TRAVELERS

The Travelers Companies, Inc.

Third Quarter 2020 Results Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, ladies and gentlemen. Welcome to the third quarter results teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time, you will be given instructions for the question and answer session. As a reminder, this conference is being recorded on October 20, 2020.

At this time, I would like to turn the conference over to Ms. Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, you may begin.

Abbe Goldstein
Thank you. Good morning, and welcome to Travelers' discussion of our third quarter 2020 results.

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

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, CFO; and our three segment presidents: Greg Toczydlowski of Business Insurance; Tom Kunkel of Bond & Specialty Insurance; and Michael Klein of Personal Insurance.

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

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

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

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

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

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

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

We are very pleased to report third quarter core income of $798 million, or $3.12 per diluted share, and core return on equity of 13.5%.

Our bottom-line result this quarter reflects strong underlying underwriting income resulting from record net earned premium of $7.4 billion and an underlying combined ratio that improved 2.6 points to a strong 91.5%.

We're pleased with the underwriting results in all three segments with improved underlying profitability in both Business Insurance and Personal Insurance.

In Business Insurance, the underlying result improved due to margin expansion as earned rate exceeded loss trend.

In Personal Insurance, the benefits from lower frequency in the Auto business more than offset higher levels of non-catastrophe weather and wildfire losses.

In Bond & Specialty Insurance, the underlying combined ratio was elevated, consistent with the outlook we shared on the call last quarter. I'll note that the combined and underlying combined ratios were still under 90%, generating a solid return in a challenging environment.

Profitability in all three segments continues to reflect the benefits of our strategic focus on productivity and efficiency, resulting in a sub 30% consolidated expense ratio.

Core income for the quarter also included catastrophe losses of $397 million pre-tax, which were meaningfully above the 10-year average for the quarter.

I want to acknowledge the devastation caused by recent catastrophes. We hope for a quick recovery for all of those who have been impacted. I also want to express my gratitude to our dedicated claims team for taking care of our customers during these extraordinary times.

Of the 100,000 or so claim notices we received so far this year arising out of a record number of PCS catastrophes in the U.S., our claim team has met our objective of closing more than 90% of the claims made within 30 days. A quick resolution results in a better experience for our customers and a more efficient outcome for us.

I also want to acknowledge the actions our underwriting and risk management teams have taken over recent years to manage our exposure to weather volatility. In addition to the Property Cat Aggregate Treaty, which has mitigated our losses, recent actions taken to improve the balance of risk and reward have meaningfully reduced our exposure to wildfires. To illustrate the point, in the areas impacted by the five costliest California wildfires this season, our exposure is about a third lower than it was two years ago.

Turning to our investment portfolio, this quarter we again benefited from our well-defined and consistent investment philosophy, with our high-quality investment portfolio generating net investment income of $566 million after-tax.

Lastly, before I turn to the top line, I'll share that the uncertainty surrounding business interruption claims continues to resolve favorably and consistent with our expectations. So, we remain confident on that front.

In terms of the top line and production, we continue to generate strong results. Net written premiums in the quarter grew by 3% driven by strong renewal rate change and retention in all three segments.

In our commercial businesses, the exposure change on renewed accounts was only modestly negative for both the quarter and year-to-date compared to a much more significant reduction in economic activity. We believe that in addition to generating a better underwriting result, our high-quality portfolio of accounts is more resilient to economic hardship.

In Business Insurance, we achieved record renewal rate change of 8.2%, 4 points higher than the prior year quarter, while retention remains strong. We achieved higher renewal rate change year-over-year and sequentially in each of our lines of business other than Workers' Compensation.

In Bond & Specialty Insurance, net written premiums increased by 4% as renewal premium change in our domestic Management Liability business rose to 8.1%, including record renewal rate change, while retention remained at an historical high.

In Personal Insurance, net written premiums increased by 8% driven by strong retention and new business in both Agency Auto and Agency Homeowners. In our Agency Homeowners business, we achieved renewal premium change of 8.2%, its highest level since 2014.

Across all of our businesses, we've made good progress achieving rate gains and managing other levers of profitability to improve the outlook for returns in those lines that need it and we'll continue to execute to meet our return objectives. For all the reasons we've discussed previously, from the loss environment to the interest rate environment, we expect continued momentum in the marketplace.

Notwithstanding our focus on successfully managing through the pandemic and addressing other headwinds impacting the industry, it's important to note that we haven't been distracted from pursuing our strategic agenda. We remain focused on leveraging our scale and resources to continue to invest and innovate. As we've said before, we believe the winners in our industry will be those with deep domain expertise that can deliver industry leading results while innovating successfully on top of a foundation of excellence.

From a position of strength, we continue to focus our efforts on extending our advantage in risk expertise, providing great experiences and improving productivity and efficiency.

In our commercial businesses, we continue to make progress in digitizing virtually every aspect of the value chain, while at the same time enhancing our advanced analytics. Just as one example, our BOP 2.0 small commercial product, which we launched in 2019, benefits from both. In the states in which we've rolled it out, we've seen about a 15 % increase in both submissions and new business premiums. This product uses AI and third-party data to improve underwriting segmentation, operational efficiency and the agent experience. To that point, the artificial intelligence eases the burden on the agent and has resulted in a substantial improvement and classification accuracy.

In Personal Insurance, we're balancing sophisticated total account solutions with streamlined agent and customer experiences. For example, we've completely redesigned the experience of our IntelliDrive Auto Telematics offering and introduced a distraction rating. We rolled this out in nine states during the second and third quarters and have plans to launch in an additional ten states in the fourth quarter. We are observing a nearly 30 % increase in the rate of adoption for IntelliDrive and have received strong agent feedback. Also, in the fourth quarter, we are rolling out an enhanced customer self-service tool in a new mobile app.

In our Claim organization, we are advancing the rollout of virtual end-to-end claim service tools, embracing the pandemic-driven trends that accelerated digital adoption by individuals and businesses. Customer and agent satisfaction are up, while payout discipline remains strong.

