Barclays Global Financial Services 2016 Conference
September 13, 2016

CORPORATE PARTICIPANTS
Alan Schnitzer – *Chief Executive Officer of The Travelers Companies, Inc.*

INDUSTRY PARTICIPANTS
Jay Gelb – *Moderator, Property & Casualty Analyst at Barclays*

Travelers

September 13, 2016
08:15 AM EDT

Jay Gelb: I'm very pleased to have with us today Travelers CEO, Alan Schnitzer. Travelers has become a fixture at the Barclays, and before that, Lehman Financials Conference. Travelers is among the largest commercial and personal lines property casualty insurers in the US. It has a superior track record of creating shareholder value. Alan was promoted to CEO of Travelers late last year.

I just want to acknowledge the passing of Jay Fishman. Jay was a fantastic leader in the insurance industry, and more importantly, he was a great person. He'll be sorely missed. Alan, thanks for joining us today.

Alan Schnitzer: Pleased to be here. Thanks, Jay.

Jay Gelb: Alan, let's start off with how you would describe Travelers' results since you've become CEO.

Alan Schnitzer: Yes, very pleased with the results. If you think about the first half of the year, we reported an operating return on equity of about 12%. And relative to where the 10-year is hanging around at about 1.6 this morning I think it was, we feel pretty good about that result. And if you dig into the businesses and think about results in the marketplace, we feel great about that, too.

On the commercial lines side of the business, we continue to retain, by historical standards, very high percentages of our best performing business. We continue to, at least in the second quarter we reported -- we haven't closed the books on the third quarter yet, but second quarter we achieved rate versus -- in excess of loss trend on our lesser performing accounts. And thanks to a lot of hustle and the wind at our backs in terms of some of the things going on in the marketplace, had great levels of new business. So we feel great about that.

On the personal lines side, we've been able to leverage our leading position in the independent agency channel and the success of Quantum Auto 2.0 to grow both premium and policy counts. So we feel really good about that.

Jay Gelb: That's off to a great start. More broadly, should we expect any changes in strategy from Travelers?

Alan Schnitzer: I'm glad you combined that question with a question about results, because with results like that, why would we want to tinker too much with the strategy? So the answer is no.

Focusing on delivering superior returns will continue to be the North Star for us as we go to market every day. And we'll do that the same way we've been doing it -- by thinking about our competitive advantages, by investing in them, by finding opportunities to do what we do better by finding opportunities to grow in a way that's consistent with our return objectives, and returning excess capital to our shareholders.

So, nothing's broken. We're in a really privileged position at the moment that nothing's broken. And we'll keep doing what we're doing and try to do it a little bit better.

Jay Gelb: Excellent. Travelers return on equity objective is in the mid-teens over time. As you mentioned, the Company's return on equity is 12% in the first half of this year, even including the impact of elevated catastrophe losses. Since 2005, Travelers return on equity has averaged 13.4%. How achievable do you feel the long-term goal of mid-teens return on equity over time will be over the next few years based on factors like an increasingly competitive property casualty cycle and the drag from sustained low interest rates?

Alan Schnitzer: Yes, we've been pretty outspoken on this. When we established that mid-teens objective, that was 2006. At that point in time, the 10-year I think was, round numbers 5%, our cost of equity was somewhere in the low double digits. And at that moment in time, a mid-teens objective over time is what quantified superior and industry-leading, and that's why we set it at that objective. Today, as I said, 10-year, 1.6. That's not the environment that we're in today, and so that's not what qualifies as industry-leading today.

We've said -- I wrote in our annual letter to shareholders this year that to get back to that mid-teens on a reliable basis over time is going to depend on interest rates returning to a more normal level by historical standards. And that'll happen or it won't, and you can have as good or better perspective on that as we do. But regardless of the interest rate environment, our objective will continue to be to deliver those superior industry-leading returns, just like it was in 2006 when we set that objective.

Jay Gelb: That makes sense. But let's discuss the commercial property casualty cycle. The cycle's been in a downward pricing trend, but has the amplitude of the cycle, meaning the difference between the highs and lows of the cycle, have those changed?

