# The Travelers Companies, Inc.

## Second Quarter 2018 Results Conference Call
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**CORPORATE PARTICIPANTS**

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## PRESENTATION

**Operator**
Welcome to the Second Quarter Results Teleconference for Travelers. We ask that you hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question and answer session. As a reminder, this conference is being recorded today, July 19, 2018.

At this time, I would like to turn the conference over to Ms. Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, you may begin.

**Abbe Goldstein**
Thank you. Good morning and welcome to Travelers' discussion of our second quarter 2018 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 travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO, Jay Benet, Chief Financial Officer, and our three segment Presidents, Greg Toczydlowski of Business Insurance, Tom Kunkel of Bond and Specialty Insurance and Michael Klein of Personal Insurance. 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 take questions.

Before I turn the call over to Alan, I'd 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 expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under Forward-Looking Statements 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 our 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 available in the Investors section on our website.

Now, I'd like to turn the call over to Alan.

**Alan Schnitzer**
Thank you, Abbe. Good morning, everyone, and thank you for joining us today. This morning, we reported second quarter net income of $524 million and return on equity of 9.2%. Core income was $494 million, generating a core ROE of 8.7%. These results were significantly impacted by an active tornado/hail season. Catastrophe losses of $488 million this quarter arose out of nine storms. To give you some context, that's around $50 million more than we would have expected. To put a finer point on it, losses from PCS-defined catastrophes that don't hit our threshold to qualify as CAT losses, as we report them, were about $25 million favorable to our expectations. So, all in, losses from PCS events were only about $25 million pre-tax more than we would have expected. That's well within the normal variability that we anticipate and price for.

Having said that, this makes a recent series of quarters of catastrophe losses that have

exceeded our historical experience and our expectations. Tornado, hail, nor'easters, hurricanes, wildfires and mudslides, we haven't seen a string like that in the last decade. It also includes some unusual circumstances. For example, the California wildfires were historic and last year was the first time more than one Category 4 hurricane has made landfall on the U.S. mainland in one season.

In terms of creating shareholder value over time, we don't want to overreact, any more than we want to underact, and when it comes to something as inherently unpredictable as weather, we take a balanced approach to developing conclusions from what takes place over a relatively short period of time. As always, the impact of weather on our business has our full attention and we'll continue to use our leading actuarial expertise and the latest in weather modeling to inform our underwriting and pricing decisions.

In addition to the weather, the underlying results in Business Insurance include a small number of large commercial losses, primarily fire-related, that exceeded our expectations by nearly a point on consolidated combined ratio. We believe this is normal variability in large loss activity, and Greg will share more detail on that with you shortly. Whether it's weather or other large losses, there's no doubt that actual results are going to vary from our expectations, sometimes significantly. What's important in this business is that we have the data, analytics and expertise to see and evaluate the trends, so we can manage for success over time. We're confident that we do.

On an underlying basis, the underlying underwriting results benefited from record earned premium. The underlying combined ratio of 93.6% was strong and consistent with the prior year. Underneath that, our businesses continued to perform well. In Business Insurance, the underlying combined ratio of 96.5% was solid, particularly in light of the large loss activity I just mentioned. Bond and Specialty Insurance produced another impressive quarter, with an underlying combined ratio of 80.5%, a point-and-a-half improvement from a strong result in the prior year. In Personal Insurance, the underlying combined ratio improved about two points, as a result of the successful execution of the pricing and underwriting actions we've taken in our auto business.

Our consolidated expense ratio improved by 40 basis points in the quarter and 30 basis points on a year-to-date basis, as we continue to benefit from expense discipline and strategic investments in technology and workflow to improve productivity. In terms of our investment results for the quarter, we were pleased that income from our fixed income portfolio was up, driven by higher short-term rates and a higher level of invested assets.

Turning to production, we were very pleased with our continued successful execution in the marketplace. Net written premiums increased by 7% to a record $7.1 billion, with each of our business segments contributing. As we saw this quarter, and in recent quarters, we would expect underwriting results going forward to benefit from higher levels of earned premium. Once again, premium growth reflects, to a large degree, high levels of retention and positive renewal premium change. As I pointed out in the past, that speaks to the quality of the business we're writing. In addition to that, we explained at our Investor Day last fall that the strategic investments we're making are designed, in large part, to create top line opportunities for us. The early success of some of those initiatives contributed to a healthy level of new business in the quarter.

In Business Insurance, renewal premium change reached 5.3 points, its highest level since 2014, while retention remained at historically high levels. Excluding workers' comp, premium

rate change for domestic business insurance was 3.6 points, compared to a little less than a point in the same quarter last year.

In Bond and Specialty Insurance, record retention, higher renewal premium change and higher new business led to a 6% increase in management liability net written premiums. Surety premium was up double-digits.

In Personal Insurance, as you know, we grew our PI auto business considerably from late 2015 to the first part of 2017, including during a period of time in which the rate we were charging was not sufficient to cover an unexpected increase in bodily injury severity. We made the point at the time that the volume of business we wrote during that period would nonetheless be a positive contributor to economic value if we were able to keep that business and achieve rate adequacy. We have, in fact, been able to do that.

Greg, Tom and Michael will provide more detail on production at the segment level.

To sum it up, weather and large losses, unfortunately, color the quarter. As I said, it has our full attention. But, looking at the quarter and looking forward, that doesn't define the strength of our business. We see that clearly in our underlying underwriting results and in our success in the marketplace. That is, in part, a reflection of the competitive advantages that we've developed over decades, and continue to serve us well, and new capabilities we're developing to enable us to continue to lead in a rapidly changing world. We have and will continue to invest in our franchise by extending our lead in risk expertise, improving the experience for our customers, agents and brokers, and enhancing productivity and efficiency. Combining that with our strong balance sheet, superior talent and capital management strategy, we remain well positioned to continue to deliver industry-leading results over time.

With that, I'll turn it over to Jay.

