TRAVELERS

The Travelers Companies

Fourth Quarter 2014 Earnings Results

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CORPORATE PARTICIPANTS

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Jay Benet - *Vice Chairman, Chief Financial Officer*

Brian MacLean - *President, Chief Operating Officer*

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Doreen Spadorcia - *Vice Chairman, CEO of Claim, Personal Insurance & Bond & Specialty Insurance*

PRESENTATION

Operator
Good morning, ladies and gentlemen. Welcome to the Fourth Quarter Results teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question and answer session. As a reminder, this conference is being recorded, January 22, 2015.

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

Gabriella Nawi
Thank you, Tina. Good morning, all, and welcome to Travelers' discussion of our fourth quarter and full year 2014 results.

Hopefully, all of you have seen our press release, financial supplement, and webcast presentation released earlier this morning. All of these materials can be found on our website at www.travelers.com under the Investor section.

Speaking today will be Jay Fishman, Chairman and CEO; Jay Benet, Vice Chairman and Chief Financial Officer; Brian MacLean, President and Chief Operating Officer; Alan Schnitzer, Vice Chairman, Chief Executive Officer of Business and International Insurance, and Doreen Spadorcia, Vice Chairman, Chief Executive Officer of Claim, Personal Insurance, and Bond and Specialty 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 it over to Jay, I would like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statements involves risks and uncertainties, and is not a guarantee of future performance. Actual results may differ materially from those projected in the forward-looking statements due a variety of factors. These factors are described in our earnings press release and in our most recent 10-Q 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 that are available in the Investor section on our website, travelers.com.

And with that, Jay Fishman.

Jay Fishman
Thank you, Gabi. Good morning, everyone, and thank you for joining us today. As you've already seen from our release this morning, we closed out this year with record results. We achieved record levels of new income per diluted share for both the quarter and the full year of $3.11 and $10.70 respectively.

Our return on equity and operating return on equity were also very strong in the quarter, bringing our full year return on equity to 14.6% and operating return on equity to 15.5%. But just as important is what's behind those numbers. Across the organization, we couldn't be more pleased with how we've executed on our business strategies, including our approach to the marketplace and domestic business insurance, the introduction of Quantum 2.0 and moving our personal insurance business to be better positioned, the continuing evolution of our international footprint, and our exceptional positioning in Bond & Specialty Insurance.

Just as important is our capital management strategy. In 2014, we returned over $4 billion in capital to our shareholders through dividends and buybacks while still maintaining our significant balance sheet strength.

In reflecting on our performance over the last ten years, now a decade since the merger, a few things stand out. When we introduced our long-term financial strategy in 2006, that is, creating shareholder value by producing superior returns driven by building meaningful and sustainable competitive advantages, generating top tier earnings and capital substantially in excess of our growth needs, and maintaining a balanced approach to right sizing capital and growing book value per share over time, we were confident, and it has been successful in the broadest sense, beyond our expectations.

Over these last ten years, our cumulative operating income has been approximately $31.6 billion, and we have reduced our share count by more than 61%, returning $30.7 billion to shareholders through repurchases and dividends, an amount succeeding the then-market capitalization of the company. We did this while still making investments that were important for our business and acquisitions that were opportunistic for us along the way.

Consequently, we've produced a very strong average annual operating return on equity of 13.3% over that time. Our shareholders have benefited from superior total returns as shown on page 4 of the webcast, where you can see the one, five and ten-year performance of Travelers compared to other US financial companies. Obviously, we've posted top tier returns. But even looking globally, we've identified only a small handful of large financial service companies whose ten-year performance exceeds ours.

We remain optimistic about our ability to successfully execute these strategies. Our own observation is that the markets in which we do business remain fairly stable. For the last several years, we have shared with you that while we recognize that we could be wrong, we were skeptical of the concept of the old-fashioned severe insurance pricing cycle where a bell would go off and there'd be a few years of very high price increases and then another bell would go off and there would be significant price declines. Our view was and remains that there are now substantive differences in the way business is conducted that have and we believe will continue to change the characteristics of our markets.

We've talked about the stability of the market as evidenced by high levels of retention, the fact that we are not the only company returning significant amounts of capital, as well as the focus of the industry on returns on capital. Advanced analytics and a more demanding regulatory and oversight environment have also meaningfully contributed.

While there will always be changes in pricing, both increases and decreases, in response to changes in loss costs, expense loads, interest rates, or changes in real or perceive risk, as there are in many industries, we continue to believe that the amplitude of the cycle has narrowed substantially.

Beyond the insurance market dynamics, we have real confidence that our organization is well-positioned to successfully navigate whatever set of challenges the external environment may throw our way. With our relentless focus on execution, deep and talented management team, highly analytical approach to underwriting and investment risk, and a very high respect for our shareholders' capital, we remain well-positioned to continue to deliver meaningful shareholder value.

With that, let me turn it over to Jay Benet.

Jay Benet
Thank you, Jay. By any measure, our fourth quarter results, record net income per diluted share of $3.11, record operating income per diluted share of $3.07, operating ROE of 17.7%, and a combined ratio of 85% were very strong. As has been the case all year, these strong results were built upon very solid investment and underwriting performance.

Within underwriting, we continued to earn rate increases in excess of loss cost trends, which was the driver of the 100 basis point improvement in our underlying combined ratio this quarter versus the prior year quarter, while experiencing only a modest level of cat losses and very strong net favorable prior year reserve development. Pretax cat losses were $41 million in the quarter, down $12 million from last year's fourth quarter, and pretax net favorable PYD was $351 million, up $92 million.

While each of our business segments contributed to the favorable reserve development, it was primarily driven by Bond & Specialty Insurance's contract surety business for accident years 2012 and prior and by Business & International Insurance's general liability product line for accident years 2008 through 2012.

As I've been doing in recent periods, I'd like to provide you with a preliminary view of what our combined 2014 Schedule P is expected to look like when filed on May 1st.

On a combined stat basis for all of our US subs, all accident years developed favorably. Looking at the data on a product line rather than on an accident year basis, all of our major product lines developed favorably in the aggregate across accident years except for relatively small amounts of unfavorable development in CMP and in Personal Auto Liability.

