TRAVELERS

Barclays Global Financial Services 2018 Conference
September 12, 2018

CORPORATE PARTICIPANTS

Alan Schnitzer - *Chairman and Chief Executive Officer*

INDUSTRY PARTICIPANTS

Jay Gelb – *Moderator, Senior U.S. Insurance Analyst at Barclays*

This transcript is a textual representation of a webcast and is provided by Travelers only for reference purposes. This transcript should be read with the accompanying webcast. While efforts are made to provide an accurate transcription, there may be inaccuracies or omissions in the attached transcript. The information in this transcript is current only as of the date of the webcast transcribed herein and may have subsequently changed materially. Travelers does not update the information in this transcript to reflect subsequent developments or to delete outdated information and assumes no duty to do so. For further information, please see Travelers reports filed with the SEC pursuant to the Securities Exchange Act of 1934 which are available at the SEC's website (www.sec.gov). Please also see the Explanatory Note at the end of this transcript.

Jay Gelb: Good morning, everyone. I'm Jay Gelb. I'm the Senior U.S. Insurance Equity Analyst here at Barclays. Thanks to everyone for joining us today. It's our great pleasure to have Travelers' Chairman and CEO, Alan Schnitzer, with us today. Travelers has been a fixture at the Barclays Financials Conference for over a decade. Travelers is among the largest commercial and personal lines property casualty companies in the U.S. with a superior track record of creating shareholder value. Alan, thanks for joining us.

Alan Schnitzer: Thanks, Jay. It's good to be here.

Jay Gelb: Alan, to start off, could you describe the current operating environment for Travelers?

Alan Schnitzer: Sure. I would say now, and I would say almost always, the current operating environment for us is honestly just fine. In every quarter there's always something to talk about, right? We could talk about storms barreling toward the East Coast. We could talk about frequency and severity in some line. And we could talk about workers' comp pricing. And sometimes industry observers get very narrow in their focus on the operating environment. We think about the operating environment as long-term stewards of capital and, as you said, making sure we're creating superior returns. So for us, you give us a level playing field and the operating environment is just fine. And by the way, tax reform went a long way, I think, to eliminating one significant issue in the level playing field for us.

But in the markets in which we operate, and I don't think this is true for all markets in the broader insurance industry, but for the markets in which we operate, we've got important barriers to entry and important competitive advantages. And I'll just take Florence as an example. We've got something like 500 licensed commercial drone operators that are ready to go in after the storm, and things like that will have a difference in our ability to handle claims after that storm. And we've got the data and the expertise and the modeling capability to predict opioid addiction as a function of chronic pain, and we've got 500-or-so nurses who can activate that kind of information. We've got product breadth. We've got, I think, unmatched relationships with distribution. So in the markets in which we operate, real barriers to entry, real competitive advantages, and I would say we've got a track record, too.

You look at the way we've operated our businesses over time. You would have said the financial crisis was a tough operating environment. And look at our bond and specialty business. That's a collection of credit-sensitive businesses and we've got a track record of managing that through a very difficult environment. Look at the way we've operated business insurance in 2010-2011. When we needed rate, we got it. We needed rate in personal lines, too. The market didn't give it to us. And we took a step back, retooled that business, did the really hard work of taking out $140 million of costs and put that business on a path to success.

So you can look at any one quarter or any one moment in time and lots of things to talk about. Again, we think about this long-term stewards of capital. You give us a level playing field and we think we'll outperform.

Jay Gelb: Excellent. Okay. Well since you sort of mentioned it at the outset, I know the potential impact from Hurricane Florence is on a lot of investors' minds. Any initial thoughts there?

Alan Schnitzer: Yes. My initial thought is heart and prayers, thoughts, go out to everybody in harm's way. And let's hope it's not what it could be from that perspective. And here we are, 24-36 hours out from landfall. We've been planning for some time to make sure that our staging is in place, our claims operations are ready for this, that we've got our mobile cat vans positioned to go in after the storm. So our focus right now is on operational preparedness. After Harvey and Irma, we closed 90% of our property claims within 30 days of the event. And that's through a lot of hustle by a really excellent claims department and really military-grade logistics capabilities. And we will bring that same thing to bear on this storm. This is what we do. This is the moment in time to make believers out of our customers, our agents, our brokers and the communities that we're privileged to serve.