**Jay Benet**
Thanks, Alan. Core income was $494 million, down from $543 million in the prior year quarter, and core ROE was 8.7%, down from 9.5%. As Alan indicated, these changes were not driven by fundamentals and our operating performance; rather, they resulted from a pre-tax increase of $85 million in catastrophe losses, $488 million, compared to $403 million in the prior year quarter, an incremental pre-tax charge of $45 million related to a few large commercial losses that were primarily fire-related. PYD was also modestly lower, $186 million pre-tax, compared to $203 million.

The higher CAT and lower PYD accounted for 1.3 of the 1.4 point increase in our consolidated combined ratio, 98.1% versus 96.7% in the prior year quarter. Our consolidated underlying combined ratio of 93.6%, which excludes the impacts of CATs and PYD, remain steady, changing by only one-tenth of a point, as a 1.7 point increase in BI's underlying combined ratio, that primarily resulted from the fire-related losses, was almost entirely offset by improvements in both PI and Bond and Specialty, 1.9 and 1.5 points, respectively, demonstrating the value of our diversified set of businesses.

Our pre-tax underlying underwriting gain of $392 million increased by $19 million, driven by increases in both PI and Bond and Specialty. Greg, Tom and Michael will provide more details of our segment results shortly.

Pre-tax net investment income remains strong, $595 million in the current quarter, versus $598

million in the prior year quarter, while after-tax NII increased from $468 million to $507 million, due to the lower U.S. corporate income tax rate for all the tax exempt investment income. As of the first quarter, pre-tax fixed income NII of $510 million increased by $26 million, compared to the prior year quarter, driven by the more favorable interest rate environment, particularly for short-term rates, as well as an increase in average invested assets that resulted from recent growth in net written premiums. After-tax fixed income NII increased by $48 million and, looking forward, we expect after-tax fixed income NII for the remainder of 2018 will increase by approximately $55 million to $60 million in each of the third and further quarters, compared to their corresponding quarters in 2017. Non-fixed income continued to perform well, although not as well as in the prior year, delivering $94 million of pre-tax NII, and overall core income benefited this quarter by $54 million, due to the lower U.S. corporate income tax rate.

Turning to reserve development, and on a pre-tax basis, BI's current quarter net favorable development of $84 million was primarily driven by better than expected loss experience and domestic workers' comp, partially offset by higher than expected experience in general liability for accident years 2008 and prior, including a $55 million increase in environmental reserves. Importantly, the current GL loss trend remained consistent with recent periods. Bond and Specialty's net favorable development increased to $89 million, driven by domestic management liability, and PI had $13 million of net favorable reserve development, driven by personal auto. Year to date, on a combined statutory Schedule P basis for all of our U.S. subs, all accident years across all of our product lines in the aggregate and all of our product lines across all accident years in the aggregate developed favorably or had relatively small unfavorable development.

Operating cash flows of over $1.1 billion were very, very strong. We ended the quarter with holding company liquidity of $1.4 billion, and all of our capital ratios were at or better than target levels.

The recent run-up in interest rates that's benefited fixed income NII has, for the first time in many years, resulted in a small net unrealized investment loss that impacted shareholders' equity. After-tax net unrealized investment gains, which were $1.1 billion at the beginning of the year and $133 million at the end of the first quarter, moved to a net unrealized loss position of $112 million after tax at the end of the quarter. This was the driver behind a 3% decrease in book value per share, from $87.46 at the beginning of the year to $84.51 at the end of the current quarter.

I remind that changes in unrealized investment gains and losses do not impact the manner in which we manage our investment portfolio or our business. We generally hold fixed income investments to maturity, their quality remains very high, and changes in unrealized gains and losses have little or no impact on regulatory capital.

Adjusted book value per share, which excludes unrealized investment gains and losses, is now $84.93, or 2% higher than the beginning of the year and 3% higher than the end of the second quarter of last year.

We continue to generate excess capital and, consistent with our ongoing capital management strategy, we returned almost $560 million of capital to our shareholders this quarter, comprising dividends of $209 million and share repurchases of $350 million. Year to date, we returned over $1.15 billion of excess capital to our shareholders through dividends and share repurchases.

Before turning the microphone over to Greg, I'll point you to Page 19 of the webcast and provide

a brief update on our catastrophe reinsurance program, a significant component of our overall reinsurance protection program.

While the structure of our CAT reinsurance is generally consistent with the prior year, we did take advantage of the current pricing environment to increase our CAT bond limit by $200 million, while reducing our Northeast Property CAT Excess-of-Loss Treaty limit by the same amount. A new $500 million reinsurance agreement with Long Point Re III has replaced the $300 million agreement that expired in May. The new agreement provides Northeast hurricane, earthquake, severe thunderstorm, and/or winter storm coverage for certain property losses on specified lines of business through May 24 of 2022. The attachment point and maximum limit will be reset annually. So, through May 24 of 2019, the full $500 million limit is available after covered losses from a single occurrence reach $1.9 billion and until such covered losses reach a maximum of $2.4 billion. Effective July 1, we renewed our Northeast Property CAT Excess-of-Loss Treaty, which now provides coverage of $600 million, or of $850 million in excess of $2.25 billion.

A more complete description of our CAT reinsurance coverage, which also includes a description of our GEN CAT Aggregate Excess-of-Loss Treaty that covers an accumulation of our certain property losses arising from multiple occurrences, is included in our second quarter 10-Q, which we filed earlier today, and in our 10-K.

So, with that, let me now turn the microphone over to Greg.

**Greg Toczydlowski**
Thanks, Jay. Business Insurance produced segment income of $385 million and a combined ratio of 98.8% for the quarter. The underlying combined ratio of 96.5% was 1.7 points higher than the prior year quarter, driven, in particularly, by non-CAT property losses, mostly a small number of large fire claims that Alan and Jay mentioned. We reviewed every one of these claims looking for underlying trends and, not seeing any correlation, we view this activity as normal period-to-period variability. The underlying loss ratio was also impacted by the net impact of small amounts and movements with a number of usual things, including non-CAT weather, base year adjustments, earned pricing compared to loss trends, as well as business mix.