CMP developed unfavorably by approximately $68 million pretax on a reserve base of approximately $3.5 billion spread out over several recent accident years while Personal Auto Liability developed unfavorably by only $20 million pretax on a reserve base of approximately $2 billion driven by development on a small number of large PIP claims from accident years 2005 and prior.

I should also point out that for Personal Auto in total, combining liability and phys dam, reserve development was essentially a wash as physical damage developed favorably by $18 million pretax.

We've taken advantage of the recent evolution in aggregate Cat reinsurance products to restructure our Cat cover, further focusing on severe events than on a single or cumulative basis could impact capital. Effective January 1, we replaced our previous Gen Cat Treaties, our $400 million Cat Aggregate Excess of Loss Treaty, which expired as scheduled on December 31, and our $400 million Gen Cat Treaty, which our reinsurers agreed to terminate early as of that date with a new Aggregate XOL Treaty that provides coverage for both single events and accumulation of losses for multiple events. It's a simpler structure that provides $1.5 billion of coverage, part of $2 billion, excess of $3 billion after a $100 million deductible per occurrence. It has the same broad peril and geographic coverage as the former Gen Cat and XOL Treaties, and it positions the coverage layer to provide a significant buffer between earnings and capital.

As an aggregate cover, there is a single limit with no reinstatement provision. The cost is essentially the same as the previous program, but it provides greater potential recovery after the higher retention. Our Northeast Gen Cat Treaty, our Cat Bonds, Earthquake and International covers remain unchanged, and I refer you to pages 21 of the webcast, to page 21 of the webcast for a brief description of the new treaty.

Another subject I'd like to touch upon relates to the recent drop in the price of oil. While this is not the first time that oil is trading at $45 a barrel -it was at today's levels as recently as 2009 - we thought it would be helpful to provide you with the information appearing on page 22 of the webcast showing how much of our investment portfolio is invested in low investment grade energy bonds and energy-related equities. And as you can see, the sum of these investments is relatively small and we believe the exposure to be quite manageable.

We continue to generate capital well in excess of what is needed to support our businesses, and consistent with our strategy, we continue to return very significant amounts of capital to our shareholders.

Operating cash flows were in excess of $500 million this quarter, inclusive of a $200 million discretionary contribution we decided to make to our qualified pension plan, bringing total operating cash flows to almost $3.7 billion for the year.

We ended the year with holding company liquidity of almost $1.6 billion after returning almost $1.2 billion of excess capital to our shareholders this quarter through dividends of $182 million and common share repurchases of a little over a billion dollars. For the full year, we returned almost $4.1 billion of excess capital to our shareholders through dividends of $735 million and common share repurchases of over $3.3 billion.

One final note about share repurchases; since we began in 2006, the average price we paid for our shares was $57.56, approximately 60% of our current stock price. Once again, all of our capital ratios remain at or better than their target levels. Our debt-to-total capital ratio of 21.7% was well within its target range, and during the quarter, book value per share increased 1% and adjusted book value per share, which excludes net unrealized investment gains and losses, was also up slightly.

For the full year, book value per share increased 10%, and adjusted book value per share increased 7% while net unrealized investment gains were almost $2 billion after tax at the end of the year as compared to $1.3 billion at the beginning of the year.

So now, let me turn things over to Brian.

Brian MacLean
Thanks, Jay. Alan and Doreen are going to go over the individual segment results, but before they do, I want to make a few comments about our business, and I'll start with the significant progress we've made in Personal Lines.

Three years ago, we discussed with you that we would be aggressively pursuing improvements in our financial returns in both Auto and Homeowners primarily due to weather and auto severity trends. As we close out 2014, we couldn't be more pleased with the progress that we've made. We've taken necessary rate in both our home and auto products while maintaining strong retention levels, and we've tightened underwriting guidelines and made changes to terms and conditions in our Homeowners' book.

We also discussed that the increased utilization of comparative raters by independent agents has resulted in a need to improve our competitive position in the auto market. To that end, we announced our expense reduction initiatives that would support the rollout of our new, more competitive auto product, Quantum Auto 2.0. We've now achieved our expense reduction goal, and Quantum 2.0 is live in virtually in all Quantum states.

The impact from these bold actions on our results has been significant. Our Homeowner returns are in line with our target range, and our top line trends are improving. In Auto, our returns are operating in a range that is acceptable to us given current market conditions and importantly, our Auto business is growing again and the higher new business is creating long-term value. So overall, great progress in the independent agent channel.

In the Direct to Consumer business, our decision to enter that channel reflected our belief that a large segment of the personal insurance market, empowered by increased transparency of product and pricing information, would choose to buy insurance via the direct channel. While certain customer segments of this market have quickly embraced the direct channel, the customer demographic that Travelers targets has moved more slowly.

With that said, we remain committed to this strategic channel and expect that over time, it will become a more significant portion of our personal business. It's important to note that as we've invested in this channel, we have consciously targeted that investment to help strengthen our independent agent channel, which we believe will continue to be a significant channel for our customer demographic, and so we feel very good about this investment.

The final point I'd make in Personal Lines is the growing importance of the home product. Our industry is built around protecting consumers against risk. The greater the risk, the greater responsibility and opportunity we have.

In that vein, the extreme weather volatility has added risk to the home exposure, making our industry-leading capabilities in the homeowners line an even more significant competitive advantage, and critical with the customer segment we target. Accordingly, we are continuing to invest to make sure that we maintain and leverage our industry-leading product as a part of a total customer portfolio solution.

So all in, we feel great about the progress we've made in this business; we're proud of the many employees that have had a hand in executing these initiatives, and we're grateful to our agents who have supported us throughout.

In our commercial businesses, we're equally pleased with our progress, specifically seen in the steady improvement of our product returns, which have been driven by our consistent execution. As Jay Fishman mentioned in his comments, we're encouraged by the continued stability of the market as evidenced by the strong retention levels we continue to see both in our book and across the market.

When we analyze our results at a very granular level, we see that we continue to be successful executing our basic pricing strategy, which is to retain a high percentage of our business that is meeting target returns, improve profitability where needed, and quote on and write new business that meets our target returns. You'll see in our results that we've had a bit more success last quarter in new business, but I would emphasize that that is a function of the improved returns on accounts we are seeing and not a change in our appetite for new business, and Alan will comment on this further.

So overall, great results in 2014 with stable market conditions, very strong underwriting results, and with that, I'll turn it over to Alan.

Alan Schnitzer
Thank you, Brian and good morning.