To sum it up, we're pleased by our performance in the face of a pandemic and a challenging underwriting environment. It reflects the importance of a strong underwriting culture, the benefit of data and analytics and the franchise value we offer to our customers and distribution partners.

With all of that, together with our highly engaged and talented workforce, we're confident that we're well positioned to capitalize on opportunities as the economy continues to reopen.

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

Dan Frey
Thank you, Alan. Our core income for the third quarter was $798 million, generating core ROE of 13.5%, both up significantly from core income of $378 million and core ROE of 6.5% that we reported in the prior year quarter.

These increases resulted primarily from this year's favorable third quarter PYD compared to net unfavorable PYD in last year's third quarter, as well as a significant increase in underlying underwriting profit. More on both of those items in a minute.

Our third quarter results include $397 million of pre-tax cat losses compared to $241 million in last year's third quarter. This quarter's cats included Hurricane Laura, Tropical Storm Isaias, the severe straight-line winds that impacted the Midwest in August and several large wildfires in the Western United States.

The increase in the level of cat activity was even more pronounced than those numbers suggest as our net cat result in the quarter was tempered by recoveries under the Aggregate Catastrophe XOL Treaty. We have recognized a full recovery under that treaty in our third quarter results with $233 million pre-tax benefiting the cat line and $47 million pre-tax benefiting non-cat weather in our underlying results.

Recall that last year, we did not have any recoveries under the treaty until the fourth quarter. Of course, the full recovery in this year's third quarter means that there is no coverage remaining from this treaty as we enter the fourth quarter.

The underlying combined ratio of 91.5%, which excludes the impacts of cats and PYD, improved by 2.6 points from 94.1% in last year's third quarter.

The underlying loss ratio improved by 2.4 points and benefited from favorable Auto frequency related to COVID-19 and the impact of earned pricing in excess of loss trend, partially offset by an increase in non-cat weather losses, including wildfires.

The expense ratio of 29.3% is two-tenths of a point favorable to last year's third quarter result and reflects our strategic focus over a number of years on improving productivity and efficiency. Setting aside quarter-to-quarter variability, our year-to-date expense ratio of approximately 30% is a figure we're comfortable with.

Our top line proved to be resilient, with a 3% increase in net written premium as continued strong renewal rate change and retention in all three segments more than offset modestly lower insured exposures in the commercial businesses.

For the quarter, losses directly related to COVID-19 totaled $133 million pre-tax, with $92 million in Business Insurance driven primarily by Workers' Comp and $41 million in our Bond & Specialty business predominately driven by Management Liability. More than offsetting those losses were lower levels of Auto claims and, to a lesser extent, fewer non-COVID Workers' Comp and GL claims due to lower levels of economic activity.

The net impact of the COVID environment on the consolidated underlying combined ratio amounted to a benefit of about 2 points, mostly in Personal Insurance. Given the ongoing uncertainty in this environment, we continue to take a cautious approach in estimating the net impact of COVID-19 related losses. Consistent with my commentary last quarter, the majority of direct COVID losses that we booked year-to-date through September is still sitting in IBNR.

Looking at the year-to-date impact of direct COVID losses net of related frequency benefits and other underwriting items, our underwriting results have benefited by a little more than $100 million pre-tax or about a half a point on the consolidated underlying combined ratio, including the impact of premium refunds to policyholders. However, year-to-date net investment income reflects the significant adverse impact on our non-fixed income portfolio.

Turning to prior year reserve development, as previously disclosed, third quarter includes approximately $400 million of pre-tax benefit from the PG&E subrogation. About 80% of that benefit is reflected in Personal Insurance with the remainder reflected in Business Insurance. Setting PG&E to the side, PYD results in the quarter were as follows:

In Personal Insurance, net favorable development of $40 million pre-tax was driven by Auto results coming in better than expected for recent accident years.

In Bond & Specialty Insurance, there was no net impact from PYD.

In Business Insurance, we recognized unfavorable development of $295 million pre-tax as a result of our annual asbestos review. While there was some slight improvement in several of our asbestos indicators, the overall level of paid losses and general claim activity have persisted at levels higher than we had anticipated. This year, as we do every few years, we reviewed certain macro assumptions underlying our actuarial analysis. Our updated view of ultimate asbestos-related losses resulted in an increase in the low end of the actuarial range. This year's asbestos charge is greater than last year's charge as a result of our updated view of the range for ultimate losses, not as a result of increases in paid losses or severity.

There are some indications that the environment is improving in terms of the emergence of new asbestos claims going forward. Page 19 of the webcast presentation includes the most recent annual data from the Centers for Disease Control and Prevention, which shows that the total number of deaths from mesothelioma in 2018 decreased by nearly 6% compared to 2010. Of note, as you can see on the bottom two lines of the table, the decline in mesothelioma deaths was much more pronounced in all of the younger age groups. This trend is directionally consistent with our expectation that over time, the high-risk group of people actually exposed to asbestos in the workplace prior to the late 1970s will get smaller and will not be replaced by younger people, as those who entered the workforce sometime in the 1980s should not have been exposed to asbestos to nearly the same degree as their predecessors.

Excluding the impacts of the PG&E settlement and the annual asbestos review, there was virtually no net prior year reserve development in Business Insurance. Favorable development in Workers' Comp was offset by an increase to the reserves for legacy liabilities in our runoff book related to a single insurer arising out of policies issued more than 20 years ago.

After-tax net investment income increased by 7% from the prior year quarter to $566 million. The increase was driven by our non-fixed income returns, where results for our private equity, hedge funds and real estate partnerships are generally reported to us on a one quarter lag. Because of that reporting lag, the recovery experienced in the broader markets during the second quarter benefited our non-fixed income results in the third quarter.

Fixed income returns decreased by $31 million after-tax as the benefit from higher levels of invested assets was more than offset by the decline in interest rates, consistent with our comments on last quarter's call. Also consistent with our prior commentary, we expect after-tax fixed income NII in the fourth quarter to be down $35 to $40 million compared to a year ago. Looking ahead to 2021, our current expectation is for after-tax fixed income NII to be between $420 and $430 million per quarter.