Alan Schnitzer: I think they have. You mentioned Jay Fishman. Jay was sort of the one who called that out very early that that was going to change. And there was a lot of debate around whether it would or it wouldn't change. I actually honestly don't hear much debate about that anymore. I think you look at the data and you can see in the last five or six years, the amplitude has definitely moderated. So I don't think there's a lot of debate.

And if you look at the underlying dynamics in the marketplace, you see support for that -- you see the very high levels of retention in marketplace as people are trying to keep their best business. And really importantly, you see a lot of carriers taking excess capital and returning it to shareholders when they can't deploy it in a way that achieves their return objectives.

So, I think there's lots of action in the marketplace to look and say this is a pretty rational place with return-focused companies, and I think that's going to continue to cause the amplitude to be more moderated.

Jay Gelb: Staying on that theme, how does Travelers' business mix insulate it from being perhaps less impacted than the rest of the commercial property casualty industry when it comes to pricing dynamics?

Alan Schnitzer: You see this dynamic, and by that I mean the more moderated cycle, I think more pronounced in the primary admitted markets. And so if you think about reinsurance or the excess markets, I think you do get a little bit more amplitude and volatility in those markets.

And then even within that primary admitted market, which is where we do most of our business, our sweet spot is in the small and middle market. And even within the primary admitted markets, I think the small and middle you've got even more stability.

But it's not just the marketplace. It's franchise value, right? It's having product breadth to sell to our agents and customers, it's having great claim service, it's having the risk control. And all of those things I think conspire and contribute in a very good way to our ability to enable us to achieve what we try to achieve from a pricing perspective.

Jay Gelb: Are you concerned at all that commercial P&C rates have flattened? That they're no longer going up?

Alan Schnitzer: Am I concerned? I'm not concerned. We are generally able to achieve what we are trying to achieve from a return perspective on a written basis. And Jay, you hear me say this all the time; I do think industry observers focus too much on that sort of headline number. We think about the whole array of pricing over all our accounts from our very best account to our very worst account. And so we are achieving what we want to achieve on a very granular basis.

In the second quarter, we reported on our worst performing business, we were getting rate in excess of loss trend. We haven't closed the books on third quarter, so we'll see if that continues or not. But we feel pretty good about our ability to segment and price and achieve the written return objectives.

And importantly, even that question implies a little bit that we're sort of passive rate takers subject to the marketplace. And I don't mean to suggest for a second that the market rating environment isn't important. It's definitely important to our ability to achieve returns. But we're certainly very active managers of our returns, doing a lot to try to make sure we're getting -- achieving what we're trying to achieve.

And if you just look back in the last five or six years, I think we've demonstrated the ability to do that in different environments, in different businesses in different ways. So, you look at the commercial side of the house, or certainly in business insurance in the US, you go back to 2010, the returns weren't that bad in 2010. But the outlook for it, given where interest rates were, given five or six years of negative price, given what the weather was doing, we knew we had to take action in terms of rate terms and conditions, and we started doing that in 2010, and we improved the outlook and profile for that.

And I would contrast that to what we've done in our personal insurance business. Comparative raters came along five or six years ago. Completely changed the dynamic in that marketplace. We completely retooled that business, certainly the auto business. And took a lot of costs out, and did a lot of hard work to make sure that we could deliver a competitive product at the right price and turn the profitability around in that business.

And even in the bond and specialty businesses that are very credit sensitive, during the credit crisis, we managed the credit quality of those businesses.

So, I think a core skill set we have is looking at a business, looking at a business environment, looking at a set of circumstances, and managing and executing that to our return objective. So, again, I don't mean to minimize the significance of price -- it's absolutely significant -- but we're not just sitting around passively taking it. We're very actively managing the profitability.

Jay Gelb: That's clear, especially in the results. One question I often get from investors is with several major commercial property casualty insurers, including AIG and Zurich having retrenched to focus on improving their underwriting margins, does that present an opportunity for Travelers to gain profitable market share?