For Business & International Insurance, our fourth quarter performance capped off a very good year, with operating income of $630 million in the quarter and more than $2.3 billion for the full year. In terms of our production results, in the US, retention rates increased throughout the year with stable renewal premium change reflecting gradual declines in renewal rate gains and improving exposure. We're very pleased with our execution in the field, and I'll comment some more on that in a minute.

For the full year, the underlying combined ratio was a strong 92.8%, a half point improvement from the prior year. While earned pricing in excess of loss trend contributed favorably to full year 2014 results, there was also a negative impact of about a point and a half from non-catastrophe weather and large losses relative to the prior year.

The underlying combined ratio for the quarter was 93.9%, up 40 basis points from the prior year. The underlying loss ratio improved 40 basis points, driven by the earned impact of price increases exceeding loss trend, partially offset by large losses and non-cat weather. The impact of large losses was about a point in the quarter, arising out of our International business. We see this as a normal level of large loss volatility. The expense ratio was a little higher year over year due to the effects of some favorable expense items in the prior year quarter.

Turning to production, we had a very strong quarter in BII, with net written premiums up over 6% from the prior year quarter, driven by our Middle Market business and the inclusion of Dominion for the full quarter. In domestic BI, retention increased to 83% while renewal premium change increased somewhat from recent quarters, and new business was up about 6%.

These production results reflect what you've been hearing from us for the last year or so; that is, given the rate gains we have achieved over the past four years, more of our business is achieving adequate returns, and for those accounts or classes, our primary objective is retention. Importantly, in our Domestic BI business, we are, on average, still achieving flat to slightly positive written rate gains on our better performing business segments. And for the lesser performing segments of our business, we are, on average, achieving written renewal rate gains in excess of estimated loss trend.

Let me comment on the growth on new business in Middle Market. Both Jay and Brian commented on the stability in the marketplace. As a consequence of that stability, the number of requests for quotes on new business has also been relatively stable. However, given the cumulative impact of rate gains in the market broadly over the past four years, a modestly increasing percentage of the new business requests that we did see in the quarter were at return levels that met our thresholds. As a result, in the quarter, we were able to quote successfully on more accounts. The new business growth in the quarter does not reflect any changes of our return thresholds or more aggressive new business pricing.
Looking at the production statistics, I'd like to highlight some further details.

In Select, retention was over 80% for the second consecutive quarter, with total renewal premium change of a little over 8%. In Middle Market, retention was above 84% for the second consecutive quarter, and renewal premium change was strong and increased slightly from the third quarter - a great result.

In our Other Domestic BI business, we were pleased that both rate and exposure increased from the third quarter, resulting in a 100 basis point increase sequentially in renewal premium change. Also, our retention increased to 81%, the highest level in more than two years.

Looking at our production results for International, retention was strong at 82%, slightly higher than recent quarters. Renewal premium change was higher than the third quarter as exposures improved.

New business was down year-over-year primarily because the new business we saw didn't meet our return thresholds.

In December, we were pleased to announce that our joint venture with J. Malucelli in Brazil agreed to acquire a majority interest in Cardinal, a start-up surety provider in Colombia. The transaction is expected to close in the second quarter of 2015, subject to regulatory approvals and customary closing conditions.

To sum it up, we're very pleased with our strong operating income and production results for the fourth quarter and the momentum we feel going into 2015. In terms of execution going forward, we intend to pursue more of the same.

With that, let me turn it over to Doreen.

Doreen Spadorcia
Thank you, Alan, and good morning to all.

Bond & Specialty Insurance had a great quarter, rounding out a strong 2014. Both the fourth quarter and the full year results are record earnings for the business, and we're very pleased with the financial returns in this segment.

For the fourth quarter, operating income was $216 million, 24% higher than the fourth quarter of 2013, while full year income of $727 million was 27% higher than 2013. The increases from prior year were predominantly driven by the higher levels of favorable prior year reserve development that Jay Benet referenced earlier.

The underlying combined ratio for both the quarter and full year were strong at 84.1% and 82.2%, respectively. The quarter was slightly higher than 2013 due to a modest re-estimation of prior quarter losses. The full year result was 2.5 points better than 2013 due primarily to benefits from exiting our Management Liability Excess-of-Loss Treaty.

So while there will always be some ups and downs in the year-over-year variances, we can't emphasize enough just how terrific we feel about the results and in particular, the underlying fundamentals of how we achieved them. As with all of our businesses at Travelers, we remain committed to superior underwriting performance of our portfolios through aggressive management of risk and limits, including enhanced segmentation, underwriting analytics and claim management.

Turning to production, net written premium for the quarter was $525 million, a decrease of 5% compared to the prior year due to the exit of our Management Liability Excess-of-Loss Treaty in the fourth quarter of 2013, which increased that period's net written premium. The non-renewal of this treaty in 2014, together with higher Surety volume, drove a 4% increase in net written premium for the full year.

Across our Management Liability businesses, retention of 84% was consistent with recent periods in the prior year, while new business premium of $36 million was generally consistent with recent periods. Renewal premium change, which can be somewhat lumpy due to variations in things like limits written, liability attachment points and policy duration, was 5% for the quarter.

In sum, I'd like to reiterate one more time just how great we feel about the business and our ability to continue to produce superior financial results.

I'll turn now to Personal Insurance where I'd first like to reiterate Brian's comments about the progress made in the business, and how great we feel about our ability to have a vibrant consumer business that generates appropriate returns. We had a great fourth quarter, rounding out a strong 2014.

Operating income for the quarter was $242 million, up slightly from the fourth quarter of 2013 while underlying income of $254 million was up 18% for the quarter from the prior year driven by strong underwriting results. The underlying combined ratio of 84.3% in the quarter was an improvement of 4.5 points from 2013 while the full year underlying combined ratio was 86.4%, an improvement of about two points from 2013. The improvement in underlying results from '13 for both the quarter and full year reflect continued benefits from earned pricing exceeding loss trend and our expense reduction initiatives.

Before addressing the specific results for Auto and Homeowners, I wanted to give some detail on our expense reduction initiative. You'll recall that our plan was to achieve pretax savings of $140 million on a run rate basis by 1/1/2015, and we're pleased to tell you that we have achieved that goal.

