

The Travelers Companies, Inc.

Second Quarter 2020 Results

Thursday, July 23, 2020, 9:00 AM Eastern

**CORPORATE PARTICIPANTS**

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**Tom Kunkel** -- Bond and Specialty Insurance

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to the second 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 instruction for the question and answer session. As a reminder this conference is being recorded on July 23, 2020. At this time, I would like to turn the conference over to Ms. Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, please go ahead.

### Abbe Goldstein

Thank you. Good morning and welcome to Travelers' discussion of our second quarter 2020 results.

We released our press release, financial statement and webcast presentation earlier this morning. All of these materials can be found on our website at Travelers.com under the Investors section.

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

They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks and then we will take questions.

Before I turn the call over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast presentation.

Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statement due to a variety of factors. These factors are described under "Forward Looking Statements" in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC.

We do not undertake any obligation to update forward-looking statements.

Also, in our remarks or responses to questions we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investors section on our website.

And now I'd like to turn the call over to Alan Schnitzer.

**Alan Schnitzer**

Thank you, Abbe. Good morning, everyone and thank you for joining us today.

As we shared in our pre-release last week and again this morning, we reported a small net loss for the quarter due to a high level of catastrophe losses and, as we expected, a loss in our non-fixed income investment portfolio. Dan will have more to say about both shortly.

Our underlying underwriting income of \$572 million pre-tax was up \$254 million over the prior year quarter, benefitting from solid net earned premium and a 3.5-point improvement in the underlying combined ratio to a strong 91.4%.

The pandemic and related economic conditions had only a modest net impact on our underwriting results. As I shared in my prepared remarks last quarter, there will be COVID-19 related loss activity, but there will be some offsetting decline in losses due to people across the country sheltering in place.

For us in the quarter \$114 million of direct losses and \$63 million of audit premium adjustments were about offset by initial estimates of favorable loss activity, most of which is in short tail lines.

Given the continued uncertainty we've taken a cautious approach to recognizing the net impact of COVID-19 related loss activity.

Some industry observers have speculated about the aggregate level of insured and investment losses arising out of the pandemic. We don't doubt the losses will be significant, but they won't be borne evenly across insurers. Our manageable COVID-related insurance losses so far this year are a reflection of our disciplined approach to risk selection as well as terms and conditions. And as we shared with you in some detail last quarter, we manage our investment portfolio with a similar regard for balancing risk and reward.

Last quarter I commented on the potential future impacts the pandemic might have on each of our key lines of business. I'll review that again with a quarter's worth of experience.

In Personal Auto, we've seen a meaningful drop off in auto frequency, although that is moderating as economic activity picks up. At the same time, we've taken into consideration the potential for some offsetting impact in terms of auto severity due to factors such as collisions occurring at higher speeds and driver distraction.

In Workers' Compensation, COVID-related claims mostly relate to health care workers and first responders, which do not represent a significant part of our book of business. Also, the frequency of those claims stabilized during the quarter which might be attributed to an improved supply of PPE and the healthcare community having the benefit of more experience with managing COVID patients.

More broadly beyond the healthcare sector, data from some of the state Workers' Comp systems suggests that the COVID-related claim rate is low relative to the infection rate. That's likely partly attributable to the fact that the population most seriously affected by COVID-19 skews older and is not in the workforce.

Nonetheless, in developing our loss estimates we've taken into consideration the potential for the delayed reporting of claims and additional claim activity associated with recent spikes in infection rates as well as uncertainty related to the longer-term implications of the disease.

As we anticipated, some states have effectively expanded the scope of Workers' Comp coverage by creating presumptions of compensability. In most cases, states have taken a thoughtful approach, protecting workers appropriately, but not unreasonably burdening the Workers' Compensation system. Where states have acted to expand compensability, we've adjusted our loss estimates accordingly.

In terms of non-COVID Workers' Comp losses, we've seen a lower volume of Workers' Comp claims as workers have stayed home. This will abate as people get back to the workplace. In addition to taking that into account, we have contemplated that severity could be adversely affected by injured workers delaying treatment due to the stay-at-home work environment. Having said all that, our experience is that there's a lower level of Workers' Comp claim activity associated with economic recessions. During periods of elevated unemployment, workers tend to be more motivated to stay at their jobs and the workforce tends to be more seasoned.

In Management Liability, as we expected, we are seeing the elevated level of claim activity typically associated with stock market volatility and workforce reductions. The underlying combined ratio this quarter in Bond & Specialty reflects that as well as other loss activity, and we expect that the underlying combined ratio will continue to be elevated at this level or somewhat higher over the near term. This is not unlike the experience we had in the aftermath of the financial crisis a decade ago. Nonetheless, we expect the returns from this segment will continue to be healthy.

Turning to the Surety business, we've been pleased to see that work is continuing on the vast majority of construction projects. However, the depth and duration of stress in the economy continue to be risk factors for the Surety business. The line will also be impacted by other factors, such as the financial strength of the bonded firms. As I shared last quarter, our high-quality Surety book was effectively stress tested in the 2008 financial crisis and performed well. And our underwriting approach has remained disciplined since that time. In that regard, so far, we haven't seen anything that has caused us to change our Surety loss estimates.

In terms of Business Interruption coverages under Commercial Property policies, there's a fair amount of litigation challenging coverage. As a reminder, our Commercial Property insurance policies that include Business Interruption, including as a result of civil authority, require losses to be caused by direct physical damage to property from a covered cause of loss. In addition, our standard policy forms specifically exclude loss or damage caused by or resulting from a virus. The few court decisions we've seen so far – one in New York and one in Michigan – have both upheld the physical damage requirement in the context of COVID-19.

On the legislative front, efforts to retroactively expand coverage for Business Interruption seem to be diminishing.

Finally, with respect to Liability coverages, as people shelter-in-place, we are seeing fewer commercial auto accidents and slip-and-fall type claims. Anecdotally we are also seeing some movement by the plaintiffs' bar to settle claims faster, but it's too soon to know how significant that benefit might be. We're also encouraged by states that have adopted COVID-related Liability protections and similar efforts that are underway in other states and at the federal level.

We shouldn't let frivolous lawsuits undermine the nation's recovery. Nonetheless, we expect the plaintiffs' bar to continue to be active.

Turning to the quarter and the top line, we're very pleased with our production results.

Excluding the auto premium refund we provided to our customers, net written premiums grew by 2% as the impact of COVID-19 on insured exposures was more than offset by strong renewal rate change in all three segments.