A couple of other points I'll make on the underlying results. First, we've been discussing the impacts of earned pricing versus loss trend for some time now. We're now at a point where the higher levels of earned pricing about covered loss trend for the quarter. Secondly, we remain focused on managing expenses thoughtfully, while making ongoing strategic investments and prudently growing the business. Our expense ratio improved by about a half a point for the quarter, when adjusted for the industry-wide assessment from a Texas Windstorm Pool related to Hurricane Harvey.

Turning to the top line, net written premiums were strong for the quarter at $3.8 billion, up 7% over the prior year quarter, with domestic net written premiums up 6%, driven by strong production results across virtually all of our businesses. Notably, Middle Market was up 9%, due to the production results that I'll touch on in a moment. International net written premiums were up 6%, excluding the impact of changes in foreign currency rates.

Turning to domestic production, we achieved renewal rate change of 2.1 points and renewal premium change was 5.3 points, while retention remained strong at 85%. New business of $532 million was up 8% from a year ago. We're pleased with these production results, particularly

considering the pricing pressure in workers' comp associated with strong industry profitability.

Outside of comp, we continue to achieve renewal rate gains broadly across the remaining portfolio. Auto continues to be the line with the highest level of rate, while property increases continued to accelerate in the quarter. We continue to execute our pricing strategy on an account-by-account and class-by-class basis, with thoughtful balance towards retaining our best business, improving pricing where it's needed, and pursuing attractive new business opportunities. Our results for the quarter reflect our continued deliberate and successful execution in the marketplace.

Turning to the individual businesses, in Select, renewal premium change was 4.8%, while retention remained strong at 82%. New business was up 15% over the prior year quarter, as we continued to leverage our investments in technology and workflow initiatives. We're pleased with the returns in this business and our strategic direction.

In Middle Market, renewal premium change was 5.2 points, with renewal rate change of 1.9, up from 1.6 in the first quarter and up by more than a point from a year ago, while retention remained historically high at 88%. New business premiums of $350 million were strong, up 6% from the prior year quarter. As Alan mentioned, we couldn't be more pleased with the impact our strategic initiatives are having on the business. So, all in, for this segment, we continue to build momentum in the marketplace from our strategic initiatives and feel great about how we're positioned for the future.

With that, I'll turn it over to Tom to talk about Bond and Specialty Insurance.

**Tom Kunkel**

Thanks, Greg. Bond and Specialty's operating results were very strong, with segment income of $204 million, up $41 million from the prior year quarter, due to a higher level of favorable prior year development and higher earned premiums. The underlying combined ratio was also very strong at 80.5%, one-and-a-half points lower than the prior year quarter, primarily reflecting improvements in the expense ratio, also due to the higher level of earned premiums.

As to the top line, net written premiums for the quarter were up 9%, driven by broad growth across our businesses. These results reflect the impacts of strategic product, marketing and distribution initiatives to grow these profitable lines, and, in the case of surety, also reflect higher average bonded contract sizes and modestly increasing spending in particular public sectors. Our growth in international was primarily driven by our U.K. management liability business.

Turning to production and our domestic management liability business, given the level of returns we are achieving, we continue to execute our strategy to retain a substantial percentage of our high-quality portfolio, while pursuing attractive new business, so we are pleased that retention again came in at a record of 89% for the quarter and that new business was strong, up 10% from the second quarter of last year. Renewal premium change of 3.4 points increased from the prior year quarter.

So, Bond and Specialty results were excellent and we continue to feel great about our execution in the marketplace, our growth in returns, and the opportunities that our strong market position and competitive advantages present for the future.

Now, I'll turn it over to Michael to discuss Personal Insurance.

**Michael Klein**
Thanks, Tom, and good morning, everyone. The second quarter results in Personal Insurance reflect the elevated level of catastrophe losses already mentioned by Alan and Jay. While we're disappointed with the resulting net loss for the quarter, we're very pleased with the underlying performance of both our agency auto and agency homeowners business. The second quarter results continue to confirm that we are delivering what we intended, a stable volume of auto business with improved profitability and a steadily growing volume of homeowners business with attractive, long-term returns.

Personal Insurance reported a quarterly loss for the segment of $17 million, compared to income of $12 million in the prior year quarter. The overall combined ratio was up slightly to 104.9 from last year's 104.1, but the underlying combined ratio improved nearly two points, as catastrophe losses accounted for more of the total combined ratio. The quarter also included a modest amount of favorable prior year reserve development, which Jay described earlier.

In agency auto, the combined ratio for the quarter was 95.4%, down 11 points from the prior year quarter, due, in part, to nearly three points of favorable prior year development and about one point of CAT losses—one point less of CAT losses. The underlying combined ratio was also much improved, down nearly seven points to 95.5%, as a result of earned rates exceeding loss trend and a more benign loss environment. Stepping back to look at agency auto overall, we're very pleased to see premium growth for the year to date of 9%, with the combined ratio on both the total and an underlying basis below 96. Normal seasonality will most likely result in combined ratios higher than this for the full year, but we're pleased with the trajectory of this business and remain on track to deliver target returns over time.

In agency homeowners, the second quarter combined ratio of 113.6% includes 26.2 points of catastrophe losses related to the wind and hail activity Alan mentioned, and the underlying combined ratio of 85.2 included about a point of impact from the Texas Wind Pool assessment that Greg described. Catastrophe losses for the quarter were above both last year's elevated levels and above our expectations, with the late May event in the Northeast and the late June Colorado storm being the most significant for us.

Given the magnitude of these losses in what is now a series of quarters in which catastrophe losses have exceeded expectations, a few comments are warranted here regarding our analysis of these results. In the quarter, the primary driver of the elevated CAT losses is the nature of the events, their frequency, severity and location, including the localized impact that is characteristic of tornadoes and hail storms. As Alan mentioned, as we look at this quarter and our experience over recent quarters, we're factoring it into our pricing and underwriting decisions. As you will note in our outlook, we expect renewal premium change for homeowners to be slightly higher over the next four quarters than the comparable period in 2017 and '18.

Turning to the top line, agency auto premiums once again grew by 9%, driven primarily by price increases, as the volume of policies in force stayed broadly flat. We're pleased to see retention holding steady, as we continue to achieve renewal premium change in excess of loss trend, although, by design, the pace of price increases is trending down from the peaks we reached in the third and fourth quarters of 2017.