Alan Schnitzer: It certainly did in the first half of the year. It was in our results. We talked about it. You can see it. So, the answer is historically yes. I wouldn't say that's to a degree where we're counting on a huge headwind from that, but at the margin, it certainly made a difference in the first half of the year. I don't know whether that's going to persist into the second half of the year and into 2017 or not. We'll see.

And when you've got businesses like that -- or other businesses; I don't even mean to pinpoint any specific examples. But when you've got businesses shedding premium, you've got to be a little bit cynical about that premium, whether they actually want that business, or on what terms and conditions you might want that business. So, we're certainly not out there looking to pick up everything that's been shed by any other carrier. We're looking to find the right accounts that we can pick up at the right price.

Jay Gelb: Makes sense. Turning to personal lines, that business, which is auto and home insurance for consumers, clearly that has different dynamics than commercial property casualty. What do you view as the growth opportunities and perhaps some of the challenges for Travelers in personal lines?

Alan Schnitzer: Our opportunity in personal lines I think starts with the franchise that we have. We had this leading position in the agency channel, which -- and the fact that we can offer the whole account solution, both the auto and the home. And that's really a great foundation for the opportunity for us.

Being a little bit more narrow and a little bit more tactical looking at the homeowner side, we've traditionally, you think about home values in sort of the mid six figures has sort of been our sweet spot. And we think that we can push that up into what we call the mass affluent market. So that's somewhere south of the true high value, high net worth, but the mass affluent. So just to dimensionalize it a little bit, think home values sort of $0.5 million to $2.5 million. So, significantly above where we are, and we think with our, essentially our existing infrastructure, we can access that marketplace.

On the auto side, Quantum Auto 2.0 has plenty of opportunity left in it. It's been a great success. We think the outlook for it continues to be very positive. And importantly, you've got those two things working together. And who knows where autonomous vehicles are going to go. Who knows where loss costs are going to go.

But if we do get into an environment where cars do in fact get safer -- and I think there's reasons to be optimistic about that -- and if the improvement in frequency isn't more than offset by an increase in severity, and I think that's not an unreasonable thing to expect over some timeframe. I'm not even sure what that timeframe is. But if that does happen, and there are significant loss costs coming out of the auto product, having that leading home product is going to be very important in the whole personalized franchise. So we feel very well positioned for the future.

Jay Gelb: The policy in force growth for Travelers personal auto has been very strong and accelerating. What do you feel is driving that?

Alan Schnitzer: So as I'd mentioned before, I don't know, five or six years ago we had this dynamic of the comparative rater that came in, and it really changed the dynamics in that marketplace pretty significantly. And it was apparent that --

Jay Gelb: This is in the agency business, right?

Alan Schnitzer: In the agency business, yes. It was pretty apparent that in the comparative rater environment, you needed to be first or second to win the business, and we didn't have a cost structure that enabled us to do that.

And so Doreen Spadorcia at the time and Greg Toczydlowski and Behram Dinshaw, the rest of the team did a lot of hard work to take significant amount of cost out of the way we do business. So completely retooled the business model. Took out $140 million worth of cost. And that enabled us -- and combine that with a new product with finer segmentation. And so we had the right price and the right segmentation that has just been very well adopted by the marketplace. It just sort of hit the bid. And it's been -- it's successful and it's exceeded our expectations.

Jay Gelb: But fraught with growth that strong, sometimes I get the question around will this ultimately end up being the type of profitable growth you're looking for. What gives you comfort around that?

Alan Schnitzer: So we get that question a lot, and nobody asks that question more than us asking that question of ourselves. So we're highly focused on that.

When you roll out a new product and you expect growth, the first thing you do before you sell the first policy is to say, okay, if we're successful, what is this going to look like? And we've got models, and those models define characteristics in a much more granular way than just, say, losses, for example.

So you start with what's going to be the geographic mix of this business? What's the symbol mix going to be? What's the profile of the driver going to be? And you start selling the product, and instantly you can get the feedback on, okay, is this the business -- am I writing the business I expected that I would be writing?