I'm sure what everybody would love me to give is a point estimate for our losses from this event, which, of course, we can't do. We're 24-36 hours away from it actually even hitting. A lot of unknowns. And it will be bigger than a breadbox, for sure, but we expect manageable.

Jay Gelb: Fair enough. Okay. Regarding some recent news for the company, Travelers' long-time CFO, Jay Benet, recently announced he'll be stepping back from that role. Could you provide some insight in how investors should view that transition?

Alan Schnitzer: Yes. Jay Benet -- well, the way investors should think about that is completely foreseeable and completely ordinary course. Having said that, Jay Benet has been, I think, maybe one of the best CFOs in financial services. He's been a wonderful, wonderful friend to me. And so you always sit back and take notice when you have a change like that. But the way investors should think about this is Jay Benet is 65. He's been in that role for 15 years. And we take succession planning and things like this very seriously and we've got contingency plans for every key role in the company, whether we expect it or not. This is one we expected.

So completely foreseeable. We've got terrific succession plans in place. Dan Frey, who grew up in public accounting, he's been a CFO of a public company. He's been at Travelers for 15 years, currently in our personal insurance business, but he's got experience in the claim department and in our business insurance business. He's going to step into the role without missing a beat. And importantly, as a footnote, Jay Benet is not going anywhere. Fortunately, for me and for all of us, he's going to stay on at the company on the leadership team as Vice Chairman and we'll continue to be able to draw from his wisdom and experience.

Jay Gelb: Great. Travelers' objective is to deliver mid-teens core return on equity over time. The company's return on equity was 10% in the first half of this year including the impact of catastrophe losses. And since 2005, the company's return on equity has averaged 13%. How achievable do you think a mid-teens return on equity is over the next few years?

Alan Schnitzer: Yes. So let me put that in context. We established that mid-teens objective back in 2006 when the 10-year Treasury was something like 5%. And there wasn't anything magic about the phrase "mid-teens" at that time. What we were trying to express was the quantification of what, in that environment, would be an industry-leading return on equity if it were achieved over time. We're obviously not in an environment of a 5% 10-year Treasury. We're in the environment of what's been historically very low 10-year Treasury, even now just creeping back to, I think, slightly under 3% this morning. And even that, even as the interest rates tick up, that will have a lagging beneficial impact on net investment income.

So the short answer is, and we've said this for some time, as long as interest rates are at relatively low levels by historical standards, getting back to what is a mid-teens is going to be a tall order and a challenge. But what we aspire to do and what we are confident we think we can do is deliver industry-leading returns.

Jay Gelb: Okay. Let's discuss the commercial P&C cycle and catastrophe exposure. The commercial pricing cycle has been in a modest upward trend since large industry catastrophe losses impacted industry results a year ago, with the trend of elevated catastrophe losses continuing so far in 2018. Have domestic business insurance renewal rate trends continued to improve so far in the third quarter relative to the second quarter when, I believe, they were up 2.1%?

Alan Schnitzer: Yes. Let me share a graphic with you. I'll answer your question, but let me share a graphic that I hope will provide some context for this. I can't see that. I've got one here. Let me pull this out.

So to answer your question, then I'll put it in some context. So in the second quarter, pricing was around 5 and pure renewal rate was around 2. Industry observers like to talk about this in tenths. We don't look at it quite that granularly. It was about 5 in terms of renewal premium change, about 2 in terms of pure rate. And that's after giving effect to workers' comp, which we all know has been challenging in terms of pricing.

Going forward, at least into the third quarter, what we would expect, generally speaking, is stable pricing. Renewal, pure renewal rate change will be up year-over-year in the third quarter. It will be, I think, the ninth consecutive quarter of positive renewal premium change. But I'd expect that maybe pure rate could tick down a couple of single-digit tenths of a point.

And let me put that comment in a little bit of context. So I've plotted on this chart from 2006 to the second quarter of 2018 both pure rate, which is red, and renewal premium change, which is in green. And go back to the 2011 period, which is sort of the last time that pricing went from a negative to a positive. And then look at the period from 2006 until that point in time. And what you have there is about 18 quarters of rate that reached a low of something like, round numbers, negative 5. Right? So there's a lot of compounding negative price there and an impact on margin.

