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Travelers

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Jay Gelb: Good morning, everyone. I'm Jay Gelb from Barclays. I head up the US insurance equity research effort here. It's our great pleasure to have with us this morning Jay Fishman, who's Chairman and CEO of Travelers. Travelers has become a fixture at the Barclays, and before that Lehman Financials Conference. We thank Jay for his industry leadership as he transitions to his role as Executive Chairman on December 1st.

Travelers is among the largest commercial and personal lines property casualty insurers in the US, with a superior track record of enhancing shareholder value. Jay has been CEO of Travelers since 2004. And since that time, Travelers has delivered a total return to shareholders -- I find this to be pretty astounding -- of 225%, which is significantly above 119% for the S&P 500 Index, and my guess is well in excess, even more so, of many other financial companies. So Jay, thank you for joining us today.

Jay Fishman: It's a great pleasure. Always fun to be with you, Jay.

Jay Gelb: First of all, Jay, how are you feeling?

Jay Fishman: Well, thank you for asking. I'll spend 30 seconds for those who didn't see it. I announced, I don't know, a month or so ago that I'm dealing with ALS. It's a miserable disease, for those who don't know about it. Having said that, I am remarkably fortunate. I am surrounded by a terrific family that's all in, and I've got a support system at the Company where people are just helping to keep me going in every way possible. So all things considered, I'm in a very lucky place and I'm doing just fine.

Jay Gelb: I'm glad to hear that, and we wish you all the best.

Jay Fishman: Thank you.

Jay Gelb: Could you describe the feedback you've received from investors since the Board's decision to name Vice Chairman Alan Schnitzer as your successor?

Jay Fishman: One of the things that I was concerned about as we dealt with his transition is I was so pleased and proud of how the Board, how our Board had responded to this situation. My

situation, my health. I had kept them up to date. They were informed all the time as to what the specifics were.

And I think this is useful. I mean I know it's not exactly your question, but I think it's useful. At least I think it's useful. I had said to the Board that I thought I was still capable of serving, I was interested in continuing. But that if any of them believed that I couldn't for any reason, all they had to do was say, it's time, and I would be on my way. There'd be no argument, no difference of opinion. I told them that would never happen because I'd be in front of them before they were in front of me, and that is exactly what we did. So in anticipation of what's going to happen, I said it's time to make this change.

Alan's been with us now for close to 10 years. And Alan has been in the business for as long as I was when I became CEO of the St. Paul in 2001. So he may not be quite as visible to the investment community as some of the other folks in the place, but he's been around. Fabulous judgment, thoughtful leader, connects people to the place -- an important part I think of our culture -- and he was the very natural choice. There was no confusion about that anywhere I think people who knew the dynamics internally. Brian is going to be -- Brian MacLean, our President, is going to be 62 in November. Jay Benet is 62. I'm 62. So it was getting time, and Alan is very natural choice. Internally, it took 10 seconds. To people who know him and have worked with him said, oh yeah, that's our next leader and for sure.

And I was particularly pleased, because I thought about this relative to the Board. There were three constituents that we had to make sure knew this was the right decision. It was our employees, 30,000 employees. They shouldn't wake up one morning and say, who? Or even worse, we don't have someone internally. We have to go find someone. A great failure that would be I think on my part.

So first was the employees. The second was our agents and brokers. And Alan has a lot more miles than anyone needs to to earn the respect and admiration of our distribution partners; a critical part of our success. They sell our product. They believe in us -- or they don't -- and it's important that they believe in the CEO, and Alan had made that transition I think elegantly.

And those who have been around us in the last couple of years, we've made a very distinct effort to get Alan, and Doreen Spadorcia as well, more in front of the investment community. If you go back and you listen to the earnings calls, you'll hear them speak more frequently than they had previously. This is the next generation of leadership. And it was our responsibility to make sure that the third constituency, the investors, were just as comfortable.

So, those who have met him, the feedback has been terrific. And those who haven't have said we'd like to meet him. And so we're on our way, and we're connecting, and Alan's been out making the rounds.