In Business Insurance, we achieved renewal rate change of 7.4%, the highest level since 2013 and close to the record level we achieved that year. Excluding Workers' Comp, renewal rate change was double digits. Importantly, retention levels remain strong.

In Bond & Specialty Insurance, net written premiums increased by 3% as our domestic Management Liability business achieved a record renewal rate change while maintaining strong retention.

In Personal Insurance, excluding the auto premium refund, net written premiums increased by 6%, driven by strong retention and new business in both Agency Auto and Agency Homeowners. In our Agency Homeowners business, renewal premium change remained strong at 7.7%, and we hit a record for new business.

Let me take a minute to comment on the commercial rate environment. Before the pandemic struck, there were a number of industry-wide factors putting upward pressure on prices, namely increased volatility of weather-related losses, interest rates at historical lows and a growing recognition of higher loss trend in the Liability lines. All of those conditions persist. And now, add another quarter with a very high level of weather-related losses, interest rates that are likely to be lower for longer, and while it hasn't been a significant factor for us, a reinsurance market that is hardening. And on top of that, the pandemic and related economic fallout add a sense of incremental uncertainty, making this feel like one of those times, not unlike in the wake of 9/11 and Hurricane Katrina, when the market recalibrates risk. With that as the background, we'll continue to seek rate gains and manage other levers of profitability to improve the outlook for returns.

I'll close by saying that I couldn't be more grateful to my Travelers colleagues for their grit and commitment to taking care of our customers, our business partners, our communities and each other. Also, the work they've done in recent years to advance our innovation agenda has equipped us with state-of-the-art digital tools and other capabilities that make all the difference in this environment. We were well prepared.

And from here, we're well positioned. Free from financial and operational distractions, we'll continue, uninterrupted, managing our business and investing for long-term success. In short, we're confident in our ability to continue to succeed through these uncertain times and to benefit from the strength of our franchise as the economy recovers.

And with that, I'll turn the call over to Dan.

**Dan Frey**

Thank you, Alan. Our core loss for the second quarter was \$50 million compared to core income of \$537 million in the prior year quarter. The change resulted primarily from a higher level of catastrophe losses, and as expected, lower net investment income. For the quarter, the net impact related to COVID-19 is included in our underlying results, not as part of our cat figure, and was modest. More on that in a minute.

Our second quarter results include \$854 million of pre-tax cat losses, compared to only \$367 million in last year's second quarter. This quarter's cats include severe storms in several regions of the United States as well as \$91 million of losses related to civil unrest. Regarding our property aggregate catastrophe XOL treaty for 2020, as of June 30, we have accumulated about \$1.4 billion of qualifying losses toward the aggregate retention of \$1.55 billion. The treaty provides aggregate coverage of \$280 million, or part of \$500 million of losses, above that \$1.55 billion retention.

The underlying combined ratio of 91.4%, which excludes the impacts of cats and PYD, improved by 3.5 points compared to 94.9% in last year's second quarter. The underlying loss ratio improved by more than four points, and benefited from a lower level of non-cat weather losses, favorable frequency in Personal Auto from the shelter-in-place environment, net of related premium refunds, and the impact of earned pricing in excess of loss trend.

The expense ratio of 31% is eight-tenths of a point higher than the prior year quarter and above our recent run rate. This change was as expected, due to the reduction in premiums associated with the pandemic's impact on the economy, along with the premium refunds to our Personal Auto customers.

The net impact of COVID-19 and its related effects on the economy were modest in terms of our overall second quarter underwriting result.

Our top line was resilient. Excluding the premium refunds in Personal Insurance, net written premiums increased by 2%, driven by strong renewal rate change in all three segments that more than offset lower insured exposures.

In terms of operating expenses, results were adversely impacted by modest increases in the allowance for bad debt and the accrual for supplemental commissions. Those expense increases, however, were roughly offset by lower expenses in other categories. For example, travel costs were down as our employees continue to work primarily from home.

The economic impacts related to COVID-19 also affected our underlying losses. For example, losses directly related to COVID-19 totaled \$114 million, primarily Workers' Comp in Business Insurance and Management Liability losses in our Bond & Specialty business. On the other hand, we experienced significant reductions in Auto claims as there were fewer cars on the road during the second quarter and to a lesser degree, recognized a benefit reflecting fewer traditional Workers' Comp claims as more people work from home. As you heard from Alan, given the uncertainty in the current environment, we took a cautious approach in estimating the net impact of COVID-related losses.

We have recorded the estimated cost for all losses incurred through June 30, including incurred losses for which claims have not yet been recorded. All losses have been recorded at our estimate of ultimate, and the majority of the COVID-19-related insurance losses we have booked in the first and second quarters are still sitting in our IBNR reserves. We have not

recognized losses or benefits from COVID-19-related insured events that we anticipate will occur subsequent to the end of the quarter.

Taking a step back, on a year-to-date basis the impact on our results, excluding net investment income, from COVID-19 and its related effects is a net charge of about \$50 million pre-tax.

Turning to prior year reserve development, in Personal Insurance, both Auto and Property losses came in better than expected for multiple accident years. In Bond & Specialty Insurance, we saw larger losses than expected in Management Liability resulting in prior-year strengthening of \$33 million, largely offsetting the favorable development in Personal Insurance.

In Business Insurance, there was no net prior-year reserve development, as better than expected loss experience in Workers' Comp and Commercial Property was largely offset by unfavorable results in our other Casualty lines. Each of the movements this quarter was relatively small compared to the reserve base.

As you saw in our July 14 press release, we expect to record subrogation benefits in our third quarter PYD of approximately \$400 million pre-tax related to PG&E's successful emergence from bankruptcy on July 1. As a reminder, third quarter PYD will also include the results of our annual asbestos review.

After-tax net investment income decreased by 54% from the prior year quarter to \$251 million, a somewhat better result than we had previewed in our call last quarter. The decrease was driven by our non-fixed income returns, where results for our private equity, hedge fund and real estate partnerships are generally reported to us on a one quarter lag.

Accordingly, the impact of the disruption in global financial markets that occurred in the latter half of the first quarter impacted our second quarter results. As the broader markets have recovered in the second quarter, that should, at least to some extent, benefit our non-fixed income results in the third quarter. It's worth mentioning here that recoveries may not be reflected in the private equity and hedge fund results as quickly as the downturns were. Given continued economic uncertainty, the fund managers who report their results to us may take a more measured approach and not be as quick to write back up the valuations they just marked down, particularly in light of what may be continued challenging prospects for the earnings and cash flows in the funds' underlying investments.