As we've discussed in the past, about half of these reductions relate to claim management expenses, the impact of which shows up in the loss ratio. Since we started the program in the third quarter of 2013, there's about $100 million in cumulative pretax savings already in our earnings through the end of 2014. For the remaining $40 million, initiatives have already been executed, and they will earn through in 2015. With this specific initiative met and now behind us, please rest assured that we will continue to manage expenses diligently as we always have.

Looking at Agency Auto, retention remained strong and consistent at 83%, while renewal premium change was about 5%. Quantum Auto 2.0 continues to drive improvements in production with new business premium of $161 million in the quarter, 87% higher than the fourth quarter of 2013, and overall net written premiums increased 4% for the quarter. We've also seen increases in policies in force on a sequential basis for two consecutive quarters now.

Turning to Agency Auto profitability, the underlying combined ratio for the quarter was 97.9%, an improvement of about four points, and was 95.9% for the full year, an improvement of just over a point and a half for their comparable 2013 periods. These improvements were driven by benefits from the expense initiatives and earned pricing exceeding loss trend, partially offset by the higher impact of new business volumes. In addition, the quarter included approximately 2.5 points of favorable prior quarter re-estimation.

Lastly on Auto, our current view of overall Auto loss trend remains at about 3%, with no meaningful change in the underlying texture.

Looking at Agency Homeowners & Other, production was strong in the quarter, with retention stable at 84% and renewal premium change of about 6%. New business premium of $83 million was up almost 40% from the prior year quarter, and we remain focused on maximizing our market leadership position in the Homeowners line to provide broad consumer solutions.

From a profitability perspective, the underlying combined ratio of 69.0% was an improvement of more than five points over the fourth quarter of 2013, driven by earned pricing exceeding loss trends and favorable losses, including non-cat weather.

So overall, in Personal Insurance, a terrific finish to 2014 and we feel great about our momentum heading into 2015. Finally, I'd like to echo one of Brian's earlier comments, and this applies to all of our employees in all of the businesses. We are very proud of the hard work of all of our employees, and grateful for the partnership with our agents in achieving these results.

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

Gabriella Nawi
Thank you. Tina, we are now ready for Q&A and I would ask you all to please limit yourself to one question and one follow-up. Thank you.

QUESTIONS AND ANSWERS

Operator
Thank you. Ladies and gentlemen, if you would like to register a question, please press the one followed the four on your telephone. You will hear a three-toned prompt to acknowledge your request. If your question has been entered and you would like to withdraw your registration, please press the one followed by the three. If you're using a speakerphone, please lift your handset before entering your request.

One moment, please, for our first question.

Thank you. Our first question is from Randy Binner of FBR. Please go ahead.

Randy Binner
Great. Good morning. Thank you. I wanted to touch on the commentary around rate increases now moving below the increase in exposures, and I appreciate the commentary that I think you feel like you're getting rate ahead of loss costs and you're more focused on retention there, but a couple of questions.

One, I assume that it's going to be a competitive process to keep retentions. So, any new initiatives there or any more color on how you plan to keep retention higher? And then, as far as the absolute rate increase number we all watch so closely, I guess that means by definition we have to see that continue to moderate if you are achieving the rate adequacy.

Jay Fishman
Hi, this is Jay. Alan and I think will tag team this. First, just to be clear about rate gains.

First, I assume you're speaking about our Business Insurance segment. I think what Alan said was in our best performing segments of that business, I'm talking really about the Middle Market predominately, but it goes even beyond that. In our best performing business, we continue to experience, let's call it flat to up a point in terms of rate. Now, relative obviously an overall loss trend for that segment is not keeping pace with it. I'd tell you that we're not attempting to. That's not our principal focus.

Alan also said that in the poorer performing classes that rate gains there continue to exceed loss trends. So, that's where we are.

The reason I say we're not uniquely focused on that is that we are a return-driven organization, and we ask our folks who have managed this just impeccably to remember it's agency relationships, it's customer relationships, and it's how you manage your business over time that matters. We start off with returns over time. That translates to account management over time.

So, if an account has had, and I'm speaking very, very broadly here. But, if an account has had three years of increases and they've been a good account and we value them, we tell our people that there's nothing wrong with renewing that flat. It doesn't mean that if there's an opportunity to do a little better because circumstances suggest it, claim activity rising or otherwise, that they shouldn't attempt to do it, but that we manage our relationships and returns on accounts over time.

So, I suspect, and it is just a guess on my part, that if we're right about the cycle dynamics that you'll see more of a stair step in rate gains more than sort of a constant trend line. And ultimately, I suspect with the granularity of our discussion, our best-performing accounts versus our poorer-performing accounts will become more relevant in perhaps the way you see the world. So, now that's the first part.

The second, you spoke about retentions. We're not doing anything differently with respect to retaining business than we ever have done, and I'm sure Alan can give you more color and will, but the way generally business is renewed, if the agent is satisfied, the customer is satisfied, if the market is satisfied, the discussions take place pretty early, well in advance of the renewal date. The account gets resolved at whatever it is and it gets renewed, whether it's down a point, zero, up a point, or differently.

And so, it's not as though the retention discussions have become, as you described, more competitive. That simply isn't how the business is done. Those conversations take place given the data and the analytics we have in the context of long-term account management and doing the right things for the customer and the agent for the long-term.

So, I'll ask Alan to give you some more color on that, but there isn't anything in the world of retention that we're doing differently.

Alan Schnitzer
Yeah, Randy, it's Alan Schnitzer. Let's me also address both of those quickly.

Industry observers tend to focus very narrowly on rate change and the long-term estimated loss trend we give you, and I would remind you of the comments we made last quarter, which is there's a component of price change, which includes exposure that from a return perspective and from margins, acts like rate. So, we don't look at the narrow gap between rate and loss trend maybe quite as precisely as industries observers do, and there's always variations from quarter-to-quarter in weather and large losses and all those sorts of things that create volatility plus or minus within an expected range. So, we're really in a pretty tight band.

In terms of retention, I would have given you the same comment Jay did about our efforts. And I would highlight a real competitive advantage that we have. This isn't us needing to do anything else. We've got an extraordinary field capability. We've got great presence in the field. We've got great tenure in the field. We've got great relationships. We've got great services, like our risk control, and it's those sorts of things not developed this month or this quarter, but over many, many years that give us the ability to manage retention in a way that we think is most productive from a profitability perspective.