What's most important, and I -- what we've done -- Alan actually used the right word. I couldn't find the right words. I've always said we were an ensemble cast. That was his description. I was the conductor in the front in the fancy tuxedo getting all the applause, but everybody else behind me was playing the instruments. And they're really good musicians. And I had the privilege of being in that position, but without that orchestra, we weren't going to be anything. That record that you described has less to do with me than all people in the place. And that is so, it's just so important.

And what we do, we do institutionally. It's not personal. It's not my strategy. We can talk about it. I'm sure you're going to ask, how did we do what we did. But it was never a personal -- it wasn't a lightning bolt from the sky. It was a collective -- a waking up one morning with a genius thought, this is how we're going to do it. It wasn't that. It was a group of very smart, very thoughtful people convening to say, how do we make this a successful investment? And it is an institutional strategy that's embraced I think by the entire senior team, and that's what's so important.

So, I always thought investors shouldn't expect a hard left turn at transition. That's a problem. If you're an investor, then that then becomes a risk factor for you. We don't want that to be a risk factor. We want it to be a, it's going real well factor. So I've just impressed on anybody who's listened that what we do is institutional, not personal, and Alan and the team perfectly equipped to carry it on. I know that was a long answer, but that's my last year, what I just shared with you. And it's really important.

Jay Gelb:

I appreciate that, Jay. Actually, I'll ask you to pull it back even a little further. You became CEO of Travelers in 2004 through its merger with St. Paul Companies, which you previously ran. And I'll say you, but you, as well as of course the executive team at Travelers, have created significant shareholder value in the process. Can you give us some better understanding of what you view as the key drivers of that value creation and how it would be sustainable for Travelers?

Jay Fishman:

Well first, I remind you that I actually first got involved in Travelers when I was part of the Citigroup. Citi and Travelers merged in 90 -- I'm sorry; I'm getting my own dates confused now. I became involved with Travelers when Primerica acquired Travelers, then a public company, in 1993. I became its CFO. So I was Travelers CFO from 1993 to 1998, and then the merger with Citi in 1998, I became its CEO. So I've been in and around Travelers now for 17 years, for a very, very long time.

And that experience, before leaving for St. Paul, left me with -- first I was blessed that I got to work with Bob Lipp, who you know is a terrific mentor and a good friend. We instituted a set of metrics in the business. There were no numbers. When we first got there, there were no numbers. It was words. If you asked someone how's business, what you got was words, but never any numbers. That wasn't anything that I was accustomed to. Sandy had us closing the books every day. At Travelers, they would close them once a quarter, maybe. Maybe. Not the first quarter, actually. We're too busy closing the year.

And it was -- so there was the discipline process that we began. That process is still ongoing. The metrics, analytics that define us, the way that we go about the business, they had its origins from those earliest of days in 1993 when there were no numbers there.

Also learned deep respect for the dangers of our business. It's -- there's nothing like a large adverse reserve development to wake you up in the morning. That'll get your full attention. And what I learned from that from Travelers was that remarkable respect for how bad things could get, and how hard it is to make it right when things go bad. It's really -- it takes a long time. We lose all of your credibility. You no longer believe that we know what we're doing, and it takes us forever to build that credibility back. So the notion of getting it wrong is very expensive in our business financially, as well as institutionally and credibility-wise.

But we're on a path of -- the old dynamic was, this is the property casualty business. It's

all about the future. Analytics don't matter because we're making guesses. Well that's nonsense. And we just had a conviction that that was the case. And then in 2004, after St. Paul and Travelers merged, a group of us got together and actually spent a day talking about one question on the wall. Why would someone buy our stock? That's where we started. Why would someone buy our stock? And that got us into questions about how do you create value, and what are the risk factors associated with it, the volatility around that value. And where we ended up was we couldn't promise growth, because I don't know how to do it all the time. We couldn't even promise growth in earnings all the time. Weather is so important in our business. I don't control that.

But what we can be held accountable for are returns over time. Superior returns over time. Better than anybody else. That was our kind of our goal. And you can actually see in our corporate records, you can see the origins of a slide that we've been using, starting in 2005 when we first got this notion of we're going to earn a lot of money. We're going to right size our capital. We're going to return excess capital to shareholders. Not tactically but strategically. Strategically; so important for the purpose of producing superior returns over time.