And so that's feedback that comes in pretty quickly, and so you know whether you're in the lane or not in the lane. You don't immediately know what the loss characteristics are going to look like, but it's pretty short tail line of business. So pretty quickly you start to see the losses coming in, and you have a view whether that's consistent with your expectations or it's not consistent with your expectations.

We're now a few years into this product, and given how short tail it is, we do have that loss experience. And so we have a view on whether it's meeting our expectations, and it is. And now, again, a couple of years in, a bunch of these policies are 6-month terms. Some are one year, but a bunch are 6-month. So now we're starting to see the results of the other lever, which is retention.

So we've got the feedback loop of these more granular characteristics. Things like symbol mix, geographic mix, driver profile. We've got early view on loss results, and we've got early view on retention. So this could change, who knows. I can only comment based on what we've seen so far. But it's all consistent with what we would have expected before we wrote the first policy.

Jay Gelb: That's good to hear. On the -- circling back to homeowners, if you're looking at the upper end of that sort of new range of $500 thousand to $2.5 million, is that market value or replacement cost you're referring to?

Alan Schnitzer: Market value.

Jay Gelb: Okay. So that seems to be pushing it up a little closer to where a Chubb might be involved or AIG private client group. Are there any shifts in product distribution or coverage that would need to be addressed to compete more effectively against those carriers?

Alan Schnitzer: There are some sort of subtle things that we think about in the way we've got to underwrite and distribute that product. But it really comes down to making us easier to do business with for that customer segment. So, things like making sure that we're tailoring the questions that we're asking in the application process. Making sure we're thinking about the type of umbrella coverage that that kind of buyer needs. But generally I would say things at the margin.

Jay Gelb: Okay. Broadly, Travelers' underwriting results have clearly remained favorable. How much of a benefit is this being driven by these data and analytics?

Alan Schnitzer: Boy, really hard to know how to give you a quantified answer to that question. It's a very qualitative, subjective question. So I don't really know how to quantify it, other than to say we view it as mission critical and such a core part of our culture, data and analytics. And it's been that way for decades.

And one of the things I say all the time is if you gave the same set of data and the same set of analytical tools to two different companies, one that had data and analytics in their DNA and one that didn't, you'd just get vastly different results. And you need to know what to do with the data. You need to know what to rely on, what not to rely on, what to be skeptical about, where to introduce judgment into the process, how to use it in an operating review. How to push it down to your least experienced underwriters that maybe don't have the experience and haven't exercised the judgment with it.

So, there's really an enormous amount of culture around how to use it. And we're -- I'm -- we're all the beneficiary of decades in the making of that. So I would say it's as important as anything we do.

Jay Gelb: Okay. Low claims inflation also appears to be a factor in generating strong underwriting results for Travelers, as well as most of the rest of the industry. Do you have any data that the Company ismonitoring to see if that trend might reverse at some point?

Alan Schnitzer: Yes, it's a little bit of the same story describing why we're confident in our profitability of Quantum Auto, and that is when we sell an insurance policy, we've got a view on what the loss content's going to be. And so we -- it's environmental factors like inflation, it's the mix of the business that we're writing, all sorts of things.

And so we look at both internal data and external data in a degree of granularity, in this case, it would be hard for me to describe here. But we're not looking at CPI. We're looking at CPI for the individual components of our loss costs, and sort of mix weighted for the losses that we expect to come in. So we've got an expectation, and then as the losses come in, we're looking at the losses, comparing it to what we thought we were going to get.

And by the way, whether we get what we thought we were going to get or not, we're decomposing those losses as they come in. So, even if we thought the loss ratio was going to be X and it turns out to be X, we want to know why it was X. And so we've got decomposition models that break it down into very granular pieces.

And then we've got models -- these are models we've actually just developed in the last 18 or 24 months -- that looks at the interrelationship of the various factors. It's a multivariate model that looks at the interrelationship of the various factors that drive loss cost. So, it's a more sophisticated process than I'm qualified to describe -- or that I could describe here -- but it's pretty detailed.

Jay Gelb: Travelers' pace of reserve releases has been persistent and robust. Can you discuss the factors that have led to this and whether it's sustainable?

