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TRV - Q4 2012 The Travelers Companies, Inc Conference Call

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OVERVIEW:

TRV reported 2012 operating income of \$2.4b. 4Q12 net income was \$304m and operating income was \$278m.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the fourth-quarter and full-year results teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question-and-answer session. As a reminder, this conference is being recorded on Tuesday, January 22, 2013.

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

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Thank you, Andre. Good morning, and welcome to Travelers' discussion of our fourth-quarter 2012 results. Hopefully, all of you have seen our press release, financial supplement, and webcast presentation we released earlier this morning. All of these materials can be found on our website at www.travelers.com under the Investor section.

Speaking today will be Jay Fishman, Chairman and CEO; Jay Benet, Vice Chairman and Chief Financial Officer; and Brian MacLean, President and Chief Operating Officer. Other members of senior management are also in the room, available for the question-and-answer period. 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 open it up for your questions.

Before I turn it over to Jay, I would like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The Company cautions investors that any forward-looking statement involves risks and uncertainties, and is not a guarantee of future performance.

Actual results may differ materially from those projected in the forward-looking statements due to a variety of factors. These factors are described 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 that are available in the investor section on our website. And now -- Jay Fishman.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Thank you, Gabi. Good morning, everyone, and thank you for joining us today. Given Storm Sandy, we are very pleased to report fourth-quarter net and operating income of \$304 million and \$278 million, respectively. For the full year, we reported \$2.4 billion of operating income, and operating return on equity of 11%, and a 9.8% return on equity. Our financial and operational results for both the full year and the quarter were strong, and demonstrate the success of the strategies we have implemented over the last few years.

In business insurance, excluding national accounts, we continued to achieve meaningful positive rate gains of nearly 8% in the quarter, while retentions continue to remain stable and new business remained at only marginally lower levels. Our management liability businesses have also produced similar pricing successes over the past year, achieving nearly 8% rate gains in the quarter.

The operating environment for our businesses remains the same -- interest rates remain at historically low levels and weather patterns continue to be uncertain. Catastrophe losses this year totaled \$1.2 billion after tax, making it another year with a very high level of catastrophe losses by historical standards. As such, we remain committed to our strategy of pursuing rate gains across all of our businesses in order to improve returns. We are particularly pleased with the rate gains we have achieved over the past two years, and the compounding effect we are now recording.

In personal insurance, both our home and auto businesses were also significantly impacted by Storm Sandy. Notwithstanding that impact, we are especially pleased with our agency homeowners business, which produced a 96.4% combined ratio for the full year, and a 78.7% underlying combined ratio for the year. In our agency auto business, while we believe we are very much on the right path, we are not yet satisfied with our results. Our 99.2% underlying combined ratio for the year is not at a level that produces sufficient returns.

As we have discussed previously, since the fourth quarter of 2011 we have been experiencing an increase in auto severity, resulting in levels that have continued to exceed our expectations. But with the rate increases we have already achieved, earned rate gains exceeded our updated view of loss trend in the third and fourth quarters. In this regard, we are now achieving widening margins, and we intend to continue this strategy. Assuming that we continue to achieve rate gains at this level, and the loss trend does not materially increase from current levels, this will result in improved underwriting profitability in the line. Brian will discuss this in more detail later.

Turning to capital management, we remain committed to our strategy of returning excess capital to shareholders. In that regard, we repurchased \$400 million of stock in the quarter, bringing total capital returned to shareholders in 2012 to over \$2.1 billion, including \$700 million of dividends. Since embarking on our long-term strategy of returning excess capital to shareholders in 2006, we have reduced our shares outstanding by 362 million or 52%.

Just another quick word on Sandy -- the storm had a significant human impact on Travelers, as well as our customers and employees. We are extremely grateful to all the individuals who made personal sacrifices to help us deliver on the promise we extend with each one of our policies.

Storm Sandy produced the largest number of claim notices in our history, and even in this event we were able to handle virtually all non-NFIP claims with our own adjusters.

Just to give you a few highlights, in total, nearly 5,000 employees contributed to our response. We followed up with 80% of all claimants within 48 hours after their initial claim report, and virtually 100% were re-contacted within 72 hours. And we paid or resolved approximately 90% of our personal insurance non-NFIP claim estimates within 30 days of the first loss notice. These are really solid results that I was able to witness first-hand; our claims group really makes us proud.

In closing, we remain very pleased with the ability to deliver rate improvements across all our segments, and generate superior returns over time. We enter 2013 with a real sense of optimism based on the strength of our competitive position. And with that, let me turn it over to Jay.

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Thanks, Jay. Let me begin by stating that, as always, we have maintained our strong cash position, ending the year with holding company liquidity of just over \$2 billion. Operating cash flows were over \$450 million for the quarter despite the high claim payments related to Storm Sandy, as well as the discretionary \$150 million contribution that we made to our qualified pension plan to maintain its high funding level, even in this extremely low interest rate environment. Note too that, for the full year, we generated over \$3.2 billion of operating cash flows. And as Jay said, we returned over \$2.1 billion of excess capital to our shareholders, consistent with our ongoing capital management strategy.

Turning to reserve development, we once again experienced net favorable prior year reserve development on a consolidated basis, \$222 million pre-tax for the quarter, up from \$126 million in the prior-year quarter. Also, as has been the case throughout the year, each of our business segments experienced favorable development. Business Insurance accounted for a little over 50% of this quarter's total, driven by better-than-expected loss experience related to last year's catastrophes, lower-than-expected claim department expenses, or ULAE, and a modest improvement in workers' comp reserves. Most of the rest of this quarter's favorable development came from the bond and financial products business within FP&I, in surety and management liability. For the full year, net favorable prior year reserve development on a consolidated basis was \$940 million pre-tax, up from \$715 million in the prior year.

I would also like to share with you a preliminary view of what our 2012 Schedule P will look like when it is filed. All accident years other than 2011 have developed favorably, including accident years 2002 and prior, notwithstanding the A&E charges we recorded earlier in the year. Unfavorable development related to the 2011 accident year was small -- only approximately \$155 million pre-tax; it was mostly due to higher-than-expected severity in commercial and personal auto. Similarly, looking at our preliminary Schedule P data on a product line rather than on an accident year basis, shows that all of our product lines with the exception of commercial and personal auto experienced net favorable prior year reserve development in 2012. Commercial and personal auto developed unfavorably on a pre-tax basis by only approximately \$110 million and \$25 million, respectively, again, driven by the 2011 accident year.