Fixed income returns decreased by \$24 million after-tax as the benefit from higher levels of invested assets was more than offset by the decline in interest rates and a mix change as we chose to maintain a somewhat higher level of liquidity and held more short-term investments than in prior quarters. For the remainder of 2020, we expect that fixed income NII will decrease by approximately \$35 to \$40 million after-tax per quarter compared to the corresponding periods of 2019.

Turning to capital management, operating cash flows for the quarter of \$1.7 billion were again very strong. All our capital ratios were at or better than target levels and we ended the quarter with holding company liquidity of slightly more than \$2 billion dollars, well above our target level. Recall that in April we pre-funded, as we normally do, the \$500 million of debt coming due in November with a new 30-year \$500 million debt issuance at 2.55%. So, our holding company liquidity is temporarily elevated by that amount.

Investment yields decreased as credit spreads tightened during the second quarter, and accordingly, our net unrealized investment gain increased from \$1.8 billion after-tax as of March 31 to \$3.6 billion after-tax at June 30. Adjusted book value per share, which excludes net unrealized investment gains and losses, was \$92.01 at quarter-end, down less than 1% from year-end and up 2% year-over-year.

We returned \$218 million of capital to our shareholders this quarter via dividends. We did not repurchase any shares during the quarter. As we indicated in our first quarter earnings call, our capital management strategy remains unchanged. With the ongoing economic uncertainty and with hurricane season upon us, it still feels to us like holding on to a little more capital is preferable to holding on to a little less. Until there's more clarity on the state of the economy, we may buy back some shares in the coming quarters or we may continue to choose to buy none.

Coming back to reinsurance for a moment, let me direct your attention to slide 19 of the webcast presentation for a summary of our July 1 renewals. The structure of our main cat reinsurance program is generally consistent with the prior year. We renewed our northeast cat treaty effective July 1 with substantially similar terms and pricing that was up only slightly on an exposure-adjusted basis. Our cat bond, Long Point Re III, is now in the third year of its four-year term. In the annual reset for the 2020 hurricane season, the attachment point was adjusted from \$1.79 billion to \$1.87 billion, while the total cost of the program was flat year-over-year.

A more complete description of our cat reinsurance coverage, including our general cat aggregate XOL treaty that covers an accumulation of certain property losses arising from multiple occurrences, is included in our 10-Q, which we filed earlier today, and in our 2019 10-K.

Lastly, let me take a minute to address thoughts on our top line going forward. Looking at premium volume, we expect to experience the impacts of economic disruption. How much of an impact we feel, and for how long, will depend on the extent and duration of the negative economic impacts related to the pandemic. Because earned premium typically lags written premium, we expect to feel the effects on an earned basis beyond the end of the year.

As Alan said last quarter, we do not intend to take disruptive expense actions in response to what may prove to be a short-term impact on premium volumes. Accordingly, in coming quarters the expense ratio will likely remain somewhat elevated compared to the corresponding periods of 2019, given the expected impact on earned premiums.

Now I'll turn the call over to Greg for a discussion of Business Insurance.

**Greg Toczydlowski**

Thanks, Dan. Let me start by expressing my deep appreciation to all my Travelers colleagues as well as our agent and broker partners for continuing to provide exceptional service to our customers during these unprecedented times.

As for the quarter's results, Business Insurance had a loss for the quarter of \$58 million due to lower net investment income and higher catastrophe losses as both Alan and Dan discussed. The combined ratio of 107.1% included more than 10 points of catastrophes impacted by both weather-related losses and civil unrest.

The underlying combined ratio of 97% improved by 0.4 points, reflecting a 0.2 point improvement in each of the underlying loss ratio and expense ratio. The net impact of COVID-19 and related economic conditions was modest.

Turning to the top line, net written premiums were 3% lower than the prior year quarter due to the impact of the economic disruption on insured exposures. Thanks to excellent execution by our field organization, these impacts were largely offset by strong renewal rate increases and high retentions.

Turning to domestic production, we achieved strong renewal rate change of 7.4% while retention remained high at 83%. The renewal rate change of 7.4% was up almost 4 points from the second quarter of last year and more than a point from the first quarter of this year, notwithstanding the persistent downward pressure in Workers' Compensation pricing. We continued to achieve higher rate levels broadly across our book as rate increases in all lines, other than Workers' Compensation, were meaningfully higher during the quarter as compared to the second quarter of last year. We achieved positive rate on about 80% of our Middle Market accounts this quarter, which was up from about two-thirds in the second quarter of last year. Importantly, we've achieved this progress in a highly segmented manner and with retention remaining strong. At these rate levels our rate change continues to exceed loss trend even after about a half a point increase to our loss trend assumption. New business of \$473 million was down 10% from the prior year quarter. New business flow was down, which we attribute largely to disruption caused by the pandemic. New business was also impacted by our continued focus on disciplined risk selection, underwriting and pricing.

These production results reflect superior execution by our field organization in a very challenging environment.

As for the individual businesses, in Select, renewal rate change was up to 2.1%, marking the sixth consecutive quarter where renewal rate was higher than the corresponding prior year quarter, while retention was strong at 82%. The headwind from Workers' Compensation pricing is most pronounced in the Select business. New business was down significantly driven by the economic disruption caused by the pandemic. While the current environment is challenging, we are confident that we're well positioned and investing in the right strategic capabilities to profitably grow this business over time.

In Middle Market, renewal rate change was up to 7.9%, while retention remained strong at 86%. The 7.9% was up almost 4.5 points from the second quarter of 2019 and 1.5 points from the first quarter of 2020. New business of \$255 million was down from the prior year quarter driven by both economic disruption and our continued focus on disciplined risk selection, underwriting and pricing.

To sum up, we believe our meaningful competitive advantages, including our strong distribution relationships and our talent and expertise, position us well to navigate through these uncertain times and continue to serve our customers and agent and broker partners.

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

### **Tom Kunkel**

Thanks Greg. Bond & Specialty delivered solid returns and growth in the quarter, despite the impacts of COVID-19 and related economic conditions.

Segment income was \$72 million, a decrease of \$102 million from the prior year quarter. As Dan mentioned, the combined ratio of 93.8% reflects unfavorable prior year reserve development in the quarter as compared to favorable PYD in the prior year quarter and a higher underlying combined ratio.

