really hit the skids, lots of reasons for it. Primerica bought 27 percent of it at the end of 1992 and the remainder at the end of 1993. At that point, old Travelers

was five separate businesses, property, casualty, life, asset management, employee benefits and health insurance of all things. So it was a lot there.

Jay C: A true multi-line.

Jay F: A true multi-line. And Bob, at the beginning or at the middle of '93 before we bought the remainder, Sandy asked Bob to go up and be its CEO and Bob asked if I would come along and be his chief financial officer. And it was easy. So I went up there originally kind of in the middle of '93 to become the chief financial officer of the entity working for Bob Lipp.

Jay C: Did you have any reservations about joining the insurance industry at that point?

Jay F: No. It was mystery meat. I didn't know enough to be worried about it. But what was interesting was that the concerns then were quite different. The health insurance business was -- that was -- Hillary Clinton and her initial initiative. Travelers was one of the largest old-fashioned indemnity insurance companies around. That whole world was moving quickly to then managed care. They had clearly fallen way, way, way behind. And so the issues were gee, what do we do about the health insurance business, what do we do about the life insurance?

Property casualty was kind of way down the list and so not something I particularly focused on. They had Chuck Clark, if you remember. Chuck was running the P&C business for them then and he was terrific and he could be relied on. He had intellectual integrity, tell you what he really thought. And so the PC business was pretty far down the list actually at that point.

Jay C: So here we are, a little past 10 years past the St. Paul merger. Looking back, what's been the biggest surprises to you? And as you think about it, what went better than expected? I assume a lot of things. And what do you think maybe we could've done better during that time?

Jay F: It's interesting. And this wasn't a set up but it was probably a few weeks ago, before I really knew that we were going to do this, there were a group of us sitting around with a glass of wine one evening and people from the early days. And I said, "As you look back over these ten years, what was the single biggest surprise and the single biggest disappointment?" And we went around the room with different observations from different perspectives.

The biggest surprise for me, there were -- this is an industry filled with conventional wisdoms and the conventional wisdom at the time was that no agency would allow more than -- where this number came from is a mystery -- 40% of their business to be with one carrier. You can go back to research 20 years ago and you can see that. And so the conventional wisdom was you put two companies together, you get some concentration, the agent tends to reduce his exposure to you over time, trying to diversify into more markets. That never happened.

What was fascinating to me was that in each trade, both Travelers and Aetna and then subsequently, every time we became bigger we ended up doing more business with agents over time. And I can attribute it -- I can't prove it to any of you but I can attribute it to as we became a more important supplier. When this all started we were the 11th largest property casualty company in the US. We were like nowhere. As we became more important they all wanted to be more important to us and they knew how to do that. The way you become more important to a carrier is that you align more closely, you do more business. And not all agents are the same, not all brokers are the same, not all carriers are the same.

So that was a really -- a pleasant surprise, an amazing surprise actually that it worked the way it did as quickly as it did. We had a year or so where it was quite rocky, because we had the underwriting profiles of the two companies were not the same and they had to be aligned. That was a big challenge. But once we got that done and that was not -- that was people and underwriting and politics and everything you can imagine. But once we got that done, the agents said, "Okay, I'm in. I get it. Let's go." And it worked terrifically.

The disappointments have been more what you learn about yourself and what you learn about your organization. And specifically, these are really hard to do because time is of the essence and I just always had a natural instinct to give people the benefit of the doubt, give them a chance, they'll see the wisdom in this, they'll get along and go along. And for lots of people that happened. There were some where they never did. They couldn't.

For whatever reason, individuals saw the world differently and somehow I thought by the force of my own personality that I could bring them along. And I early on saw that it wasn't going to happen and that requires you to take certain actions as a leader. My disappointment in myself in that regard was that I probably let that go six months longer than I should have. It just created more turmoil in the organization than it needed to and

lesson learned. It didn't -- it certainly wasn't in any way really problematic but it made it, it just made it more difficult for everybody.

Make the decisions. Make them and get on and you'll make a bunch of right ones and you'll make some wrong ones and you'll fix it down the road. But speed, that's always what's in shareholders' interests. I'm convinced of that now.