Finally, I would note that all of our capital ratios remained at or better than our target levels at the end of the year. Net unrealized investment gains, which were up for the full year, decreased slightly during the quarter to almost \$4.8 billion pre-tax, or \$3.1 billion after-tax, while book value per share was \$67.31, or 8% higher than at the beginning of the year.

So, with that, let me turn things over to Brian.

Brian MacLean - *Travelers Companies Inc - President & COO*

Thanks, Jay. I am going to give an overview of the segment results, beginning with business insurance. Although operating income was down quarter over quarter in business insurance due to the losses from Storm Sandy, the fundamentals of the business continued to strengthen. As Jay just mentioned, prior year reserve development was favorable, and higher than last year, and the underlying combined ratio of 92.8% was a 4-point improvement from the fourth quarter of 2011. On a full-year basis, the underlying combined ratio improved more than 3 points year over year, with about 2 points of that improvement due to earned rate increases that exceeded loss cost trend.

Looking at the production statistics starting on page 9, retention continued to be strong at 80%, while new business was up slightly versus both the previous quarter and the fourth quarter of 2011. Net written premiums increased 6% in the quarter, with the largest increase in workers' comp driven by higher pricing on our guaranteed cost business and growth in residual market pools.

Drilling into the pricing results, renewal premium change was 10%, up about 1 point from the third quarter, driven by pure rate increases of 8%, and exposure of 2%. The 8% rate gains we achieved this quarter were up slightly from the third quarter, and up 2 points from the 6% that we saw in the fourth quarter of 2011. The rate increases ranged from 6% to 10% across all lines, and were once again led by workers' compensation and commercial auto. I would note that within the quarter, rate change was highest in the month of December, with total business insurance rate change of 8.3%, and commercial accounts rate change of 9.8%.

Loss trend, excluding catastrophes, has remained at approximately 4% overall. Specifically, the loss trend concerns in workers' comp and commercial auto that we spoke about several quarters ago appear to have mitigated, and are trending toward long-term historical trends. So, overall, excluding weather, a very stable picture.

Now I would like to take a moment to discuss our results in Select, our small commercial business. In this business we are pleased with the performance of our platform and operational dynamics, and we have seen great success in the marketplace. On the pricing side, as seen in the data on slide 10, we have also made significant progress. Renewal premium change this quarter was nearly 12%, up consistently over the past two years. Along with these pricing gains, retention was up 1 point in each of the last three quarters, coming in at 78% this quarter. New business was down somewhat from recent quarters due to an increase in new business pricing. These pricing and underwriting actions have had a meaningful impact on our product profit margins in this business, and we are very pleased with the results to date.

So, summarizing the entire business insurance segment, we were able to sustain our level of rate gains this quarter, on top of the 6% gains from the prior-year quarter. This compounding of pure price improvement, combined with the 4% underlying loss trend, has had a meaningful impact on returns. However, given the ongoing weather volatility and challenging investment return environment, we continue to see the need to execute on our targeted pricing strategy.

In the financial, professional and international segment, our operating income decreased by 14% due entirely to the impact of Sandy, largely in our Lloyds business. The underlying combined ratio improved about 3 points for both the quarter and full year, driven primarily by increased rate and portfolio management in our management liability business, as well as risk selection in international. In bond and financial products, net written premiums were flat quarter over quarter, with higher production in management liability, offset by continued declines in surety volumes. In management liability, retention remains strong at 85% in the quarter, while pure rate gains increased to 8%, making this the sixth consecutive quarter of sequentially increasing rate. Renewal premium change was 6%, which included negative exposure of 2% in the quarter, driven by a reduction in multi-year policies.

In international, net written premiums were up about 4% or \$12 million on a constant-currency basis. The increase was driven by results in the UK, and somewhat lower levels of ceded premium, partially offset by lower volume in the Canadian surety market. The international underlying loss ratio continues to trend favorably on a quarter-over-quarter basis. I would also like to note that in December we exercised our option to increase our ownership interest in the Brazilian joint venture from, round numbers, 43% to 49%. The results in Brazil have been very good, and we are pleased with our progress there.

In personal insurance, fourth-quarter results were significantly impacted by Sandy, with after-tax CAT losses of \$370 million for the segment. Excluding the impact of CATs and favorable prior-year development, the underlying combined ratio improved over 9 points for the quarter, and nearly 5 points on a full-year basis. However, to really understand the dynamics in this segment's results, we need to look at home owners and auto separately, because they are somewhat different stories.

In auto, as Jay mentioned in his opening comments, we are not yet satisfied with our performance, but believe we are on the path to improving our results. We continue to be very pleased with pricing gains, with renewal premium change of 9%, up about 1 point from the third quarter, and up 5 points from the fourth quarter of 2011. Retention remains solid at 81%, but as anticipated, our new business volumes have been impacted by our pricing action.



These pricing actions are in response to the severity challenges across all coverages that we began speaking to you about in the fourth quarter of 2011. The physical damage severity pressures we saw in 2011 persisted through the first half of 2012, but have since returned to near-normal levels. The bodily injury severity trends, however, have continued at elevated levels throughout the year.

In addition to expected general inflation, we believe this increase in bodily injury trend is a result of more severe accidents. There are a number of environmental factors that could contribute to this trend. For example, data recently released by the National Highway Traffic Safety Administration shows road deaths for the first nine months of 2012 increased 7% year over year, the largest such increase since 1975.

So, over the last two quarters, severity for all coverages is running just over 5%; with mix-adjusted frequency about flat, overall loss trend is in the 5% range. Given the renewal premium change we have been able to achieve over the last four quarters, earned rate is now more than offsetting the aggregate loss trend.

This margin expansion is somewhat difficult to see in our reported results due to prior-period adjustments. On the agency auto combined ratio exhibit on page 16, you can see these adjustments, and the resulting adjusted underlying combined -- GAAP combined ratio, which improved about 1 point for both the quarter and full year. So, on a go-forward basis, as you heard Jay say, at our current level of rate gains and assuming loss trend does not increase materially from current levels, this will result in improved underwriting profitability in the line.