The underlying combined ratio of 88.1% increased 7.1 points from the prior year quarter, primarily driven by the impacts of higher loss estimates for Management Liability coverages about half of which was due to COVID-19 and related economic conditions. The remaining half of the increase is due to a few smaller drivers, such as elevated claim activity under Employment Practices Liability coverages and ransomware losses under Cyber policies.

Turning to the top line, net written premiums grew 3% for the quarter reflecting strong growth in our Management Liability and International businesses, partially offset by lower Surety production.

In our domestic Management Liability business, we are pleased that renewal premium change increased to 7.8%. This marks the seventh consecutive quarter where RPC is higher than the corresponding prior year quarter. As Alan noted, renewal rate change was a record for the quarter while retention remained at a historically high 89%. Similar to Business Insurance, RPC in the quarter was also impacted by lower insured exposures.

These production results demonstrate the effective execution of our strategy to pursue rate where needed while maintaining strong retention of our high-quality portfolio. We will continue to pursue rate increases where warranted.

Domestic Management Liability new business for the quarter decreased \$13 million, reflecting the disruption associated with COVID-19 and our thoughtful underwriting in this elevated risk environment.

Domestic Surety net written premium was down \$24 million in the quarter reflecting the impact of COVID-19, which slowed public project procurement and related bond demand.

International BSI posted strong growth in the quarter with record rate in our U.K. Management Liability businesses.

So, Bond & Specialty results remained resilient despite the challenges brought on by COVID-19. These results reflect the excellent work of our agents, brokers and employees who have adapted to operating in new ways to continue to provide leading products and services to our customers. We feel confident about our ability to navigate through this challenging environment and continue to deliver strong returns over time.

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

### **Michael Klein**

Thanks Tom, and good morning everyone. Personal Insurance segment income for the second quarter of 2020 was \$10 million, down from \$88 million in the prior year quarter driven by a higher level of catastrophe losses and lower net investment income. These impacts were partially offset by an improvement in the underlying underwriting gain.

Our combined ratio for the quarter was 101.3%, an increase of 1.1 points as a 12.5 point increase in catastrophe losses was largely offset by a 10.6 point improvement in the underlying combined ratio. The underlying combined ratio benefited from lower non-catastrophe weather-related losses and lower automobile losses net of premium refunds. The increase of 2.6 points on the underwriting expense ratio was primarily driven by the reduction in net earned premiums resulting from the auto premium refunds.

Turning to the top line, excluding the impact of premium refunds of \$216 million, net written premiums grew 6%. Agency Homeowners and Other net written premiums were up an impressive 13%, and Agency Automobile net written premiums were up 3%, excluding premium refunds.

Agency Automobile delivered strong results with a combined ratio of 85.7% for the quarter. The loss ratio improved over 12 points while the underwriting expense ratio increased by about 4 points. The increase in the underwriting expense ratio was primarily driven by the impact of the premium refunds I described earlier. The underlying combined ratio of 84.2% improved 9.6 points relative to the prior year quarter, continuing to reflect improvements in frequency primarily due to fewer miles driven as a result of the pandemic.

Data from our Intellidrive auto telematics program indicates miles driven were down significantly from pre-COVID-19 levels during the second quarter, reaching a weekly low point in early April and partially rebounding as the economy has started to reopen.

In response to our improved auto loss experience, we implemented a Stay-At-Home Auto Premium Credit Program for personal automobile customers. In the U.S., the program provided a 15% premium refund on April, May and June premiums.

In Agency Homeowners and Other, the second quarter combined ratio was 113.9%, 9.4 points higher than the prior year quarter due primarily to higher catastrophes, partially offset by a lower underlying combined ratio. Historically, the second quarter is our highest catastrophe quarter. This quarter, we experienced significant storm activity resulting in 34 points of catastrophe losses, an increase of 21 points compared to the prior year quarter, where catastrophes were relatively low.

The underlying combined ratio for the quarter was 81.4%, down over 11 points from the prior year quarter, driven primarily by lower non-catastrophe weather-related losses. The majority of the improvement is due to elevated non-cat weather in the prior year quarter. Non-catastrophe weather related losses this quarter were also better than our assumptions.

Turning to quarterly production, our domestic agency results were solid despite the challenging environment resulting from COVID-19 and its related economic impacts. Our retentions remained strong, quotes and new business were up versus the prior year quarter, and we remain pleased with our policies in force growth.

Agency Automobile retention was 85% and new business increased 7% from the prior year quarter. Renewal premium change was 1.5% as we continue to moderate pricing given the improved performance in our book over the past few years.

Agency Homeowners and Other delivered another very strong quarter with retention of 87%, renewal premium change of 7.7% and a 17% increase in new business, as we continue to seek to improve returns while growing the business. Higher new business levels again benefited from the successful rollout of our Quantum Home 2.0 product, now available in over 40 markets.

During the quarter, we continued to deliver new capabilities and products to our customers and distribution partners. We introduced Quantum Home 2.0 in four new states including California. In addition, we launched Intellidrive 2.0, which adds distracted driving monitoring to our auto telematics product and delivers significant improvements to the user experience. And after reaching our goal of planting one million trees for customer enrollment in paperless billing, we

extended our partnership with American Forests to plant another 500,000 trees by Earth Day 2021.

To recap, Personal Insurance is off to a strong start in the first half of the year, particularly in light of a challenging environment. I'm proud of our team's efforts to continue to work together to meet the needs of those we're privileged to serve, while investing in the business for the future. Now, I'll turn the call back over to Abbe.

**Abbe Goldstein**

Thanks, Michael.

Before we begin Q&A, there's one topic that we expect might be on people's mind, so we thought we would kick off Q&A by addressing it. So, before we open up the line, I'll turn the call back over to Dan.

**Dan Frey**

Thanks, Abbe. There's been some discussion by industry observers about the timing of the recognition of COVID-related losses. So, let me reiterate that our reserves reflect our best estimate of ultimate losses incurred as of the balance sheet date. In applying accounting principles, you would not record a reserve for a loss that has not yet occurred as of the balance sheet date.

Using auto claims as an example, at the beginning of the year we have an assumption as to the volume of claims we will see over the course of the year and what the average cost of those claims will be. But when we report our second quarter results, including our balance sheet loss reserves as of June 30, those reserves do not include estimated amounts for auto accidents that will occur at Thanksgiving or on New Year's Eve. Those would be fourth quarter events, and accordingly, they will be recognized in our fourth quarter results.

This same principle applies when we consider losses related to COVID-19. While only some losses have been reported to us so far, the losses we booked in both the first and second quarter reflect our estimate of the ultimate amounts that we'll pay for all losses and related costs that have been incurred as of June 30, including those for which we have not yet received a claim.