Alan Schnitzer: Yes, and let me start with the whether it's sustainable piece. And the answer is I have no idea. We have an obligation under GAAP to come up with our best estimate every quarter when we release financial statements, and that's exactly what we do. So, we don't plan for reserve development. We don't expect it or not expect it. We come up with a best estimate every quarter.

And if you really want to understand what drives reserve development, you'd have to look at it on a pretty detailed basis. You'd have to look at product by business and probably even by geography. And what drives reserve development in a severity line like surety is going to be very different than what drives development in a frequency line like private passenger auto.

But if I were going to generalize for a second, I would say that anybody could take a step back and think about what inflation has done over the last 10 years. Inflation's been remarkably low. Lower than anybody would have expected. And obviously lower than we expected when we came up with our loss expectations. And so that's just normal kicking around CPI type inflation.

And then you look at the components of that like medical inflation, and that's really been more tame that anybody would have thought over the recent and sort of medium past.

Then you look at things like social inflation, tort inflation. And I think that's also been more favorable over the last decade that anybody would have expected.

Now, we read from time to time about class action lawsuits being up or attorney involvement being up. The plaintiffs' bar is very active, as you know. But putting those things aside that are by and large at the margin, if you look at the broader trend over the last 10 years, it's been pretty favorable. So if I had to pick some general things that have contributed, I'd say that's it.

Jay Gelb: That's helpful. On the other hand, a partial offset to the overall favorable reserve development for Travelers has been a drag from asbestos and environmental. What's your view there, particularly in light of Hartford having some additional asbestos true-ups in the second quarter?

Alan Schnitzer: You know, there's just an enormous amount of uncertainty surrounding asbestos. And again, to take a step back and look at the longer view, the asbestos environment has definitely improved. So 10 years ago, we were looking at these large pre-packaged bankruptcies. We were looking at unaggregated non-products exposure. We were looking at direct actions, both under federal law and state law. Ten years ago, there was enormous uncertainty and enormous severity involved. By and large for the most part, seemingly that's behind us.

And so what we look at now is a little bit more of a frequency dynamic. Happens to be a lot of frequency, but it's a frequency dynamic. And we've had -- the industry has had asbestos exclusions for decades and decades at this point. OSHA's got requirements on workplace safety. And so at some point, this will drop off. Either mesothelioma cases will drop off, or we'll learn that it's something other than our insureds that are contributing to people contracting, unfortunately, mesothelioma.

So at some point it's going to drop off. The question is, is when is it going to drop off and at what rate? And I'm not really sure. There's just enormous uncertainty around that. And every quarter we take a step – not every quarter, but every year when we do a roundup study, we take a step back and look at it and reevaluate. And we do that in the third quarter, so we'll have more to say next month about it. But it is, again, over a decade in improving environment, but still a significant amount of uncertainty.

Jay Gelb: That makes sense. Let's touch base on the merger and acquisition activity in the industry. ACE's $30 billion acquisition of Chubb, which closed earlier this year, was the largest ever in the property casualty industry. How is Travelers approaching the potential for further industry consolidation?

Alan Schnitzer: We're certainly aware of the things that go on or might go on. And as our shareholders have demand that we do, we've got a view on things that might happen, things that we want to happen in every geography that we are in or are interested in. And we're very active. Over the last 20 years, we've come together through a number of significant transactions.

So, we feel very well qualified. We feel it's a core competency to find the deals, diligence the deals, negotiate the deals, integrate the transactions. So we're very comfortable with that. But we weigh that against the lens of is it going to create shareholder value.

And so we look at it every way you can imagine. We look at the impact on every financial metric. We think about the non-quantitative strategic benefits from it, from a transaction. But primarily we look at what would that transaction do to our return profile over the future, and what is it going to do to our volatility? And as and when we find transactions that we think will contribute to that mission, we'll make every effort to get them done.

Jay Gelb: Okay. There hasn't -- or over the past decade or so, there hasn't been much more than, say, a bolt-on deal in terms of inorganic growth for Travelers. Should we expect that to change, or I should say to stay the same?