Turning to capital management, operating cash flows for the quarter of $2.3 billion were again very strong, all our capital ratios were at or better than target levels and we entered the quarter with holding company liquidity of approximately $2.3 billion, well above our target level. Recall that in April we pre-funded the $500 million of debt coming due in November with a new 30-year $500 million debt issuance, so our holding company liquidity at September 30 is temporarily elevated by that amount.

Investment yields decreased as credit spreads tightened during the third quarter, and accordingly, our net unrealized investment gain increased from $3.6 billion after-tax as of June 30 to $3.8 billion after-tax at September 30.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $94.89 at quarter-end, up 2% from year-end to 2019 and up 5% year-over-year.

We returned $218 million of capital to our shareholders this quarter via dividends. We did not repurchase any shares during the quarter.

Looking ahead, there's no change in our approach to capital management. Until there's more clarity on the state of the economy, we may buy back some shares in the coming quarters or we may continue to choose to buy none.

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

Greg Toczydlowski
Thanks, Dan. Business Insurance produced $365 million of segment income for the quarter, a significant increase over the prior year quarter with prior year development, underlying underwriting income and net investment income all contributing to the year-over-year increase.

The underlying combined ratio of 94% improved by almost two points, driven by more than a point of earned rate in excess of loss trend. A modest favorable net impact from the pandemic contributed about a half a point to the improvement.

As for the top line, net written premiums were 1% lower than the prior year quarter, with strong rate and high retentions mostly offsetting modestly lower insured exposures and lower levels of new business. As Alan mentioned, we are very pleased with the resilience of our top line in the face of the ongoing macroeconomic challenges.

Turning to the domestic production, we achieved record renewal rate change of 8.2%, up 4 points from the third quarter of last year and almost 1 point from the second quarter of this year, while retention remained high at 83%. We feel very good about the headline numbers, but as we've shared before, the quality of the execution and segmentation underneath the headline numbers are just as important. To that point, while we achieved meaningful rate increases in all product lines except Workers' Comp, our underwriters are making deliberate and granular decisions with respect to rate and retention on an account-by-account or class-by-class basis. Thanks to our focus on continuous improvement of data and analytics at the point of sale, the quality of the execution is as good as I've ever seen.

New business of $505 million was 9% lower than the prior year quarter. We attribute the decline to lower levels of economic activity as well as careful risk selection by our underwriters. In our core Middle Market business, for example, while submissions are up, our quote ratio is lower as we are taking a disciplined approach given our view of quality of new business in the market.

As for the individual businesses, in Select, renewal rate change increased to 2.9%, marking the seventh consecutive quarter in which renewal rate change was higher than the corresponding prior year quarter. Retention of 80% was down a couple of points from recent periods largely driven by policy cancellations that were deferred through the second quarter due to our pandemic related billing relief program.

In Middle Market, renewal rate change increased to 8.3%, while retention remained strong at 85%. The 8.3% was up by more than 4.5 points from the third quarter of 2019 and we achieved positive rate on more than 80% of our accounts this quarter, up from about two-thirds in the third quarter of last year.

To sum up, we feel terrific about our results and execution in a challenging underwriting environment. We also feel very good about the investments we're making for the future and the benefits we're seeing from those investments. Those investments include enhancing the experiences for our customers and distribution partners, digitizing the underwriting transaction and creating efficiencies. For example, we've recently launched multiple pilots to automatically incorporate data from our distribution partners' agency management systems directly into our systems, substantially reducing the time and friction in the process, while also improving data quality. We're as confident as ever that our meaningful competitive advantages position us well for long-term profitable growth.

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

Tom Kunkel
Thanks, Greg. Bond & Specialty delivered solid returns and growth in the quarter, despite the ongoing headwinds of COVID-19. Segment income was $115 million, a $24 million decrease from the prior year quarter as the benefit of higher volumes was more than offset by a higher underlying combined ratio.

The underlying combined ratio of 89% increased 5.4 points, primarily driven by estimated losses from COVID-19 and related economic conditions.
Given the products that we write, we expect the results of the segment to be impacted in times of severe economic downturn. We experienced that during the financial crisis and we're seeing elevated loss activity in the current environment. We contemplate economic volatility in our underwriting and in our pricing, and as Alan said, in these circumstances, we feel good about the returns we generated in the quarter. We expect that the underlying combined ratio will continue to be elevated at around this level over the near term.

Turning to top line, net written premiums grew 4% for the quarter, reflecting strong growth driven by improved pricing in our Management Liability business partially offset by lower Surety production due to the continued economic impact of COVID-19 on public project procurement and related bond demand.

In our domestic Management Liability business, we are pleased that the renewal premium change increased to 8.1%, driven by record rate. This marks the eighth consecutive quarter in which RPC is higher than the corresponding prior year quarter. Retention remained at an historically high 90%.

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

Domestic Management Liability new business for the quarter decreased $14 million primarily reflecting our thoughtful underwriting in this elevated risk environment. Similar to what you heard from Greg in Business Insurance, submissions are up while quote activity is down.

Bond & Specialty results remained resilient despite the challenges brought on by COVID-19. We continue to be pleased with our strong execution and feel confident about our ability to navigate through this challenging environment and continue to deliver strong returns over time.

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

Michael Klein
Thanks, Tom, and good morning, everyone. In Personal Insurance this quarter, we are very pleased with our continued execution in the marketplace as we delivered excellent profitability and grew net written premiums by 8%, achieving record levels of domestic policies in force.

Personal Insurance segment income for the third quarter was $392 million, up $261 million from the prior year quarter driven by the pre-tax impacts of an improvement of $163 million in the underlying underwriting gain and $343 million of higher net favorable prior year reserve development, partially offset by $174 million of higher catastrophe losses net of reinsurance.