Turning to home, pricing was also very strong. Renewal premium change coming in at 13% was up 1 point from the third quarter, and up 5 points from the fourth quarter of last year. Retention continued to be strong at 84%, while new business volume was lower than recent quarters due to the execution of our pricing strategy, higher deductibles, and other profitability initiatives. Given these initiatives, our core underwriting margins are seeing significant improvement.

However, it is difficult to evaluate this line's performance excluding catastrophes, especially given the last two years experience. Accordingly, with the ongoing volatility of weather patterns, we will continue to seek improved underwriting and policy pricing, terms and conditions. We feel good about the progress we have made in the personal insurance segment, but challenges remain. We will continue to locally execute rate increases, underwriting changes, and modifications to terms and conditions to further improve the risk profile and profitability of this business.

So, in summary, looking across all the business segments, let me reiterate what you have heard from us for the last several quarters. We are encouraged that we have been able to successfully execute a strategy that has resulted in tangible improvements in our underlying underwriting margins. We believe that these pricing and underwriting actions are appropriate, given the current level of investment returns, weather volatility, and general loss trend, and we are well-positioned to continue to thoughtfully execute on our strategy in 2013.

With that, let me turn it over to Gabi.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Great. We will now begin the question-and-answer period. May I ask you to limit yourself to one question and one follow-up, please. Andre, we are ready to begin.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Randy Binner, FBR Capital Markets.



Randy Binner - *FBR Capital Markets - Analyst*

Thank you very much. I have a question on the Sandy loss. I am just trying to get a sense of where you might be in the kind of finality of your loss estimates, particularly interested in cost inflation on reconstruction? Is -- if there is a tail from business interruption, and if you can quantify closed versus open claims at this point?

Brian MacLean - *Travelers Companies Inc - President & COO*

So, this is Brian. Obviously, with this magnitude of event, there are always claims and issues that are still outstanding, but broadly speaking, there is no significant issue that we are looking at from the business interruption or liability or whatever side that leaves us feeling that there is a big tail. I turn to Doreen on the specifics with the closed claims, if you have got some of that data, Doreen, and want to share it?

Doreen Spadorcia - *Travelers Companies Inc - Vice Chairman & CEO - Claim and Personal Insurance*

I do, Brian. Good morning, this is Doreen Spadorcia. Jay quoted you some statistics as to where we were 30 days from things being reported, from first notice of loss. At this point, since we are further on than 30 days, probably on the property side, we are at about 95% of our losses in that position. In terms of tail issues on auto, we still have salvage losses to collect, and we are in the middle of doing that, but those we have factored in. And on boat and yacht that -- those losses tend to take a little bit longer as well. But again, all of them have been factored into our analysis. So, we are pretty well through most of those claims that were reported.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

And Doreen, my comments were to personal insurance, your comments were to all lines.

Doreen Spadorcia - *Travelers Companies Inc - Vice Chairman & CEO - Claim and Personal Insurance*

Yes, absolutely, thank you, Jay.

Randy Binner - *FBR Capital Markets - Analyst*

So just to clarify, you are saying you are 95% closed on those property claims?

Doreen Spadorcia - *Travelers Companies Inc - Vice Chairman & CEO - Claim and Personal Insurance*

Yes.

Randy Binner - *FBR Capital Markets - Analyst*

Wow, and then -- just one on demand surge, a lot of reconstruction going on in New Jersey, is that becoming an issue like it has with past events, or is that under control?

Doreen Spadorcia - *Travelers Companies Inc - Vice Chairman & CEO - Claim and Personal Insurance*

I would say at this point, our estimates of what we saw when we initially evaluated the property are holding. We always have situations, Randy, when someone has additional damage, and we look at those. And that is kind of the normal course, but at this point nothing out of the ordinary.



Randy Binner - *FBR Capital Markets - Analyst*

Thank you.

Operator

Jay Cohen, BofA Merrill Lynch.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Yes, thank you. Just two questions. The first is, in the personal auto side, the PIF count shrank a bit more than it had been. It looks like renewal is relatively stable, new business is down. I am wondering if you could just give us color around that PIF growth, because that was down a bit more than it had been, more than we had expected?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Jay, this is Jay Fishman. I think you are analyzing it correctly. The PIF is being impacted by our pricing increases. We recognize that where -- in some areas there are less expensive alternatives that are available to agents, and in some cases they are embracing it. Our pricing strategy is based on what our loss trends look like. The severity dynamic is real and it is substantive and doesn't appear -- we may be wrong about this -- but it doesn't appear to be a Travelers-only phenomena. This seems to be broad-based. So we are taking the actions that we know we have to to produce appropriate returns over time. And if the policies in force shrink somewhat that is fine, and we will just continue to price it as we know we have to achieve the returns that we speak about.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Makes sense, thank you. Second question, in the past you have given some discussion or guidance around capital management, kind of forward-looking. As you look at 2013, can you talk about your buyback expectations relative to your earnings?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Jay, this is Jay Benet. I would go back to the wording that we had in the Ks and the Qs, nothing has really changed. We have earnings that we are going to be generating. From those earnings we need to have capital to support whatever business growth we have. There may be some needs like pension contributions into our qualified plan, whatever. We lay those out, but ultimately the idea behind our capital management strategy is to return all the excess capital that we have to the shareholders. That will go back to shareholders in the form of dividends, as well as common stock repurchases. It's really going to be driven by the level of earnings ultimately.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Got it. Thanks, Jay, and Jay.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Let me -- this is Jay Fishman. Let me just come back with one added sentence on the -- on the PIF count. You did see it, but just I want to make sure it is clear. Our retention remains stable in auto. We are not losing existing accounts. What we have done is experience a lower level of new business than historical trends. But retention, importantly, is remaining stable.



Jay Cohen - *BofA Merrill Lynch - Analyst*

Got it, thanks.

Operator

Brian Meredith, UBS.