So now, fast forward to the last time pricing made a move. And so look at sort of the 2016 period. And what you see there by contrast is when rate and price made a bottom in that more recent cycle change, it bottomed out at something at around zero, right? We didn't have 18 quarters of negative price. And so that puts us in a very different position as we're moving forward from there. And by the way, this is very consistent with what we've been saying for about 10 years, which is we expect the amplitude of the pricing cycle to get smaller. And I think this is an illustration of that.

This is all background to a point I've also been making, we've also been making, for probably a year or two, which is what we aspire to is a pricing environment -- and by that I mean rate and exposure because, as we've discussed, there's an important part of exposure that behaves like rate -- but what we aspire to is an overall pricing environment that is keeping up with loss cost inflation. And for sure, there are going to be moments in time and there are going to be products when we need a little bit more or a little bit less or maybe even a lot more or a lot less, but broadly speaking, an environment would be terrific if we had sustained stable price increases that were, broadly speaking, keeping up with inflation. That would be great for our customers. It would be affordable for them. And importantly, and we hear this a lot from our agents, our brokers and our customers, what's important for them is predictability. They want to know what they can put in their budget next year for insurance pricing so they can plan around it. The very big swings we've had on a lagging basis over the course of the last couple of decades is really disruptive to the marketplace. So I think we and our agents, brokers and customers all benefit form something that's sort of mid-single-digit, stable pricing.

And in addition to that sort of macro, just broader macro, commentary, a couple of other comments. You look at that, you cited, to the tenth of a point, 2.1 points of rate in the second quarter. That is a very, very blunt instrument, right? That is the headline number that reflects all the pricing actions on something like 175,000 accounts and $2.5 billion of premium. We rarely think about that headline number. What we think about is the next account that we're executing on. What it is it we need to do on that account to get to our return objectives?

And we're not narrowly just managing rate. We're managing all the levers or production. So we're thinking about rate. We're thinking about retention. And we're thinking about new business. And I'll just remind you, retention has been hanging in there at really all-time highs, which is, we think, is a reflection of the very stable marketplace and the fact that we really like our book of business. And new business has been healthy too, which is a reflection of, one, a lot of hustle from an excellent field organization, and the successful execution of some initiatives that we talked to you about at our last investor day.

And then the last point I would make on this is, in addition to the production levers for margin, I'll just remind you, as I try to do all the time, there are non-production levers that we're pulling all the time. So whether that's claims handling, whether that's expenses, whether it's the way we buy reinsurance, more recently you look at net investment income, you look at the tax rate; there are other levers to margin. I wouldn't focus too much, given all that, on the tenths of a point on pure rate.

Jay Gelb: Okay. Thank you for all that detail. It's very helpful. As we're kind of thinking about the third quarter, it sounds like the basic price increase in the third quarter will be less than

2Q. That's a function of exposures as well as pure rate. So is it, that downdraft in the pace of pricing, is that exposure as well as rate-driven or just more rate?

Alan Schnitzer: We haven't even closed the books from the quarter yet so I'm giving you a little bit of a macro perspective. You said down. I did say pure rate single-digit decrease. Exposure, I don't have the same kind of visibility into. That could come in higher. It could come in lower. It could come in about the same. I would actually describe the overall pricing environment as stable, would be my comment.

Jay Gelb: Okay. That's helpful. As you kind of mentioned, as part of that, workers' compensation rates have probably been one of the more substantial lines of business in a downdraft. And I believe that's a large part of Travelers' business. How is Travelers addressing that issue on workers' comp.

Alan Schnitzer: Yes. First I'd say we really like the workers' comp business. We've got a big book of business. We've got a sophisticated organization that manages that and we think we're good at it. And you talked about the downdraft in pricing, which is true, but the good news there is that's a function of the fact that we've had really good returns in that business. So that's a good thing.