Our combined ratio for the quarter was 86.4%, an improvement of 11.6 points from the prior year quarter driven primarily by the increase in net favorable prior year reserve development. Higher catastrophe loss experience in the quarter was largely offset by improvement in the underlying combined ratio.

The improved underlying combined ratio reflects the continuation of favorable Auto loss experience in the quarter, partially offset by higher non-catastrophe weather related losses. I'll discuss both of these dynamics in a bit more detail next.

Agency Automobile profitability was very strong, with a combined ratio of approximately 80% for the quarter. The underlying combined ratio of 81% improved nearly 12 points, continuing to reflect favorable frequency levels. Approximately 8 of the 12 points of improvement relate to current quarter favorability. The remainder results from favorable re-estimates of activity in the first half of 2020.

We continue to observe lower claim frequency as a result of fewer miles driven in light of the COVID-19 pandemic. For the third quarter, data from our IntelliDrive program indicates that miles driven increased relative to last quarter but continued to be down from pre-COVID-19 levels. In response to this continued favorable loss experience, we filed modest rate reductions in a handful of states during the third quarter. We will continue to analyze and incorporate current trends into our underwriting and pricing decisions as we balance business volumes and profitability.

In Agency Homeowners and Other, the third quarter combined ratio was 92.8%, an improvement of 9.2 points in the prior year quarter, resulting from 26 points of higher net favorable prior year reserve development mostly from the PG&E subrogation recoveries, partially offset by elevated levels of catastrophe losses and an increase in the underlying combined ratio driven by higher non-catastrophe weather related losses.

Our catastrophe and non-catastrophe experience reflect a very active quarter with a record 31 PCS events. West coast wildfires represented almost half of the total PCS events in the quarter. Consistent with Dan's comments earlier, the quarter's catastrophe losses for Personal Insurance were also impacted by the Midwest Derecho, Tropical Storm Isaias and, to a lesser extent, Hurricane Laura.

In addition to pursuing rate increases in property as we have been for some time, we continue to review and modify terms and conditions and implement loss mitigation actions in response to the elevated loss activity. Our actions to date have enabled us to reduce or avoid losses we would've otherwise incurred and improve returns as we continue to grow the line.

Turning to quarterly production, our domestic Agency results were again very strong. Our retentions remain high, quotes and new business were up versus the prior year quarter and we remain pleased with our policies in force growth.

Agency Automobile retention was 84% and new business increased 9% from the prior year quarter, both contributing to accelerating growth in policies in force. Renewal premium change was again lower as we continue to moderate pricing in response to favorable loss activity.

Agency Homeowners and Other delivered another very strong quarter with retention of 86% and a 22% increase in new business. Renewal premium change increased to 8.2% as we remain focused on improving returns in property while growing the business.

During the quarter, we continue to respond to the needs of our customers and distribution partners. First and foremost, let me add my thanks to our claim professionals for delivering on our commitment to be there for our customers and distribution partners in response to the significant number of catastrophe and weather events in the quarter.

At the same time, we continue to deliver new capabilities in the marketplace. Alan already mentioned both IntelliDrive and our new MyT mobile app, both of which are key tools in helping us attract and retain customers.
We also expanded the availability of our digital quote proposal that gives agents and brokers the ability to send a Travelers insurance quote to their client's mobile phone and interact with them digitally about the terms of the proposal, making the transaction more seamless for both the agent and the customer.

And, after reaching our goal of planting one million trees for customer enrollment and paperless billing, we extended our partnership with American Forests to plant an additional 500,000 trees by Earth Day 2021. We have already achieved that milestone well ahead of schedule, providing our customers the digital experience they seek, while benefiting the environment.

These examples, and others, illustrate our abilities to develop and deliver the capabilities our partners and customers value.

We are very pleased with our performance so far this year and I'm proud of our team's efforts to continue to deliver results while investing in the business for the future.

Now, I'll turn the call back over to Abbe.

Abbe Goldstein
Thank you very much. Operator, we're ready to start Q&A.

QUESTION AND ANSWER

Operator
Thank you. As a reminder, to ask a question, you will need to press star one on your telephone. To withdraw your question, press the pound or hash key. Please stand by while we compile a Q&A roster.

And our first question comes from the line of Mike Zaremski from Credit Suisse. Your line is open.

Mike Zaremski
Good morning. Thanks. First question, if we can talk about some of the reserve changes during the quarter. Thanks for all the commentary. I believe Greg, when you were talking about the Business Insurance segment, you didn't mention any additions to General Liability, and I believe you had been adding to that in prior quarters. Can you confirm if that was indeed the case?

And maybe just overall, too, Alan or Greg, if you guys can talk about whether your view has changed at all on overall loss expense trend.

Alan Schnitzer
Good morning, Mike. It's Alan. Let me start with loss trend and then maybe I'll turn it over to Dan to talk about prior year development.

In the quarter, putting aside for a second the direct COVID losses, in the quarter generally what we saw was favorable loss activity primarily related to COVID. And so think people staying home, less economic activity, lower levels of frequency.

As you heard us say last quarter, and as you heard us repeat again this quarter, we've taken a very cautious approach to recognizing that favorable news. There is still a fair amount of uncertainty and we're going to be cautious about that, but we didn't see anything in the quarter that surprised us or caused us to think that loss trends were deteriorating. And Dan, why don't you comment on PYD?

Dan Frey
Sure, Mike, so just to go through Business Insurance's PYD just for a second, a quick recap of the summary. It ended up being about $220 million unfavorable all-in. That's driven by $295 million, as we said, on asbestos. Then there was favorability from BI's portion of the PG&E settlement, that was worth about 20% of the $400 million so, that's $80 million of a good guy and that gets you to about $215 million compared to the $220 million. The other moving parts you can think about as net offsets and those are favorable in Workers' Comp, unfavorable for a single account in run-off from policies that we issued more than 20 years ago.We didn't mention the other lines because it was really very modest activity in the other lines, some pluses and some minuses that basically net to zero.