Brian Meredith - *UBS - Analyst*

Yes, I got two questions here for you. The first one I was hoping, Jay or Brian, maybe you could comment about on where we are with respect to rate adequacy in the business insurance area? If I look at it on an accident year basis, it looks like you are probably low to mid teens ROEs in that business right now. Is that correct?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Well, we -- Brian, it is Jay Fishman, we haven't disclosed what our product line returns are. I think you can look at the overall business, and really make two adjustments that are available to you, and you will come up with what I think a reasonable way to think about return on equity is. One is you can easily eliminate the favorable development.

Brian Meredith - *UBS - Analyst*

Okay.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

And two, I think you can adjust the catastrophe costs back to what a more normal run rate would look like. Those two are not identical in the absolute level, but they are actually pretty close. They just about cancel each other out. And if you do that, you will get to a business ROE overall. That is round numbers, and I am not being precise here, because I don't have it in my hand, but round numbers, about 10%. Now in terms of -- 10% to 11%, let's say, as people are looking at me. And the real question that you're posing that is so difficult to answer, is rate adequacy in the environment, where the risk free rate is 1.5%.

We talked about in previous quarters, we have talked about maintaining our aspirational goal of mid teens return on equity over time, but we have said that under the current environment, it is simply not achievable, and it remains not achievable. And I think most of us who are responsible for managing complex financial businesses are wrestling with -- if your cost of equity at the moment is sitting in the 7% to 8% range, what is rate adequacy, what is return adequacy in this environment? This is unprecedented. And I spend -- we spend a fair amount of our time thinking about what level of returns is really appropriate. Because I think one of the risks in managing any business, and I think we saw in 2008, is when management decides that it's going to try and get blood from a stone, it just doesn't happen. But if you look at it overall we are sort of in that 10% to 11% range at the moment, and a bunch of factors coming at us. But I know you have a longer question, but that is sort of where we sit at the moment.

Brian Meredith - *UBS - Analyst*

Okay, great. And the second one, just a little more detail on the commercial auto loss trend situation there, is it physical damage, is it liability? What is going on with that line?



Brian MacLean - *Travelers Companies Inc - President & COO*

Within commercial auto, it is not dissimilar to the conversation we just had on personal auto.

Brian Meredith - *UBS - Analyst*

Okay.

Brian MacLean - *Travelers Companies Inc - President & COO*

It is fundamentally severity-driven, and this point the bigger severity issue on the bodily injury side.

Brian Meredith - *UBS - Analyst*

Thank you.

Operator

Adam Klauber, William Blair.

Adam Klauber - *William Blair & Company - Analyst*

Thanks, good morning, everyone. The accident year combined in business insurance improved by -- improvement of materially 400 basis points. Was that all quarter to quarter, or was there some catch up from other quarters this year?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

This is Jay Benet. There really aren't any catch-up adjustments relating to earlier quarters in the year. So, that's with minor variation on that, that's a pure number.

Adam Klauber - *William Blair & Company - Analyst*

Okay, that's a very good number. Could you ballpark, not looking for an exact number, but I mean how much of that 400 basis point improvement is from non-renewing poor business versus getting rate versus loss trend on existing business?

Brian MacLean - *Travelers Companies Inc - President & COO*

So this is Brian, hard to precisely segment that, but we -- I did say my comments, we are getting about 2 points from pure rate over the loss trend now. And then there is always other stuff within the quarter that is moving within the loss ratio, so the non-cat weather, other large losses, fire losses, et cetera will be volatile, and some of that was moving to the good. So the biggest driver is the rate in excess of loss trend, which is 3 points?

Doreen Spadorcia - *Travelers Companies Inc - Vice Chairman & CEO - Claim and Personal Insurance*

3.

Brian MacLean - *Travelers Companies Inc - President & COO*

Okay, 3 points in the quarter, yes, right. So, that's the biggest piece of it. Obviously, there is some things with the re-underwriting issues in a lasered way that you are talking about, but that is not the broad -- broad-based issue moving through the results.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

And we don't track, because we don't know how candidly to track the improvement in profitability that resulted from non-renewing accounts. That is -- specifically to your question, that's just not something that I -- that we measure or keep track of.

Adam Klauber - *William Blair & Company - Analyst*

Great, that's very helpful, thank you.

Operator

Meyer Shields, Stifel Nicholas.

Meyer Shields - *Stifel Nicolaus - Analyst*

Thank you, good morning, all. If I could go back to agency auto really quickly. I think -- when we saw the decelerating new business, despite maybe incremental improvements in pricing, does that mean that the environment is becoming more competitive?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Well, I don't think it is an incremental improvement in pricing, I would use a different word, and the kind of pricing change that has occurred here was substantial. And at the agency auto level, with increasing use of comparative raters at the agency level, pricing is certainly more important we suspect, than it was, let's say five or six years ago. A greater ability -- a technological change at the agency level for agents to generate multiple quotes relatively quickly and efficiently, so that it's -- the comparison process is just easier. So, I think that, that's what really is driving it. This is a meaningful change in pricing, driven by a meaningful change in loss trend, and weather and interest rates and all that goes with it. And the price is the price, and it will show up on comparative raters.

I don't believe -- I may be wrong about this -- but I don't believe that the agency auto business has become a business where the only thing that matters is price. We do believe that agents have views about companies and their ability to serve individual customers in certain ways, and that's what we've traded on all these years and continue to now. So whatever the new business dynamics are, they are. We have a really strong philosophy here, which is that volume is not a goal, it is a result. If we do all of the things that are right, and moving in the right direction, the revenues, the premiums will be what they be, and then we will manage the business accordingly. And that is really what you are seeing in personal auto.

Meyer Shields - *Stifel Nicolaus - Analyst*

Okay, that is very thorough. The tax rate on the non- net investment income component was a lot lower than I think it's been in prior quarters. I was hoping someone could explain that?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

I'm not sure that is the case. So if you take a look at the tax accruals, if you were to separate investment income from the rest of earnings, effectively what you do is you take round numbers, 35% of the non-investment income, that's the tax provision or tax benefit if there is an underwriting loss.



And then as it relates to the investment income, we give you the effective tax rate. So I think if you do the arithmetic, you really come very close to what the tax provisions are.

Meyer Shields - *Stifel Nicolaus - Analyst*

Okay, I will double check my math. Thank you very much.

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Okay.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Next question, please.

Operator

Michael Nannizzi, Goldman Sachs.