And I guess I would tie my answer to this question, to your comment on how's the operating environment for us because that's a classic operating environment observation and that's a classic kind of a thing that people will focus on in a particular given quarter. We are active managers of our business. And so you give us a level playing field and a circumstance, we're going to manage through it. And we've always -- I mean I think this is particular to workers' comp given the regulated nature of that product in particular, that you get some pricing cycles. They tend to lag a little bit. And so we'll go through a cycle there. But given our competitive advantages, given that we're active managers of the business, we've got the ability to decide on risk selection. We've got the ability to think about claims handling and other levers. And we'll manage through this and we'll outperform over time.

But as we think about that business, we like it. We're not so focused on what's happening in the second quarter or the third quarter in terms of pricing narrowly. We're focused on managing that portfolio to success over time.

Jay Gelb: Of course. Okay. As we look back on the substantial industry catastrophe claims activity in 2017 from the hurricanes and wildfires, did that change anything in terms of how Travelers addresses its own catastrophe exposure including its reinsurance protection?

Alan Schnitzer: We have big events and we always ask ourselves two questions following big events. The first is; did we expect that event to happen? Was that in our playbook, so to speak? And secondly; given that event, whether we expected it or not, were our losses coming out of that event what we would have expected from that event? And those are two important questions to ask. And doing a post mortem, we always learn something. And I would say, for the most part, what we've seen over the last -- because we have had a fair amount of activity the last four, six quarters -- I would say for the most part we look at those questions and say, yep, that event was in our playbook and yep, our results are about what we would have expected.

If there's one event in the last six-or-so quarters that we learned more from than others, I would say it was the wildfires in the fourth quarter of last year. So we'll take that learning and we'll incorporate that into our underwriting and our claims handling. Also, just with the passage of time, we'll take the results from last year and the last six or eight quarters. That will then populate our models as time marches on. And so that data will be in our modeling and we will start to evaluate that. We'll make our own judgments over how to weight modeling, right? Modeling looks at historical information over a period of time. So how do we think about the relative weighting of older periods versus newer periods? So we'll make assessments in there.

And we and the rest of the industry, we're always investing in thinking about the sophistication of modeling. And there is a wide disparity in the sophistication of modeling. And so on the one hand you've got hurricane modeling. That's probably among the most sophisticated catastrophe modeling that we have. On the other hand, the least-developed -- and this is not a Travelers issue; this is an industry issue -- the least-developed modeling we have is probably wildfires. And so that modeling will, given recent events, that modeling will get investment and more sophistication and that will come along.

And you asked about reinsurance. As you know, we do buy reinsurance. We have a catastrophe reinsurance program. That has a relatively high attachment point and that really is meant for balance sheet protection. But we do have, this isn't quite so visible from the outside in, we do use reinsurance treaties. We do place a not insignificant amount of Fac. And so there is always a difference between our net and gross after a catastrophe. So we try to be -- we buy reinsurance on what we believe is an economic basis. We're not looking for the cosmetic benefit from reinsurance. We're looking to buy reinsurance where we think, from an economic perspective, it will create value for our shareholders. And we are constantly, as the market changes for reinsurance and as we think about our experience thinking about ways to buy reinsurance in sophisticated ways.

Jay Gelb: That makes a lot of sense. As we just discussed, California wildfires were a substantial industry event in 2017. They're raging again currently. Any thoughts in terms of how investors should be thinking about the wildfire exposure from an insurance standpoint now?

Alan Schnitzer: Yes. I mean hard to compare 2018 to 2017 because we've got three-and-a-half months to go. And if you remember last year, the wildfires in California were predominantly a fourth quarter event. And then you had the mudslides in the first quarter of this year. So hard to compare apples to apples.

If what you're comparing is the experience so far in 2017 -- I mean the experience so far in 2018 versus 2017, the Carr fire in California is the one that sticks out. That will qualify -- this is just a pure definitional basis for us -- that will qualify as a catastrophe as we account for it. But that event and our experience are an order of magnitude smaller than the experience we had in the fourth quarter of 2017. But again, the year is not over. So we'll have to get through this year and then we can compare the two years.

Jay Gelb: Right. That's very helpful. Let's turn to the U.S. economy. Travelers is among the largest insurers of businesses in the U.S., which gives it unique insight into economic activity. The company has generated 6% growth in net written premiums year-to-date, which includes pricing, new business, business retention. What trends are you seeing among Travelers' business insurance customer base?

