



The Travelers Companies, Inc.

Third Quarter 2026 Results Teleconference

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CORPORATE PARTICIPANTS

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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 16, 2026.

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 2026 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; Jeff Klenk 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 your 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 pleased to report excellent third quarter results. It was another in a run of successful quarters, with very strong underwriting performance across all three segments, and a record result from our investment portfolio. We also continued to make steady progress on important strategic initiatives that will continue to set us apart.

For the quarter, we earned core income of \$1.95 billion, or \$9.18 per diluted share, generating core return on equity of 22.1%. Over the trailing four quarters we generated core return on equity of 24.1%. Underwriting income of \$1.4 billion pre-tax was driven by strong levels of underlying underwriting income and net favorable prior year reserve development.

Profitability was excellent on both a reported and underlying basis. The combined ratio improved to 86.8%, and the underlying combined ratio remained very strong at 84.1%, with all three segments posting strong contributions.



Turning to investments, our high-quality investment portfolio continued its trajectory of delivering higher levels of net investment income. After-tax net investment income increased by 7% to \$908 million, benefiting from strong and reliable returns from our growing fixed income portfolio and a strong result from our non-fixed income portfolio.

Our underwriting and investment results, together with our strong balance sheet, enabled us to return \$1.8 billion of excess capital to shareholders during the quarter, including \$1.5 billion of share repurchases.

Just since the beginning of 2025, we have returned \$8.0 billion of capital through share repurchases, retiring 12% of the shares then outstanding in the process. Even after the return of capital and having made substantial investments in the business, adjusted book value per share at the end of the third quarter was 24% higher than at the beginning of 2025 and 15% higher than a year ago.

Turning to the top line, we generated net written premiums of \$11.5 billion in the quarter.

In Business Insurance, we grew in every line other than Property, generating net written premiums of \$5.9 billion. That's 4% higher than the prior year quarter adjusting for the sale of our Canadian business. Across the board, the triad of renewal premium change, retention and returns reflects outstanding and deliberate execution.

Renewal premium change in the segment was 4.1%, including renewal premium change of 5.4% in our core Middle Market business and 7.8% in our Small Commercial Select business. Excluding the Property line, renewal premium change in the segment was 7.0%. Retention – which, as you've heard us say before, is an important indicator of marketplace stability – remained very strong at 86% and was higher or stable in every line. New business of \$699 million was up 4% over the prior year quarter. To be growing 4% ex-Canada at such strong returns is a terrific achievement.

In Bond & Specialty Insurance, we also delivered terrific growth at strong returns. We grew net written premiums by 12% to \$1.2 billion. In our Management Liability business, renewal premium change improved sequentially to 3.8%, while retention remained steady at an excellent 89%. New business was up 18% over the prior-year quarter. In our leading Surety business, we grew net written premiums by 21%, reflecting continued strong production across the portfolio.

In Personal Insurance, we generated net written premiums of \$4.4 billion, with solid retention in both Auto and Homeowners and higher new business in Homeowners.

You'll hear more shortly from Greg, Jeff and Michael about our segment results.

Before I turn the call over to Dan, I'd like to spend a few minutes on an important focus of our innovation work: defending our customers against legal system abuse.

Lawsuit abuse raises costs for everyone, from the businesses and families we insure, to every corner of the broader economy. Liability – across GL, Umbrella, Auto and CMP – is a significant share of our loss costs. While conditions have been generally consistent with our expectations, the drivers remain active and continue to put upward pressure on liability losses. Our approach is straightforward: resolve legitimate claims fairly and promptly by paying what we owe.

We were early to recognize the change in the litigation loss environment at the end of 2018, and that gave us a head start in investing in technology and developing innovative claim strategies. We believe that gives us a meaningful early-mover advantage, and our innovation efforts are now giving us tools we've never had before. Let me share a few examples.

For unrepresented claimants, we've developed a digital tool to help resolve claims promptly and fairly. It's grounded in our simple philosophy of empathy, education and empowerment, which we've built directly into the experience. In a pilot, more than 80% of the claimants to whom we've offered the tool have engaged with it, and overall results are very encouraging.

When a claimant has an attorney, we're using AI to sharpen our responses to their demands. It starts with the file. AI gives our claim professionals a faster, deeper command of claim files that can run hundreds of pages: it surfaces key facts and issues and helps shape arguments. That makes our people both more effective and more efficient.

Consistent with our longtime practice of maintaining a tight feedback loop between Claim and Underwriting, which is how we were so early to recognize social inflation in the first place, the technology also feeds granular loss information back to our underwriters. A more accurate view of loss information drives better risk selection, pricing and claim strategies.

We pay what's fair. And when we can't resolve a claim at what we believe is a fair outcome, we're prepared to defend our customers in litigation. We choose our matters carefully, and the outcomes demonstrate that we're effective when we do. Beyond the direct financial impact of our success in litigation, our approach helps set realistic expectations from the start, and that's part of the value proposition we bring to our customers.

These are just a few illustrations of a broader, proprietary effort that leverages talent, technology, behavioral science and more. What we're doing now isn't about doing what we've always done a little better. We have developed new and growing capabilities that let us do what simply couldn't be done before. We believe our expertise, capabilities and approach will help us bend the loss cost curve. As we continue to invest, we expect this to deliver growing value for our customers and shareholders, building on the benefits we've already seen from some of our initiatives.

To wrap it up, our excellent underwriting and investment results through the first nine months of the year reflect our unmatched competitive advantages and the strength of the value proposition we offer to our customers and distribution partners. We are well positioned to close out an outstanding year. That momentum, the advances we are making on our innovation agenda, and the best talent in the industry, give us tremendous confidence heading into 2027 and beyond.

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

Dan Frey

Thank you, Alan.