Jay Fishman
And I would, again, that's exactly right, that it's not uniquely a price discussion. It's important. It is one element of long-term relationships and management.

And lastly, at least through the third quarter, obviously we're the first one out in the PC business this quarter, retention is at what I would consider all the quality companies, they're all high. It's not that we're describing a set of circumstances that are unique for us. We think we manage it better than anybody else, and maybe that's sort of our own pride in it, but the fact is it's not our business that's been stable. It is, broadly speaking, the industry that's been stable, and that's what so important.

Randy Binner
Very helpful; just one quick follow-up, and this is for Jay on the stair step comment on rate. I didn't quite follow how that fit into the conversation, but I think you're saying, as the good part of the book becomes more rate adequate, the places where you're trying to seek rate increases may have a bigger impact on a quarterly basis on what we see for rate changes. Is what you meant by the stair step versus the trend?

Jay Fishman
Yeah, I did, but the second part of that is that at the account level, you may see a year, two years where an account renews flat and then there's an attempt to recover if you will some of that lost margin relative to loss trend on that account.

We're not a company—we haven't issued an edict to the field that says, "Get trend on every account." That would be a dumb thing to do. We say to them, "Manage the long-term return given everything you know about the agent, the account, the risk profile of that account and manage it thoughtfully." And if that means that an account's gonna renew flat for a year or two, that's okay.

So, that's really the comment about stair step that I was speaking to.

Randy Binner
Okay, very good. Thank you.

Gabriella Nawi
We'll take the next question please.

Operator
Thank you. Our next question comes from Jay Gelb of Barclays. Please go ahead.

Jay Gelb
Thank you, and good morning.

Jay, I know this is somewhat of a sensitive topic, and I hope you're feeling well most importantly. If you can update us on the health condition that was disclosed several months ago along with any update in succession plans that would be helpful initially. Thank you.

Jay Fishman
Sure, and I appreciate the question. I have no sensitivity about it by the way; none at all.

So first, thank you. I do continue to feel okay. I'm here. I'm on the job. I'm still mobile. It's a little clunkier than it was and everybody here is helpful above and beyond the call of duty and making sure that not only I can continue to do my job, but everybody here can continue to do theirs.

As I disclosed, and someone asked me why did I disclose it, and the answer is is because I needed to to continue to do the job effectively. It was becoming apparent for those who were around me a lot that something was amiss, and it was either leave people in confusion and doubt or provide some clarity with respect to my circumstance.

I've chosen not to be specific about the ailment really in respect of my privacy and my family's privacy and just don't think that it really matters a whole lot. Its relevance is I'm 62. There isn't anything about my circumstance that causes me to change my view of my ability to continue to work here. If it did, I would have something else to say. So, the horizon is unchanged in that regard.

We've been an active succession planning company for a long time, and pretty transparently. If you look and see what we've done and what we've announced, it doesn't take a real genius to sort of see what we're doing, and what the next generation of leadership here is.

I chuckle where 62 is kind of a magic number here. Brian's 62. I'm 62. Jay Benet's 62. Bill Heyman is 62-plus and so, that responsibility falls on us to make sure that we do this seamlessly, seamlessly.

I would tell you that the board knows virtually everything. I have been completely transparent to them, and to the extent anyone really is interested, I have already begun to cut back fairly meaningfully on my non-Travelers commitments, and I will continue to do that so that I can focus exclusively, maybe. There's some philanthropic things I'm not going to give up, but to focus relentlessly on what matters here.

So, that's the news of the day.

Jay Gelb
I appreciate that. Thank you. Switching gears for Jay Benet, the capital return in 2014 for Travelers was 112% of operating income, including dividends and buybacks. How should we think about that for the years going forward?

Jay Benet
There's really no change in the philosophy. There's no change in what we've said in the 10-Ks and Qs. Earnings are going to drive what we're able to return subject to the number of items that we list, pension contributions being one of them.

And when you look at a particular quarter, you're going to see the ebbs and flows of what's taken place in terms of earnings from prior quarters, making the determination as to how much in particular in that quarter we'll be able to return to shareholders. So, there's no change in philosophy; no change in the kind of basis upon which it's done. All you are seeing is some excess capital actually that we ended the prior year with working its way into the share repurchases of 2014.

Jay Gelb
Okay, thank you.

Gabriella Nawi
Thank you. Next question, please.

Operator
Thank you. Our next question comes from Michael Nannizzi of Goldman Sachs. Please go ahead.

Michael Nannizzi
Thanks. Hey, Jay Benet, I was wondering if you could follow-up a little bit on the development, maybe give us a little bit more color, maybe the breakdown between Surety and I'm more interested in GL, but on the Surety piece, how much is the non-renewal of that Management & Liability Treaty, how much of the impact of that has already come through? And then on GL, I'm just trying to get some

color[indiscernible] on that ’08 to ’12 accident years. Where are the most recent ultimates on those books of businesses compared to where you’re booking that business today? Thanks.

Jay Benet
I think some of that is a level of granularity you’ll probably see when we file the Schedule P and we’re in the process of summarizing all that data. So, to give very detailed information at this point in time I think would be a bit of a mistake. What we’re trying to do is give the overall picture as to how things have developed. And in terms of the individual products, the individual accident years, what we’re trying to communicate was, yeah, there was no major shift in anything that affected PYD.

As far as your specific question on the Surety reinsurance, that has no effect on development. That’s a contract that was in place that was looked at in terms of its cost benefit and we decided that it wasn’t really something that was achieving the objectives. And from a profitability standpoint and a risk standpoint, we’d be better off not having it, but that really had nothing to do with PYD.

Michael Nannizzi
Got it, okay. Thanks, and then just on expenses; the ratio in BI kind of dropped in the back half of last year and kind of stayed at that level the first part of this year and now we’ve risen now to kind of 32.5ish range. I mean is that—where should we expect to see, or I should say 32 and change. Where should we expect to see that? I mean is that where, and I’m thinking about whether it’s Dominion or something else. I mean is there an opportunity to kind of bring that back down to what we were seeing over the sort of trailing 12 months in the second quarter, or is that where you expect to efficiently run? Thanks.

Alan Schnitzer
It’s Alan, again. If you look at the full year expense ratio, I think it was 31.5 and that had a benefit in it from the first quarter that we disclosed then that on the year was about a half a point. So, if you adjust that first quarter event and add that half point back in, round numbers, that’s sort of what we feel like would be a fair run rate.