In those days, we would target mid-teens. I'm not sure I ever really wrestled with what a mid-teen was. So, so far, we're somewhere in the neighborhood of 13.5% cumulatively since we instituted that strategy return on equity. Obviously that's at a time with interest rates now much, much lower. We don't perseverate about whether we grow a little bit or we shrink a little bit. Doesn't matter. It matters if we do things a lot, obviously. That's gets our full attention. But it's been all about producing returns over time.

Since then, we've now bought back -- I did the arithmetic the other day -- we're getting close to 60% of our shares originally outstanding when we started buying back shares in 2006. We've actually paid back, we bought back shares -- I guess you have to add dividends. We've returned our market cap from the time we started that strategy. Our market cap was 30 -- round numbers, \$33 billion back then. We've returned \$33 billion, and the Company has a market cap today of \$33 billion, \$34 billion.

So, it's been a cash generator, and we've returned that cash to the owners strategically. Not tactically. We -- the stock is high, the stock is low. This is a strategy; not a tactic. It doesn't matter. And it's just worked.

It took a while. Imagine telling your Board that growth doesn't matter. That was a hard conversation when we first raised it with them. But we got them to where it doesn't mean we're opposed to growth. We love to grow. Love to grow. But you grow by product introduction. You grow by service. You grow by people. You don't grow sort of the conventional wisdom, somehow we can lower our prices by 2% or 3% and therefore grow. It doesn't actually work that way at the point of sale. That's an illusion that outsiders have about our business. It's not the case. If someone wants to take subpar returns, meaningful subpar returns for a long period of time, they'll grow for a while. But those returns will deteriorate, and they'll deteriorate quickly.

Now I think the US industry, anyway, has largely embraced the notion in our business that returns matter. And that's why, I believe, one person, that the volatility of our cycle is just more narrow than most people think it is.

Jay Gelb:

Let's -- that's a good segue into the pricing discussion, Jay. The commercial insurance pricing cycle is now in a downward trend, but it seems that the amplitude of that cycle, the highs and lows have changed. How does Travelers' business mix result in it being

impacted less than the rest of the commercial P&C industry?

Jay Fishman:

So there are segments of our business, and many of them have different competitive dynamics. You get into that segment, reinsurance where there is no -- regulatory light. Licenses barely matter. Pricing is not a file form. You can run your business without much systems or infrastructure. Claim activity is low. You don't need much of a claim department. What do we have, 10,000, 11,000 people in claim. That's a competitive dynamic for us that works.

Large account business, E&S, reinsurance, those are the segments where capital can go quickly, and it can go to work. It can actually be put to work quickly. So you see property CAT, you'll see large account property -- layered especially. Segments where you don't even really need much of an infrastructure, you can lever off somebody else's underwriting. You can just take a slice of some exposure that someone has. Those are the segments that have attracted lots of capital, and pricing is more challenging. But even in those segments, and there's a couple that we will -- we have a large account property business. And I would tell you that notwithstanding the fact that pricing is lower than it was, the returns in that business, as we measure it, are still just fine. And so you -- it's sort of how you operate.

The primary US agent-driven marketplace has real barriers to entry. Infrastructure systems, people, claim departments, risk control. It's a big -- I'm not even sure it can be done again. I don't know that anybody can actually do it. There's a few who compete in that space. I'm pleased that they all seem to be pretty smart. That's really good. And as a consequence of the cyclical nature in that space has been far less I think than outsiders would have contemplated.

A lot of that is the data. We sit and we talk each month. If someone wants to know -- not you all, of course -- but any of us want to know, what do we project the returns on capital to be for the new business that we're writing in workers' comp this month, we can tell you. Now think about that for a minute. That means that we've allocated capital to every account that we're writing, and we do. And we project out cash flows for every account, and we discount it all back and we have a view.

Now, that view will turn out to be wrong -- the losses will be higher, losses will be lower -- but we have a view of what that pricing is. And we have serious conversations about whether it's too low, it's too high, it's at the right level. Those conversations didn't exist 20 years ago. No one even had the data. If you said to someone, how much do you make in your business, they didn't know. We can now tell you the return on a book of business for a month in a particular line, in a segment. Middle market workers' comp, and we can even take it further. It begins to lose its statistical relevance, but we can tell you Chicago. Again, mix begins to get, as you get smaller and smaller, it loses its statistical relevance. But that's the level of analytics that exists that allow us to price the business I think pretty thoughtfully.