In the third quarter, we once again delivered excellent financial results on a consolidated basis and in each of our three segments.

Core income for the quarter of \$1.95 billion marked our sixth consecutive quarter with earnings of more than \$1 billion, and brings our trailing twelve-month core return on equity to 24.1%. Both the quarter and the trailing twelve months reflect excellent underwriting results coupled with strong investment income.

We generated slightly higher net written premiums despite the absence of the Canadian businesses we sold at the beginning of 2026, while delivering excellent combined ratios on both a reported and underlying basis. At 84.1%, the underlying combined ratio marked its ninth consecutive quarter below 86%. The combination of strong earned premiums and the excellent underlying combined ratio led to after-tax underlying underwriting income of \$1.4 billion, continuing our run of historically strong underlying underwriting results.

Our year-to-date after-tax underlying underwriting income of \$3.9 billion is virtually identical to last year's record level, despite moderating pricing and the sale of our Canadian business, demonstrating the durability of our underlying underwriting earnings power.

The expense ratio for the third quarter was 28.9%, bringing the year-to-date expense ratio to 29%. Regarding the expense ratio outlook, the continued strength of our consolidated underwriting performance I just described results in variable expenses like profit sharing and contingent commissions coming in higher than planned. That's a trade we're very willing to make, and it results in an uptick for our expected full year expense ratio, which we now expect to come in a little below 29% for 2026 and about the same for 2027. Catastrophe losses in the quarter were \$538 million pre-tax, consisting mainly of Tornado-Hail events in the central U.S.

Turning to prior year reserve development, we had total net favorable development of \$234 million pre-tax, with favorability in all three segments.

In Business Insurance, the annual asbestos review resulted in a charge of \$295 million. Excluding asbestos, Business Insurance had net favorable PYD of \$336 million, with favorability in every line.

In Bond & Specialty, net favorable PYD was \$95 million pre-tax, with favorability in fidelity & surety as well as management liability. Personal Insurance had net favorable PYD of \$98 million pre-tax, with favorability in both Home and Auto.

Turning to investment income, for the first time ever, after-tax net investment income surpassed \$900 million for the quarter, up 7% from the prior year quarter. Fixed maturity NII was again the driver of the increase, reflecting both the benefit of higher invested assets and higher average yields. Through the first three quarters of 2026, we've grown our investment portfolio by approximately \$6 billion, even after having returned a record level of capital to investors through dividends and share repurchases.

Our outlook for fixed income NII in the fourth quarter – including earnings from short-term securities – is up slightly from the outlook we provided a quarter ago, now expecting approximately \$875 million after-tax in Q4, bringing the full year 2026 total to \$3.3 billion. For 2027, we expect more than \$3.6 billion, with quarterly figures starting at around \$875 million in Q1 and growing to around \$965 million in Q4. New money rates on purchases during the third quarter were roughly 120 basis points above the yield embedded in the portfolio.

The significant increase in interest rates during the quarter resulted in an increase in our net unrealized investment loss, from \$2 billion after-tax at June 30 to \$6.4 billion after tax at September 30. This is a good time to remind you that the unrealized loss in our investment portfolio is interest rate driven, not credit quality driven. Remember, the changes in unrealized investment gains and losses do not impact how we manage our investment portfolio. We generally hold fixed income investments to maturity, the quality of our fixed income portfolio remains very high, and the changes in unrealized gains and losses have little or no impact on our cash flows, statutory surplus, or regulatory capital requirements. And of course, the same rise in rates that increased the unrealized loss is a tailwind for future results: as we reinvest at higher yields, it supports higher continued growth in net investment income.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was \$172.47 at quarter-end, up 9% from year-end and up 15% from a year ago.

Turning to capital management, operating cash flows for the quarter of \$3.9 billion were again very strong, and brought the year-to-date operating cash flow figure to \$8 billion.

Also of note for Q3, in July we issued \$750 million of five-year debt at an attractive rate of 4.95% as part of our ordinary capital management, maintaining a debt-to-capital ratio in our target range as we continue to grow the business.

Sticking with the theme of capital management – we returned \$1.8 billion of capital to our shareholders in the quarter, with share repurchases of \$1.5 billion and dividends of \$261 million.

Before I wrap up, let me add one comment about the fourth quarter for your modeling purposes. Effective October 1, we increased the percentage ceded to our Cyber reinsurance quota share. That will reduce net written premiums by about \$165 million in Q4 and by about \$230 million for full year 2027 – primarily in the Bond & Specialty segment. We expect the impact on bottom line earnings to be de minimis in both years.

Recapping our results, Q3 was another quarter of excellent underwriting profitability on both an underlying and as-reported basis, and another quarter of rising net investment income. These strong fundamentals delivered core return on equity of 22.1% for the quarter and 24.1% on a trailing twelve-month basis, and we continue to be very well positioned to deliver strong results in the future.

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

Greg Toczydlowski

Thanks, Dan.

Business Insurance had another very strong quarter, delivering record third quarter segment income of \$1.04 billion and continued solid topline growth.

This quarter's results reflect the continued benefit of strong underwriting results, driven by higher earned premiums and a combined ratio that improved two points to a terrific 90.9%.

We're particularly pleased with our underlying combined ratio, which remained strong at 88.9%.

Beyond our execution in the marketplace, we're encouraged with the contributions we're seeing from our ongoing strategic investments. For example, our ongoing advancement of analytical capabilities – including the utilization of sophisticated predictive models – continues to enhance our risk selection and pricing segmentation. The expanded use of external data sources, such as aerial imagery, in combination with our proprietary historical claim data further equips our frontline underwriters with the insights they need to make better decisions at the point of sale. Within Property, analytics have supported our improvements in insured-to-value and deductible adequacy, which has contributed to a stronger and well positioned book. We believe these and other strategic investments will be important contributors to our continued success and long-term profitable growth.