Michael Nannizzi - *Goldman Sachs - Analyst*

Thank you. I have one question, just looking over the last couple of years, it looks like you've got 8 points of rate in business insurance over the last 12 months or so, and then another almost 7 points the year before that. So, 15 points in the aggregate over a couple of years. It looks like combined ratio is a bit better. Just trying to understand, does that mean that more rate, we should expect more rate to earn through over the next 12 months? How much of that dynamic is due to mix changes, the commercial auto stuff that Jay mentioned upfront, or is there something else? I just have one follow-up, thank you.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

I think will answer this in a couple of pieces. First, obviously written rate becomes earned rate. So, yes, what we have written in the last several quarters will convert over to earned over the next several quarters. That is just arithmetic. The -- our intent here is to continue. This was always a granular active pricing strategy. We have commented before, we are not big believers here in sort of mythical cycles that carry the industry up, and then carry it down. We think that it is one agent, one underwriter, and one account at a time. So the strategy here has been extremely active and very granular, and applied to individual accounts putting rate at accounts that need it, taking all of the factors into account. Taking interest rates, taking the perspective of changing weather, and taking some of the loss trend that affects some of the lines into account. So that is going to be -- that's going to be our prospective policy and we are going to continue to do that. I don't know if you have any -- ?

Brian MacLean - *Travelers Companies Inc - President & COO*

Well, specifically on the mix issue, it is not fundamentally a mix issue. We have talked for a number of quarters now that although commercial auto and comp are at the higher end of the rate change grid for us, it's really pretty broad-based and we are getting between 6 and 10 points in all lines, and we haven't really shifted our line mix significantly at all. So that is not driving it.



Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

What we have shared with you in the last quarter and the previous quarters, the breakdown of the accounts, the segments, the ones we show you, are the ones that track profitability, long-term profitability combined ratio by account -- loss ratio by account actually. And we said in the last quarter before that, that our greatest opportunity was in those segments of the accounts that were at the low end of profitability spectrum. We still believe that to be true. That is the greatest opportunity for us, in terms of improving profitability is at that less profitable end of the segment, which again speaks to the granular nature of the strategy we are applying.

Michael Nannizzi - *Goldman Sachs - Analyst*

Great. Thank you very much, appreciate that. And then just wanted to revisit direct. We talked about it a little while back. How are you thinking about that? It looks like the first time that PIF started to fall a bit, maybe expense ratio -- I don't know that is advertising, came down a bit in the quarter on a sequential basis. How are you thinking about that, and what is your outlook for when that business needs to right-size in order for that to be an area of continued investment? And thank you for all your answers.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

No, it is a pleasure. In the direct business, we have been involved for the last -- I don't know -- several quarters, two maybe three something like that, it in a very granular test of elasticity pricing strategy applied in two or three states, where we really didn't have a robust agency business. We were able to change the pricing and the states both agency and direct to begin to test the elasticity of demand and the direct arena. That is one of the reasons why the advertising spend is down, because it is being applied in a very narrow way over the last several months, just trying to drive activity in these two states I am told. The results have been extremely informative and encouraging, in that we are getting increasingly close, or closer to having a pricing schedule, a pricing strategy that we think can work in the direct arena, and can be applied both a reasonable marketing success we believe, as well as an underwriting success.

But we remain some distance away yet, from what I would call launching in a broad way. But we continue to make real progress, and are encouraged by the results. There is nothing that causes us to think that we should discontinue the spend on it. Quite the contrary, we feel really encouraged about what we are learning and discovering. As I've always said, the thing that we could do wrong here is have a marketing success and a financial failure, and that would not be acceptable here. So, we are going to continue to take our time, and make sure that when we aggressively approach the business, that we do so with all the requisite knowledge and learning and skills with a high degree of confidence in the success of the program.

Michael Nannizzi - *Goldman Sachs - Analyst*

Great. Thanks again.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Next question, please.

Operator

Okay. And his line is -- Mr. Zaremski, your line is open. Please go ahead.

Michael Zaremski - *Credit Suisse - Analyst*

Okay, great. I was hoping to better understand the underlying margin improvement drivers within home. So other than pricing, is there a quantifiable elements coming from geographic culling, and/or terms and conditions changes that you have been talking about for a while?



Brian MacLean - *Travelers Companies Inc - President & COO*

Well, first of all the biggest driver is pricing, there is no question about that. And --

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

And weather.

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

There have been another number of things. In the fourth quarter of last year we had an unusually high concentration of fire-related losses. This year, we had a low level of fire-related losses, relative to some norms. In addition to that, there was a little more weather in the fourth quarter of last year than this year. So, yes, Brian spoke before about just things that happened on a quarter to quarter basis that caused some variations. But those along with the major item being loss cost trend ex weather, which is a hard thing to really talk about as it relates to homeowners, being lower than earned rate. If you look at those three components, the lower fire losses, the lower weather-related losses, as well as earned rate over loss trend and that is really what is making up the difference.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

And to answer your question directly, we really don't have a metric to convey to you the impact of, let's say, increasing deductibles on the profitability of the business. We would have to go back and rerun the losses using the deductibles that existed previously, and that's just not possible for us to do.

Michael Zaremski - *Credit Suisse - Analyst*

Okay, that's helpful. And then lastly, as a follow-up to the questions about the capital management for 2013. So I see you have contributed, I think, over a couple hundred million dollars to the pension this year, and you have \$500 million of debt coming due in a couple months. In regards to the pension, if interest rates stay low, should we expect a similar contribution? And are you considered refi-ing the debt? Thanks.

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Let's talk about the pension first. If you strip away all that takes place in valuing the PBO versus the assets, there is a normal level of earned credit, if you will, that runs through the numbers. And it's about \$100 million round numbers [in years]. So if everything worked in accordance with the assumptions, in a steady state, the pension contribution would be about that. The reason the pension contribution is higher this year is things don't work as a steady state. We had a good return on the assets. On the other hand, when you look at the valuation of the pension benefit obligation as of 12/31, which is a spot rate interest concept that you use, you had very, very low interest rates at that point in time. So we looked at that and said, on balance, it feels like \$200 million is the right number to put in this year. It got us to a funding level that was high, approximately 90%, which is where we started the year. If rates spike up, we are not going to be terribly overfunded, but we will just adjust future funding accordingly. And that would be a nice position to be in frankly, if rates went up a bit. But \$100 million is what we think about as more of a normal level on a year-by-year basis.

