

The Travelers Companies, Inc.

Barclays Global Financials New York
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BARCLAYS PARTICIPANTS

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QUESTIONS AND ANSWERS

Tracy Benguigui

Hi. Good morning. I'm Tracy Benguigui, Insurance Analyst at Barclays. This is day two of Barclays Global Financial Services Conference, and I'm pleased this morning to conduct a fireside chat with Alan Schnitzer, CEO and Chairman of Travelers. Good morning, Alan.

Alan Schnitzer

Good morning, Tracy. Nice to be with you. Thanks for having me.

Tracy Benguigui

Likewise. Just a few housekeeping items. Just want to remind folks who've done this a few times, or if you're first time on board, on the left side of your screen, you have the opportunity to submit questions as well as take a part of our audience response system, which is basically polling questions. With that out of the way, Alan, maybe you could kick off with some high-level thoughts on what you see for Travelers in this dynamic environment.

Alan Schnitzer

Yeah, well, again, good morning. Thank you for having me and thanks, everybody, for joining us this morning. It's nice to be here. I'm sure your more pointed questions will get to all the issues that are on people's minds, but maybe I will share three things just to set a backdrop here for the conversation.

First, in terms of pandemic losses, there's still plenty of uncertainty out there, but I think we've come a long way since March in getting a clearer picture of what the pandemic and COVID means for the industry and for us. At least through the second quarter, pandemic losses have been modest for us, which is a reflection of how we approach risk and reward, and we manage that carefully. As we've shared, we've been thoughtful in developing loss estimates and cautious in recognizing the benefits from those lines that have had lower levels of claim volume.

I'll add that, this morning, in the U.K., we've got an opinion out on Business Interruption. With all the caveats, and it's a long opinion, it's hot off the press, the ink hasn't dried. We're still making our way through our assessment of it. I will say that, at first blush, there's nothing in that opinion that causes us to think differently about our exposure to Business Interruption in any material way. So again, I think this is going to play out over time. There's still plenty of uncertainty. My guess is we'll get into that a little later, but I think there's a clearer picture and path forward today than certainly six months ago.

Secondly, taking a step back, if you look at the three years or so pre-pandemic for Travelers, you can really see the success of the strategic initiatives we announced back in 2017 in terms of growth rates and a lower expense ratio, productivity and efficiency. Notwithstanding the state of the economy over these last six months, our top line has been resilient, I would say. And with the firming market and that productivity and efficiency that we've generated in the organization over those several years, we feel very well positioned for an improving economy.

Then the last thing I'd add just by way of backdrop, Tracy, is that thanks to a lot of committed and talented colleagues, we haven't missed a beat either operationally or in terms of staying on track on strategic initiatives. So, unusual circumstances, for sure, but despite the unusual circumstances, we feel really good about the strength of the franchise, and we feel really good about where we're heading.

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Tracy Benguigui

Great, I think your sentiment is a little bit similar to what we've heard in other sessions where it seems like most executives are cautious, but it doesn't look as ugly as the initial expectations, I think, where we were sitting back in March.

And with that, maybe I could get a little bit more technical. If you could describe for us this new earnings path in the COVID-19 world. I think I'm just going to play off some of your comments earlier about, I guess, coming up with the loss estimates. How should we be thinking about the tail risk on COVID-19 casualty claims, and in your view, are there limitations to book IBNR given what I heard from one of the big four auditors that you need, for book reserves, both, I guess, a view that it's estimable as well as probable?

Alan Schnitzer

Okay. There's a lot in that question. Let me get started, and if I forget some of it and don't respond, let me know. I would say your comment that it was ugly back in March, I wouldn't say it was necessarily ugly. I would say there was a fair amount of uncertainty back in March and I think six months later some amount of that uncertainty is starting to be resolved. But getting back to your question, the arc of the earnings path from here, I'd say there's, broadly speaking, three things to look at: one would be losses; two would be the top line; and three would be investment income.

In the last two earnings calls I've described the factors that we expect will impact COVID-19 losses, both favorable and unfavorable, by the way, because there are unfavorable and favorable impacts. I haven't seen anything up to now that's caused me to think any differently about the factors that are going to drive losses positive or negative. I have cautioned that it is important not to paint all insurance companies with the same brush because not all of us are going to have the same experience with COVID losses, and we've seen that in the reported results so far.

In terms of the top line, we ensure the output of the economy. As the economy contracts, there's going to be a lower level of insured exposures out there and that's going to impact everybody. As I said, our top line has been reasonably resilient, and we've been pleased with that. Also, a firming market, to one degree or another, will offset at least some degree of that lower level of insured exposures.

And then in terms of investment income, we manage our portfolio with an eye towards managing through periods of significant volatility. We didn't foresee a pandemic, of course, not this pandemic anyway, but we know that we're going to be tested from time to time, and we manage our investment portfolio accordingly. In our first quarter earnings call, we put a lot of data out there on that and so that certainly gives us a lot of comfort. Having said that, the 10-year treasury I think this morning was under 70 basis points. It's going to be lower for longer. That's going to affect fixed income NII, but I think that's, to a significant degree, one factor driving a firming market.

To your question about tail on COVID losses, yes, there's going to be a tail on COVID losses. It's going to go on and play out for some time. I would expect the plaintiffs' bar to be opportunistic about it, so I think we will see that.