Turning to the top line. Our net written premiums reached a third quarter record at \$5.9 billion. Domestic net written premiums grew 4%. Excluding the Property line, domestic net written premiums grew 6%. Net written premiums in National Property continue to decline. We remain focused on writing business only where price and terms align with our view of the risk and our return objectives.

Turning to production across the segment. Renewal premium change was 4.1%. Excluding the Property line, RPC was 7.0% and positive in all lines. Retention remained excellent at 86%, a reflection of strong returns and our continued focus on retaining our high-quality book of business. New business was strong at \$699 million, up 4% from the prior year.

We're pleased with these production results and our field's continued execution of our proven segmentation strategies, aligning price, terms and conditions with environmental trends for each line.

As for the individual businesses:

In Select, renewal premium change was strong at 7.8% while retention was steady at 81%, and new business of \$139 million was up 3% over the prior year. These results reflect the industry-leading segmentation in our product offerings, including BOP 2.0 and TCAP, our Commercial Auto product, as well as the digital experience we deliver to our distribution partners.

In Middle Market, renewal premium change was 5.4%, while retention remained exceptional at 89%. New business of \$431 million was up 10% over the prior year. Our continued profitable growth is supported by predictive models that guide our underwriters' granular execution at every step, from prospecting and quoting new business through renewals.

Once again, another terrific quarter for Business Insurance. We're energized by both the strength of our current execution and the additional capabilities we continue to build – capabilities that we believe will drive our continued success through the remainder of 2026 and beyond.

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

Jeff Klenk

Thank you, Greg, and good morning, everyone. We're pleased to report that Bond & Specialty posted an outstanding quarter on both the top and bottom lines. We generated record segment income of \$309 million driven by strong earned premium and a terrific combined ratio of 77.3%.

Turning to the top line, we grew net written premiums by a very strong 12% in the quarter to \$1.2 billion.

In our high-quality domestic Management Liability business, we drove retention to a very strong 89%, while improving renewal premium change by nearly a point sequentially. We are very pleased that we also increased new business by 18% from the prior year quarter. These results reflect terrific execution by our outstanding field organization leveraging our strategic investments in enhanced pricing segmentation tools and sales effectiveness capabilities.

Turning to our market-leading Surety business, we posted excellent net written premium growth of 21% from the prior year quarter, continuing the recent trend of strong production across our high credit quality portfolio. Our growth this year is primarily attributable to our portfolio of premier contractors that are well-positioned to deliver on large public and private infrastructure projects that have driven construction spending, as well as meaningful contributions from new account relationships as more customers choose a carrier with exceptional financial strength, market-leading value-added services, and an unparalleled team.

So, Bond & Specialty Insurance delivered terrific profitability and excellent growth in the quarter, while continuing to make strategic investments to further extend our competitive advantages.

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

Michael Klein

Thanks, Jeff, and good morning, everyone.

I am very pleased to share that Personal Insurance delivered third quarter segment income of \$706 million. Strong underlying income and favorable prior year reserve development both contributed to this excellent bottom-line result.

The combined ratio of 83.5% was a terrific result in the quarter. Catastrophe losses were favorable to our plan and continue to benefit from the actions we have taken to reduce volatility across our portfolio. The underlying combined ratio of 76.7% improved by one point compared to the prior year and continues to demonstrate strong profitability in both Automobile and Homeowners & Other.

Net written premiums for the segment were \$4.4 billion in the third quarter, as pricing continued to moderate, reflecting strong profitability, while retention remained solid. New business premium in Homeowners was higher year over year as we thoughtfully deployed property capacity in support of our efforts to generate profitable growth.

Third quarter Homeowners net written premiums also benefited from our decision not to renew the PI Property XOL treaty, which would have taken effect July 1. As Dan mentioned last quarter, it was more cost effective to obtain the coverage we sought through the lowering of the attachment point on the corporate catastrophe XOL treaty.

In Auto, the third quarter combined ratio of 87.1% reflects a strong underlying combined ratio and favorable net prior year development.

The underlying combined ratio was 87.3%, a one-point improvement compared to the prior year. This strong result was driven by continued favorable loss experience across coverages.

This quarter's result included about a 1 1/2-point benefit related to the re-estimation of prior quarters in the current year.

Looking ahead to the fourth quarter of 2026, it's important to remember that the fourth quarter Auto underlying loss ratio has historically been about five to six points above the average for the first three quarters, because of winter weather and holiday driving.

In Homeowners & Other, the third quarter combined ratio was a very strong 80.5%, and the underlying combined ratio of 68% was outstanding, and comparable to the prior year.

Turning to production, in Auto, retention was 81%, while renewal premium change was slightly negative, as we continue to incorporate sustained levels of profitability into our pricing. We remain pleased with the high-quality profile of the new business we are writing as we maintain our disciplined approach to managing base rate levels and further enhancing our sophisticated segmentation.

In Homeowners & Other, retention of 85% remained strong, while renewal premium change continued to moderate, reflecting strong profitability and replacement costs that are generally aligned with insured values. We were pleased that for the third consecutive quarter, new business premium was higher year over year, driven by our intentional and disciplined efforts to deploy Property capacity.

We continue to invest in strategic capabilities that will deliver sustainable, profitable growth. At the same time, we're executing complementary marketplace actions that include expanding distribution by appointing new agents and actively pursuing book consolidation opportunities. These deliberate efforts, combined with our strong agent relationships, portfolio solutions for customers, and industry leading claim capabilities, position us to be the undeniable choice for consumers and an indispensable partner for our agents.