As it relates to the debt, as we generally do, we try to maintain full flexibility in dealing with our capital position. So, we ended the year as I said earlier with over \$2 billion of holding company liquidity, which allows us to be in a position of paying the debt when the debt is due, to avoid any kind of liquidity concerns. Then we will just continue to evaluate what the proper structure of our balance sheet is going forward, based on interest rates, and based on how we feel. But certainly in terms of capacity, we have the capacity to keep the debt ratio just where it is today if we so choose.

Michael Zaremski - *Credit Suisse - Analyst*

Thank you.

Operator

Amit Kumar, Macquarie.

Amit Kumar - *Macquarie Research Equities - Analyst*

Thanks, and good morning. My first question is on your catastrophe reinsurance coverage, which I know expires on June 30. And maybe this is a bit too early, when you look towards 2013, 2014 do you think your cat cover will look similar, or has the thinking changed post-Sandy?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

The thinking actually changed a little bit a couple of years ago when we reintroduced -- I'm sorry when we introduced an aggregate cumulative aggregate element to our reinsurance program, and we started that I think last year at the July coverage, and actually expanded it some effective January 1. We actually increased this cumulative aggregate program which -- which has the effect of giving us a benefit against the retention in the cat program should the individual events exceed retentions, and then cumulatively apply against -- against the overall cat program. With respect to the cat program itself, I wouldn't anticipate any significant changes to that. Our property coverage exposure really has not changed. We were comfortable with where we were last year. It may depend upon pricing move the little bit up or a little down, but the important change, the more important change is the introduction of this aggregate program to our overall cat mix.

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

The one thing I would add is, when we did Longpoint Re II, we had pegged it to RMS, and when RMS 11 came out, it raised the trigger points associated with that. And this past year, we issued a \$250 million cat bond when Longpoint Re III. As Longpoint Re II turns itself over, we will probably bring those limits, bring those trigger points down, into something that looks more like Longpoint Re III.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it, that is very helpful. The only other question I have is on business insurance pricing, and maybe using slide 9 as a backdrop. And perhaps this question is for Jay. When you talk to your largest agents or business, post Sandy is there a greater acceptance on pricing? Or do you think there was an uptick in December, and just based on the economic conditions, it is already beginning to sort of normalize as you look towards Q1?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

I think it's -- well, I think the environment particularly for the January 1 renewals, and this is anecdotal what I'm giving you because I don't have the data yet, but anecdotal observations for January and renewals and the related rate was very similar in the aggregate to what December looked and felt like. So, I wouldn't anticipate any immediate change or consequence in January. I -- Sandy is a tough one to really talk about pricing. I think that it continues to reinforce the notion that weather patterns may be changing. And we have been saying that now for a couple of years and embracing that in our pricing strategy. And I suspect, again no evidence in this, but I suspect that [the forum] will simply make that argument easier to make, both the that the agent level as well as the insured level.

I would tell you this, notwithstanding how the perceptions of Sandy, it was in the playbook. The storm itself, the track, the path, it wasn't something that, as we do our analysis and modeling that we didn't contemplate. It was certainly there. I think the surprise to the extent there was one in Sandy,



was to some extent the timing of it, meaning it was full moon, it was two tides. There was a lot of ancillary factors that made it more significant than it might otherwise have been, but importantly, the flooding was more severe. And this is really -- it's predominantly, I would say it's largely a homeowners kind of question, with respect to the NFIP program. But it does have its impact on commercial insurance as well. There were -- there were buildings that we insured in lower Manhattan that we would not have contemplated would have been part of a flooding event. The flood coverage that we extended was really episodic for them, meaning that we contemplated broken pipes or backup or things of that nature, not a flood coming out of the East River or the Hudson River.

And importantly, the dynamic there is that sea level -- and this is just from things that I read -- but sea level is, depending upon who you ask, anywhere from 6 to 12 inches higher in Manhattan that was about a century ago, driven largely by the melting of the polar icecaps and what that is doing to the water level. So, I think what Sandy will do is cause people to think somewhat differently about concentrated flood risk than they had before. It will take some time; it is a complicated issue. But all of us I suspect, we certainly are, looking at flood concentrations in the commercial segment and analyzing it with a little different perspective that we did before. Those were -- that was I think the big takeaway from Sandy that was different from what we might have otherwise had contemplated.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it, thanks so much for the color. That is all I had.

Operator

Vinay Misquith, Evercore.

Vinay Misquith - *Evercore Partners - Analyst*

Hi, good morning. This is a follow-up to Brian Meredith's question before, on rate increases and business insurance and the ROE. Because the ROE right now seems to certainly be pretty healthy, and close to about 11% ex AOCI. So just was curious on the business insurance front, how do you see rate increases this year versus last year? Do you see them tapering off a little bit, or are you pushing for the same magnitude of rate increases?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Well, it's as I said before it is a very granular approach. We have accounts that are at pricing levels that we are satisfied with, that we feel good about, and we have accounts where that is not the case. And that may be driven by the loss experience, it may be driven by the mix and long tail versus short tail and the impact of interest rates, and it may be impacted also by geographic concentrations relative to catastrophe management. We look at this very granularly. In some businesses, as we told you before we break accounts down into quintiles. In some businesses, we actually break them so far as deciles. And our pricing strategy is driven by the account and its class and its performance and where it fits. We will let the -- we will continue to do what we do by looking at individual accounts. We have no artificial limits. We book it an account and we try to understand its profitability and how contributes. And if it is not contributing at what we think is a substantive way, we have a discussion with the agent.

So, that strategy is no different than it was a year ago, and we will continue do it and the number will be what the number is. I do -- and I would acknowledge to you that a very important question in all this, and I don't have an answer for you, but it's one that I think about a great deal is, again using a 1.5% risk free rate, what level of overall returns are achievable and sustainable without jeopardizing the risk profile of the organization. That is the -- that's the question. And we are not there yet, and so we are going to continue to push.

Vinay Misquith - *Evercore Partners - Analyst*

So fair enough. And you mentioned that the rate increase is I think 8.3% in December. So take with the higher end could you give us some color on what the rate increases were in January of this year?