In fact, as I said earlier, the majority of the COVID-related insurance losses we have booked through June 30 are still sitting in our IBNR reserves.

That said, the pandemic is clearly not over, and tens of thousands of new infections are being confirmed in the United States each day. It is foreseeable that a healthcare worker, for example, who to this point has not contracted COVID-19, will become ill from COVID-19 as a result of their job duties in December. But again, that loss activity will be included in our fourth quarter results. We similarly would not advance the recognition of any continued favorability from lower frequency in non-COVID Workers' Comp claims.

Finally, I'll remind you that on a year-to-date basis, setting aside net investment income, the impact on our results from COVID-19 and its related effects is a net charge of about \$50 million pre-tax. And with that, Operator, we're ready to take questions.

## QUESTION AND ANSWER

### Operator

Thank you. At this time if you'd like to ask a question, press "\*" "1" on your telephone. To withdraw your question, press the "#" key. Please wait while we compile the questions.

Your first question comes from the line of Michael Phillips with Morgan Stanley. Please go ahead.

### Michael Phillips

Thank you. Good morning, everybody. And thanks for that clarification, Dan, on that last comment. That's helpful. I guess I want to try to get my arms around Business Insurance and margins and pricing. Trying to kind of pull out the effect of COVID, you said COVID was pretty modest in the quarter. Pricing was clearly very strong. Yet core margins improved 40 bps or 20 bps on the loss side.

So, I guess trying to understand, does that mean, and Alan you gave lots of great commentary on pricing, does that mean that the current level of pricing still isn't enough to expand margins today or how do we think about that versus the level of conservatism that might be baked into the current numbers?

### Alan Schnitzer

Michael, good morning. It's Alan and I'll start by giving you a response to what's on your mind. At the current levels, written rate is in excess of loss trend. So looking narrowly at those factors we are, on a written basis, expanding margins. Is that what you're getting at?

### Michael Phillips

It is, yeah. It is. I guess in Business Interruption you had 20-basis points of improvement so not as much as maybe one would expect given the level of pricing. So that's what I'm trying to get my arms around.

### Alan Schnitzer

Yeah, so as always there are a number of factors that are driving the underlying combined ratio in the quarter. And that's true for any business. You've got weather, year-over-year that was better and, in this quarter, certainly within the normal level of variability we would expect for that. You've got the earned impact of rate that, as I said, on both the written and earned basis, rate is ahead of loss trend.

We've had improved performance in some business. You've got some impact of COVID. It was modest, but not zero. You've got the year-over-year ongoing carry-on impact of social inflation that I'll call old news, what we've recognized in prior periods and that continues to roll through.

Given the relative stability we're not going to quantify the pieces, but essentially those are the pieces.

### Michael Phillips

Thank you. That's helpful. Thanks Alan. I guess this is good news, I didn't see mention of anything on the Commercial Auto side for PYD and so maybe could you speak to that piece? And does that mean that there's been possibly some leveling off of the paid activity that's been part of the concern there?

**Dan Frey**

Michael, it's Dan. As we had last quarter, we had some movements in PYD. Some puts and takes, some continued good news in Comp, some continued pressure in the other Liability lines. There were small adjustments in Commercial Auto and the General Liability lines in CMP. But as I said in my remarks, relatively modest compared to those reserve bases.

**Michael Phillips**

Okay. Thank you, Dan.

**Operator**

Your next question comes from the line of Ryan Tunis with Autonomous Research. Please go ahead.

**Ryan Tunis**

Hey, thanks. Good morning. I just wanted to get a better feel for just, forget about the net benefit from the COVID, just from the direct losses alone or the direct impact, what was the hit in Business Interruption on the combined ratio?

**Alan Schnitzer**

Business Interruption specifically or Business Insurance?

**Ryan Tunis**

I'm sorry, Business Insurance. Without considering the offsetting benefits, what was just the direct loss impact or direct hit impact on that number?

**Dan Frey**

Ryan it's Dan. I don't think we're going to give the pluses and the minuses, but we told you that there was \$114 million of directly related charges, and while that included some charges for the Management Liability coverages in Bond & Specialty, the majority of what we took came through Business Insurance.

**Ryan Tunis**

Okay. And then in terms of thinking about the benefits that we're seeing, I think in the pre-announcement you said it was mostly short tail lines. Should we take that to mean – I mean first of all, outside of the short tail lines are you seeing actual to expected look a little bit better in some areas in terms of frequency and is that not something – and if so, is that something that you're not recognizing yet? You're being conservative and waiting to see if that continues to be the case?

**Dan Frey**

Ryan, it's Dan again. So, we are for sure seeing some favorable indications relative to what you would otherwise expect in this current environment. And when we look at that there was too much favorability to simply say zero is the right reaction. But, as Alan said in his comments, and as I tried to reiterate in mine, I think we've been very cautious in terms of the degree to which we recognize any good news in anything other than the short tail lines. But there's some, because it's very apparent in the data.

**Ryan Tunis**

And then just one more real quick. I was I guess a little bit surprised exposure growth held in, especially in Select lines. Retention has only declined modestly. How should we interpret that? Is retention capturing cancellations or is that modest dip mostly a function of you guys taking

more rate? I'm just trying to figure out how to interpret those numbers that seem relatively modest given what's happening in the macro landscape.

**Greg Toczydlowski**

Ryan, this is Greg. Let me take both of those in the order that you took them. Number one in terms of exposure change, if you look at relative to Middle Market that's really a product mix dynamic. In the Select business, we have the thrust of the premium is two products, CMP and Workers' Comp. On the CMP product, the rating on that is driven more off the property than the GL. And so, we're continuing to see pricing and inflationary pressure on the property. And so, there's some inflationary impact that impacts on the CMP product. And so, you don't see as much of a drag on exposure on Select that you do on Middle Market where the GL product is more of a standalone rated basis.

And then the retention overall for Select, we've certainly put our estimate of what we see in terms of business insolvencies, bankruptcies and that's all inside the 82% number.

**Ryan Tunis**

Thank you.

**Operator**

Your next question comes from the line of Meyer Shields with KBW. Please go ahead.

**Meyer Shields**

Great, thanks. Greg, if I heard you correctly in your prepared comments you talked about a 50-basis point increase in loss trend and I was hoping you could flesh that out a little.