To sum up, this was another great quarter for Personal Insurance on the bottom line, and we continue to focus on taking a measured, thoughtful approach to profitably growing our business over time.

Now I will turn the call back over to Abbe.

Abbe Goldstein

Thanks, Michael. We are ready to open up for Q&A.

Operator

We will now begin the question-and-answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. Please limit yourself to one question and one follow-up question. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster.

Your first question comes from the line of Paul Newsome with Piper Sandler. Paul, your line is open. Please go ahead.

Paul, your line is open. Please go ahead.

Abbe Goldstein

We can come back to Paul, maybe we'll take the next caller.

Operator

Your next question comes from the line of David Motemaden with Evercore ISI. David, your line is open. Please go ahead.

David Motemaden

Hi, thanks, good morning. Alan, you've discussed and Dan as well, you guys have discussed the durability of the \$5.5 billion of underlying underwriting income. I didn't hear you guys say that again explicitly. And so it sounds like you guys are definitely on pace for that this year. But I'm wondering how you're thinking about that into next year, just given the moving pieces with the market cycle and where we are?

Alan Schnitzer

Yes, good morning David, thanks for the question.

We would absolutely reiterate the durability of underlying underwriting income. And just to give you a little color behind that. I mean putting in some historical context, we are a larger, more profitable company than we've been historically, strong competitive advantages with a strong value proposition, demonstrated success with innovation and investing. We think AI gives us tremendous opportunity.

And as I've been saying, I think I wrote it for the first time in my 2022 annual letter, we think scale is going to be increasingly important. So we think all of that will continue to give us the ability to out-select and out-price. And so that gives us great confidence in the durability of the underlying underwriting income.

Dan Frey

Yes David, it's Dan. The only thing I'd add to that is, you shouldn't mean – that doesn't mean it's not going to move a little bit one way or the other. The other comment that Alan has made relative to that metric is we don't know if 2027 is going to be a little higher than that, a little lower than that or flat. But the ZIP code that we're in now is just a completely different ZIP code than we used to be in, and we don't see any reason that that's likely to change.

David Motemaden

Got it. Thanks. That's helpful. And then just maybe on the favorable PYD in Business Insurance. So it sounds like that was across all lines. So I'm assuming that included General Liability. Could you just confirm that, maybe talk about which accident years you're seeing that? And maybe just how you guys are thinking about the level of IBNR that you guys have been putting up over the last few years?

Dan Frey

Yes, David. So we feel great about where the balance sheet is, as we've said now for a couple of years. It was all lines across the board. So we saw favorability in Commercial Auto, Commercial Property, CMP, General Liability, Workers Comp. None of them were particularly outsized, although in aggregate, a number as big as we talked about on the call, is a very good result.

So I would say we continue to be thoughtful about the reserves that we carry on the book, respectful of the long-term loss trends that should come out of the Liability or the Comp lines. And as things emerge somewhat favorably to what we had provided for in our prior picks, we're getting PYD. But yes, across the board, including GL.

David Motemaden

Got it. Thank you.

Alan Schnitzer

Thanks, David.

Operator

Your next question comes from the line of Gregory Peters with Raymond James. Gregory, your line is open. Please go ahead.

Gregory Peters

Good morning, everyone. So I guess kind of building on the last question, but I'd like to see if you could give us some comments on your view of loss cost trend inside Business Insurance. And I guess I'm looking at it because I'm watching the renewal rate change premium slide down.

And also, I was intrigued by your comments, Alan, about the Commercial Auto liability and the other Casualty claims and the pressure you continue to see there. And it just kind of brought to my mind, are you foreshadowing another negative step change in sort of how the loss cost trend is moving in those lines?

Alan Schnitzer

No. Quite the contrary, actually. There's – just looking at the loss environment broadly, I would say it's as we've expected. No surprises at all, whether we're talking about social inflation or anything else. And so no surprises at all in terms of the loss environment.

Gregory Peters

Okay. I guess then a pivot, this year – this quarter's new development was the rollout of Muse. And obviously, there's other tech initiatives that are spooking the market with their potential to disrupt distribution. Maybe it's mostly focused in Personal lines, but there is some crossover into the Small and Middle Market Commercial area, too.

So maybe you could just step back and provide us some perspective on your value of your current agency distribution model? And maybe also give some nuggets on how you are working with these new initiatives to help get to your objectives.

Alan Schnitzer

Thanks for the question, Greg. Mike, you want to take that?

Michael Klein

Sure. I'll take it, Greg. Because to your point, Muse in particular, at least today is mostly focused in the Personal Insurance space, certainly Greg's team and mine have been collaborating and he can chime in as well.

The first thing I would say just broadly about Muse and AI assistance, it's early days, right? I mean the actual volume of observable activity is pretty minor. And I think there are a lot of things that could potentially impede the pace and scope of change there. We've got to pay attention to consumer adoption. We've got to work through technology and data dynamics. There's a variety of legal and regulatory considerations as we deal with these developments and work in this space.

And just to put a point on it, if and when you're engaging with an AI assistant, you've got to confirm a number of things, right? First and foremost, is that AI assistant actually authorized by the consumer that's doing the shopping? Secondly, is the consumer affirming and confirming that the information provided is accurate? And third and probably most importantly, does the customer actually understand what they're buying? And those things aren't sort of particularly transparent and clear as you engage digitally in this space. And those considerations grow in importance with the size and the complexity of the asset or the risk that you're insuring.

So we're engaged and exploring the opportunities and the threats here. We're going to continue to test and learn and make sure that we're prepared to respond and we've been building digital capabilities across the organization for a really long time. On the Commercial side, we've got Simply Business and Zen. In Personal Insurance, we've got InsuraMatch and DTC. And I think we'll be prepared for wherever this goes.