In agency homeowners and other, premium growth for the quarter accelerated slightly to 6%, with continued increases in both the numbers of policies in force and renewal premium change. Retention held steady at a very strong 86%. The roll-out of Quantum Home 2.0 continued, with another four states during the second quarter. Another six states will launch next month. As

we've stated in the past, the introduction of this new product will contribute to sustain the momentum, and we continue to be encouraged that its flexibility, sophistication and ease of use are being well received by our agents and customers.

With that, I'll turn the call back over to Abbe.

**Abbe Goldstein**
Thanks, Michael, and we're ready to take your questions.

**Operator**
At this time, I'd like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad. As a reminder, please limit to one question and one follow-up.

Your first question comes from the line of Jay Gelb from Barclays. Please go ahead.

**Jay Gelb**
Thank you. My first question is on the investment portfolio. Given the effect of the lower tax rate for corporations, I was hoping you can just update on your views in terms of whether Travelers might consider reducing its major allocation to municipal fixed income investments in the fixed income portfolio.

**Alan Schnitzer**
Yes, good morning, Jay. It's Alan. I'm going to ask Dave Rowland to answer that question.

**David Rowland**
Sure, thanks, Alan. We have not really seen a reason to change our strategy overall. We continue to find relative value at points on the curve where municipals are more attractive to us on a risk-adjusted, after-tax return basis, and so we continue to buy municipals and plan to do so in the future.

**Jay Gelb**
Okay, thank you, and then my next question is on the recent news with Johnson & Johnson and their emerging asbestos exposure around talc. Just last week, they had a $4.7 billion legal judgment against them that is tied to asbestos. So, I was wondering if you can give your broad thoughts on that issue, as it relates talc and J&J, and whether Travelers might have exposure there. Thanks.

**Alan Schnitzer**
Sure, Jay, and thanks for the question. As you can imagine, we're always following all of the emerging issues, and talc has been on our list of issues to follow for a long time. We don't comment on any individual insurers, that wouldn't be appropriate, but we will say, as it relates to that issue, and virtually any other issue—maybe not even virtually, just every other issue—all the news that's in the public domain and all the news that we're aware of in the public domain or not is reflected in our thought process, it goes into reserves. I think I'll leave that there.

**Jay Gelb**
I appreciate it, thanks.

**Alan Schnitzer**
Thank you.

**Operator**
Your next question comes from the line of Randy Binner from B. Riley FBR. Please go ahead.

**Randy Binner**
Hi. I had a question just on the top line, which was good in the quarter. I think there were some comments on it in your opening remarks and script, but I'd just like to understand better if this better net premium written growth is a reflection of better economic activity or if you feel that you're capturing share from competitors, and if it's the latter, just kind of elaborate on what the market dynamic is there.

**Alan Schnitzer**
Yes, Randy, it's a broad question, because I think you've got to almost look at it business by business across the place. You can definitely see in the exposure numbers, it's at a healthier clip than recent periods this quarter, and we do look at that. There's nothing really unusual going on underneath, so we do attribute that to economic activity, but there are other strategic things going on in the business that we think are driving premium growth.

We spent some time at Investor Day talking to you about the things that Greg and his team are doing in Business Insurance, all designed to create top line opportunities for us, with no change in appetite, no change in approach to risk, but just the value proposition that we offer to our agents, brokers and customers. It's still reasonably early days, but the traction has been good, and that's reflected in the new business numbers you see in Middle Market there, and I'd say the same thing for Tom's business, a lot of strategic things underway, I think he also talked about most of them at the Investor Day last fall, and we think that's making a difference.

Are these seismic changes in market share, I doubt it, but I think it is contributing to really healthy production and really healthy earned premium results.

**Randy Binner**
Yes, I mean, I guess the follow-up there is—and we'll see how this develops over the earnings season, but these are—you're a very large market and these are large gains, and I'm thinking more in Business Insurance, Slide 9, in particular, in the slide deck. It seems like it's a combination of things, and I appreciate that answer, but is there a market out there, is there another competitor who's backing away from key lines where you're focused on, or is it really just an even mix of all the things you talked about?

**Alan Schnitzer**
Randy, I think it's an even mix, and let me just reiterate something that I said in my prepared remarks, which is when we look at the change in written premium, and quarter-over-quarter, for example, there's a large part of that that's coming from retained dollars, so that's an equivalent retention rate on a higher base of expiring premium and rate. We view that as a very positive thing and a reflection of a lot of hustle by a terrific field organization and great data and analytics at the points of sale, but we think that really speaks to the quality of the business that we're putting on, and, again, the fact that we've got no change in appetite, no change in our approach to risk, just really solid execution, again, on an account-by-account basis, whether that's on a retained basis or a new basis. There is some exposure in that 5.3 points of price, and, again, we do think that's a function of economic activity, and there's some rate in there. So, I think, in terms of what we're doing in the marketplace, production, top line, Randy, we feel great about it and firing on all cylinders.

**Randy Binner**
All right, great. Thank you.

**Alan Schnitzer**
Thank you.

**Operator**
Your next question comes from the line of Elyse Greenspan from Wells Fargo. Please go ahead.

**Elyse Greenspan**
Hi, good morning. My first question, in the 10-Q, in your outlook, you guys point to the potential for the imposition of tariffs and other barriers to international trade could potentially lead to higher than expected levels of inflation. Alan, if you could expand upon that comment, what lines you potentially see being impacted, over what timeframe, and how that translates into your margin outlook for your businesses.

**Alan Schnitzer**
Yes, good morning, Elyse, and thanks for the question. Obviously, tariffs, and conversations about trade generally, is in the news and it's completely appropriate to point it out. Tariffs, presumably, would impact the inputs that go into loss cost, as there are a lot of things, by the way, that impact the way we think about loss cost. I think, generally, we would look at that as affecting short-term lines and things that we could react to. We don't look at it and—there's no sort of outsized expectations here, but we're watching it. There's a lot of rhetoric out there, and so we're just anticipating what could happen. I think the important takeaways are, you know, largely affect short-term lines and we can react to it, and you and anybody can have a view on what those tariffs are likely to do to economic activity, which we think has as much leverage for us, positively or negatively, as on the inflation side of things. So, that's the way I think about tariffs, Elyse.