Jay C: So you had done the Aetna deal in the mid '90s, then St. Paul. And the feeling was after '04 that they'll digest this and there's going to be another big deal coming. And you've done deals but nothing company-defining, nothing on the international side of size. You're big. My question is why not? You've had a lot of capital(?). You bought back a ton of stock, which has been a good investment. But why haven't you done something even bigger than that?

Jay F: And not to say we haven't tried. So, let's start with that. After we did the trade in '04, we were now of a sufficient size where being bigger by itself really was less of a priority than it had been previously. When you're starting out as the 11th largest carrier, that's a different story. Now, we're in a different place.

And a group of us spent a couple of days in '04, '05 and actually asked each other and ourselves the question why should someone buy our stock? And of course the answer is because they think they'll eventually sell it at a higher price. And so, okay, how are we going to do that?

And we got very granular about this. We challenged each other because it's easy as management to say, "Oh, we'll grow." No one knows how. Or, "We'll do something magic." And said, no, we think this, the cash flow dynamics of who we are now -- and it was different then -- was impressive and that we were going to generate a lot of capital, more than we needed to support our business organically internally. To the extent acquisition opportunities would come along we'd look at them but if they didn't -- this was something Sandy taught me -- we weren't going to sit on capital and wait for something to happen. If we had a trade that really made sense, still feel that way now, we'll get it financed. We'll get it financed. If we can't get it financed, then maybe the trade shouldn't be done. So, we think that way.

So now we're all about returns and have been for the last seven or eight years. So for a transaction to be interesting to us it either has to enhance our returns and our ability to generate more cash in effect or make our returns less volatile. That would be okay too.

So US transactions with a billion dollars of premium, and there's four or five companies, would matter. It's way too much risk. In the insurance business you get whatever's on those books whether you know it or not and it doesn't change anything. It doesn't change the cash dynamics, doesn't change the returns, doesn't make them less volatile.

Dominion was different because we were way undersized in Canada and really wanted to do something. If we hadn't bought Dominion the chances are we would have eventually decided to exit what we had up there. It wasn't big enough to be sustainable. We were the 25th largest property casualty company in Canada. Couldn't hire anybody. Who'd want to come to work for us? So it was becoming more challenging, so that was both opportunistic and fit the return profile.

Now that we're past all these things, whatever confidentiality agreements we have are obviously long gone. We took a hard look at Safeco when it came up. That, again, the Northwest was our least robust geography. Northeast is our strongest, Northwest was our weakest. Safeco would have obviously addressed that. My recollection is that went for \$68.25 a share. We were running out of breath in the mid \$50s. I couldn't -- I mean I just -- it has to make sense being bigger. There's no such thing as damn the torpedoes, full speed ahead. It doesn't work.

Jay C: If you were a mutual company it would've been a little easier.

Jay F: Well, yeah, I guess. So, and \$68.26 would've taken it. There was no confusion about the nature of that auction. And obviously in the financial crisis there were a couple of things that were floating around before TARP came to be and we were obviously interested and involved and the government solved that problem before we could.

So we tried. But I would say that our list of things that would really be interesting, appealing, that would matter, that would make a difference to a shareholder is pretty small. It's pretty small.

Jay C: They're smaller. They're still pretty big but relatively smaller deals you've been doing. Are there more of those to be done? Are there regions that you can invest in through M&A?

Jay F: Well, it's becoming -- so the easy one that won't matter is I'd say so we -- I really would love to position us in India, now particularly that the regulations have changed to 49%. It'd be a modest investment. The market is tiny. Maybe 20 years from now it won't be tiny and there's going

to be a point at which the regulators there will say we don't need any more new entrants here and I'd like to be one of those. And so, we're looking for the right partner and we've been public about that and have gone through long, long lists of partners and discussions and all the rest. That won't move the needle one bit, certainly in my tenure and maybe not even the next one. But I think it's -- you've got a billion 300 million people it's worth the investment.

I'm just wary a lot of continental Europe. We love to compete against really good companies that demand really good results from their operations because the rising tide is just going to lift all boats. I don't see it on the continent. I don't. The level of performance broadly speaking that you've got to compete against accepts a different kind of value creation than I think our investors could relate to. And so it might be appealing ego-wise to have a bigger platform but I have no interest in that. We're zero ego here, none. I have more than enough to do with it.