**Greg Toczydlowski**

Sure, Meyer. We look at loss trend every quarter and across the full portfolio and that's obviously a headline number. What we did this quarter is we looked at the impact of the new economy that we see in front of us. We also look at some of the social inflation or liability dynamics that Dan just talked about. When we roll that all up in aggregate, we believe we've got a 50-basis points increase in our loss trend in front of us.

**Alan Schnitzer**

The thing I'd add to that, Meyer, is that is reflected in the underlying combined ratio we reported for the quarter as is a piece of that, that would be catch-up from the first quarter.

**Meyer Shields**

Okay, perfect. That last point is exactly what I was looking for. Second question I guess, with Workers' Compensation being the most vulnerable to exposure unit pressure, did that impact rate need on the expense ratio side?

**Alan Schnitzer**

Say the question again?

**Meyer Shields**

I'm trying to understand – I know that in general Workers' Compensation pricing has been coming down because industry experience has been good. But we seem to be seeing a fairly significant exposure unit headwind and I'm trying to get my arms around what that implies for indicated pricing.

**Alan Schnitzer**

Meyer, there's a heavy regulatory component to pricing as you know, and it tends to be a little bit backward looking. It sort of factors in the overall profitability of the line which as you know has been very favorable over the years and that'll continue to be the case. Clearly exposure will be one impact on profitability today which will impact pricing tomorrow.

But it's really hard to isolate any one factor and its impact on profitability because everything goes in. You've got – start with your expiring rate and then you've got whatever the rate change is. And you've got exposure change, you've got loss trends, things like that. So, it's definitely a factor. It's hard to isolate what the extent of the impact is.

**Meyer Shields**

Okay. Understood. Thank you very much.

**Operator**

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

**Alan Schnitzer**

Good morning, Elyse.

**Elyse Greenspan**

Hi, good morning. Could you hear me?

**Alan Schnitzer**

We hear you now.

**Elyse Greenspan**

Thank you. In terms of Business Insurance, I was hoping for the COVID-19 losses and I recognize in response to an earlier question maybe you aren't giving just the loss impact in Business Insurance specifically by line. But could you give us a sense of where you saw the majority of your COVID losses, that's ignoring the favorable impact in the second quarter? Just specifically within Business Insurance.

**Dan Frey**

Elyse, so that's what I had tried to do. We took \$114 million across the enterprise in direct COVID losses. None of that was in Personal Insurance. There was some component of Management Liability within Bond & Specialty Insurance, which Tom described in going through their combined ratio. But the majority of those dollars came through Business Insurance.

**Alan Schnitzer**

Elyse, are you asking for a breakdown by product line?

**Elyse Greenspan**

Yeah, I was hoping by product line, even if not in terms of dollars, you could just give us a sense of which Business Insurance product line saw the majority of your COVID losses?

**Dan Frey**

The largest line for sure is Workers' Comp. Some property losses, both domestically and internationally. And then dribs and drabs I would say in other lines. But those are the two drivers with the Comp by far being the largest.

**Greg Toczydlowski**

And, Elyse, I'd point you to my prepared comments where I did share that it was a modest net impact when we look at the offsetting on the favorable frequency on some of those lines also.

**Elyse Greenspan**

Okay, thanks. And then my second question is maybe a follow up on the prior question on Workers' Comp. We've heard a few folks in the industry, it seems like, starting to point toward the bottom of Comp in terms of just the pricing dynamics there. But if I go back to your comments throughout the call it doesn't sound like you guys are thinking that the rate declines that we've seen in the business are close to coming to an end.

So, if you could just help us think about Workers' Comp in terms of the pricing dynamic there and whether we might hit an inflection. And I'm not just talking 2020, perhaps into 2021 as well.

**Alan Schnitzer**

Elyse that's a great question. When you look at the information coming out of some of the rating bureaus and when we look at our own, we would say that we are sort of at or near a bottom in Workers' Comp pricing.

**Elyse Greenspan**

Okay. That's helpful. One last numbers question. Could you give us a – you said that they were small numbers but is there – could you give us a sense of the dollars in terms of the adverse development within General Liability and Commercial multi-peril in the quarter?

**Dan Frey**

We're not going to do that, Elyse. They're all pretty modest.

**Elyse Greenspan**

Okay. Thank you, I appreciate the color.

**Alan Schnitzer**

Thank you.

**Operator**

Your next question comes from the line of David Motemaden with Evercore. Please go ahead.

**David Motemaden**

Hi, thanks. Good morning. And Dan, I appreciate the comments that you made just before the Q&A, but I guess I'm just wondering if you could give us some sense of how you're thinking about COVID-related adverse impacts throughout the rest of the year. Just looking through your portfolio of exposures and thinking how it might be affected by COVID, even if the losses haven't occurred yet in the first half, and you have the exposure and you think there's a possibility that there could be a loss on it. Just wondering to get some thoughts there. Figured I'd take a shot at that.

**Alan Schnitzer**

Dave, good morning. It's Alan. Let me start with that and if I miss anything, I would like Dan to take it up. But we're not going to forecast future losses. Our obligation under GAAP is to report the incurred and unreported losses as of the balance sheet date and that's what we've done.

It's hard to forecast the future. There's some uncertainty. We don't know the trajectory of the disease. We don't know when we're going to have a vaccine. We don't know what the outlook for the economy is. And frankly it's probably the uncertainties for the economy that have the biggest impact of the pandemic on us. But I do think it's relevant to, and it's why we pointed it out a few times, that our net losses in the first half of the year were – or, net charges were about \$50 million bucks, putting aside the investment side. And we've put up that net number with a high degree of caution. So, I can't give you a number. I tried in my sort of line-by-line review to tell you some of the factors that we think about. But I think it's not irrelevant to that assessment to think about our experience in the first half of the year.

**David Motemaden**

Okay, great. That's helpful. Appreciate that, Alan. And then just one more. Excluding Worker's Comp, the renewal rate change was pretty strong. You said double digits. Wondering if we can get a finer point put on that and then just sort of how that compares versus the last few quarters. And also sort of thinking about, and I think Dan, you had mentioned you're looking at loss trend of 5% now in the updated thinking. And that's I guess what I should be comparing to the 7.4% renewal rate change that you got in the quarter?

**Dan Frey**

It's Dan. I think that's the right way to think about rate versus trend and that's the ballpark. I think we said previously the trend was around 4.5% percent in BI and we're taking it up about a half a point in the current quarter. But you've got to look at that in relation to the pricing momentum as well. And I think, Greg can correct me if I'm wrong, but the pricing momentum you see in this quarter is a reflection of the strength of the market and the continued need for rate.