Alan Schnitzer

Yes, Greg, I would just add to that, that if you look at a continuum of risk from the most complex to the least complex. The stuff that trades digitally today, and I do think it's important to remember that customers can trade digitally today, but the things that actually trade digitally are way over at the simplest end. It's Renters, it's Pet, it's that sort of stuff, you get mildly more complicated. People might use the technology to shop and do some price discovery, but very often, they opt out to talk to a person. And so unlike a lot of other commerce where you can imagine digital trading being more popular, in a complicated domain like insurance, so far, it hasn't been the case.

But to Michael's point, going back 20 years talking about DTC, we contemplated the world would get more digital. And that's – we didn't invest in DTC because we thought we were going to be a leader in DTC. We invested in DTC 20 years ago because we wanted to make sure we have the capabilities of a digital company. We wanted – certainly, we want to understand distribution, but we also wanted to understand how to engage with our distribution partners, how to service our customers.

And then more recently, when we acquired Simply Business and Zen and InsuraMatch, that was also with the thought that the world was going to be more digital. So you can get a sense of our view that we think this is going to be sort of a measured adoption to the extent there is adoption. But wherever it goes, we are very prepared for.

Gregory Peters

Thank you.

Operator

Your next question comes from the line of Tracy Benguigui with Wolfe Research. Tracy, your line is open. Please go ahead.

Tracy Benguigui

Thank you, good morning. I wanted to go back to David's reserve development question. It sounds like you built conservative loss picks, so the loss experience might be more favorable to that. I'm just curious how much time needs to pass to assess that. I appreciate your confirmation, the releases came from GL and Commercial Auto. But I think it's important to have a better understanding of those accident years. I noticed in the 10-Q, you said that it was more recent years.

Dan Frey

Yes. Tracy, it's Dan. So I don't know that I would use the word conservative when we came up with our loss picks. I think what we tried to say is we're making certain that we're leaving a provision for the level of uncertainty that comes out of those long tail lines, and the more recent changes in development patterns and attorney rep rates and things like that. Look, we had a number of years contribute to the favorability in PYD this year. I think if you just look at the gravity of where most of the reserves and particularly IBNR is, it is naturally going to be in the most recent accident year. So I think not a big surprise there.

You shouldn't read that as saying that we've changed our view in terms of whether there still needs to be consideration for and respect for the potential uncertainty in those lines and the health of the IBNR that we continue to maintain. But as quarter after quarter goes by, and we've seen things come in a little bit better, we felt it was appropriate to take some reaction here. We certainly have not run to the other side of the boat.

Tracy Benguigui

Okay. Got it. So Select renewal premium change improved in the second quarter, but you gave that improvement back in the third quarter, and the slowdown was driven mostly by rate rather than exposure. So I'm just curious, which quarter was the anomaly and how we should be thinking about the underlying trend from here?

Greg Toczydlowski

Yes, Tracy, this is Greg. Yes, I did share with you last quarter that depending on what filings state-by-state get approved quarter-to-quarter, you can have some variation. And of course, you have separate accounts that are coming up for renewals in each quarter.

So I wouldn't say one quarter was an aberration more than the other. Every day we look at that business in terms of what the returns are in that business and what the pricing and new business needs to be, and that's how we execute.

Tracy Benguigui

Okay. Thank you.

Operator

Your next question comes from the line of Katie Sakys with Autonomous Research. Katie, your line is open. Please go ahead.

Katie Sakys

Morning. A quick one for me. Just kind of wanted to get your thoughts here on the Business Insurance segment premium growth results, I think, pro forma, ex-Property, quite had a strong result there this quarter. If I think about where RPC has trended this year and might continue to trend going forward, as well as Greg's prepared remarks on underwriting discipline. How are you guys thinking about growth momentum as you start looking at 2027 in BI.

Alan Schnitzer

Katie, good morning. I don't think we're going to give outlook on the top line other than to say we feel great about the execution and the growth we put on the books this quarter, and we feel like we've got all the capabilities and value proposition to continue to be successful executing in the market.

So we're – we feel great about next year, and we're optimistic, but we're going to stop short of indicating a trend or giving a number.

Katie Sakys

That's fair. Thank you.

Alan Schnitzer

Thank you.

Operator

Your next question comes from the line of Josh Shanker with Bank of America. Josh, your line is open. Please go ahead.

Josh Shanker

Yes, thank you very much for taking my question. The margins are fantastic, and I'm sure that you'd like to get every piece of business that fits your underwriting appetite, but the growth across a lot of lines is flattish or not moving very much. As you innovate with all these opportunities in technology and artificial intelligence, and you're able to save money, to what extent is the goal to pass those savings on to the customers to make your value proposition more attractive than your competitors in terms of price actions? Do you see an opportunity for you to outgrow your competitors by cutting costs with no impact on your margins?

Alan Schnitzer

Yes, Josh, I do think that there will be an opportunity for us to do that. We know that we are generating operating leverage. And just to – just to give you a little bit of color into that. So there are some things that we know and we have a lot of confidence in.

So let me give you a couple of examples. Our cost per unit of software development, much improved. Our labor costs associated with first notice of loss, down, our cost to service a policy has come down. There are just some areas where we know, and that goes into operating leverage.

There are other areas where attribution is a little more difficult. So for example, we're very confident we're giving our underwriters better insights. And you can look at the excellent underwriting result, but it's hard to draw a very straight line from the improved insights for giving the underwriters and exactly that outcome. So it's a little bit harder to see that.

But taking a step back, the combination of the ways that we can deploy the operating leverage and the benefits that we can't quantify are embedded in the results that we have. And if we decide that we want to redeploy some of those into pricing without compromising our return objectives, we'll do that.