Alan Schnitzer: As you can imagine, I'm just going to give you a not totally satisfying answer to that question. All I can really do is tell you the criteria that we use to think about it, to tell you that we do actively think about it. Having done it, we understand both the benefits and the risks of doing it, and we'll continue to evaluate everything that's out there. And when we find the ones that make sense, we'll try to get them done.

Jay Gelb: Okay. Last question before we go on to the audience response system. The property casualty insurance industry's recurring investment income faces persistent headwinds from low interest rates. What's Travelers doing to offset this impact on return on equity?

Alan Schnitzer: The answer is not much. And the reason -- and it's a very deliberate not much. The reason is we manage an investment function to support our insurance operation. To make sure that we've got the money we need to meet all of our obligations to our policyholders. And that's our first objective.

And Bill Heyman and his team do a great job of making sure they're paying attention to risk adjusted returns and focusing on credit quality and what they do. And we just traditionally haven't taken the risk on that side of balance sheet. It's just not the way we manage the business. We take the risk on the other side of the balance sheet, and we're very comfortable with that. And so it'll continue to be generally current course and speed.

Jay Gelb: Great to hear. All right, let's start with the audience response questions. So the audience has a chance to weigh in on these, and maybe we'll get some more insight as a result. The first question is -- and we can start the clock here -- if you currently don't own shares of Travelers or underweight the stock, what would cause you to change your mind? Just winding down on the responses here. And the audience is saying 89% lower valuation of Travelers stock. That's a high-class --

Alan Schnitzer: Not much we intend to do about that.

Jay Gelb: Right. Barely, hardly any -- 11% saying tighter property casualty market. Not in your control, and we'd want that, too.

All right, next question, please. Travelers' operating return on equity is 12% in the first half of 2016, including the impact of elevated catastrophe losses since 2005. Actually that number is not quite right. Since 2005, it's been 13.4%. My return on equity expectation for Travelers over the next several years. All right, and the audience is saying kind of banded between 10% to 12% or 12% to 14%. What do you think about, Alan?

Alan Schnitzer: I think -- I'm going to try very hard not to give any forward-looking, my own perspective on that, other than what we disclosed in our outlook and our 10-Ks and 10-Qs. But relative to a 10-year at 1.6, I think when you get to the 12% to 14%, that would be a pretty impressive result. The last 10 years has been 13.4%, as you said. And I know we've had higher interest rates than… Certainly in the earlier part of that period. 42% in the 10% to 12%, yes, so I get it.

Jay Gelb: That makes sense. Okay. Next question, please. Which factor is the most important, in investors' view, when analyzing Travelers' premium growth trends -- renewal rate, exposure growth, retention, or new business?

Alan Schnitzer: This is a trick question, everybody.

Jay Gelb: And the audience is saying, 50% saying renewal rate change, and then evenly split among the others. I think you already kind of addressed this.

Alan Schnitzer: So, we would say it's all of those things because all those things contribute to premium. If you want to think about which one has the most leverage on profitability -- and maybe that's the way people answer it -- I get why'd you say rate, because of these, I do think that's got probably the most leverage on profitability, so maybe that's what contributed to the answers.

Jay Gelb: Okay. Last question for the ARS, please. Should Travelers allocate excess capital more towards bolt-on acquisitions or a combination of share repurchases and dividends? We used to have music playing. Less dead air.

20% saying more bolt-on acquisitions. 40% saying more share buybacks and dividends. 3 -- sorry, 40% saying both. Some people want it all, right?

Alan Schnitzer: Evenly split. Yes, we want it all, too. Do our best to deliver it all.

Jay Gelb: All right. Let's open it up to questions from the audience. First question right here, please. Just wait for the mic, please.

Unidentified Audience Member: Just wondering, you see a lot of lines, carriers having more of a digital presence, but not necessarily having the option to digitally to buy. In homeowners especially, you see a lot of times where you have questions where the consumer's about to digitally buy, but it says call an agent or call someone. Can you just explain to me why -- what's happening in that transition of digital buying, and why does it seem like that last step is difficult for a lot of the carriers right now?