Brian MacLean - *Travelers Companies Inc - President & COO*

Yes, so this is Brian. In the middle market businesses where we have a little bit better transparency into that -- the January ones, the early January that we see in the middle market look a lot like December. So that is encouraging. Small commercial it's harder to see, and so we will get a better look at that at the end of the quarter. But the little peek that we have got is encouraging, but it is a little window.

Vinay Misquith - *Evercore Partners - Analyst*

Okay, that is helpful. Just one follow-up, on the commercial auto, there was some adverse development. If you could please provide some color on sort of the subcomponents of that small fleet versus big fleet, long-haul trucking, and whether there was more of a severity issue or a frequency issue? Thanks.

Brian MacLean - *Travelers Companies Inc - President & COO*

Well, it's -- just like we said in personal auto, it is a bodily injury severity issue, and it is really across the book of business. So, we don't think --

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

It is commercial auto book of business.

Brian MacLean - *Travelers Companies Inc - President & COO*

Right, it's the commercial auto book of business. We don't think of it as lasered underwriting as a problem in one business, but we are seeing it kind of systematically in the marketplace.

Vinay Misquith - *Evercore Partners - Analyst*

Okay, thank you.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Next question, please.

Operator

Greg Locraft, Morgan Stanley.

Gregory Locraft - *Morgan Stanley - Analyst*

Hi, thanks. Just wanted to -- in your prepared remarks you mentioned Schedule P, and gave us a sneak peek. Just wanted to confirm, so the workers comp line has inflected. So I seem to recall that the 2010 policy year developed adversely when we look at the '011 data, and it sounds like from your remarks that the '011 policy year is going to have developed favorably when we look at the '012 Schedule P Is that true, and this is for workers comp specifically?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Yes, well for workers comp overall last year, we did see, as you talked about some other -- (Multiple speakers). I am sorry, for the last -- I should get into the year, because we are in 2013. So, if you look -- if you go back a year, and you are in the end of -- the beginning of 2012 looking backwards, the 2010 accident year did develop unfavorably at that time for workers comp. If we now roll the clock forward, there hasn't been any further development associated with the 2010 accident year in 2012. And then, if we look at the 2011 accident year for workers comp a year later in 2012, we have seen some slightly favorable development for that. And overall in 2012, as I have said, workers comp has developed favorably. So, that's the workers comp story. And I think it speaks to what we were communicating a year ago. Given the nature of our processes, the granularity of the data that we have, and the quarterly diligence we have, we like to believe that when we see trends early, we react to those trends, and we book them and move on.

Gregory Locraft - *Morgan Stanley - Analyst*

Okay, good, and that's a great inflection. Do you -- and this may not be fair, but do you think the industry is going to see the same? Or as I guess your remarks just suggested, are you way ahead of it?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Well, we certainly can't speak for the industry. I mean, everybody has got their data, their views, their reserving practices. I think you just have to look at what companies will be doing. But in terms of our data and our analysis, and being able to stay on top of things, we think the numbers speak for themselves.

Gregory Locraft - *Morgan Stanley - Analyst*

Okay and last on comp is just -- I haven't heard a good explanation. Why did frequencies spike up? I think it was a frequency issue, at least at the industry level. With the benefit in some ways of hindsight, what is the reasoning behind the higher loss trend that came through that was somewhat unexpected, that obviously now you have gotten in front of?

Brian MacLean - *Travelers Companies Inc - President & COO*

Yes, so, we talked about it a good bit a year plus ago. But as you hit the economic downturn, clearly, losses mitigated at frequency -- mitigated -- as it usually does, people are concerned with maybe losing their jobs, so they don't go out on a comp claim. As employers lay off workers, they lay off the least experienced first et cetera, et cetera. And then you would typically see a rebound from that, as there is a -- there is a kind of pent-up delay in loss reporting. And so, what we saw clearly in our results, we can't speak to the rest of the industry, was that, that spiked up a little harder than we thought it was going to. And so we had a backlog, and so delayed reporting from previous years and that came through, so our frequency picked up. Again, part --

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

2010, it was in 2010 that we saw a spike in what we have come to call late reported claims, accidents occurring prior, reported in 2010.

Brian MacLean - *Travelers Companies Inc - President & COO*

Right, so these are people who maybe that had an incident in '09 and try to work through it. And by the time 2010 comes along -- and again we expected some of that. It was just greater magnitude than what we had originally expected, and we have seen it mitigate.



Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

And then this is Jay Benet again. I just wanted -- I am being reminded by one of my colleagues, the word preliminary is a very critical element of my discussion of Schedule P. It is early, we still are putting it together, but directionally we feel that this is -- what I said before is where we are going to end up.

Gregory Locraft - *Morgan Stanley - Analyst*

Okay, great. Thanks a lot.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Next question, please?

Operator

Jay Gelb, Barclays.

Jay Gelb - *Barclays Capital - Analyst*

Thanks. I just had a couple follow ups. The first one is on investment income. Can you talk about the seasonality of that? It seems to be stronger in 4Q then in 1Q. I am just thinking, if that trend will repeat in 2013?

William Heyman - *Travelers Companies Inc - Vice Chairman & CIO*

I --

Jay Gelb - *Barclays Capital - Analyst*

4Q '12 versus 1Q '13?

William Heyman - *Travelers Companies Inc - Vice Chairman & CIO*

Well, in the fourth quarter of '12, a lot of private equity funds were trying to sell companies, because of an uncertain tax climate in 2013. That may be a one-year occurrence.

Jay Gelb - *Barclays Capital - Analyst*

No, I was referring just to the fixed-income aspect.

William Heyman - *Travelers Companies Inc - Vice Chairman & CIO*

I am not sure there really is seasonality there. I mean, there is a \$1 million difference where someone seized on, there are three elements of that. There is volume of the portfolio, there is rate, and then there is calendar days in the quarter, and the net of those accounts for -- generally accounts for any small difference quarter-to-quarter. But, net investment income from fixed income comes in pretty much like the tide.