Mike Zaremski
Okay, that's helpful. My last question is I guess in regard to the overall competitive environment. Alan, in your prepared remarks, you talked about expected continued momentum in the marketplace. I think what we're trying to get comfortable with is the investment income levels – thank you for the guidance – clearly, they're under a lot of pressure and I think in our shoes, we haven't been in a firm to hard marketplace in a while. We're trying to get comfortable that the pricing momentum and excess of loss trends are going to continue because it seems like to offset the NII pressure, we have to get to meaningfully better combined ratios in outer years.

So, maybe just some more color, Alan. When you say continued momentum, do you expect pricing to continue moving higher? Or are these levels good enough for you guys to start chipping away at offsetting some of the investment pressure?

Alan Schnitzer
Clearly, Mike, written rate is ahead of loss trend, so we're definitely making progress at these levels. We're not going to give pricing outlook, but we do choose our words pretty carefully. I'll tell you that the fact of the matter is that for us, and for the industry broadly, there are just many, many lines of business that are not yet rate adequate and the drivers are clearly environmental.

On the loss side, social inflation isn't going to go away. We've got weather losses. We've got wildfires that are burning. As you pointed out, interest rates are lower for longer. That's going to be a driver of the outlook for returns. We do have some capacity issues on some lines as there are some markets that are pulling back on capacity. We think all of these broader environmental trends will continue to provide positive momentum in the marketplace.

Mike Zaremski
Thank you.

Alan Schnitzer
Thank you.

Operator
Our next question comes from the line of Ryan Tunis from Autonomous Research. Your line is open.

Ryan Tunis
Hey. Thanks. Good morning. My first question is it sounds like the COVID benefits you're enjoying are frequency based, mostly short tail lines. I should take that to mean that you've continued to book in lines like Commercial Auto, similarly to the type of loss trend that you thought coming into the year, which I would think would be above your average loss trend, correct?

Dan Frey
Yes, Ryan. It's Dan. That's right. As we've said last quarter and this quarter, we're trying to be cautious in our assessment of the net impact of COVID. There is some benefit in the shorter tail lines, but we're trying to be pretty cautious in terms of how much of that we recognize in the current accident year.

Alan Schnitzer
In terms of the casualty coverages, as you mentioned, yes, that's correct.

Ryan Tunis
Right. I totally understand. I'm just trying to get some perspective on – clearly, we don't know what frequency is going to be. There could be delays in reported claims, etc..

From your seat, looking at the type of claim activity that's come in through the door, if that were to hold true, what's the type of frequency benefit on Commercial Auto that we're, not at this point, seeing in results yet?

Alan Schnitzer
We're reluctant to put a number on that. I think we're not going to do it, Ryan. Frequency, it does develop, but it develops certainly a lot more quickly than severity does. You know if the phone rings or if the phone doesn't ring, but I think we're going to leave it. As we recognize some of it, because there was enough of it that we couldn't not recognize some of it, but we've been pretty cautious in the assessment.

Ryan Tunis
Got it. The other follow up I had, probably for Dan, is thinking about the aggregate treaty. It kind of worked this year, but it also kind of didn't, because we're going into the fourth quarter and we've gone through the top.

How are you thinking about the strategy about reinsuring cats headed in 2021? Are you thinking about doing more aggregate cover and maybe going lower? Is that something that we should expect potentially be a catalyst for next year?

Alan Schnitzer
Hey, Ryan, before Dan answers that question, I'll just insert that I think the treaty actually worked just fine. It was the weather that didn't work so well.

Dan Frey
Ryan, I think we'll do as we would do for reinsurance going into any year. We'll make an assessment of price versus risk and then decide what and how much we're going to buy. I think I'd say in summary, we're glad that we've had that treaty for the last two years.

To your question specifically about do we go to a lower attachment, I wouldn't think so. We've got a growing business, and if anything, we probably would go naturally to a higher attachment point just to reflect the growth in the business.

Maybe we'll buy that reinsurance again and maybe we won't. It'll depend how we feel about the risk transfer relative to the pricing that we can get. Because, again, we're writing with the idea that we're a gross line underwriter. We said a couple of years ago, it felt like there was a little more uncertainty in the weather environment and we wanted to have that treaty and we're glad we had it. We'll see how that plays out going into next year.

Alan Schnitzer
The other thing I would add to that, Ryan, and Dan is exactly right, we bought that because we wanted to acknowledge the incremental uncertainty that we felt after some wildfire losses in 2017 and 2018. As I mentioned in my prepared remarks, we've taken pretty substantial steps to try to get that risk reward in balance. That would also factor into our view of the value of that reinsurance treaty and the terms we can get it on next year.

Ryan Tunis
Thanks.

Alan Schnitzer
Thank you.

Operator
Our next question comes from the line of Brian Meredith from UBS. Your line is open.

Brian Meredith
Yes. Thanks. My first one is maybe some commentary about Workers' Comp. I think that given where interest rates are, at some point we should start to see that line see some positive rate momentum. That's an important component, but what are your thoughts on that line right now?

Alan Schnitzer
Greg, you want to take that?

Greg Toczydlowski
Yes, you bet. Good morning, Brian. First, we like our longstanding competitive and economic advantages that we've got out of that line and that's why we're the largest writer in [Workers' Compensation] in the U.S. Sure, there's a little bit of pricing reductions going through that line right now and that always puts some pressure on existing margins, but we aren't standing still.

We continue to invest in our claim practices specifically around medical management sophistication. And our underwriters, we're always giving them new tools and new insights to make sure our risk selection and our renewal segmentation offsets some of those price reductions.

Workers' Comp is just one piece of our portfolio. As we remind you all the time, we're more of an account solution than an individual monoline writer. We'll continue to write our customers with accounts, in addition to Workers' Comp. We continue to feel good about the portfolio and the future of that line.

Brian Meredith
With that improvement in Select, was that due to [Workers'] Comp maybe getting a little less competitive, the rate in Select?