Josh Shanker

Well, do you have a confidence if we look five years out, you will be taking a greater share of your agents' business overall, a higher percentage of their footprint, I guess, that you have right now?

Alan Schnitzer

Josh, it's really hard to look five years out, I think, in any business, but we've said for a long time that we think there are meaningful benefits of scale, including the ability to invest at the level that we're investing. And I think the early benefits come through expenses and the loss ratio, so we'll see it in margins, and over time, that's going to translate into growth. So I do think that Travelers will be a consolidator of premium.

Josh Shanker

Okay, thank you for the answers. Appreciate it.

Alan Schnitzer

Thank you.

Operator

Your next question comes from the line of Mike Zaremski with BMO. Mike, your line is open. Please go ahead.

Mike Zaremski

Hi, thanks, good morning. In Commercial lines, I don't believe there was any kind of color on RRC rate change drivers this quarter. If you would be willing to kind of just unpack whether there's any particular line or lines that kind of are driving the downwards trend line? Thanks.

Alan Schnitzer

Yes. Mike, good morning and thanks for the question.

Let me just step back and just make a few observations about the overall pricing environment. If there is there's one word over the top to describe it, I would say it's stable. I'm not going to get into what RPC did by every single line, but just for example, the sequential change in RPC in Property was small, it was very small. We're not prepared to call the bottom. Certainly, you couldn't call a bottom off one data point and who knows what's going to happen 90 days from now, but we were very pleased to see a very, very small change there. The sequential movement in RPC in the Liability lines, and now I'm talking about GL and Umbrella, was also modest.

So all in all, pretty orderly. And we talk all the time about the fact that we execute one account at a time. We're looking at the next account and deciding whether we want it in the portfolio and at what price. And it's also just a reflection of the returns by line. If you look at by-line pricing, retention and return, it's a perfectly rational picture across the board. It's just – the execution couldn't be better.

Mike Zaremski

Got it. Thanks Alan. And my follow-up, just going back to a lot of the good color you've given on, kind of, Travelers innovation on the claims front and underwriting front.

And I think, Alan, you talked specifically about expecting to bend the loss curve I believe, in Casualty. If I juxtapose that with IBNR levels currently in the long-tail Casualty line, specifically Commercial Auto and Commercial Casualty, non-Comp. Is it fair to say that the current IBNR are, kind of, higher than the company's long-term targets? And if you do bend the loss curve trend, the IBNR levels would kind of mean revert over many years, lower? Thanks.

Dan Frey

Mike, it's Dan. I'll try that.

Look, I think one thing that's happened, especially if you want to look at the components of reserves between case and IBNR now versus three years ago or five years ago or ten years ago, I don't think we're ever, literally ever, going to go back to the levels that we saw ten years ago because attorney rep rate is higher, that lengthens the tail, more claims come in later. So – and that's really the point that we made a few years ago in 2024 when we started talking about an uncertainty provision to allow for the possibility that those trends would continue.

And so when Alan referenced earlier in his comments, pressure on the loss cost, which somebody else asked about, that just means loss costs continue to go up, but they are not going up by any more than we anticipated – than we anticipated in our picks.

So I think the component of our ultimate loss picks is perfectly logical given the current development patterns. If, in fact, the actions that we're taking in our claim organization translate into a better outcome, then for sure, there's going to be some IBNR that we ultimately don't need, but we are not projecting that as we sit here today.

Mike Zaremski

Thank you.

Operator

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

Elyse Greenspan

Hi, thanks, good morning. My first question is on the expense ratio guide. I think you guys said, right, a little under 29% this year, and then guided to the same level next year. Understanding why this year is a little higher than expected on variable comp. But as we think about the next year, or some improvements around AI maybe being offset by other things, that you expect '27 to be more or less stable with where you're now expecting '26?

Dan Frey

Yes, Elyse, it's Dan. So, look, the expense ratio, as we say all the time, we'll decide what we want the expense ratio to be and then dial into that number. A big component of that is what do we think we need the expense ratio to be in order to have a competitive position in the marketplace. And so we're pretty copacetic with where that is right now.

As you mentioned, and as I said, keep in mind that pretty much the largest component of the expense ratio is commissions, which includes the contingent commission and the profit sharing. And so we're in a very strong position from a margin perspective. I don't expect that to reverse itself in the near term. So about where we are is pretty good with us for right now.

Elyse Greenspan

Thanks. And then my second question is on the Business Insurance underlying loss ratio. That went up by about 50 basis points from last Q3. You guys didn't call it anything in the prepared remarks, so maybe there was nothing that significant, but was there a non-cat weather or anything else you would describe as the drivers of the year-over-year change there?

Dan Frey

Yes, Elyse – Dan. So I think you're right in the first place, not a very big change and nothing in particular to call out. It's a great number, and it moved by about a 1/2-point year-over-year, which could have easily moved a 1/2-point the other way. A bunch of stuff in there as there always is, the impact of pricing, product mix, there are changes in non-cat property losses. There's base year changes, there's the impact of strategic investments we're making, as Greg mentioned in his remarks again, but none of those things were particularly noteworthy this quarter.

Elyse Greenspan

Thank you.

Operator

Your next question comes from the line of Andrew Kligerman with TD Cowen. Andrew, your line is open. Please go ahead.

Andrew Kligerman

Hi, thank you, good morning. I'm looking at slide seven of your presentation, and it just really strikes me how strong net investment income improved year after year. So the question is, is that now finally – and your combines are fantastic. Is that going to start to weigh into your pricing? How are you thinking about net investment income with respect to pricing?

Alan Schnitzer

Andrew, good morning. We do have a link between our expectation for net investment income and our insurance pricing. It's, of course, part of the model. Just a couple of things to think about, though, the portfolio turns over relatively slowly. So it takes a while to earn in. And as the risk-free rate goes up, our hurdle returns go up. So you, sort of, have to put all that into the blender to figure out what the impact is.