Alan Schnitzer: The home transaction is just significantly more complicated than the auto transaction. And so it's just a more involved, sophisticated process. And I'll also tell you that close rates are higher when it's done through a human being than it's done on the technology. So it might be in part to try to convert the sale. Maybe just conversion is higher. But the transaction is just more complicated. It just is.

Jay Gelb: Any other questions?

Unidentified Audience Member: Hi, Alan. It seems like there's a bit of a difference in views and how competitive the environment is. We've heard presentations over the past week from the Hartford and ACE that have talked about intensified competition in middle market and new entrants in small commercial. Whereas when you look at some of the pricing data surveys, it looks like things have stabilized. You're seeing a little more of that, too. Any thoughts on why different industry participants are seeing different trends?

Alan Schnitzer: I always think it's a little bit of a funny question to start with, because businesses, particularly this business, as fragmented as it is, is always competitive. So, I always start there that we always feel like there's plenty of competition out there.

And it's hard for me to comment on what anyone else is seeing. All we can do is tell you what we're seeing. And we try and give you -- we do give you the data just the way we see it. And so we saw rate go up for a while. The rate line is coming down, and some people interpret that as rate is negative. Other than for a brief period maybe in the first quarter, and just by a very tiny bit, rate was continuing to increase; it was just increasing at a lower rate.

And so it's sort of flattened out in the first and second quarter, sort of around 0, plus or minus a tiny bit. Again, we haven't closed the third quarter yet, but I can tell you, in the first two months of the quarter, generally speaking, we see that continued level of stability. And so I can just share with you that the data that we have.

And we think we provide great consistency and stability to our agents and our customers. We think they value that. We think they value franchise value. Things like product breadth, claims service, risk control. So, all that makes a difference in the transaction and in the pricing of the transaction. And so maybe that varies from carrier to carrier.

Unidentified Audience Member: Thanks.

Jay Gelb: So to clarify that last point, Alan, so for the first two months of the third quarter, the business insurance renewal rate was around flat, similar to what we saw in 2Q?

Alan Schnitzer: Yes, so I don't have September yet. We haven't closed the quarter. We still have a process to go through. So don't hold me to anything other than we continue to see pricing in domestic business insurance that is, broadly speaking, stable.

Jay Gelb: Thank you. Any final questions? Okay. Well with that, please join me in thanking Alan Schnitzer from Travelers.

Alan Schnitzer: Thank you.

Explanatory Note

This presentation contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as “may,” “will,” “should,” “likely,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates” and similar expressions are used to identify these forward-looking statements. These statements may include, among other things, statements about our outlook, our future results of operations and financial condition (including anticipated premium volume, premium rates, margins, net and operating income, investment income and performance, loss costs, return on equity and expected current returns and combined ratios), our share repurchase plans, the sufficiency of our reserves, the impact of emerging claims issues and litigation, the cost and availability of reinsurance coverage, catastrophe losses, the impact of investment, economic and underwriting market 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, economic downturn or prolonged period of slow economic growth;
- 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 business volume and profitability;
- Disruptions to our relationships with our independent agents and brokers;
- The collectability and availability of reinsurance coverage;
- Credit risk we face in certain of our business and investment operations, including through the utilization of reinsurance or structured settlements, as well as guarantees or indemnifications from third parties;
- 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;
- 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, including as a result of cyber-attacks, outsourcing relationships, or cloud-based technology;
- Risks associated with our business outside of the United States, including foreign currency exchange fluctuations and restrictive regulations, as well as the risks and uncertainties associated with the United Kingdom’s expected withdrawal from the European Union;

- Loss of or significant restrictions on the use of particular types 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;
- We may be unable to protect and enforce our 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 share 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, as updated by our periodic filings with the Securities and Exchange Commission (SEC), which are accessible on the SEC’s website (www.sec.gov). 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.

In this presentation, we may also 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 our second quarter earnings release and financial supplement and our most recent annual report on Form 10-K filed with the Securities and Exchange Commission (SEC), as updated by our periodic filings with the SEC. See the “For Investors” section at Travelers.com.