Greg Toczydlowski
Well, both Select and Middle Market are clearly going to follow the linear trend of the Bureau's lost cost recommendations. In the Select business, where it's more of a flow business, where you file that rate structure, you feel it more there than you would in Middle Market, where you have experience modifications and discretionary pricing and you look at the individual exposure rather than file it at a state level. So, a little more sensitive to the reductions in Select than you would see in Middle Market.

Brian Meredith
Great. And then just one quick follow up for Dan. The aggregate cover this quarter, is it possible to break out how much of that benefit is non-cat weather versus cat losses?

Dan Frey
Yeah. Brian, I gave it actually in my prepared remarks.

Brian Meredith
I'm sorry. I missed it.

Dan Frey
It's quite all right. We said $280 million was the total recovery, $233 went to cat and $47 million went to underlying.

Brian Meredith
And that's largely in the personal lines?

Dan Frey
The split is a little different between the two. The cat split is about 50%/50% PI/BI. The non-cat split goes more, like 70%/30% PI/BI.

Brian Meredith
Great. Very helpful. Thank you.

Operator
Our next question comes from the line of Elyse Greenspan from Wells Fargo. Your line is open.

Elyse Greenspan
Hi. Thank you. Good morning. My first question is also on the aggregate cover. Given that you have exhausted that cover, and this is a comment that is specific to Business Insurance, how can we think about the improvement within the underlying loss ratio that you could see there in the fourth quarter? We could expect some kind of headwind from non-cat weather just given the absence of the aggregate or how should we think about the fourth quarter?

Dan Frey
Elyse, it's Dan. The aggregate, as I just said in response to Brian's question, is not a big deal to the underlying for Business Insurance in the third quarter. It got about 30% of the $47 million that was non-cat. You could think about that for BI as not being more than 20 or 30 basis points in terms of its impact on the quarter.

Elyse Greenspan
Okay. If we adjust BI for that and then also for the COVID benefit that you pointed out earlier, is that a good type of run rate to think about for some margin improvement that we could see in the fourth quarter?

Dan Frey
Well, I don't think I'd expect the COVID impact to cease as of September 30. Certainly, the cat treaty recovery is all contained in the third quarter and you could take that out for sure. I'm not sure anybody knows what exactly the impact of COVID is going to be in the fourth quarter.

Alan Schnitzer
Or what weather volatility is going to look like. I think we're going to get away, generally, from trying to forecast margins. We're happy to take some modeling questions offline, if helpful, Elyse, to the extent we can.

Elyse Greenspan
My second question was on the expense ratio. Dan, I think you said that 30% was a good run rate. But as we're thinking – and maybe this is less guidance, but I think that you guys did guide with at least that as – you're getting a good amount of price and that's earning in, should we expect that we could see some improvement in the expense ratio just due to the denominator. Or is it counter-balanced by some investments that you pointed out that you guys have been making internally?

Dan Frey
I think those are the considerations, Elyse, that will go into what it ends up being. I do think to the degree that we can get some bottom line growth, you could be in a position to continue to see some leverage on the expense ratio. But as we've said a number of times over the last couple of years, what we like about productivity and efficiency that we've generated is it gives us the optionality of whether we make additional investments in places that we feel are going to provide a bigger bang for the buck down the road or let some of that come through the bottom line. All I was really trying to communicate was that we're not seeking a dramatic change in the expense ratio from where we are right now.

Elyse Greenspan
Okay. That's helpful. Thanks for the color.

Alan Schnitzer
Thanks, Elyse.

Operator
And our next question comes from the line of Josh Shanker from Bank of America. Your line is open.

Josh Shanker
Good morning everybody. Two unrelated questions. The first one is about Surety. Can you tell us a little bit about the premium volume, which looked pretty reasonable in the Bond & Specialty business? What are we seeing in terms of COVID economy for construction starts and what not?

Tom Kunkel
This is Tom, Josh, good morning. When you think about Surety, if you break it up to the non-construction and the construction side, our regular non-construction Surety is holding up quite nicely. But with all of the decline in tax receipts and the difficulties that various public bodies are having funding public works projects, that's what is really driving the drop-off in Surety written premium. We will have to wait and see what the federal government does with any stimulus that might involve construction because certainly states and other entities have shovel-ready projects.

Josh Shanker
Is there an implication for things that have already begun construction? Is there a risk that we start seeing issues with Surety claims because they're not able to be finished?

Tom Kunkel
They're two different issues. As far as the project stopping, unless they're ordered to stop by government authority, I wouldn't expect to see a project that is ongoing stopping.

As far as the slower economy causing additional defaults, that certainly is possible. It really depends on the contractors in the Surety's portfolio and how sound their financial position was going in and how they handle pursuing work or not pursuing work and shrinking the size of their company when times are lean. We take a lot of pride in our contractors and we manage that portfolio and we think different sureties will perform differently throughout this.

Alan Schnitzer
And Josh, I will just add to that we're underwriting the Construction Surety book today the same way we did in the financial crisis and it performed pretty well through that. We can't give any assurances. Who knows? But we feel pretty good about our underwriting practices and the people who are making the decisions to put business on the books.

Tom Kunkel
Yes.

Josh Shanker
And then sort of a philosophical question. If we go back in time maybe 10 years, I don't know when, when you came up with a Travelers definition for catastrophe and, of course, it varies from the PCS definition.

It seems as time goes on, the risk associated with non-cat weather gets greater and greater in terms of volatility on your margins. Is the variance between your definition and the PCS definition still useful? Or have we gotten to a point where the reasons for that difference are starting to create a certain volatility in results that we wouldn't otherwise hope to see?

Alan Schnitzer
Yeah. Josh, we think about that a lot. I appreciate the question and maybe someday offline, we'd love to get your thoughts on it. Our view is, from an economic perspective, the losses are going to be what they're going to be, whether they get reflected in a cat line or in an underlying line.

Frankly, we report the numbers the way we manage the business and we think that there is a level of loss activity that is defined as a PCS event that is in a working layer, if you will, and that ought to be managed day in, day out, year in, year out by the underwriters that are managing it. As compared to a catastrophe loss, which we obviously define as a higher level, which get managed and addressed over a much longer period of time.