**Elyse Greenspan**
Okay, thank you, and then my second question. The renewal rate change, if we back out comp, was about 3.6% in the quarter, up about 30 basis points sequentially, so obviously a little bit of a slowdown quarter-over-quarter than we saw last quarter. Can you just comment on how you expect the rating environment to continue from here, maybe by line, getting a lot of rate in commercial, auto and property, but how do you see that all coming together, and do you expect next quarter, will the number be higher than the 3.6%, and then, also, as we think about getting into 2019, just how do you see those numbers progressing from here?

**Alan Schnitzer**
Yes, Elyse, as always, we give you some texture on outlook in the 10-Q for renewal price change, and so we're probably not going to get more granular than that. There's not much more competitively sensitive than our pricing strategies. I'll make some observations, though.

We do see a steady trend over the course of the year, actually probably going back to the beginning of 2017, we feel pretty good about that. The breadth of where we're getting rate gains continues to widen, we think that's a good thing. Retention hasn't shown any stress at all. Where we are in mid to high 80s, we've got a long way to go before we'd feel like we were sacrificing retention, but we haven't, retention has held up. So, we feel pretty good about it. We are not—as I always remind you, we are not executing for a headline number. We're executing one account at a time to achieve a targeted return on that account and on our portfolio. So, all in

all, we feel pretty good about that. So, maybe I'll leave there and happy to respond to a follow-up, if you have it.

**Elyse Greenspan**
No, that's helpful, but just one point of clarification. In Business Insurance, did I hear the comment correctly, that you guys are insinuating that earned prices is covering trend, or it was just those lines getting the highest level of rate?

**Alan Schnitzer**
I think what Greg's comment was is that—and this is for all of BI—that earned pricing is about covering loss trend. We've had a bunch of quarters in a row where we've told you that loss trend outpacing pricing has been a contributor to the underlying combined ratio. This is the first quarter, probably, in a while we haven't mentioned that, because the impact really is quite small, and that's on an earned basis, not a written basis. Obviously, written basis would be more favorable.

**Elyse Greenspan**
Okay, that's great. Thank you very much.

**Alan Schnitzer**
Thank you.

**Operator**
Your next comes from the line of Kai Pan from Morgan Stanley. Please go ahead.

**Kai Pan**
Thank you, and good morning. My first question is on the BI underlying combined ratio deterioration, 170 basis year-over-year. If you take out sort of like the $45 million of large commercial fire losses, as well as $9 million of assessments from the Texas Wind Pool, that's about 1.5 points, so effectively you're flat year-over-year. I remember last year's second quarter you had a higher—basically elevated level of non-CAT weather losses. I just wonder can you quantify this quarter's non-CAT weather losses relatively to both last year's second quarter, as well as your historical average.

**Greg Toczydlowski**
Hi, Kai, this is Greg. Yes, we tried to give you all the pieces there so you could do the math on that. On the combined ratios, as we said, the large losses were running just over the 100 basis points, but TWIA, that got to the 30 basis points, and so the gap that's in the remainder is the normal margin of variability that we would expect from quarter to quarter. So, we tried to give you all the pieces on that so you could project that going forward.

**Alan Schnitzer**
Kai, Greg mentioned a bunch of the sort of smaller items that—those things move around every quarter, they're not predictable. We try to do our best to give you a sense in the outlook section as good as we can, but there's obviously a lot of estimation in that, and obviously, you know, whether it's base year or small weather, or whatever, those things are going to move a little bit, positives and negatives, and you tally them up and there's a net impact, but it's that kind of thing.

**Kai Pan**
Your outlook suggests that this quarter, second quarter, the non-CAT weather losses is larger or

higher than the normalized levels.

**Alan Schnitzer**
Say that again, Kai.

**Kai Pan**
Your outlook said the second half assuming more normalized non-CAT weather losses, which means the second quarter this year actually has higher non-CAT losses?

**Alan Schnitzer**
If I understand the question right, Kai, in Business Insurance, if that's what you're asking, non-CAT weather was—are you talking quarter-over-quarter or relative to our expectations?

**Kai Pan**
Relative to your expectations.

**Alan Schnitzer**
It was slightly favorable in Business Insurance this quarter.

**Kai Pan**
Okay.

**Jay Benet**
Kai, this is Jay. What we're referring to is not just the non-CAT losses. We were just talking about non variability—I'm sorry, a return to whatever view is of normal for these things that will vary from quarter-to-quarter, non-CAT losses being one of them, but we said all other loss activity, so we weren't trying to just spike up the non-CATs.

**Kai Pan**
Okay. I just wanted to sort of figure out is it randomness or is the loss cost trend above your earned pricing.

**Alan Schnitzer**
It's a variety of things for which there's always going to be normal variability. There's no fundamental change in our view of loss trend in the quarter.

**Kai Pan**
Okay, thank you. My follow-up question is on the inflation. Aside from tariffs impact, we've also seen the higher litigations, as well as settlement defense costs. How do you think about the loss cost trend going forward and have you discounted that in your reserves, as well as pricing going forward?

**Alan Schnitzer**
I'll invite Tom to comment on that as it relates to the management liability book, Kai, because I imagine that might be your focus, but I will tell you that we certainly see in our own book, and read about all the trends that you see and read about, that's reflected in, of course, our pricing and our reserves, and there's nothing in the quarter that surprises us. But, Tom, why don't you comment on—

**Tom Kunkel**
Yes, in our management liability book, and, again, we read what you read, but actually we have

nothing that is out of the ordinary, compared to recent periods, when it comes to our own legal expenses. So, normal inflation in there, we're definitely seeing that, but we have not experienced anything that is outside of what we've experienced in recent periods.