**Greg Toczydlowski**

Yeah, Dan, the only thing I'd add there to your point outside of Comp all of our products were positive. And we feel great about that execution and mostly the changes line up with where the rate need is also.

**David Motemaden**

Okay, great. And if I could just sneak one more in on the adverse development in General Liability, hoping to get a little bit more color in terms of what you saw in the quarter that I guess brought you to make that change because I thought that most of the courts were closed during the quarter. I would think the paid would be nothing really accelerated during the quarter. Or was it more of an ongoing review that resulted in the change there?

**Dan Frey**

It's more the latter. And remember, as we're doing reserve reviews, especially in long tail lines like those, you're looking more backwards at your data. The actual loss environment of May and June, we're aware of it but it's not really – you don't have enough time to gather all that data and fully factor it in to the reserve view that you're making at that time. A little more of that is still backward looking in terms of the way things have developed, say, through the first quarter.

**Alan Schnitzer**

Again, as Dan noted in his remarks those were relatively small movements.

**David Motemaden**

Yep, great. Understood. Thank you.

**Operator**

Your next question comes from the line of Paul Newsome with Piper Sandler. Please go ahead.

**Paul Newsome**

You've hit the big ones for me but one just quick one. From an investment perspective, do you have expectations that we would see increased defaults as well come through in, I guess it'd be mostly unrealized? And is that sort of booked into the investment expectations that you gave us this quarter as well? I'm thinking the actual defaults that we might see from the recession.

**Dan Frey**

Hi Paul, it's Dan. We gave a fair amount of detail and did a fair amount of commentary on the construct of the investment portfolio and our comfort level with the way we thoughtfully invested. And we've given you an update of that investment detail again in the appendix of the webcast presentation this quarter. I wouldn't say more than we said I think last quarter in terms of feeling really good about the way we've managed risk on the asset side of the balance sheet. Clearly, we're aware of and looking at and have a regular process to assess credit impairment and default rates and all of that stuff is baked into our numbers. But it's really not a big impact on us given the thoughtful investment approach in the first place.

**Paul Newsome**

Has ratings migration had much of an impact yet, if at all, on the capital calculations for you guys?

**Dan Frey**

No, it has not.

**Paul Newsome**

Great. Well, thank you.

**Alan Schnitzer**

Thanks, Paul.

**Operator**

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

**Brian Meredith**

Yes, thanks. Just two quick ones here. First one, what was the impact of premium adjustments on the BI written premium this quarter? Like Comp and CMP?

**Dan Frey**

I'm not sure I understand the question, Brian.

**Brian Meredith**

Meaning reevaluating employment stuff on Workers' Comp. You usually do it in the fourth quarter, but were there any kind of early ones where you adjusted premium to reflect what it's going to look like for the year?

**Dan Frey**

So, I wouldn't say we normally do it in the fourth quarter. I think what you're referring to is what we do when the policy period has ended for us. There has been some, and we've been open to it. There've been some more requests by customers to do some of that mid-term. But all of

that's baked into our production statistics and the written premium numbers we report for the quarter, Brian, and just don't break out that one piece.

**Brian Meredith**

Okay. Thanks. And then the second just quick question just to understand the 50-basis points of increase and trend in BI, is that inclusive of what you're seeing with respect to COVID-19 and maybe the benefits or adverse stuff you're seeing on COVID-19? Or is that more related to what's going on with just general kind of tort inflation and some of the increase you saw on your GL reserves and your CMP reserves?

**Dan Frey**

I think we consider everything, Brian, included in there. There are some puts and takes, and the net of the puts and takes was a half a point increase to the trend.

**Brian Meredith**

Great. And just following on that, Alan, you made some comments about maybe some favorable stuff happening in the court system as far as some early quick settlements. But in general, what's your take on what's going on with tort right now? And could we potentially see an increase in tort inflation as a result what's going on with COVID-19?

**Alan Schnitzer**

I think we certainly could. And that's one of the reasons why we're such big proponents of liability reform. I think it's important in terms of making sure we're protecting the nation's recovery from the pandemic. I think you hear a lot of rhetoric out there on that topic. But everything we see and everything we're anticipating is in that loss trend number.

**Brian Meredith**

Great. Thank you.

**Alan Schnitzer**

Thank you.

**Operator**

And we have time for one more question, coming from the line of Jimmy Bhullar with JPMorgan. Please go ahead.

**Jimmy Bhullar**

Good morning. So first I had a question on just the Commercial Auto business if you could talk about what you're seeing in terms of frequency. Is that picking up as traffic's been increasing recently? And then relatedly just your views on the rate adequacy in that line given that you've been raising prices for a while or do you think rates need to go up further?

**Greg Toczydlowski**

Hi, good morning, this is Greg. We certainly have seen some favorable frequency activity as the shelter-at-home has taken place, certainly not to the levels of Personal Insurance. And just as a reminder in Commercial Auto, it's a little unique than Personal, where we do have lay-up credits or premium credits when there's limited use. And so there's a slight offset as we see that frequency, we have mechanisms to give that back. Now as the economy is starting to reopen, we're seeing that frequency moderate.

**Jimmy Bhullar**

Thanks. And on the Personal Auto side are you assuming or expecting additional refunds in the third quarter as well?

**Michael Klein**

We don't have further refunds planned in Personal Auto. I think like many we're looking forward at what rate adequacy is over time and looking at more traditional mechanisms like rate filings to make sure that rate's in line with loss trend and loss costs. In Personal Auto, the refunds really were a mechanism to respond to an acute issue in the early days of the pandemic. That's sort of the way we're thinking about it.

**Jimmy Bhullar**

Okay. And then just lastly you mentioned a majority of the COVID losses were related to Workers' Comp. You didn't really mention anything about Business Interruption and I'm assuming those losses were pretty modest. But is that more because you haven't seen a lot of claim submissions or is just you have seen submissions, but your view is that those claims are uninsured given the policy language?

**Alan Schnitzer**

We've certainly seen some submissions. And there's some claim activity around it and even some litigation around it. As we've noted, we've got provisions in our policies that we think make that coverage inapplicable and so we don't expect many of those claims actually to pay up.

**Dan Frey**

It's Dan. One more related comment to that. Even where we don't expect ultimately to pay the indemnity on a loss, we have acknowledged in our reserves the fact that we'll spend some money defending against claims that come in for Business Interruption.