Alan Schnitzer: Yes. So first of all, I'm really pleased with the 6% premium growth. And for sure, the economy is a good thing for us and that's a help. That premium growth also comes from, again, a lot of hustle from a terrific field organization. And we told you at our investor day last year that most of the initiatives that we were investing in were designed to create top line opportunity for us. And so it's still early days, but we are seeing the benefit of that and we like what we see looking ahead.

First quarter real GDP growth, I think, was something north of 2%. Second quarter real GDP growth was something north of 4%. And we're seeing that. We look at some industry sectors. For example, construction and oil and gas seem to be benefiting robustly. But I would say, broadly speaking across the board, what we see in our numbers and what we're feeling in terms of sentiment is positive.

Jay Gelb: Excellent. Do you notice any particular differences in these trends among, say, small, mid-sized and large businesses?

Alan Schnitzer: Yes, not so much. Again, construction, oil and gas seem to be benefiting maybe a little bit disproportionately in our book, but again, those kinds of numbers, those kinds of GDP growth numbers, I think we're seeing it in our numbers and feeling it on a pretty broad-based basis.

Jay Gelb: Okay. Any perspective on whether demand for insurance coverage could increase as a result of economic expansion?

Alan Schnitzer: Yes. Yes, for sure. We're in a business of insuring the output of the economy. So as you have economic growth, there's more insured exposure and more demand for insurance. There is also probably another subtle factor at play. This maybe at the margins and this is hard to measure, but you've got a robust economy, you've probably got people that are buying insurance buying insurance adequately. You have a struggling environment, companies are struggling, maybe you cut corners a little bit on what you do with your insurance program. But I think that's probably subtle, hard to measure in at the margin.

Jay Gelb: That's an interesting point. Higher interest rates have boosted the company's recurring investment income. How much more benefit could investors expect?

Alan Schnitzer: Yes. So in the third and fourth quarters of this year relative to the third and fourth quarters of last year, we expect our after-tax net investment income from our fixed income portfolio and our short-term investments to be somewhere between $55 million and $60 million higher than the corresponding periods in the prior year. That's not all reinvestment rates, by the way. Reinvestment rates are helping, but so is lower tax rate, higher invested assets. But after-tax net investment income essentially from the fixed income portfolio, $55 million to $60 million per quarter more than the prior year. Into the first and second quarter of next year, about $20 million to $25 million higher than the corresponding periods in this year. Essentially same factors at play, except we've got the same tax rate in both periods so you don't have that benefit. But first and second quarter of next year will also benefit from higher reinvestment rates and higher invested assets.

Jay Gelb: That's a favorable trend. At the same time, inflation also appears to be increasing. How has this impacted Travelers' underwriting margins and perhaps its reserve adequacy?

Alan Schnitzer: Inflation, for all the right reasons, gets a lot of focus from industry observers and from us. But there's a very, very big difference between inflation going from 1% to 2% and inflation going from 1% to 8%. I think I read this morning that Producer Price Index was out for August and it was actually down a tenth of a point as opposed to two-tenths of a point of inflation anticipated. So we're not talking about huge swings in inflation. We're talking about inflation that was probably less than the target to something that's probably closer to what's targeted.

And some of that is good for us. To the extent that that inflation shows up in exposure, to the extent it shows up in insured values going up, to the extent that it reflects in payrolls going up, that's exposure for us that behaves like margin. And so, on balance, that's probably a good thing for us. Net investment income probably benefits from that going up. So a good thing.

And you think about inflation and what we have in our mind, really, I think in our consciousness, is CPI type of measure for inflation, and that's not something we're so highly leveraged to. That maybe affects the short tail lines of businesses proportionately. We can price for that. We're more highly leveraged to wage, medical prices wage and tort inflation. And so again, current levels of inflation and what we anticipate, it's all manageable and, in many respects, not a bad thing, a good thing for us.

Jay Gelb: Great. So switching gears to the key topic of acquisitions and industry consolidation. How is Travelers approaching the potential for further industry consolidation?

Alan Schnitzer: I would say; exactly like we always have, which is very actively. We are very active and interested in creating shareholder value where we can through mergers and acquisitions. People should expect that we're thinking about it and actively thinking about it.