**Alan Schnitzer**
Kai, that's not to say that our view of trend is zero, right? We're aware of everything going on out there—at least we think we're aware of everything going on out there that has the potential to impact those sorts of things and it's reflected in our view of profitability and in our pricing.

**Kai Pan**
Great. Thank you so much.

**Alan Schnitzer**
Thank you.

**Operator**
Your next question comes from the line of Amit Kumar from Buckingham Research. Please go ahead.

**Amit Kumar**
Thanks, and good morning. One or two questions. First of all, maybe I'm just a bit confused here, going back to the answer to Kai's question. So, if we ex out the noise in BI, including fire adjustment and the TWIA adjustment, are you suggesting that the underlying margin improvement—that there was underlying margin improvement and it was in line with what you said in Q1 10-Q, or not?

**Alan Schnitzer**
No, that's not what we're saying. If you take the underlying combined ratio and you eliminate, for example, the fire losses, the observation was there are a number of factors—and Greg mentioned the significant ones in his prepared remarks—that impacted unfavorably the period-over-period underlying combined ratio. So, the net of all those things—some were good guys, some were bad guys, but the net of those things was a quarter-over-quarter negative.

**Amit Kumar**
Okay. I guess maybe I'll tie that into the second question to that. If you look at sort of the underlying pricing discussion, and you talked about some of the broader segments, can you also talk a bit more about comp trends and what's going on on that front and how does that impact the underlying loss ratio going forward?

**Alan Schnitzer**
Yes, I mean, let me just follow up quickly on my answer to your prior question, I just want to make sure I'm clear about this. There are always going to be things in a quarter that are variations from our expectations, because our view of base year is going to change or the underlying weather is going to change, all the things that Greg mentioned, there are always puts and takes in that process, but what we're telling you is there's no fundamental change in the underlying trend, those are just things that are always going to move one way or the other. That's the color I was trying to give you.

**Amit Kumar**
Can I just follow up to that and we'll drop that second question? So, what you're saying is this was the volatility as set out. So, in the guidance and the discussion, and all the questions, we

should expect an acceleration in the gap between pricing and loss cost, which will be at a faster pace in Q3 and Q4 and, hence, result in 2018 margin improvement versus 2017. Is that fair or did I muddle up the thought process?

**Alan Schnitzer**
So, if you look in our outlook in the 10-Q, we give you a view on what the underlying underwriting margin and underlying combined ratio is going to do compared to the same period in 2017, so you can take a look at that. A significant part of that is we are assuming that—putting this quarter aside, what we saw in the corresponding periods in 2017, where we had adverse small weather and we had adverse large loss activity, our view going forward for the second half of ’18 is that those things will return to more normalized levels.

**Amit Kumar**
Fair enough.

**Alan Schnitzer**
I’d be happy to talk to you about that offline and make sure that—

**Amit Kumar**
Yes, that’s fine. Yes, I think I follow what you’re saying. I think maybe there is an extreme focus on parsing or the language of the Q and then comparing it to the reported results, but what I understand from your answer is there is always this additional volatility which one should factor in when looking into underlying trends. Is that fair?

**Alan Schnitzer**
Yes. We’re giving you our best view of outlook in the 10-Q, but there are things that are going to change in small ways, and there’s a number of those things this quarter and they net to—you can do the math, take out the large losses, but they net to what they net to.

**Amit Kumar**
Okay. I’ve taken up my question time, so I will stop here. Thanks for the answers.

**Alan Schnitzer**
Thanks, Amit.

**Operator**
Your next question comes from the line of Greg Peters from Raymond James. Please go ahead.

**Greg Peters**
Good morning. I appreciate some of the answers you provided before, Jay, and I don’t want to get too hung up on one quarter’s results, but the trend in PYD has been down for a couple of years, and now that earned pricing is essentially covering trend in BI, is it fair to extrapolate that going forward maybe PYD stabilizes at these levels, or perhaps you can use this opportunity to update us on your views of PYD?

**Jay Benet**
I think my response is going to be something you’re not going to feel all that great about, in the sense that we don’t have a view, and have never had a view, of future PYD. Every quarter, we do a very, very thorough and diligent review of all of our reserves to make sure that whatever trends we’re seeing, whatever changes in those trends we’re seeing, whatever data we’re seeing is not only factored into the reserve estimates, but factored into our pricing on a very

current basis. So, we make no predictions whatsoever as to the future of PYD. Now, looking back at history, you can see that we have had considerable amounts of PYD in some periods and less PYD in other periods, so it has fluctuated.

There's no change in the way we think about the business, there's no change in the way we think about reserving, so I think you can draw your own conclusions as to what might happen in the future, but we make no predictions. Our view is we need to get the reserves right, they represent Management's best estimate, and when new information comes up in the future, we adjust it.

**Greg Peters**
Okay, I wanted to give it a shot. My second question. In the past, you've talked about organic innovation, and also I realize there is this tremendous loyalty to the independent agency channel, but—and I've asked you guys about this before—insurance tech seems—there's a lot of insuretech noise in the marketplace. A lot of it seems focused around disintermediation of the agents, and I was just wondering if you can update us on your perspectives around direct operations not only in personal lines, but business.

**Alan Schnitzer**
Sure, Greg. You're exactly right, we have a very active innovation agenda going on. We view that as a very important part of the strategic work that we're doing, and we think it's important for us and for this industry, so we're hard at work. Yes, we have for a long time been an independent agent broker company, and I think we will for the foreseeable future. I don't think that distribution channel is going anywhere.

I would say that, as we think about insuretech, it goes way beyond distribution. There are opportunities to invest and think about. Opportunities, whether it's in collection and leveraging new data sources or whether it's in leveraging artificial intelligence, whether it's in using drone technology to reduce claim costs, we think every aggressively about innovation across the entire value chain, and so from marketing to claim settlement, and everything in between. We do think that distribution is obviously an important part of that and we're highly focused on it. We bought Simply Business last year because we knew that advancing our capabilities as it related to engaging with commercial accounts was going to be important and we needed to advance our capabilities.