**Jimmy Bhullar**

Okay. And on COVID, is that the line where you see the most uncertainty in terms of claims given what's happened in terms of litigation activity or are there other lines where there's not a lot of clarity based on what's happened so far?

**Alan Schnitzer**

I don't think there's a lot of uncertainty around Business Interruption. I mean, certainly there's some because there's some litigation and there's always uncertainty when you have litigation. But we've got the requirement for direct physical damage. We've got two courts that have upheld that so far. And we've got a specific virus exclusion in our standard policy forms. So, we don't actually see a lot of uncertainty there and we don't expect that to be a material loss contributor for us.

**Jimmy Bhullar**

Thank you.

**Alan Schnitzer**

Thank you.

**Operator**

I will now turn the call back over to Abbe for closing remarks.

**CLOSING REMARKS****Abbe Goldstein**

Thank you all for joining us this morning. Appreciate it. As always, if there's any follow up please get in touch with Investor Relations and we're happy to answer your questions. Be well and have a good day. Thanks.

**Operator**

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

### **Forward-Looking Statements and Non-GAAP Financial Measures:**

This transcript contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as “may,” “will,” “should,” “likely,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates” and similar expressions are used to identify these forward-looking statements. These statements include, among other things, the Company’s statements about:

- the Company’s outlook and its future results of operations and financial condition (including, among other things, anticipated premium volume, premium rates, renewal premium changes, underwriting margins and underlying underwriting margins, net and core income, investment income and performance, loss costs, return on equity, core return on equity and expected current returns, and combined ratios and underlying combined ratios);
- the impact of COVID-19 and related economic conditions, including the potential impact on the Company’s investments;
- the impact of legislative or regulatory actions taken in response to COVID-19;
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company’s asbestos and other reserves;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the potential benefit associated with the Company’s ability to recover on its subrogation claims;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment (including changes in interest rates), economic (including inflation, changes in tax law, changes in commodity prices and fluctuations in foreign currency exchange rates) and underwriting market conditions;
- strategic and operational initiatives to improve profitability and competitiveness;
- the Company’s competitive advantages;
- new product offerings;
- the impact of new or potential regulations imposed or to be imposed by the United States or other nations, including tariffs or other barriers to international trade; and
- the impact of developments in the tort environment, such as increased attorney involvement in insurance claims and legislation allowing victims of sexual abuse to file or proceed with claims that otherwise would have been time-barred.

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 by, such forward-looking statements.

The Company cautions 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, such forward-looking information and statements.

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

- high levels of catastrophe losses, including as a result of factors such as increased concentrations of insured exposures in catastrophe-prone areas, could materially and adversely affect the Company’s results of operations, its financial position and/or liquidity, and could adversely impact the Company’s ratings, the Company’s ability to raise capital and the availability and cost of reinsurance;
- if actual claims exceed the Company’s claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal/tort, regulatory and economic environments in which the Company operates or the impacts of COVID-19, the Company’s financial results could be materially and adversely affected;
- the impact of COVID-19 and related risks, including on the Company’s distribution or other key partners, could materially affect the Company’s results of operations, financial position and/or liquidity;
- during or following a period of financial market disruption or an economic downturn, such as the current environment, the Company’s business could be materially and adversely affected;
- the Company’s investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses, particularly in the current environment;

- the intense competition that the Company faces, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which it operates, could harm its ability to maintain or increase its business volumes and its profitability;
- the Company's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape could adversely affect the Company;
- the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances;
- the effects of emerging claim and coverage issues on the Company's business are uncertain, and court decisions or legislative or regulatory changes that take place after the Company issues its policies, including those taken in response to COVID-19 (such as effectively expanding workers' compensation coverage by instituting presumptions of compensability of claims for certain types of workers or requiring insurers to cover business interruption claims irrespective of terms, exclusions or other conditions included in the policies that would otherwise preclude coverage), can result in an unexpected increase in the number of claims and have a material adverse impact on the Company's results of operations;
- the Company may not be able to collect all amounts due to it from reinsurers, reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all and the Company is exposed to credit risk related to its structured settlements;
- the Company is exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that it has with third parties, which risk is heightened in the current environment;
- within the United States, the Company's businesses are heavily regulated by the states in which it conducts business, including licensing, market conduct and financial supervision, and changes in regulation may reduce the Company's profitability and limit its growth;
- a downgrade in the Company's claims-paying and financial strength ratings could adversely impact the Company's business volumes, adversely impact the Company's ability to access the capital markets and increase the Company's borrowing costs;
- the inability of the Company's insurance subsidiaries to pay dividends to the Company's holding company in sufficient amounts would harm the Company's ability to meet its obligations, pay future shareholder dividends and/or make future share repurchases;
- the Company's efforts to develop new products, expand in targeted markets or improve business processes and workflows may not be successful and may create enhanced risks;
- the Company may be adversely affected if its pricing and capital models provide materially different indications than actual results;
- the Company's business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology, particularly as its business processes become more digital;
- if the Company experiences difficulties with technology, data and network security (including as a result of cyber-attacks), outsourcing relationships or cloud-based technology, the Company's ability to conduct its business could be negatively impacted. This risk is heightened in the current environment where a majority of the Company's employees have shifted to a work from home arrangement;
- the Company is also subject to a number of additional risks associated with its business outside the United States, such as foreign currency exchange fluctuations (including with respect to the valuation of the Company's foreign investments and interests in joint ventures) and restrictive regulations as well as the risks and uncertainties associated with the United Kingdom's withdrawal from the European Union;
- regulatory changes outside of the United States, including in Canada, the United Kingdom, the Republic of Ireland and the European Union, could adversely impact the Company's results of operations and limit its growth;
- 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 the Company's products could reduce the Company's future profitability;
- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;
- the Company could be adversely affected if its controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;
- the Company's businesses may be adversely affected if it is unable to hire and retain qualified employees;
- intellectual property is important to the Company's business, and the Company may be unable to protect and enforce its own intellectual property or the Company may be subject to claims for infringing the intellectual property of others;

- changes in federal regulation could impose significant burdens on the Company, and otherwise adversely impact the Company's results;
- changes in U.S. tax laws or in the tax laws of other jurisdictions where the Company operates could adversely impact the Company; and
- the Company's share repurchase plans depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, changes in levels of written premiums, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors, including the ongoing level of uncertainty related to COVID-19.

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 forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on July 23, 2020 and in our most recent annual report on Form 10-K filed with the SEC on February 13, 2020, in each case as updated by our periodic filings with the SEC.

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](http://Travelers.com).