Gabriella Nawi
Sorry, and the benefits, just to remind you all, are coming from the worker’s compensation state assessment liability that we talked about.

Alan Schnitzer
We had a reduction in estimated liability that we announced in the first quarter and we quantified it. So, you’ll see it in our press release and 10-Q from the first quarter. So, that really was the anomaly this year.

So, if add that back in and look at the full year, round numbers I’d say, it’s always going to be up or down a little bit for one thing or another, but that’ll give you sort of a ballpark.

Michael Nannizzi
Got it, great. And then just last one for Jay Fishman; is there anything that you think could happen in the reinsurance market as far as evolution or innovation that would allow you or cause you to consider pursuing more growth in catastrophe exposed areas utilizing reinsurance, or is that something at this point it’s still not something that you foresee? Thanks, again.

Jay Fishman
Sure, and it’s a relevant question of course.

So first, we're engaged/involved in looking at lots of different things. The specific question you ask is, "Are you prepared to build primary exposure and rely on a reinsurance profile that may or may not be permanent to produce an effective loss profile?"

And the potential of mismatches there are substantial, meaning on a primary side very difficult to non-renew. Reinsurance, obviously, can be non-renewed instantly, and when that happens, even if you did pursue a primary non-renewal strategy, you've got 12 months where you're out of sync, where the primary exposure sits and the reinsurance is simply not there anymore. So, that's an arbitrage that I think has a potential mismatch to it that's concerning.

Now, if reinsurance pricing were to drift low enough, and in my judgment it is not there yet, you might sit there and contemplate doing that. But, I would say that risk, the mismatch risk there has real shareholder value attachment to me, as well as regulatory. I mean imagine trying to non-renew a significant enough book of business where you would actually do this as a strategy as opposed to an operating tactic. It would be very disruptive.

So, I think not in that regard, but it doesn't mean that there might not be other opportunities, and we're sure pushing it around. It's not obvious to us yet. It's pluses and minuses. These things all have certain complexities to them, but it is not obvious to us yet that there's some magic dynamic there that's happened that changes the fundamental underlying economics of being in the primary business.

Now, maybe it'll keep going in that direction, but at least not yet.

Michael Nannizzi
Great. Thank you so much, Jay.

Gabriella Nawi
Thank you. Next question, please.

Operator
Thank you. Our next question is from Josh Stirling of Bernstein. Please go ahead.

Josh Stirling
Hi. Good morning, Jay. Glad you brought up the St. Paul Traveler's deal. I think it's a really interesting topic for us to talk about today.

Going back ten years, people weren't sure about the deal, but it's obviously been a fantastic success. As we're seeing a new wave of consolidation, I'm curious to hear your perspective on the M&A we're seeing in the market today when you think about the opportunities you guys are presenting. I'm sure you've had a lot of opportunities to consider and debate this.

And I'm wondering more specifically; you've made a couple of smaller investments in the past couple of years. Should we expect you to do more of these as stock buybacks become more expensive and your multiple runs, or alternatively, should we expect you guys potentially to be more of a material consolidator in the small/midcap consolidation wave that seems to be starting? I'd just love to get a sense of how you think about capital priorities here.

Jay Fishman
It's a really good question. So, let's break it into a couple of component parts.

First, on the international horizon, to the extent, and the Columbia situation was a pretty good one. I think Dominion, even though it was a billion dollar trade, but to the extent there are opportunities to do things of that nature where a business is either relatively new or underperforming and we think that collectively locally and what we bring ourselves we can improve it, we'll continue to look for those opportunities.

They're increasingly harder to find driven in some measure by the economics, much of the economic environment outside the US, as well as the general competitive environment that exists outside the US. There are lots of areas where you'd say, "God, the last thing you want to do is be competing there," and that list is not an insignificant list. But nonetheless, to the extent that opportunities present themselves on the international front, we will most certainly look at them.

I wouldn't contemplate—by the way, I could be completely wrong here, meaning you asked me for an outlook. I'm giving it to you today. That doesn't mean that next week it couldn't change, but I wouldn't contemplate that those would be large transactions. I don't know how one would look at Dominion. I don't think of it as a large transaction; meaningful, but I wouldn't contemplate that the international front would be that.

We really have no interest in the reinsurance business in the broader sense. So, the extent that there are things happening in that arena, Bermuda or otherwise, we largely don't pay attention to it, and I don't really have a view on the value that's created there. I'm not knowledgeable. I'm not close enough to it to have a thoughtful view.

We've always said about acquisitions, and this hasn't changed. It's very, very much the same. We are a return-driven organization. The principle view that we would take through looking at anything is what would it do to our return profile over time. Would it potentially improve our return dynamics, and that could be either in magnitude or in volatility. So, to the extent there's diversification, geographic expansion and providing lower volatility against those returns, that could meet the threshold also.

The challenge for us in that regard is that when you do something small in our business, you take all the risks of whatever it was, whatever undisclosed liability, whatever policy was written 20, 30, 40 years ago, you've got it. And in many cases, the controls and procedures and knowledge base that exists in small companies just is not there to warrant the risk that you take to getting into it. They just don't have the database that gives you a sense of comfort when you're spending your shareholders' money, that it's wise.

And in the larger transactions, given that we are such a high return organization relative to the industry, it's hard to find at a price that can be achieved a transaction that would meet that return threshold. They would all make us bigger for sure, but that's interesting, but not entirely relevant. We're big enough. We don't need to be any bigger, but we are driven about returns; driven by them.

So, if something significant were ever to be available, we'd look and we'd look hard. I do think that we are really good, by the way, at the front-end and the back-end, meaning the analysis that goes on when we look at something and then once we decide to proceed, the execution strength in a very complex and complicated transaction. I think we're pretty good at that, and I'm speaking now for what people know in the marketplace, but also what you don't know, the things that we've looked at, the things that we've walked away from because our own due diligence suggested, no, that's not for us.

And so, it's good, but—so, I think the challenge will be meeting all those standards. That doesn't mean we don't roll up our sleeves and dig in, and we'll continue to try. So, again, that's as full of an answer as I can give you.