At the moment, where you see distribution on a direct basis in commercial insurance, it's micro, and that's not just us, that's the industry. It's really, really small stuff, think hundreds of dollars of premium, but we do see something of a trend there and we're not going to miss that. We'll see where it goes and we'll see how fast it goes, but we're on top of it.

**Greg Peters**
Thank you for your answers.

**Alan Schnitzer**
Thank you.

**Operator**
Your next question comes from the line of Yaron Kinar from Goldman Sachs. Please go ahead.

**Yaron Kinar**
Good morning, everybody. First, maybe a clarification to your answer to Elyse's question on the

inflation commentary in the Q, and I apologize if I missed it in your answer, but if I look at the commentary around inflation, maybe being a negative for next year, and then I look at the commentary around business unit margins being stable or consistent with this year, possibly even better in Business Insurance, does the commentary around the business unit margins incorporate the risk of inflation going up?

**Alan Schnitzer**
The answer is yes. Clearly, our view of margins does incorporate a view of loss trend. That has a view of severity, which in turn has a view of inflation in it. I'll just remind you that our results are most heavily leveraged to medical wage and toward inflation, so we're not as highly leveraged to the typical sort of CPI kind of inflation that impacts short-term lines and that we think we can react to, but whether it's CPI type stuff and the potential impact of tariffs, or whether it's wages, or whether it's medical or social inflation, whatever it is, our view of it is reflected in our outlook and margins. Now, we could be surprised, it could be worse than we think, of course, but we do have a view of it, and we look at it on a very, very granular basis, aligning to the individual components of our loss cost. So, we have a pretty sophisticated process of looking at it and it's incorporated in our view.

**Yaron Kinar**
Got it, that's helpful, and if I could turn to net investment income, again going back to the Q for a second. I think you're guiding to $20 million to $25 million increases in 2019, per quarter. Maybe you can help me understand, with a duration of over four years and with premium growth accelerating, why wouldn't that number be higher a year out, relative to where it was.

**Jay Benet**
It's a good question, but you have to realize that it's really being driven by the actual securities that are maturing in a particular period of time and assumptions associated with the reinvestment rate that's going to be available at that time. It will be determined by the actual investment opportunities then and what the yield curve looks like and where interest rates are in general, but at this stage, you know, that's our best view as to what's maturing and what the interest rates might be.

**Yaron Kinar**
Okay, I appreciate the color. Thank you.

**Operator**
Your next question comes from the line of Sarah DeWitt from JPMorgan. Please go ahead.

**Sarah DeWitt**
Hi, good morning. On the weather-related losses, and that includes the CATs and non-CAT weather, you've seen elevated weather losses for the last several quarters, as you've pointed out, so at what point do you call this the new normal and start pricing for it?

**Alan Schnitzer**
The question is "Over what cycle do you look at changes in weather patterns?" So, just to take you back on a slightly longer term view, if you go back to 2009, weather was better than we expected; 2010 to 2012, a two-year period, that was worse than we expected; then 2013 to 2015, I think it was better than we expected; 2016 was about on plan. My point is you look back over time and you have some good periods and you have some bad periods. We look at what's now been a four-, six-quarter period, and we're not going to overreact to it, but we will react to it. The first thing we'll do is we will update our actuarial and weather models for the actual

activities. So, just that alone rolling through our models will change our view of the world, if we did nothing else.

We are always looking at recent weather activity and trying to decide how to weight more recent periods, as compared to longer periods. That's an ongoing process here and part of our thought process around weather. Again, we wouldn't look at four to six quarters and want to overreact to that. Then, we always look at lessons learned from weather activities, and there are always lessons learned any time you have catastrophes like this. So, we look at it, we take it in stride, we take it into account, we put it into our models, but we would not look at a year or so and say that we've seen a fundamental change, because we've seen this before.

**Sarah DeWitt**
Okay, great, thank you. Then, just following up on the Business Insurance pricing, now that earned prices are in line with loss trend, will you still push for higher rates, versus the 2% you achieved in the quarter, or is that now sufficient to achieve your targeted returns, all else being equal?

**Alan Schnitzer**
We will push for rate in those lines and on those accounts where we need it, and that's the way we always execute. We've got lots of accounts on our book of business that are rate adequate and we're going to try really hard to keep those accounts. As always, there's some portion of our book where we look at an account and say "that needs rate" and we will continue to try to get rate there, and the aggregate of those individual account decisions will aggregate up to a number.

I would say there's sort of a lot of things out there that are working together. Pricing is better, interest rates are ticking, that's on a lag basis, will work its way into net investment income. You've got the benefit of tax reform. You've got all the other levers that impact profitability, things like selection, mix, claims handling, expense initiatives. So, all of that goes into the hopper and we're always managing all of those levers to make sure that we're executing towards our return objectives.

**Sarah DeWitt**
Okay, great. Thank you.

**Alan Schnitzer**
Thank you.

**Operator**
Your next question comes from the line of Josh Shanker from Deutsche Bank. Please go ahead.

**Josh Shanker**
Hi there. I'll give you both my questions upfront, so you don't think there's a long one coming in the back.

So, I just want to understand—I'm not going to get more granular, I don't think, than your guidance in the 10-Q, but when you say "improving margins," I'm wondering, now that we have the pricing versus loss cost trend out of the way, how much of that is the cessation of the non-CAT weather and the fire losses, and whatnot, and how much of that is the innovations you were talking about in expense saves, you know, you've been talking about for a year? I'm wondering if you can break it between those two things.

The second question, I just want to say one thing about that loss cost trend versus rate. Net written premium trend in BI is 2.1%, net premium earned trend is probably somewhere less than that, I would guess—maybe I'm wrong about that. Is that conservative, to say that's covering loss cost trend? I'm just trying to understand that better.

**Alan Schnitzer**
Yes, let me take the second one first. We don't think—we think it's appropriate to say that it's covering loss cost trend, it's just the math we had, and maybe what you're leaving out, Josh, is the economic impact of the earned exposure, a significant portion of which behaves like rate. We all—and by that I mean you all—get very, very focused on this very narrow rate versus loss trend, and, again, that ignores the economic component of exposure that behaves like rate and it ignores all the other things that go into improving margin. Again, I just mentioned the list, but things like selection and mix and claims handling and expense initiatives, that's all in there. So, you can't look at that 2.1 in isolation without thinking about all the other factors that impact margin.