So I put continental Europe to the side. We're interested in South America obviously. We just did the startup thing in Columbia through our joint venture in Brazil. But you look at even South America, there's probably three countries and we're in two of them now, where you'd say gee that's a thoughtful investment and the environment is stable and the rule of law is sufficient. And ten years ago you wouldn't have thought Columbia would be one of those either. So things can change. But we look for those.

So, yeah, I'm not -- we'll look at anything and we'll look at everything. But what we have here right now is powerful and you don't muck with it too lightly. You've got to have a real purpose for these things and sometimes the purpose is obvious and sometimes it's less so, these things being an acquisition.

Jay C: Right, exactly. Let's talk about some of the businesses. Auto insurance: Reasonably big business for you. What's your -- give me your big picture view of what this is going to evolve into, this business.

Jay F: So first I would -- and I'm happy to share it. Don't take my comments as expertise. They're not. It's an observation from where I sit. But that doesn't -- I'm no fortune teller here. What I do think is obvious is that the auto insurance business is changing and changing pretty rapidly. Now, we like to think of ourselves as being in the personal lines business. Half of our business is auto and half is home and the home results have been stunning. They really are. In one year in the last ten we had a combined in the homeowners business in excess of 100 and that was the year of Tuscaloosa and Joplin and it was 2011, and Irene. Is that what that was

that year? I think it was Irene or Emily. I always forget which. But that was the only year that we were over 100. Every other year we've been -- Rita, Katrina, Wilma -- didn't matter. We're pretty good at it. I like it and I'm pleased that we like it.

So here's my take on it. I think it's possible if the world of weather continues to be as volatile as it is that it's possible that ten years from now the lead in personal lines could be home and the follow on could be auto as opposed to the way it's been forever, which is auto is the lead and home is the follow on. Now if we -- the factors that tend to move in that direction are the changing weather. The lack of success that many companies have had capacity is not what people I think believe it is it appears. It's a struggle in some places. And so capacity is not robust. The cost of goods sold in the form of weather looks like it's changing. Those are interesting factors for people who compete successfully.

On the auto side, it's possible -- I don't mean to sound like a dinosaur here. Clearly I see the trends. What is happening so far is that frequency, safer cars, more robust systems, it matters. So far what's been happening is that frequency -- because where this will affect it is when frequency really begins to go down. It has not yet. Now it did in the past ten years for more systemic reasons I think than safer cars.

But what's happening is the severity goes up. You have a modest front end collision and now you're replacing a camera and six radar systems and a computer chip and things that we never -- it used to be you replace a bumper. It's just not that way anymore. So you've got two competing dynamics there. You've got frequency not yet going over the edge and severity rising. You're going to need a greater adaptation or more embracing of the technology in more of the fleet. So it's going to take a longer time for frequency to begin to trend down. And when frequency does trend down -- I personally think it eventually will. I think it'll be longer than most people think. When that does come down I think it trumps severity.

So 10 years out, 15 years out automobile loss costs could be less than they are today. If loss costs go down, premium's going to go down. It's just a function of business. And so, size is going to matter more, scale is going to matter more, efficiency, and the ability. And I think what you've seen in the industry in the last couple of months with some interesting trades I think generally is coming to the conclusion that being able to offer a homeowner's product has some real value to it. And so I, yeah, I'm pleased.

I really am very pleased that we're not a mono line auto company. I'd be really struggling strategically with that now. And I sort of like the fact that we're not. But I can envision the time where property is a more substantial, more important line of business and auto less and that'll be interesting to watch.

Jay C: Certainly it could be commoditized more quickly.

Jay F: Could be. It could be. The funny thing is the closer you get to the right price for you the less it's insurance. Fundamentally insurance is a subsidy one customer to another or one time period to another. If we actually get the right price for you then you've got self-insurance and you're going to keep moving around your carrier trying to arbitrage one against another. So it's an interesting, really fascinating time to think all the way through.