Having said that, there are no glaring gaps in our strategy that we necessarily feel like we need to fill. Our portfolio and our platform, it's not lacking and we think we can create lots of shareholder value and success from what we have, but that doesn't mean that we're not actively looking to try to create shareholder value through acquisitions. And we've got a lens that says we're looking for three things. We're looking to improve our return profile. We're looking to reduce volatility. And we're looking to invest in other important strategic capabilities that advances our innovation agenda. And so when we can find those things and we can negotiate those deals on terms that we think make sense for our shareholders, we'll make every effort to get those done.

Jay Gelb: Would that potentially include large-scale deals, which hasn't been the case over the past couple years, as well as bolt-ons?

Alan Schnitzer: I wouldn't rule anything in our out. We are actively looking at things of all sizes, things that are in our traditional industry and things that may or may not be traditionally core to insurance that would provide important capabilities as we think about the things we need to have to be successful for the next 10 years. And so we don't rule anything in our out. And I don't think you, as industry observers, should rule anything in or out for us.

Jay Gelb: Of course. Okay. The company's expense ratio was 30.6% in the first half of this year, which improved 30 basis points year-over-year. Could Travelers' expense ratio further improve over time, taking into account ongoing investments in the business?

Alan Schnitzer: The answer to that is; absolutely yes, it could. But let me give you a little bit more context. So we've got a very active, very aggressive innovation agenda. And we've got three priorities sitting underneath our innovation agenda. One is to extend our lead and expertise in risk. And that's always been a core hallmark of Travelers and we will continue to invest in excellence in understanding risk and the products and services our customers need. Second, we will focus on great experiences for our customers, our agents and brokers and our employees. And we will invest in that. And third, from an innovation perspective and just in the way we run and operate the business, we are highly focused on productivity and efficiency. It's really important to us. Now, could that result in a lower expense ratio? Absolutely, it could. Some of what you're seeing now in our expense ratio not just this year, but last year as well, was the result of very specific initiatives we've had underway.

But I'm not targeting a particular expense ratio. What we're really trying to achieve is financial flexibility. And so we would, through productivity and efficiency initiatives, like to create the flexibility, one, to let those dollars fall to the bottom line; two, to take those dollars and continue to invest them where we think we can create shareholder value; or, three, put it into pricing without compromising our return threshold. So again, we're focused on productivity and efficiency, but to create flexibility, not necessarily for the expense ratio.

Jay Gelb: Excellent. Okay. One last one before we go to the audience response systems. Travelers' robust capital management strategy has set a high bar for the rest of the property casualty insurance industry. The company returned $1.15 billion of capital to shareholders so far this year. Could you describe how Travelers approaches the capital management process?

Alan Schnitzer: Yes, it's really very simple. The starting point for that conversation are our capital adequacy ratios. And so we want to maintain our capital ratios at a strong AA level. So that's the starting point. Beyond that, we take our operating income. We look at that. We generate a lot of capital every year. And our first objective for every single dollar of capital that we generate is to invest it back in the business when we think we can create shareholder value by doing that. And we do that. We've been investing in capabilities and important strategic initiatives for forever and we will continue to do that.

But we generate more capital than we need to do that or that we can effectively deploy and when that's the case, we're going to do the responsible thing, which is to give it back to shareholders, really through two means, dividends and share repurchases. We understand that we've got a component of our shareholder base that wants a dividend and we want to create a competitive dividend yield for that component of our shareholder base. But this is insurance. We've got wildfires. We've got hurricanes. We've got other unpredictable events. And so we take that into account and we set our dividend level at a rate that we think that hopefully, under any foreseeable circumstance, we're not going to have to lower it; that we can hang in there with it. And so that's sort of the dividend philosophy.

And the rest of it we're going to give back through share repurchases. And we're not traders. We're not market-timers. We're going to dollar cost average and buy it back over the course of a year. And since we started this program in 2006, we've returned more than $40 billion of capital to shareholders, which is more than the market cap of the company when we started. We've done that while investing in strategic initiatives, investing for tomorrow. And we bought those shares back at an average price of about $65 a share.

So we feel really good about the way we've balanced investing for tomorrow to make sure that we can continue to lead in this industry and making sure that we're really thoughtful stewards of capital for our shareholders.