Andrew Kligerman

Got it. Personal lines – so, we saw renewal premium change go down 0.6% in Auto, PIF was down 3% in Auto, down 4% in Homeowners. Could you talk a little bit about the competitive landscape in Personal lines. And with all this competition, how are you defending the fort? How are you going to keep it up rather than down?

Michael Klein

Sure, Andrew. It's Michael.

I mean, I think the comments that I made in my prepared remarks are really key to what we're doing there. And to be clear, we're definitely not wanting to chase premium growth at all costs in any given short period of time, right? Our objective is to profitably grow this business over time. We do that by matching price to risk. And so you see that activity in the RPC numbers that you're looking at, right?

In the third quarter of this year, we took about 10 rate decreases in Auto. Again, still in that same low single-digit range that we've been talking about. But as we monitor our performance and look at loss costs, we adjust pricing. So that's certainly a lever that we pull. We continue to make strategic investments in products and services and capabilities that make sure that we have the products and services our customers want to buy and our agents want to sell. And then we do quite a bit around distribution management, making sure that we've got the agents appointed that we need and that we are taking advantage of opportunities to solve problems for them. When I talk about book consolidation opportunities, as an example, that's when we're working with an agent or a broker who's having issues with another carrier, and we talk to them about bringing that business over to Travelers.

So there are a number of things that we're doing from an appetite, pricing and distribution management standpoint, both to defend the fort, to use your words, but also to play offense to make sure that we're leveraging the capabilities we have to profitably grow the business over the long term.

Andrew Kligerman

Very helpful. Thanks.

Operator

Your next question comes from the line of Yaron Kinar with Mizuho. Yaron, your line is open. Please go ahead.

Yaron Kinar

Thank you, good morning. I wanted to start maybe with Cyber insurance, just given Hugging Face, AI agents, maybe more hacking activity and capabilities. Is this a line of business that is a viable business line for the private market? Do you need maybe more government support or more systemic intervention here? How are you thinking about that?

Jeff Klenk

Good morning, Yaron, this is Jeff. You know, as consistently highlighted by the Travelers Business Risk Index, Cyber is one of the most important topics that our customers are facing. It's a dynamic exposure, and it has been, and there's no question that the advanced AI models are adding to that dynamic. I'd remind you when you think about our portfolio, it's heavily weighted toward the Middle Market main street businesses. We've always been focused on limits management. If you look inside our book of business, a substantial majority of our limits are at a million dollars or less. Those accounts that are above that are predominantly at five million or less, and that's before you take into account any reinsurance that we have in place, and Cyber's always been one of our most heavily reinsured lines of business.

And then the last thing I'd share with you is that we've really invested heavily in risk control capabilities, including our acquisition of Corvus a few years ago that we've shared with you. We're not just assessing these accounts on the front end as we put them into the portfolio. We've got ongoing risk control capabilities to help them manage the risk, and so I think we are investing to address the exposure in partnership with our customers in many ways.

Alan Schnitzer

Yaron, to an extent, that was a public policy question, and question about whether we need a government backstop. I don't really know. I mean, there are active conversations about that now, and we'll see how that plays out.

Yaron Kinar

Okay. And then maybe going back a second to Business Insurance. So obviously, you see a little bit of the noise quarter-over-quarter. But if I look at the year-to-date numbers, they're flat, right, on the combined ratio, the loss ratio. Is that kind of a fair way of thinking about where the company is today and what the expectations would be going forward?

Alan Schnitzer

Yaron, we should start with the noise comment. These are spectacular numbers. And so there really is no noise in them. There are, as always, a bunch of puts and takes. Some things are favorable, some things are going the other way, but this is a spectacular number.

Dan Frey

And I think to Alan's earlier comment on top line, we're not going to give guidance on combined ratio expectations in any of the segments other than to reiterate that the profitability of the business is really strong. We're generating all-time high levels of underlying underwriting income, and we think that's got some staying power.

Yaron Kinar

Okay. And just to be clear, I did not mean noise, right? I meant puts and takes, to your point.

Alan Schnitzer

Thank you for the clarification.

Operator

We have time for one last question, and that question comes from the line of Matthew Heimermann with Citi. Matthew, your line is open. Please go ahead.

Matthew Heimermann

Hi, good morning. I guess a question I had was just, we're seeing more, at an industry level, scrutiny of just claim settlement practices in general. There's some litigation in Oklahoma, California, obviously, has been active. I'm just – I know that your claims practices are unique to your company and the industry isn't necessarily representative of you. But I'm curious just how you would frame the risk from continued scrutiny on practices. Just from a regulatory perspective, I have diminution of value in the back of my head as – I don't know if it's the right analog, but something similar where claims practices were scrutinized and you saw some changes on the back of it, both in terms of coverage and how companies operated.

Alan Schnitzer

Yes, let me just start, and you referenced our practices. I should just say there have been a couple of articles recently about this. One, we weren't in at all and the other, we were profiled as pretty favorable. So I just want to distinguish that from what's going on out there.

You want to talk about close without pays and the things that could impact that, Michael?

Michael Klein

Yes, sure. I mean I think – again, those couple of articles really focused on close without pay percentages across carriers. To Alan's point, in that first article, we looked favorable.

That said, comparing close without pay percentages across carriers is very fragile. The definition of claims, when they're established, why they're established, what causes them to be paid with and without – or closed with and without payment vary from one insurer to the next just from a definitional standpoint. But you can have a claim filed and have the loss be below the deductible, for example, as a reason that that claim gets closed without payment.