Josh Stirling
That's helpful, Jay. Thank you. If I could sneak in a quick one on pricing. So look, I get that it used to be a very cyclical industry, become much more data-driven and the companies are more disciplined. But, if you're in the trenches and you're an actuary and underwriter, should we be expecting that generally good companies, people who follow the data, are going to be able to cover their costs over the next couple of years, raising pricing 2%-3%, whatever that entails, or is that just kind of unrealistic, that it's still competition and capacity still matters and basically, the market price is going to be driven by the more aggressive guys who probably don't do as good a job managing their business and they cut the market price to reduce margins themselves or shift top line growth?

Jay Fishman
I'm always hesitant to speak for any other company because I could, only from the outside in, perceive how they're managing their business, but I can speak to what we do and how we run our business.

Underwriters will do, good ones will do, with precision, what you ask them to do. And so, you better be really good at knowing what you're asking of them. And we have taken the view, and my belief from the outside looking in is that we're not unique in this regard; others too. If you tell an underwriter, "Grow," they will. We don't tell them that.

We tell them to find thoughtful ways to deploy capital and if they can't, it's okay. It's okay. No one will ever be asked here why they didn't meet their volume budget because the first time you ask them that, they'll meet it the next quarter, and all of us understand that you would never speak to a loan officer that way at a bank. You wouldn't say to a loan officer, "Here's your volume goal. Man the torpedoes. Full speed ahead." We don't perceive that there's a lot of difference between that risk profile and speaking to field underwriters.

We value their judgment and their insight, and the data and analytics that we have in front of them to make thoughtful decisions, to own the account, to think about, "Do I want that account in my portfolio for the long-term, and what will it do to the return of my portfolio in a collaborative environment of the type that we have here?"

I can't underestimate, I can't overstate rather; I'm sorry. I can't overstate how different that is than it was 20 years ago. It's just quite different and I think most importantly is that the feedback loop between what goes on in the field and the knowledge at the home office to what is going on is stunningly shorter than it was 20 years ago. And so, the ability to act and react to changes; not just cyclical big time changes, but local changes - an office, a market, a company in a local place - is just that much better.

So, I believe, again, I could be dead wrong. I think that the cyclicality of our business is and will be meaningful reduced.

Anybody who has tried "Prices are up; now let's grow," I can't think of one company that has successfully executed that strategy in any meaningful way. And if you look at history, it becomes difficult to say, "Boy, that's a smart thing to do." I think the people who manage our businesses understand what it means to manage a risk profile and as a consequence, they will do so.

Now, on a given year, if loss trend is 4%, we would be stupid to tell underwriters they've got to get 4% on every account. That means we'll lose the accounts that don't need 4% in their returns, and we will get 4% on those accounts that need 10%.

And so, we say to them, "Be return-driven for that account. Be smart. Be thoughtful, and be return-driven," and it has worked for us. And I think if there's anything about our results over these particularly last five years, I think that many industry observers have not appreciated how productive that approach can be to profitability improvement. Getting the right rate on the right account is really what it's all about, and I think more and more people are beginning to understand that.

Josh Stirling
Thank you, Jay.

Gabriella Nawi
Tina, next question, please.

Operator
Thank you. Our next question comes from Jay Cohen of Bank of America Merrill Lynch. Please go ahead.

Jay Cohen
Yeah, two quick questions. Well, one quick, maybe the other one a little bit less quick.

Since we've had a notable drop in interest rates, if you could give us a sense of what the new money yields look like for your portfolio versus the portfolio yield today.

Bill Heyman
Well, Jay Benet has given you an idea of what our expectations would be over the next two or three years due to the drop in the interest rates.

We did that in the back of an envelope last night and that's already obsolete. But last night, the new money rates were about 50 basis points lower than the rates Jay was using to make his calculation, which would equate to about $20 million a year after taxes of lower earnings.

Now, $20 million a year—

Jay Benet
It's a delta.

Bill Heyman
It's a delta. This morning, the 10-year rate is up a little bit. So, that $20 million is probably $15 million or $16 million, but there's no question that these rates are lower.

Last year, as we looked at our investment results, which included 2013, much to our surprise, they did so notwithstanding the fact that their rates were lower than our projections at the beginning of the year. We made for this year a new set of projections, which already looks small 22 days in, but we're not prepared to throw the towel in yet. But nonetheless, about a $20 million a year difference.

Jay Fishman
And by the way, that was Bill Heyman speaking.

Jay Cohen
Right, and the 10-year is actually down a little bit today, but by the end of the call, it might be up. Who knows?

Second question; if we could get more color on international price change. We saw the premium change, but obviously [indiscernible] exposure, but what's happening from a pricing standpoint in your major international markets?

Alan Schnitzer
I don't have the slide in front of me right now, but I think it's in the webcast. But, it was—you're talking about rate internationally?

I would say what you see there in RPC is split probably pretty evenly between rate and exposure.

Jay Cohen
Okay. So, you're still getting overall increases internationally.

Alan Schnitzer
We still have an overall positive renewal rate change in international, yes, and the only thing I would tell you about our international relative to US is our outlook loss trend outside the US is lower than the US because we don't have the same level of exposure to medical inflation.

Jay Cohen
Got it. Is that being helped by Canada, the rate change?

Alan Schnitzer
Yes. Yes. I would say the rate in Canada is a higher end of the spectrum.

Jay Cohen
Got it. Thanks, Alan.

Alan Schnitzer
Sure.

Gabriella Nawi
Great. Tina, next question, please.

Operator
Thank you. Our next question comes from Larry Greenberg of Janney Capital. Please go ahead.

Larry Greenberg
Good morning, and thank you. I'm just wondering if you can characterize how non-cat weather and large losses came in for the full year 2014 relative to what would be viewed as normal.

Alan Schnitzer
It's Alan Schnitzer. I don't know if you're talking about Business Insurance, but I'll start and then turn it over to Jay maybe for a broader perspective.

If we grew cats—did you cats and—

Doreen Spadorcia
No, non-cats and large losses.

Larry Greenberg
The stuff that would flow into underlying.

Alan Schnitzer
Yeah, certainly above expectations and above the prior year.

Jay Fishman
Yeah, I think when you look at the entire company because is this is going to be—this is like what you're asking is that large losses, non-cat weather; they're going to be episodic. They're going to be dependent upon geography and things of that sort.