Jay Gelb:

Are you concerned that the pace of commercial price increases continues to slow?

Jay Fishman:

Not really. And obviously I can only speak for Travelers, not for anybody else. The way the business really works is at the point of sale. You've got a company underwriter and you got an agent and they have an account. One account. They're not talking about a whole book. They're talking about one account. And maybe that account got a 7% price increase the year before. And maybe it got a 6% price increase the year before. And now the underwriter and the agent are having a conversation. Gee, I'm concerned that if we

try and push another price increase through. So far the account's really happy, the service has been great. What do you say we give it a breather this year?

There is a dialogue, there's a conversation about the account, about that account, its specifics. The rate isn't determined by turning to a Bloomberg terminal and picking off a rate of risk and applying it to the account. There's a human interaction around it.

And we told our folks, once we began to get the returns back up into good levels again, don't -- it's fine to renew. If an account needs to be renewed flat, renew it flat. It's okay. If account needs three points, get three points. If an account has been unusually profitable and you got to give two points back, give two points back. It's every account on its own, unique and unique to its circumstances.

So I would tell you that the way this has worked out, three years ago I'd have said, boy, if we can have it work out that way, that'd be perfect. That would just be perfect. That would be, I don't like the expression a soft landing, but that would be a soft landing. And that's what this feels like to us. An unusual, maybe even unprecedented -- I don't know -- but a soft landing after a period of thoughtfully, account by account, moving pricing so that returns improve overall.

Jay Gelb: That's helpful, Jay. Would a pickup in economic activity be an offsetting factor to some rate pressure?

Jay Fishman: Yeah. One of -- it's a good question. One of the things that -- and it's obvious, and I'll explain it, but it doesn't always show itself the way you'd like it to. We refer to it as exposure. So you have an account, and if account has 1,000 employees, you're collecting workers' comp premium on 1,000 employees. If they put 100 more to work, suddenly you're collecting premium on 1,100 employees. And presumably, if you're pricing it right, that increase in exposure translates into a higher level of profitability.

It can even look like rate, meaning, so you have a building. Building was insured for \$1 million. And now it's appraised, and now we're insuring it for \$1.2 million. Unless there's a total loss, that increase in premium comes right to the bottom line. Now you can't dismiss the total loss risk, of course, but across the spectrum of outcomes, that increase in assessed value in our financials look like a rate increase. And that's the reason why when people ask, well gee, what's your loss trend, what's your rate? Are you expanding margin or no? There's a point at which it's just, I can't -- I don't know. It's way too close to call.

Our loss trend looks like 4%, at least as of the second quarter. So people will say, well, if you're going to get 3.8 of rate, margins will compress. Not so quick. At 3.8, you've got exposure changes, you got -- I don't know if they will. If you got 4 points of loss trend and 0 of rate, yeah, margins will compress a little bit. I'd say, so what? So they'll compress a little bit. Again it's not about earnings and earnings levels for us. It's about returns and how are we managing accounts over time.

Interesting phenomenon about this particular time -- and it's not unique to us; other companies, too -- retention, the numbers of accounts that you renew when they stay with you, I've been in business now 20 whatever it is, 7 or 8 years, it's never been higher. It has never been higher. These are levels that 15 years ago you'd say never happen in a million years.

It speaks to a remarkable level of stability in the marketplace. People talk about a soft

market. In the late 1990s, our retentions in middle market were in the high-60s. I think at the second quarter, we were in the mid-80s is where we were. And that's -- I mean that is so different. It's not just different in numbers, it's different in the way business is conducted. And so it's --. The environment has a remarkable level of stability to it.

Jay Gelb: Shifting to capital management, since this is such an important input on the return outlook. Travelers has set a very high bar for the rest of the property casualty industry when it comes to capital management. Can you describe that approach to capital management and how you believe it benefits shareholders?