We think it's the right way to manage the business. We think it's the right way to talk about the business internally and we make the decision to talk about it externally the same way we manage it internally. I get that it might from time to time cause some modeling issues or definitional issues, but we think the consistency and the thoughtful approach to managing is the right way to run the railroad.

Josh Shanker
Thank you.

Alan Schnitzer
Thank you.

Operator
And our next question comes from the line of Paul Newsome from Piper Sandler. Your line is open.

Paul Newsome
Good morning. Thanks for the call and answers. I was hoping you could hone in on the competitive environment of the Auto insurance business, in particular. Seeing in the market different things from rate environment, obviously, you're doing what you're doing. But is it a materially more competitive market today than it was recently?

And I'll just give you my follow up question, which is I'd like to know how that better environment links up with what you're doing in the Home insurance business where you're totally growing. My sense is the Home insurance business is pretty much an outright hard market. So, a different situation.

So, those are the two questions.

Alan Schnitzer
Michael.

Michael Klein
Thanks, Paul. It's Michael Klein. On the competition in Auto, certainly we are seeing market rates drop and I think it's fair to call it an intensifying competitive environment. That said, for the most part, notwithstanding some of the headline numbers you see from some key competitors, it's still a relatively moderate adjustment in Personal Lines Auto pricing. From our perspective, largely reflective of the improvement in experience in the lines. Some of it COVID-related, but frankly, some of it consistent with longer term trends of favorable frequency that we and other competitors have talked about.

In terms of our ability to compete in that environment, as I mentioned in my prepared remarks and you see in the webcast deck, we're pleased with our improving PIF growth in Auto. As we moderate pricing, again, intentionally, to keep pace with those loss trends. Again, as I mentioned in the prepared remarks, that does include taking some price decreases in a handful of states to, again, match premium to loss, pricing with loss experience. That's our view on the PI competitive environment.

Jumping to your second question about Home, I would agree. If you look at the Personal Insurance industry right now, it's a little bit of a tale of two cities, right? You've got improving loss experience and moderating frequency and Auto putting downward pressure on prices. You've got a lot of what we've been talking about here this morning, catastrophes, non-catastrophe weather. There are still folks in the industry talking about non-weather water losses as well, but the pressure on loss costs in the Property business is upward.

We're pleased with our progress in RPC in Property. We're pleased with the performance of our Quantum Home 2.0 product as we roll that out. As we look at the Property market in Personal Insurance, as we've described it, our objective is to grow Property while improving profitability and that's the path we've been on and will continue to be on.

Paul Newsome
I guess what I was trying to ask: how much is there a link between the willingness to grow in the Home versus the Auto?

Michael Klein
I would say we look at it as a portfolio. Our strategy is to be a portfolio provider and work with our partners to provide total account solutions to customers. We are actively seeking to grow both lines and again, at target returns.

Paul Newsome
Great. Thank you. Appreciate it.

Michael Klein
Thanks.

Operator
Our next question comes from the line of David Motemaden from Evercore ISI. Your line is open.

David Motemaden
Hi. Thanks. Good morning. Just had a question on NII and the impact it has on ROE for the firm. The NII guide of $420 million to $430 million after-tax per quarter. Do you think that you can get enough margin expansion to offset the NII drag to keep ROE stable in this environment? And is there enough pricing and margin expansion underneath where you can actually improve ROEs in this interest rate environment?

Alan Schnitzer
We think the answer to that is yes and if you look at written rate versus loss trend, margins are improving from here. We're not going to give guidance, so I'm not going to predict whether we will or whether we won't, but certainly interest rates and investment income are an input into our pricing model. There's certainly a very direct link between the investment return we're getting on the product and the price we're charging for it.

David Motemaden
Okay. Great. Thanks, then just another follow up. I think Greg mentioned getting rate in excess of loss trend of over a point in BI. I'm wondering if you could elaborate a bit on what gives you confidence that you're getting rate in excess of trend given the uncertainty around the loss environment, courts being closed and generally the unpredictability of losses in the current environment.

Alan Schnitzer
Yeah, just to be clear, we look at rate versus loss trend on a written basis and that's the rate number you see in production statistics and we've shared before our view of loss trend. That one point was for the earned impact of rate and earned loss trend. So, two different bases there.

At this point, we've got rate in excess of 8% and we've got loss trend, which we shared last quarter, we view on the long-term basis at 5%. Yes, there's some uncertainty, but that gap is big enough that we feel some confidence in that.

It's true that in a circumstance like this where you've got a disruption in the economy and some disruption in the data coming through and in the claim process, there's a little more uncertainty than usual. As I shared previously, what we're seeing in losses is actual favorability. Again, not perfect clarity into it. It's going to take some time for us to get more clarity and for that uncertainty to resolve, but the thing that we're not reacting to is favorable news, not unfavorable trends.

Operator
Our next question comes from the line of Yaron Kinar from Goldman Sachs. Your line is open.

Yaron Kinar
Hi. Good morning, everybody. First question around Workers' Comp. Clearly, I'm assuming there's a frequency benefit from non-COVID claims. On the other hand, I would think that frequency benefit could ultimately result in some severity increase further down the road. Is that a fair way of thinking about it? If so, how will you think of the loss picks with that dual dynamic?

Alan Schnitzer
It's certainly a possibility and we contemplate that. Yes, there is some favorability in non-COVID related frequency. But, we do contemplate when we think about longer term trends and when we think about the profitability of the product, that there could be, down the road, some increased severity due to really delayed access to healthcare. So, we do contemplate that as a possibility.

Yaron Kinar
Is that reflected in the picks already or is that something that you'll be thinking about as you move into 2021 and then beyond?

Dan Frey
It's Dan. I'd say both, which goes to the comment that we've made a couple of times about being cautious in our view of the net impact of COVID. We'll continue to consider that as we think about the product on a go-forward basis.