And then I guess to your broader question about seeing these cases in Oklahoma and other places against other carriers for their claim handling practices, just reinforcing Alan's comment. I mean we have well-established claim handling practices. They're grounded in the philosophy to pay what we owe, to deliver exceptional customer experience and do that as efficiently and effectively as possible.

And I would say our claim handling and our claim organization is the best in the business. We're proud of it. We hear from our agents and brokers that it's one of the reasons they are proud to represent and sell Travelers. So I think we've really got a strong foundation in that space.

Alan Schnitzer

Matt, with all that said, let me try to answer your question.

We are very active as a company and just an effort to be an honest broker out there in state capitals and with insurance commissioners and with the media. And our trade association is very active in the same places, making sure that we're educating people, and people understand the good work this industry does, the billions of dollars that we do pay out, the speed with which we pay it out, the risk control services that we provide. So we are very attentive to this as a topic of interest, and we are very engaged in speaking to it.

Matthew Heimermann

I appreciate that. If I could sneak one last in, mindful of time. Is just – is it fair to say then when you think about creating benchmarks for measuring the performance of your claims organization and how you organize it, that's an internal effort rather than relying on third parties to shape practices and targets, et cetera?

Alan Schnitzer

I'm not exactly sure of the question, but I mean we certainly have our internal benchmarks and our service level objectives. For example, our objective is to close 90% of claims within 30 days after every catastrophe.

And over the course of the year, we routinely achieved that objective. But our real objective is to pay what we owe and to pay it quickly, and we are very disciplined about that.

Matthew Heimermann

Yes, that's fair. I'm sorry, I butchered the question. I really meant the source of some of the litigation at least is use of third-party consultants, shaping policies and procedures and other incentives within the organization, and that seems contrary to at least my historical recollection and experience with your company.

Alan Schnitzer

We and others endeavor to use the data that we have about the good work we do to rebut some of the data others are using to try to make the other case. I think this industry is highly responsible and disciplined, and we use the data that we have to make that case.

Matthew Heimermann

Appreciate it. Thank you.

Alan Schnitzer

Thank you.

Operator

We have reached the end of our call. I will now turn the call back to Abbe Goldstein for closing remarks.

Abbe Goldstein

Thanks very much for joining us today. As always, if there's any follow-up, please reach out to Investor Relations, and have a good day.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

Forward-Looking Statements

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," "probably," "anticipates," "expects," "intends," "plans," "projects," "believes," "views," "ensures," "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, the impact of trends on its business and its future results of operations and financial condition;
- the impact of legislative or regulatory actions or court decisions;
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company's reserves, including asbestos;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses and modeling;
- the impact of investment, economic and underwriting market conditions, including interest rates, tariffs and inflation;
- the Company's approach to managing its investment portfolio;
- the impact of changing climate conditions;
- strategic and operational initiatives to improve growth, profitability and competitiveness;
- the Company's competitive advantages and innovation agenda, including executing on that agenda with respect to artificial intelligence;
- the Company's cybersecurity policies and practices;
- new product offerings;
- the impact of developments in the tort environment; and
- the impact of developments in the geopolitical environment, including the war with Iran.

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

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

Insurance-Related Risks

- high levels of catastrophe losses;
- actual claims may exceed the Company's claims and claim adjustment expense reserves, or the estimated level of claims and claim adjustment expense reserves may increase, or increases in loss costs may not be offset with sufficient price increases, including as a result of, among other things, changes in the legal/tort, regulatory and economic environments, including increased inflation and the impact of tariffs;
- the Company's continued exposure to asbestos claims and related litigation;
- the Company is exposed to, and may face adverse developments involving, mass tort claims; and
- the effects of emerging claim and coverage issues on the Company's business are uncertain, and court decisions or legislative changes that take place after the Company issues its policies can result in an unexpected increase in the number of claims.

Financial, Economic and Credit Risks

- a period of financial market disruption or an economic downturn;
- 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;
- the Company is exposed to credit risk related to reinsurance and structured settlements, and reinsurance coverage may not be available to the Company;
- 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;
- a downgrade in the Company's claims-paying and financial strength ratings; and
- the Company's insurance subsidiaries may be unable to pay dividends to the Company's holding company in sufficient amounts.

Business and Operational Risks

- the intense competition that the Company faces, including with respect to attracting and retaining employees, and the impact of innovation, technological change, including with respect to artificial intelligence, and changing customer preferences on the insurance industry and the markets in which it operates;
- disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape;
- the Company's efforts to develop new products or services, expand in targeted markets, improve business processes and workflows or pursue acquisitions or dispositions may not be successful and may create enhanced risks;
- the Company's pricing and capital models may provide materially different indications than actual results;
- 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;
- the Company is subject to additional risks associated with its business outside the United States; and
- future pandemics.

Technology and Intellectual Property Risks

- as a result of cyber attacks (the risk of which could be exacerbated by geopolitical tensions, including the war with Iran) or otherwise, the Company may experience difficulties with technology, data and network security or outsourcing relationships;
- the Company's dependence on effective information technology systems and on continuing to develop and implement improvements in technology, including with respect to artificial intelligence; and
- the Company may be unable to protect and enforce its own intellectual property or may be subject to claims for infringing the intellectual property of others.

Regulatory and Compliance Risks

- changes in regulation, including changes in tax laws; and
- the Company's compliance controls may not be effective.

In addition, the Company's share repurchase plans depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining appropriate capital levels for the Company's business operations, changes in the levels of written premiums, funding of the Company's qualified pension plan, regulatory capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions, changes in tax laws and other factors.

Our forward-looking statements speak only as of the date of this press release 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," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Forward Looking Statements" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on October 16, 2026, and in our most recent annual report on Form 10-K filed with the SEC on February 12, 2026, in each case as updated by our periodic filings with the SEC.