Jay Fishman: We're going to get back to how are we going to create value. So it wasn't -- it's not tactical; it's a strategic part of how we create value. There are other people who would say, look, if you had accumulated some cash, perhaps there might have been an acquisition opportunity along the way.

I spent a lot of years working for Sandy Weill. Sandy's view was you never sit on cash. If a transaction makes sense, if it really makes sense for shareholders, you'll get it financed. The notion that you have to keep money in the bank to do that implies somehow that there's a transaction that wouldn't otherwise pass muster but for the cash in the bank. I think that's a crazy thought. I really do.

So, we never were motivated to hang on to what we thought was excess capital. We wanted to be a AA rated company. We aspired to be that. That was both a combination of capital in our operating companies, as well as an earnings stability. Because you know rating agencies -- it's not just the capital. And we got there. We got to that AA level methodically.

And then our philosophy has been if we can't put that capital to work internally, or externally, meaning if there were an acquisition, we're going to give it back to you. And it's just been, it's that simple. We're just not going to -- it really is that simple. There's some arithmetic we do. We know how much excess liquidity we need to carry at the holding company to maintain our ratings. We dividend it up from the operating companies, and we go back to the market, we buy back shares. It's isn't all that complicated. It's just really a matter of not keeping what we perceive to be excess capital.

Now there's -- that doesn't mean that if there's a storm that we don't have the capital to pay our claims. When we talk about excess capital, we talk about it relative to the risk volatility in our business. And just because there isn't -- you can have two 1-in-100s in a week. You could have two 1-in-250s in a month. You could have two 1-in-250s in two days.

So you've always got to remember that that's the business that we're in, and as a consequence, capital really matters. Never want to put the Company in a ratings position, in a ratings challenge or capital position challenge for ordinary course events. So we keep that much. People could argue, well that's really excess. We don't think of it that way. It's relative to our business. And all the rest goes back. Pretty simple philosophy.

Jay Gelb: Let's turn to the M&A environment, which I'm sure you've been getting a lot of questions on. Property casualty insurance industry M&A is at the highest level in several decades, including ACE's \$28 billion announced acquisition of Chubb. I never thought I would have seen that one. How's Travelers approaching this changing industry dynamic?

Jay Fishman: We sort of see it in two separate pieces. Generally what's going on I'd say in Bermuda, I don't think that's a great shock to anybody. I remember sitting at an agent gathering, now 18 months ago, and saying that it was just becoming apparent to me that the competitive dynamics for those companies undersized changing capital -- that was going to change. The Bermuda market was going to have real activity. And no great shock, I don't think, to anybody. To be expected.

The ACE-Chubb transaction I think is different. And I wouldn't put it into that same category. That was a moment. There was a kind of an opportune moment where there was succession, focus at Chubb. Obviously we're dealing with an interim situation. Their CEO had been extended for a period of time. And that, I would argue, created an unusual opportunity, an unusual set of circumstances to make that happen. I make that distinction between that and what's going on in Bermuda.

I do think as a matter of public policy, US public policy, the fact that Chubb, venerable Chubb, is now going to be a Swiss company speaks I think elegantly to the dynamics of our own corporate tax rate. It's a problem. It's a problem in the context of national policy. Businesses that operate globally, taxes are one cost, like any other. And when there is a meaningful advantage in one environment, you will see over time, you will see capital and capital creation move that way. If you look back over the last I think 15 years, we've counted 10, 12, maybe even 15 Bermuda-based startups that ultimately became decent size companies. You can't find one in the US. Can't find one. Not one.

And so it's, I'd say as an American citizen who's benefited enormously from the American dream, I think that's unfortunate, and I think it's a public policy opportunity that should be addressed. It really should. It should be addressed.

Jay Gelb: The major industry consolidation stories like ACE-Chubb change the picture at all for Travelers?

Jay Fishman: I wish I knew. We certainly talk about it a lot. I have a deep respect for both of those companies. They both do what they do very, very well. Lord knows there are challenges in putting two complex organizations together. We've done it a few times, and I think know some of the issue that they'll face. But we don't underestimate their competitive significance in any way at all. Having said that, Chubb was a terrific company before. ACE was a terrific company before. We got one instead of two. I don't know exactly what that means, but it'll be interesting to watch.