Jay Gelb - *Barclays Capital - Analyst*

Well, I was looking at fourth quarter '11 stronger than first quarter of '12. And I'm just thinking, well, should we not use that \$500 million of after-tax fixed income from 4Q '12 as the run rate for the beginning of '13?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

Well, what is taking place with fixed income is, there is constant maturity of certain securities in the portfolio, and they are being reinvested at today's rates. And there has been several analyses we have put out into the marketplace which I would refer you to that talk about some estimates of the maturities in the portfolio, how much the yield is on that block that is maturing. And then you can pick your number, whether they are going to be reinvested at 200 basis points, 225, 175 less. What you are generally seeing is the deterioration in the overall yields in the portfolio. It is not dramatic, but it is real. And the numbers that you see in the webcast in the fixed-income slide are reflective of that in terms of quarter-to-quarter comparisons.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

But there is no seasonality in the income results at all.

William Heyman - *Travelers Companies Inc - Vice Chairman & CIO*

We track book yields quarter to quarter and year to year. And over the 12 months of 2012, book yield of the portfolio declined by 33 basis points and that's not an unusual. But the decline is inexorable until we reach the point at which reinvestment rates, in which all of the securities with high book yields have run off and they are replaced, and that's two or three years off.

Jay Gelb - *Barclays Capital - Analyst*

Okay, thank you. And then my separate question is on personal auto. To get you to your targeted returns, what type of combined ratio do you feel you need to be able to generate?

Brian MacLean - *Travelers Companies Inc - President & COO*

I would say about a 97%, between 96% and 97% combined.

Jay Gelb - *Barclays Capital - Analyst*

Make sense, thank you.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

And our final question, please?

Operator

Matthew Heimermann, JPMorgan.



Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

Hi, good morning, everybody. Two questions, first was just -- is the -- you have noted non-cat weather this quarter, and that's has been a theme all year. I guess, I was just trying to get a handle, is there a number you can give us to kind of quantify how much of a tailwind that was this year? And I recognize that we are comparing 2012 to what was a slightly worse than normal year in 2011?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

I don't know that we can give you a number. I think we try to do at the other way around. Brian has talked about what the impact of earned rate versus loss trend is. And these other things, whether it is non-cat weather or as I just said earlier we had fire losses in one quarter higher than another quarter, this large loss activity. But we try to do at the other way, and talk about what is underlying it in terms of rate versus quote, unquote loss trend.

Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

Is there a way to give us a sense of -- whether or not it's -- I would assume -- tell me if this is right, I would assume that it is just more a personal lines benefit than it is a commercial lines benefit? Is that perception correct?

Jay Benet - *Travelers Companies Inc - Vice Chairman & CFO*

No, it's meaningful in both, depending upon the quarter.

Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

Okay.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

It is not unusual, and we are not, not answering because we don't answer. We are not answering because you're asking a question that is exceptionally difficult for us to actually quantify. It is how much of a -- you are sort of asking within our normal loss estimates, how much are we relying on of weather and that is a tough question for us to answer. We do note though, that it is not unusual in a high cat year to have lower what we call non-cat weather. And we suspect -- can't prove, but we suspect that happens, is that some of the claims that would ordinarily show up as non-cat whether get included into the catastrophe estimates, and those customers who had some loss previously now get rolled into here. It is an anecdotal observation, but it does appear to have some actual fact in the numbers.

Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

No, that is fair. I guess the fact that you know it is happening, though, makes it a little surprising to me that we can get a ballpark number if you know what I mean, because that implies there is some recognition of the trend somewhere. But --

Brian MacLean - *Travelers Companies Inc - President & COO*

But, for example in BI, as I said before, about a 4 point improvement in the combined, roughly 3 points of that is the core price and loss trends, so it's about 1 point of other stuff, a decent chunk of which would be what we are talking about. So --

Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

Yes.

Brian MacLean - *Travelers Companies Inc - President & COO*

But it's --

Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

But do you have that handy for the full year? I mean --

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Matt, we will try and take some of this offline, because I know we have talked about particularly what effected 2011 for the full-year, and you can see some of that in the run rate. I will get you off-line.

Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

Yes, that's fair. I just don't want to over or underestimate the core. I guess the other thing was, should we think about the normalizing loss trend we are seeing or what you characterized as I think a normalization of the trends in work comp, as knocking on to kind of the implied rate need in 2012? I know that's been an area where you've been getting some of the bigger headline gains. I just wonder as we are all really focused on what the headline rate number is, but I'm just wondering if that is -- if that a very transparent example of where headline rate may come in, but when you think about what you are getting relative to loss trend might not affect that spread whatsoever?

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

Well, we are looking at each other. First I would make -- in workers comp, most certainly, the rate gains are exceeding loss trends in workers comp, resulting in improved profitability and improved returns. So, while the -- while the loss or the projected losses in comp are substantive, because we -- it's long tail, and we're dealing with medical and wage inflation, so there is a real number that we use. It is not a number that we disclosed. I think it is proprietary in a pricing strategy element, but we do assume a real loss level in workers comp that contemplates changes in those -- in both wage and medical. But at this point the rate gains are exceeding it. And I would remind you that workers comp has a return -- thinking about workers comp and a return matter, that is real long tail and interest rates really matter there. So, it's one of those lines where the interest rate, long-term interest rate impact is substantive relative to the return. So, that may be as much of the driver as the loss trend dynamic in that line.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Yes, Matt, just to be to precise, the only thing we talked about moderating was the frequency dynamic that we've seen in 2011. We didn't comment on the other.

Jay Fishman - *Travelers Companies Inc - Chairman & CEO*

We continue to assume a real number, both in medical -- in severity both related to wage and indemnity. And it is just the frequency, to Gabi's point, that we have seen returned back to a normal trend line.



Matthew Heimermann - *JPMorgan Chase & Co. - Analyst*

All right. I think I will follow-up with this one offline too. Thanks.

Operator

This does conclude the Q&A session for the call. I'd like turn the conference back over to Ms. Nawi.

Gabriella Nawi - *Travelers Companies Inc - SVP of IR*

Thank you very much. Thank you for joining us today. And as always if you have any follow-up questions, you can call myself or Andrew Hersom in the Investor Relations department. Thank you very much, and have a good day.

Operator

Ladies and gentlemen, this does conclude the conference for today. We thank you for your participation, and ask that you please disconnect your lines.

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