Yaron Kinar
Got it, and then Alan, you've been vocal about social inflation trends, particularly in Commercial Auto the last couple of years. With courts being shut down, now starting to reopen, are you seeing any change in the trend or is it too difficult to tell just given all the COVID related noise today?

Alan Schnitzer
I guess what I can share is we didn't see anything that caused us to believe that there was any deterioration in those trends. What we saw was, again, as I said a few times, favorable. We think the extent to which it's favorable is a temporary phenomenon. I guess that's how I'd answer the question. Nothing in the quarter that causes us to think anything was deteriorating.

Dan Frey
At the same time, we certainly don't think that social inflation has gone away. Our long-term expectation is that this sort of elevated level of losses that we've seen related to social inflation probably persists.

Yaron Kinar
Got it. Thank you for the answers.

Alan Schnitzer
Thank you.

Operator
Our next question comes from the line of Jimmy Bhullar from JP Morgan. Your line is open.

Jimmy Bhullar
Hi. Good morning. First, I had a question on pricing in the Workers' Comp line. Obviously, it's been declining. Are you seeing any signs of stability in that? Or what are your views on where that's headed?

Alan Schnitzer
Jimmy, I'd repeat what we said last quarter, which is when we look at our data, we look at the data coming out of rating bureaus. We would think that we are somewhere near an inflection point. Whether it's now or in the coming quarters, not really sure. But we would expect, in the relatively nearest term, for that pricing to come back to negative and then turn positive. It's impossible to give you that quarter or date that's going to happen, but that would be our near-term outlook.

Jimmy Bhullar
Okay, and then you mentioned you'll evaluate price versus risk on reinsurance. It seems like the reinsurance rates are obviously going up a decent amount. Any sort of initial indication of your views on price versus risk given what's going on in the reinsurance markets versus last year?

Alan Schnitzer
We certainly expect the reinsurance pricing to go up. That's one of the factors that's driving our pricing and the pricing generally in the primary going up and we think that's going to persist.

I guess the thing I would add as it relates to us is, we are, as we said many times, a gross line underwriter. We like underwriting. We tend to keep it and so, compared to many in the industry, we buy, on a relative basis, less reinsurance. Frankly, we could buy even less than we do. We could buy a little more, we could buy a little less depending on the risk and reward that we see in that purchase. To the extent that we're relatively less reliant on reinsurance than others, the fact that reinsurance pricing is going up is probably a benefit to us.

Jimmy Bhullar
Okay, and then just lastly, what are some of the things that you're watching to determine whether to start buying back stock again?

Dan Frey
I think, Jimmy, still overall economic uncertainty, right? Even as we sit here today, what's the depth and the duration going to be of economic downturn? Is there going to be a second dip in the economy? How quickly are COVID cases going to be brought under control? How quickly are things going to reopen? There's just a lot of uncertainty that could impact both our top line and the loss environment in which we're operating.

We're choosing to be a little cautious here still. And clearly, through the third quarter on top of all that we had a very active cat quarter. It just didn't feel like the right time to be restarting buybacks.

Jimmy Bhullar
Okay. Thanks.

Alan Schnitzer
Thank you.

Operator
We have time for one further question. Our final question today will come from the line of Meyer Shields from KBW. Your line is open.

Meyer Shields
Great. Thanks. I think it was Dan or Alan, I apologize for not knowing for sure, that talked about how you were taking a conservative view of accident year loss picks in light of uncertainty and only recognizing the frequency benefit that you had to. Was there a similar approach taken to reserve reviews in the quarter?

Dan Frey
Meyer, it's Dan. I'm not sure I quite understand the question. The reserves will be a result of the loss picks that we made in the current accident year during the quarter.

Meyer Shields
Right, if I understand correctly, there is an overall conservatism because of the fact that things are developing differently as we work our way through the COVID and the economic ramifications. I'm wondering whether that conservatism had sort of an unusual impact on the selections you made with regards to reviewing prior period reserves as well.

Dan Frey
I wouldn't think so. I think the comment that Alan just made a few minutes ago around the impact of courts being closed and settlements being down, we see some disruption in the data, but we're not taking that as a favorability in the development patterns that we're assuming on a long-term basis.

Meyer Shields
Okay, that's helpful. Second follow-up, if I can really quickly. How should we think about the impact on Return on Equity or on indicated pricing if corporate tax rates go up?

Alan Schnitzer
Taxes are an input in the income statement like any other expense. It flows through the models.

Dan Frey
That would be one of the many things that gets factored into our pricing. Obviously, it wouldn't just impact us. It would impact the economy more broadly. As Alan said, a bunch of times, we feel like we've got a level playing field, with our experience and our risk selection expertise, we'll do just fine. But, for sure, to be an input into what the pricing environment needs to be going forward.

Meyer Shields
Okay, fantastic. Thank you so much.

Alan Schnitzer
Thanks, Meyer.

Operator
I would now like to turn the call back to Abbe Goldstein for closing remarks.

CONCLUSION

Abbe Goldstein
Thank you all very much for joining us this morning. As always, if you have any follow ups, please feel free to reach out to Investor Relations. I hope everybody has a good day. Thanks.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. concluded. You may now disconnect.

Forward-Looking Statements and Non-GAAP Financial Measures

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

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

We caution investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the company’s control, that could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements.

The Company cautions investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company’s control, that could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking information and statements.

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

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

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

- the Company's share repurchase plans depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, changes in levels of written premiums, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors, including the ongoing level of uncertainty related to COVID-19.

Our forward-looking statements speak only as of the date of this presentation or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on October 20, 2020 and in our most recent annual report on Form 10-K filed with the SEC on February 13, 2020, in each case as updated by our periodic filings with the SEC.

In this transcript, we may refer to some non-GAAP financial measures. For a reconciliation of these measures to the most comparable GAAP measures and a glossary of financial measures, we refer you to the press release and financial supplement that we have made available in connection with this transcript as well as our most recent periodic filings with the SEC. See the "For Investors" section at Travelers.com.