Jay Gelb: I think you said previously this doesn't change Travelers' view in terms of its own M&A.

Jay Fishman: Oh, yeah. No, no. Look, I said publicly, and I was very -- I pick my words very carefully -- that we -- intentionally, obviously -- that we made the decision. We didn't see how we could create value for our shareholders at the value that we thought Chubb was going to go for. We didn't think we could. That doesn't mean we didn't tumble the numbers. Doesn't mean that we didn't pay a lot of attention to it. None of those things. And it certainly doesn't mean, as now that you all know that our succession issue was set in certain doesn't affect that -- that didn't affect our valuation in any way at all.

I think we've got something really special at the Travelers in the property casualty space. That doesn't mean we can't push boundaries and borders and the rest. Alan took us to Brazil. It's been terrific. The environment there is challenging. That investment was good where we keep pushing out. And we try to find those opportunities where we can do more, putting our shareholders' capital to work at solid returns. But we don't feel -- so

I'd love to be in India someday. And certainly -- that's a 20-year vision. But we don't feel that we're in a poor competitive position one bit because of ACE-Chubb. Not one bit. And it doesn't -- or in more challenged competitive position.

And it certainly doesn't change our view that, gee, we have to do something. We don't have to do anything. Don't get me wrong; we will look at everything. If you all hear rumors that we're looking at something it's probably pretty good that we are. We should. You would expect us to. We learn. We learn what other companies do well, what they don't do well, and sometimes you get surprised. And sometimes you find things that you didn't know. But, we don't have to do anything, but we're going to keep working and look at everything.

Jay Gelb: Thanks for vying that message. Let's switch to the audience response system. Our folks in the audience have a controller in front of them. Gives you an opportunity to key on the question.

The first question is, if you don't currently own the shares of Travelers, or are underweight, what would cause you to change your mind? And we can start the clock here.

Jay Fishman: We could add six, a good dinner at the Four Seasons, if that'll get you to answer.

Jay Gelb: We used to have the Jeopardy theme play during. I don't know why they stopped. Okay, should have the responses coming up right now. And the major response comes from lower valuation. That's a high-class problem.

Jay Fishman: Yeah. Which my (inaudible) were \$10 lower than we were six weeks ago. I guess that wasn't enough for you?

Jay Gelb: That's right, that's right. And so that's 47%, one-third saying tighter property casualty insurance market. I wouldn't say much of it's private there.

Let's get to the next question. Travelers operating return on equity is 14.3% in the first half of 2015 and 13.4% since the beginning of 2005. My return on equity expectation for Travelers over the next several years is --? We can start the clock here. Couple seconds winding down. All right. And the big response is 12% to 14%, 52% of respondents saying that. And then around one-third saying between 10% and 12%.

Jay Fishman: So you can take our numbers -- this actually is pretty easy to do for us. Our proxy statement gives you, for the past year, what we budgeted for catastrophes. We have an adjustment in our comp system. So you can actually get the budget for CATs out of our proxy.

We disclosed to you reserve development. So one easy way to do this is to take the numbers, take out the reserve development, replace the actual CATs with the budgeted CATs that show up in the proxy, and you'll get a return. And at least right now, it'll be 11%, 12%. That's sort of accident year, normal CAT, return on equity.

I think the interesting question really is what happens to interest rates over the next several years, to use your question. That, to me, is an interesting one. Because there's a - - there can be a somewhat counterintuitive response. If rates go up, my expectation is that we're going to have to raise prices. We're -- we think of ourselves as return off of benchmark yield. And if that benchmark yield goes up, why shouldn't an investor's

return go up? And so the notion that says rates will rise and we'll cut price is like crazy.

Now maybe that happens in a competitive environment -- who knows -- but it certainly isn't the way we would think about it going into it. Relative 11%, 12%, relative to 10-year cost of money at 2.1, 2.2 feels pretty good. But if for some reason that 10-year became kind of running 5, then 11%, 12% doesn't feel so good anymore. I mean that's a simple way we think about it. So that's going to be the interesting thing to watch; what happens to rates.