I don't -- I have a view about telematics but I don't know enough about it yet for it to be particularly substantive. One, usage, and I don't mean by that behavior -- I don't drive, I only go to the supermarket once a week. I believe that in that regard the ability to record use, that telematics is useful, interesting. I don't know yet whether you really get different underwriting outcomes. And that's really important because that's really all that matters is do you really get better underwriting outcomes. I don't know. I guess other companies know that probably better than we do.

And part of it is that the Travelers, there's a tendency to talk about the auto business as if all the customers are the same. Couldn't be further from the truth. There's a set of behaviors and dynamics. And I will use the IFS, the insurance credit score as a proxy for what I'm about to say. There's a set of behaviors around a 700 that are enormously different from the set of behaviors around a 600, not a little different and not even their records, which are clearly different.

But the behaviors are different too. And so far, at least Travelers' historical customer base leans more to the 700 by a lot than it does to the 600. That customer has not yet been so ready to embrace telematics. And you can get into all sorts of speculation as to why that is, your privacy concerns and, gee, so I'll save \$100, who cares and the agent doesn't really want to attempt to sell it because then he worries that the customer will perceive that privacy is an issue. I mean you get into all sorts of human behavior here. So the take up rate for telematics in that I'll call it the more right side of the spectrum has not been substantial. It just hasn't been. That may change. It's possible over the next 20 years they'll say, well, sure, I get it.

And then of course you've got the basic structure itself. You've got cars. Pretty soon you're not going to need that box. You're not going to need the box. Then I wonder who owns the data. Is it the auto company's data? Is it your data as the driver? There's a lot of moving parts here. And so we're, I don't know -- Greg isn't with us, Greg Toczydlowski. We're active in maybe eight states or something with telematics or ten states, not big time. But even where we're active in it the take up rate is just not significant.

Now, that can change too. The world's flat, right? You know, it's...

Jay C: Part of it is your customer base may not be the kind of people that would normally want to be tracked like that.

Jay F: At least so far in the personal lines space. And by the way, this has nothing to do with us. This dates way back. The old, real old days, basically you divvied up customers into three buckets, maybe four: Non-standard, standard, preferred and highly preferred. And the really smart companies got into this segmentation. Travelers was a preferred and highly preferred market, always was. And so the expertise that it has developed, its claims service, the way it responds, the way it bills -- there's a billing difference between non-standard and highly preferred. You've got to make sure you have equity in the policy as you get closer to non-standard; otherwise, you end up with cancellations without premium. It happens a lot. So the billing systems are different. It's a different platform.

Travelers is historically really good at that end and those are typically customers who come through agents, independent agents, sometimes from captive agents over. But they're typically not doing it themselves. That may change. It certainly has changed slower than most observers of the industry would've contemplated 10 years ago.

The perspective was in 10 years from now there won't be an independent personal lines agent left. Everybody will be buying direct. Well, not so much. So it's happening slower. That's good for our agency business. And we continue to invest in the direct channel. But as I -- it just doesn't have the take up rate yet.

Jay C: I'm a Travelers insured, by the way, for my auto.

Jay F: I could be your claim handler if you need me.

Jay C: Hopefully there's no claims. Any questions from the audience? I've been monopolizing this conversation but I'm sure there are some questions out there. If you have one, just raise your hand. We'll get you a mic.

I don't see any hands jumping up unless I'm being blinded. Let's move to just commercial lines for a bit. You've obviously done a good job of improving the margins and you've said that as we look into '15 you may not see the margin improvement the way you've seen it. And my question is why not? Only because, yes, pricing has leveled off. It may not be exceeding claims inflation. But there's other stuff you as a company can do and have been doing.

Jay F: Yeah. And it's a good question, really good actually. All of this conversation about margins started, I'm going back to 2010 when we started to try and raise prices. And the conventional wisdom at that time was won't work, can't happen. Try, nothing happens. So we tried and a whole variety of factors but we were successful at it. And then we went into the period of, if you remember, can they get rate on rate? That was the deal, whatever that was, 2011. And then can they get rate on rate on rate. It's like it became silly. The whole conversation became silly.

But there was a point at which it was easy to say that margins are going to expand. If you're getting written rate of seven points and your loss, your best estimate of loss trend is four it's easy to say that those two factors will result in a widened earned trend. Now that could be completely offset by weather or large losses or anything else. But the conversation that many analysts were driving us to was tell us about written rate and tell us about loss trend. And because we get that. So, okay, here it is. You're asking the question, we'll answer it.