Jay Gelb: Makes a lot of sense. Let's go to the audience response system. So all the folks, all the audience members have a remote in front of you. We can start the clock.

So first question is; if you currently don't own the shares of Travelers or are underweight, what would cause you to change your mind? We've got about 10 seconds to key in and we'll see the results. We should have the results coming up here pretty soon.

All right. So pretty evenly split here. Around a third of the respondents saying they'd like to see a tighter property casualty market, a quarter saying improved return on equity, and around a third saying a lower valuation.

Alan Schnitzer: Yes. For those of you rooting for lower valuation, we're hoping not to help you out, by the way.

Jay Gelb: All right. Let's get the next question, please. Travelers' operating ROE is 10% in the first of this year including elevated catastrophe losses. Since 2005, the operating ROE has averaged 13%. And audience expectations for ROE over the next couple years would be. Start the clock.

So the view among attendees here is two-thirds saying between 10% and 12%, around a quarter saying 12% to 14%. Thoughts?

Alan Schnitzer: Yes. I think as far as we're going to go in terms of guidance is what we say in our 10-K and our 10-Q and our outlook. And so what we aspire to do is generate an industry-leading return on equity and we could continue to do that.

Jay Gelb: I mean I would think even with elevated cat losses, 10% in the first half, given the buyback pace and you mentioned upside to investment income, it doesn't sound like there's a lot of margin pressures. So I feel expectations are maybe on the low side. That's my view.

All right. Next question, please. All right. Audience expectations for Travelers' underlying combined ratio excluding catastrophe losses, prior-year reserve development. That number was 93% in the first half of this year. And directionally, what is your expectation over the next several years? Let's get the audience perspective on that. Directional improvement, no change or, perhaps, deterioration.

The view among attendees here is kind of split here. Almost 40% saying modest improvement, 35% saying no change, and 20% saying modest deterioration.

Alan Schnitzer: The comment I'm going to make here is we do try to give some sense of the way we're thinking about forward margin, underlying margin, in the outlook section of our MD&A in our 10-K and 10-Q. And I encourage you all to read that. My guess is that you all do. That is always is essentially a qualitative higher, lower or about the same. And we really try to give that sort of on a year-forward look.

I think the mistake a lot of people make is they look at that and say; okay, from that, I'm going to derive a perspective on guidance for next quarter. And it really is not meant to give anybody a perspective on what's going to happen next quarter. It's really meant to give -- as much as we can. This is insurance, right? There's going to be things that are unexpected positive and negative. Sometimes the bread lands jelly-side-up. Sometimes the bread lands jelly-side-down. And there's a lot of factors that go into actual results. And so what I want to discourage you from doing is looking at that information as if it's guidance for a number next quarter.

Jay Gelb: That makes sense. Next question, please. Should Travelers target a major acquisition in the P&C insurance industry if it were not substantially dilutive to tangible book value and would be expected to be quickly accretive to earnings per share and return on equity? So sort of a yes or no question. Get some perspective on this.

The view among investors is just over half saying yes, and around a third saying no. I don't know if that's helpful in terms of color.

Alan Schnitzer: Yes, that's terrific.

Jay Gelb: Okay. All right. Do we have any other ARS questions? Oh, here we go. Last one. My level of concern regarding the potential negative impact on property casualty insurers' earnings from recent headlines such as talc-related asbestos exposure, Monsanto Roundup product liabilities. Get some directional perspective on this. We can start the clock. Whether it's ranging from no level of concern, moderate, high, very high.

In this kind of a recent trend, most of the -- kind of equally driven; a third each saying, low level of concern or a moderate level of concern. Less than 10% saying either no concern or high, very high. How should we think about that, Alan?

Alan Schnitzer: These things are always on our mind not because they're in the newspaper today, but because we've got a very active program of following all sorts of emerging potential liabilities. And so whether it's talc or asbestos or the next thing, we are actively watching those things, monitoring them, and everything we know about them is reflected in the reserves that we put up every single quarter. So these are headlines that I think people are right to focus on, but things we'll manage through, and not necessarily keeping us up at night, but very active program to monitor these things and manage these liabilities as they arise.