So, when you look at the entire company, I don't think that this year, 2014, was all that unusual a year as it relates to weather. I think when you look—I'm talking non-cat weather now. When you look at PI and BII combined, it was probably pretty normal, although BII was a little higher and PI was probably a little lower in terms of what they consider to be normal.

I think when you make the contrast to last year, which gets you away from an expectation and gets you into the weather and large loss activity of last year, meaning 2013 versus 2014, there, I think 2014 was a little worse than 2013, but still a good year. Hopefully that's helpful.

Larry Greenberg
Yeah.

Jay Fishman
What we tried to do in the press release was provide you not with the data because it's difficult to measure these things, but to adopt a phrase of normal variability and loss activity from quarter-to-quarter to try to accommodate this sort of thought process and get away from "Is it good? Is it bad?" It is going to vary and hopefully, when you get to a full year, some of the variance is less pronounced. It's a challenge for us to estimate normal non-cat weather. It's easier for us to speak about non-cat weather this year compared to last, this quarter compared to last year's quarter, but it's been exceptionally difficult for us to come to what would be a normal non-cat weather number. So, we have a hard time speaking to it that way.

Jay Benet
If I could just add; an example of what makes it difficult, you'll have times when, given the granularity of what we look at, you'll be looking at information that says, "Well, large loss activity is up somewhat." And then you get into it and you say, "Well, why is it up?" Well, because slips and falls have taken—why did slips and falls take—it was because of the weather.

So, yeah, it's just a very difficult bucketing processing to end up summarizing all of this data. And what we try to do is give you the concepts of what's taking place.

Larry Greenberg
Great. No, that's helpful. And then, on Direct, I listened to what you had said earlier about continuing to invest in that business. So, the last couple of years, you've generated statutory underwriting losses of about $100 million. The business is growing top line a bit. You're getting a little bit of scale economics probably.

But, I mean when we think about that over the next few years, I mean is that sort of the normal run rate of what expectations should be, or I mean is there going to be a drop in investment spending somewhere out there?

Jay Fishman

Well, this is Jay Fishman. I don't have a better number if I'm looking out in the one we're experiencing now. And to the extent markets change, certainly going to change, obviously our strategy will, but we start off with a premise that, and when we started this investment we said. We said we were less concerned than some industry observers that the typical Travelers' customer would go to buying Direct, but we weren't ready to bet the ranch on that and therefore ignore the trend.

So, the development has been important. It is not apparent to us yet that there are enough Travelers-type customers who choose to buy Direct where a Direct business is scalable on its own. It's not that we don't know how to get people to respond, or how to quote and how to issue. We've become really, really good at that. It's that the number of people that we would think of as the customer that we see are not choosing to respond that way.

Now, that may change three or four or five years from now. It's a trend. I don't think it's appropriate to ignore it. So, we will continue to develop the expertise and the skill so that if in fact things change and there is a market opportunity for us, we're in a position to respond and we're not—

The other point I'd make, and I don't know how to quantify it for you, but I would tell you that the agency business for the investment, the technology and the underlying customer reach attributes, the ways customer connects to us, our ability to respond as I'll call it an electronic company for lack of a better term, that's just been invaluable.

Now, I don't know how many dollars it's meant in the agency business, but I do know it's important. And as I would remind everyone, I'm not so unhappy that the Traveler's customer has not turned away from the agency channel as quickly as some people thought. That's good for us. We've got a very big agency-based business that's very profitable. And if that change continues to occur more slowly, that's just fine with us.

So, this is kind of a hedge your position investment that's necessary 'cause it's just not clear that it will continue this way. But, I would say, yeah, that's what I would certainly include if I were thinking about it.

Larry Greenberg
Great. Thanks for your comments.

Gabriella Nawi
Great. Thank you, and Tina, this will be our last and final question please.

Operator
Thank you. Our question comes from Brian Meredith of UBS. Please go ahead.

Brian Meredith
Yeah, thanks. Just two quick ones here; first one for Alan and Jay. If I look at the Business Insurance business right now and we look at the returns they're generating, they're pretty attractive right now. Is there any consideration or thought about having underwriters expand their risk profile right now, kind of looking maybe into the E&S market a little bit? I know that kind of ebbs and flows with the cycles, and also, loss trend continues to be pretty favorable. So, I think that's an area obviously for growth.

Alan Schnitzer
Yeah, Brian. It's Alan. I guess the way we would think about that is we're always challenging ourselves to think about whether there are new marketplace opportunities, but I would distinguish that from changing our risk profile to do it.

So, if we could find opportunities, whether it's in energy or whether it's in E&S or any other market, we would certainly look at it, but that would not involve any change in our return threshold, or our risk appetite.

Brian Meredith
Gotcha, okay. And then the second one is for Doreen. Just looking at the Homeowners, continue to see kind of a decline in PIF. Any thoughts on when that could stabilize or maybe start to trend upwards, and what impact do you think the decline in PIF in the Homeowners business is having on your auto insurance growth here?

Doreen Spadorcia
Well, Brian, good morning. I'll answer that with a couple of different comments.

We took some—as Brian reference in his comments, due to some of the weather that we were seeing coming through the book and just where the levels of deductibles were and roof issues, we took some pretty strong actions in the Homeowners book, and some of our declines there were deliberate, whether it might be some concentration in some areas. So, that is not unexpected to us, that we would see some shrinkage.

That being said, we feel really great that we've come through the other side of that, where our deductibles are, where the PIF is. The rest of the market probably wasn't as aggressive as we were in addressing property. But from where we are today and launching forward, we're very excited about that. We feel like we've got just a great launch point on that.

There's no question that—because we look at account underwriting,there's no question that when there's pressure on one product there might be some impact to the other product around either new business or retention. So, we have some with QA2 as we've become more competitive there that we think that's allowed us to start growing the home line again.

We're still in a negative position, but I can tell you that for '15 and beyond, that's going to be a very strong focus of ours, whether it's going to be how we do digital marketing, leading with some of our home capabilities because we think they're industry-leading; whether it's to look at some different kind of practices in the quote practice or an overall customer view so we can utilize the strengths in the property line to actually get not just more Homeowners business, but more customer business for The Travelers.

So, we knew that Homeowners was going to be—the recovery was going to follow Auto. So, we're in the spot that we thought we would be, and there's a lot of focus on that.

Brian Meredith
Great. Thanks.

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- **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.