In the last couple of quarters when the rate was at or around loss trend or even slightly below, we said look, this is too close to call, I don't know. We're always trying to drive efficiency and economies, always. A good part of exposure that we measure is actually has the effective rate but there's no way to really measure it. And so we said we don't know, I just don't know.

So I'm certainly not at the point, to your point, of saying to you that margins can't expand next year. I'm going to go back to the question that I get asked, which is everything else being the same is a written rate in excess of loss trend. No, it's not anymore. Written rate is not in excess of loss trend.

By the way, I would tell you that we're not really trying to. We're not. We don't run the business for next year's margin. We run it for long-term customer value. We want our best customers to be with us 5 and 10 and 15 years from now. We want them to feel good about the quality of service and the coverage that they've received and we want to feel good about the return that we've earned from them as a group because obviously it's insurance. Come CATs actually have losses.

So, we're mindful of that and we're all about the customer and the agent and the specific relationship. So we tell our field people don't get hung up. Don't get hung up on loss trend being four, therefore I've got to get four.

There was a company, I don't know, maybe 10 years ago where -- it's more than 10 actually where they -- a piece went out to the field, we need five points on renewal for every account or don't bring it in. So you get five points on anything that needs 10 and you lose all the accounts that need zero. But the numbers at the end of the quarter are five percent so it looks great and everybody says we're really making good progress. Unfortunately, you've actually just diminished profitability.

So we give our field people I suspect more data at the point of sale than anybody and we say use your judgment, be thoughtful, manage for the long-term. So if an account has had terrific experience and the relationship with the agent is good and they've gotten increases two or three years in a row and our local field person thinks it's best to renew it flat, it's fine. No problem. Good. Use your judgment. Locally you know what's going on much better than we do.

So we don't perseverate nearly as much as many analysts do about the headline rate number. We're about returns over time and we're trying to figure out how do we drive claim efficiency, how do we improve our systems. And we let the local field people with all their tools manage the individual rate conversations.

Let me just give you a sense of the quality of data. I don't know what the number will be, but I know what our models say that our new business for the month of December, the return on allocated capital for that new business. Now ultimately it's a model. The losses will be what they'll be. But when I first started in the business no one even talked about it that way. I can now, if someone says what was the return on capital on the new business we wrote in December, I know the answer. Now I don't know what it'll end up being but I know what the analysis tells us. Pretty powerful stuff.

Jay C: Yeah. Unfortunately that clock keeps going in the wrong direction now. We just passed the time. This has been a great discussion.

Jay F: I enjoyed it. I don't know if it's been interesting to anybody else but I enjoyed it pretty good.

Jay C: Me too.

Jay F: Yeah.

Jay C: Join me in thanking Jay, please.

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- The performance of our investment portfolio;
- Asbestos and environmental claims and related litigation;
- Mass tort claims;
- Emerging claim and coverage issues;
- Competition, including the impact of competition on our strategic initiatives and new products;
- The collectability and availability of reinsurance coverage;
- Credit risk we face in insurance operations and investment activities, including under reinsurance or structured settlements;
- The federal, state and international regulatory environment;
- A downgrade in our claims-paying or financial strength ratings;
- The inability of our insurance subsidiaries to pay dividends to our holding company in sufficient amounts;
- Disruptions to our relationships with our independent agents and brokers;
- Risks associated with developing new products, including in Personal Insurance, or expanding in targeted markets;
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- Limits to the effectiveness of our information technology systems;
- Difficulties with our technology, data security and/or outsourcing relationships;
- Risks associated with our business outside of the United States, including regulatory risks;
- Risks associated with acquisitions, and integration of acquired businesses;
- Changes to existing accounting standards;
- Limits to the effectiveness of our compliance controls;
- Our ability to hire and retain qualified employees;
- Company may be unable to protect and enforce its own intellectual property or may be subject to claims infringing on intellectual property of others;
- Losses of or restrictions placed on the use of credit scoring or other underwriting criteria in the pricing and underwriting of insurance products;
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