Jay Gelb: Good. Okay. I think we have just a minute or two for audience questions. We've got one right over here, please. I'm sorry, if you could just state your name and firm, please. Thank you.

Andrew Slesser: Andrew Slesser (ph), long-only investor. My question is around tech spend. So some of your peers like, for example, Chubb, give a hard dollar number on what they're spending on tech spend, $1 billion, $400 million on green field investments. And I was just wondering if you could provide a bit more information around your tech spend initiatives, and then particularly what you're doing in machine learning and AI and how that compares to your peers. Would you say that that's a relative competitive advantage for Travelers versus a Chubb or an AIG? And just kind of talk about how you think about that for the business.

Alan Schnitzer: Yes. We haven't traditionally broken out our tech spend. We view that as somewhat proprietary. And I would also say you've got to start talking about making judgements between; what are you spending to keep the lights on? What are you spending to remediate old systems that need to be refreshed? And what are you spending on truly innovative things? And so how you really compare those disclosures from one company to another, I think, is difficult.

I will tell you we are highly active in, for example, machine learning, AI, robotic process -- automated processing. And we have been for some time, and I've led that personally. And so a group of 20 of us have spent time in Silicon Valley and we went to the Consumer Electronics Show and we've been to Tel Aviv and we've been to China. We've been to Latin America. And in fact, I'm leaving this afternoon to head down to Austin with a group of about 40 people. And these are all innovation-related trips.

And one of the things that, when your 160-year-old excellent P&C company essentially headquartered in Hartford, Connecticut, I think the priority is to make sure that you're putting yourself and your leadership team -- not the technologists, who are already evangelists -- but the leadership team in that flow of information, looking outside of our four walls for inspiration and making sure that we're making smart decisions on where we need to make bets and what's possible.

And so there's lots of things I could point to and we could have a long conversation, and happy to have a longer conversation with you. But I'll point, just for example, to our drone program. So we've got 500 commercially-licensed drone operators in the United States right now. And that will make a difference in the way we handle claims coming out of Florence. And so we are -- hard to know how you separate rhetoric from what's really going on, but we think that we're very active in this space, making thoughtful decisions.

Jay Gelb: I'm afraid we'll have to end it there since we're out of time. Please join me in thanking Alan Schnitzer from Travelers. This was great. Thank you so much.

Alan Schnitzer: Thank you.

Explanatory Note

Forward-Looking Statements and Non-GAAP Financial Measures:
This transcript contains, and management may make, certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates" and similar expressions are used to identify these forward-looking statements. Examples of our forward-looking statements include, among other things, statements relating to our outlook, our future financial condition and operating results (including, among other things, anticipated premium volume, premium rates, 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), our share repurchase plans, future pension plan contributions, the sufficiency of our reserves, the impact of emerging claim issues and litigation, the cost and availability of reinsurance coverage, catastrophe losses, the impact of investment (including changes in interest rates), economic (including inflation, recent changes in tax law, and rapid changes in commodity prices and fluctuations in foreign currency exchange rates) and underwriting conditions, strategic and operational initiatives to improve profitability and competitiveness, the Company's competitive advantages, new product offerings, and 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.

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, 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;
- Changes to our claims and claim adjustment expense reserves, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates;
- Financial market disruption or an economic downturn;
- The performance of our investment portfolio is subject to credit and interest rate risk and may suffer reduced returns or material realized or unrealized losses;
- Asbestos and environmental claims and related litigation;
- Competition and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which we operate;
- Disruptions to our relationships with our independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape;
- Mass tort claims;
- Emerging claim and coverage issues;
- The collectability and availability of reinsurance coverage and exposure to credit risk related to our structured settlements;
- Credit risk we face in insurance operations and with respect to certain guarantees or indemnification arrangements we have with third parties;
- 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, expanding in targeted markets or improving business processes and workflows;
- 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 withdrawal by the United Kingdom from the European Union;
- Loss of or restrictions placed on the use of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of insurance products;
- Risks associated with acquisitions and integration of acquired businesses;
- Limits to the effectiveness of our compliance controls;
- Our ability to hire and retain qualified employees;
- 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;
- The federal, state and international regulatory environment;

- Changes to existing U.S. 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, filed on February 15, 2018, and subsequent 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 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.