Jay Gelb: That's 11%, 12% sort of core ROE, Jay, that's to achieve Management targets for compensation when we talk about the proxy, correct?

Jay Fishman: Yes. What we actually do is for our -- because we have two segments of compensation. There's an annual cash program, and then there are performance shares. The performance shares of asset based upon three-year cycle returns. What we do in those performance shares is we take out the actual cost of cats and we put back in the budgeted number. So that if the wind doesn't blow, there isn't an unusual windfall to the Management. And if the wind does blow, it's not going to penalize you forever, because we're trying to price the product over a long time. So we absorb that normalized cost of catastrophes.

And we've been very diligent about analyzing it and raising it. If you actually look at it over 10 years, I think you'll be surprised -- I know you'll be surprised -- at the extent to which that budgeted number has gone up each year, as weather patterns seem to change.

Jay Gelb: Next question, please. Which factor is the most important in your view on analyzing Travelers premium growth trends? Please start the clock. Those being renewal rate change, exposure growth, retention, or new business, which we've actually talked about all those today. Almost half, by a wide margin, saying renewal rate change.

Jay Fishman: Yeah, I think that's right, but retention is the canary in the coal mine for us. It really is. We watch that with, I would argue, greater attention than we do to month-to-month changes in renewal rate. If that number begins to move, and move a lot -- I'm not talking about a point or two or three over time -- but if that number begins to change, that will tell you the marketplace is changing far -- quicker than a change in with more substantive view I think than renewal rate change.

Jay Gelb: Okay. I believe we have one more. Should Travelers allocate excess capital more towards bolt-on acquisitions or share repurchase and dividends? We can start the clock.

Jay Fishman: Be sweet if you got 50/50 on this.

Jay Gelb: All right. And the responses from the audience show --

Jay Fishman: There you go. We're all about cash flow. Okay.

Jay Gelb: But people got the message. About half say more share repurchase and dividends. 29% saying more bolt-on acquisitions. It's a little higher than I would have thought.

Jay Fishman: Yeah, me too. But, it's good. Look, there's a moment here where you're all very bullish about acquisitions. Like there's something in the air at the moment that says, yeah, go buy, go buy. You turn the clock back three, four years, and the same people who were saying that were saying, are you nuts? Are you crazy? So all these things are in, they're in cycles. And if you're responsible for managing the business, all of it, you got to keep

looking at these things over time.

It's so important. This is, I know -- when someone says it's accretive to earnings next year, I don't -- so what? Does that, is that the measure that creates shareholder value? Or is it -- what does it do to your Company and its franchise and its returns and its cash flow dynamics and its position and with its distribution force over time? That's what I think, we think, that's what matters. And whether it's accretive a couple a cents or dilutive a couple of cents, doesn't matter beans. Talk to us a few years later, and then we can tell you whether it worked out satisfactorily or not. And the measures are not going to be in a couple of cents per share in that first year.

Jay Gelb:

That's great. Well, Jay, let's leave it there. Please join me in thanking Jay Fishman from Travelers. Well done. Thank you so much.

This presentation contains, and management may make, 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, future pension plan contributions, potential margins, potential returns, the sufficiency of our reserves, the impact of emerging claim issues and litigation, the cost and availability of reinsurance coverage, catastrophe losses, the impact of investment, economic and underwriting conditions and our strategic initiatives.

We caution investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company’s control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. 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;
- Consolidation within the insurance industry could alter the competitive environment in which the Company operates, which may impact the Company’s premium volume, the rate it can charge for its products, and the terms on which its products are offered;
- 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 or expanding in targeted markets;
- Risks associated with our use of pricing and capital models;
- Limits to the effectiveness of our information technology systems;
- Difficulties with our technology, data and network security and/or outsourcing relationships, including cloud-based;
- Risks associated with our business outside of the United States, including regulatory risks;
- Loss of or restrictions placed on the use of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of insurance products;
- Risks associated with acquisitions, and integration of acquired businesses;
- 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 for infringing the intellectual property of others;
- Changes to existing accounting standards;
- Changes in tax laws that adversely impact our investment portfolio or operating results; and
- Factors impacting the operation of our repurchase plans

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 this presentation or as of the date they are made, and we undertake no obligation to update those statements.