In terms of the outlook, a significant part of the improvement is what was adverse small weather and large losses last year returning to more normal levels, but everything's in the number, right, it reflects everything we know in terms of the outlook, but, as we identify in the 10-Q, that is very significantly a return to normal level of small weather and large losses.

**Josh Shanker**
Okay. Thank you very much.

**Alan Schnitzer**
Thanks, Josh.

**Operator**
Your next question comes from the line of Brian Meredith from UBS. Please go ahead.

**Brian Meredith**
Yes, thanks. Two quick ones here. Michael, I'm just curious, could you give us some thoughts on a competitive environment right now in personal auto insurance? I think we've seen some major companies reduce rates. Are you seeing that in the agency system?

**Michael Klein**
Thanks, Brian. Yes, I mean, I would say, certainly, the environment in all of our markets is consistently competitive. We have certainly seen the announcements that you're probably referring to, of one carrier, in particular, taking rate reductions. At least at this point, that's one carrier taking rate reductions. The industry rate remains positive. When we pull filings and do our analysis, that we've talked to you about in the past, around what we're seeing, we do see most carriers continuing to file for increases. Those increases, so far this year, are not quite as high as they were in 2017. I think that's all very consistent with the industry data around loss trend and the more benign loss environment that I described earlier. I think that all lines up from our perspective.

**Brian Meredith**
Great, and then just one quick follow-up. Alan, you did mention a little bit about interest rates moving up and that definitely can have some impact, I think, on pricing. Is that flowing through your models at this point, when you think about the higher interest rate environment right now,

and your kind of thoughts on pricing and profitability by account, or is it still too early for that to kind of have an effect?

**Alan Schnitzer**
We update our models on a pretty regular basis and they reflect everything that we know, are aware of or think about on an outlook basis. It's hard to look at any one element in our pricing model and isolate it, but we do have a view of inflation and we put it in there. If you're talking about interest rates, in particular …

**Brian Meredith**
Interest rates, yes.

**Alan Schnitzer**
… if you're thinking about net investment income, in particular, I would say you need to think about the fact that that will flow through our fixed income portfolio on a lag basis, because, as Jay Benet just explained, the portfolio has to turn over, so the impact of—the favorable impact of interest rates will be muted by that fact.

**Brian Meredith**
Right, but I'm talking more in pricing decisions on commercial lines and is it the fact that you typically look at particularly some of your longer tail lines?

**Alan Schnitzer**
Say that again.

**Brian Meredith**
I'm thinking more in pricing kind of decisions with respect to commercial lines and what your rate activity looks like, as far as the model and putting in interest rate assumptions. Are we at point where that maybe having an impact on pricing.

**Jay Benet**
Hey, Brian, this is Jay. Within our pricing models, as we've said in the past, we take into account not an embedded rate in the portfolio when it comes to looking at the product cash flows, we look at the product cash flows associated with a current interest rate environment and a view towards the future with regard to how things are being invested along the yield curve. So, the pricing models, themselves, would be updated, you know, based on current views of interest rates. However, having said that, it's not done in isolation, as Alan's talking about, and one of the things that you have to look at is what are your return expectations, you know, do your return expectations for products change when the 10-year treasury is at 2% versus when the 10-year treasury is at 3%. So, it's not just that it goes in and immediately has a point-for-point, dollar-for-dollar impact on the pricing, it's a very thoughtful approach to it.

**Brian Meredith**
Great. Thanks for your answers.

**Abbe Goldstein**
Thanks, and we have time for just one more question.

**Operator**
Your last question comes from the line of Jay Cohen from Bank of America Merrill Lynch. Please go ahead.

**Jay Cohen**
Thank you. Just one final question. The non-fixed income yield, do you view that as better than you normally expect, a little worse or in line for the quarter?

**Jay Benet**
No, it was actually—when we think about how that portfolio is doing, we like its performance. On a long-term basis or a plan basis, we think it's performing well, it's jut not performing as well as it did in the prior year quarter, but if you look at it on a quarter-to quarter basis, I think you'll see the second quarter is very much in line with some recent quarters. As you know, it's got a combination mostly of private equity and real estate partnerships and real estate owned, so there's going to be some fluctuation in it, but we like the performance of the portfolio.

**Jay Cohen**
But not far off from what you would normally expect?

**Jay Benet**
Actually, it's probably a little better than what we would normally expect.

**Jay Cohen**
Okay, that's helpful. Thanks.

**Abbe Goldstein**
Great. Well, thank you all for joining us.

**Operator**
This concludes today's conference call. You may now disconnect.

**Forward-Looking Statements and Non-GAAP Financial Measures:**
This transcript contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates" and similar expressions are used to identify these forward-looking statements. Examples of our forward-looking statements include statements relating to our future financial condition and operating results, our share repurchase plans, potential margins, potential returns, the sufficiency of our reserves and our strategic initiatives.

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**Some of the factors that could cause actual results to differ include, but are not limited to, the following:**

- **Catastrophe losses;**
- **Financial market disruption or economic downturn;**
- **Changes to our claims and claim adjustment expense reserves;**
- **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;**
- **Other changes in tax laws that adversely impact our investment portfolio or operating results;**
- **Risks associated with our use of pricing and capital models;**
- **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;**
- **Factors impacting the operation of our repurchase plans; and**
- **The company may not achieve the anticipated benefits of its transactions, its new products or its strategic initiatives or complete a transaction that is subject to closing conditions.**

**For a more detailed discussion of these factors, see the information under "Risk Factors" and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. Our forward-looking statements speak only as of the date of the earnings conference call or as of the date they are made, and we undertake no obligation to update those statements.**

**In this transcript, we may refer to some non-GAAP financial measures. For a reconciliation of these measures to the most comparable GAAP measures and a glossary of financial measures, we refer you to the press release and financial supplement that we have made available in connection with this transcript as well as our most recent periodic filings with the SEC. See the “For Investors” section at Travelers.com.**