And then lastly, your point on IBNR, there's nothing at all new about this probable and estimable standard. That's, as far as I know, always been the standard for booking liabilities, nothing new

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at all about that. For an insurance company, there's also nothing new about recording IBNR under uncertainty. Of course, different liabilities, different circumstances, different levels of uncertainty, but we factor that uncertainty into our IBNR estimates, which is why we say that we've been thoughtful about booking the losses and cautious about recognizing the benefits, and that is to reflect that level of uncertainty.

Tracy Benguigui

Okay, great. Maybe just piggybacking off one of the comments you made earlier in the U.K., and it has to do with policy language. Just more broadly, let's try to tee up COVID-19 and changes in risk perception. I'm wondering if Travelers will take advantage of this fluid environment to holistically revamp policy language everywhere from exclusions to coverage obscurity. I'm not just talking about communicable disease, but across all facets.

Alan Schnitzer

Yeah, well, certainly, communicable diseases are front and center, but just taking a step back and thinking about it holistically the way you asked the question, we are always evaluating policy language, coverages, terms and conditions, exclusions, things like that. It's an ongoing process in light of changes in circumstances, and to a degree, I think our discipline in doing that is one reason why we are where we are in terms of having modest COVID losses so far.

But to answer your question, yes, in light of these circumstances, we will continue with that process. I think the way to think about it is there's really two pieces to it: there's the insuring agreement, so think coverage grants, think exclusions; and then there's program structure, so think limits, sublimits, deductibles, attachment points, things like that.

When you have changing circumstances, certainly, the program design is likely to change faster than the insuring agreement, and so we are seeing a pretty quick response in program design in a lot of coverages, but in terms of the insuring agreement, any time we're in a circumstance where we feel like we can't model the risk, we can't model the price or changing circumstances result in some ambiguity in the insuring agreement, we will make changes and I think that's underway. Communicable diseases, as I said, are front and center, but I think we will look at all of those things.

Tracy Benguigui

Got it, and then you made earlier comments about this, but where we stand today, how do you feel about the strength of exclusions, particularly with respect to communicable diseases?

Alan Schnitzer

That's a pretty broad question, and I always think it's a mistake to underwrite a claim without an insurance policy in front of me and the facts of the claim so it's hard to answer that on a broad-based basis. If you look at Business Interruption, for example, in the U.S., overwhelmingly, the court decisions we've seen so far have sided with the industry. And of course, we've got the virus exclusion that we continue to feel very strongly about, but it's hard to, I think, respond to that without actually looking at a particular set of facts and circumstances.

Tracy Benguigui

Okay, great. Maybe it's a good time to turn to our audience response system, which is our polling questions.

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To kick things off, how hard of a pricing cycle are we in and what are your pricing momentum predictions over the next 12 months? The options are:

- over 30%;
- 20% to 30%;
- 10% to 20%; or
- 5% to 10%
- short-lived, reversion to low single digits

The last one that no one picked was short-lived reversion to low single digits. The most popular choice by a margin is the 20% to 10% range, followed by 30% to 20%.

I just wanted to get, your reaction, Alan, on those polling results and if you could share your crystal ball on the direction of pricing.

Alan Schnitzer

Yeah, the crystal ball is perpetually hazy, but I think the answer to that question is there've been forces out there that had been driving a firming market, and all of those forces are out there and alive and well. What we're seeing now, I think, is broadly a response to the fact that, in many lines, we've got a rate inadequacy. So, for years we had prices that lagged loss trend, and so the industry lost ground.

You've got social inflation out there. We've been talking about social inflation for a couple of years now, but if you're reading industry commentary and following the rhetoric, I think you see that there is a broader and wider acknowledgment and reaction to social inflation today than relative to a couple of years ago. I think that's going to continue to drive pricing.

Weather volatility is on everyone's minds. I think, certainly, last quarter, this quarter, last couple of years. I think there's some reaction to that.

Reinsurance pricing feels like it's on the way up. We're a gross line underwriter. We're, on a relative basis, under-reliant on reinsurance, so I think less of an issue for us as a company, but I think an issue for the market and that will drive market pricing.

Interest rates, we talked about that, lower for longer and on top of all of that, we've got this pandemic that I think has introduced another level of uncertainty into the market psyche.

I guess my reaction is I'm not going to put a number on it, but I think this trend has got a way to run, and I think it will improve margins.

Tracy Benguigui

Okay, yeah, I guess what you're describing is perception of a loss cost driven hard market cycle versus what we've seen in prior cycles, which is actual replenishment of capital.

Alan Schnitzer

I don't think it's an issue of capital in the industry. I do think it's loss driven, but I also think, for a variety of reasons, you've got a lot of markets that are just more disciplined about managing. Everybody's got better data and analytics and so I just think there's a higher level of discipline around managing an insurance company and managing for an appropriate level of return.

Tracy Benguigui

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Got it. This I guess ties into the next audience response system question. On a top line perspective, will a drop in insurable exposures from an economic shutdown outweigh hardening pricing for Travelers? And the responses are either:

- not likely;
- equilibrium;
- likely

The overwhelming majority are in the not likely count followed by equilibrium.

Alan Schnitzer

What's the not likely? I don't have it on my screen.

Tracy Benguigui

Oh, sure. Just basically the tug of war of pricing and insurable exposures, and it seems like there's some skepticism out there if pricing can overcome the drop in insurable exposures from economic conditions.

Alan Schnitzer

Yeah, so I guess my view on that is I'm not going to make a prediction on whether one's going to be more significant than the other. You never like to see a weak economy. You never like to see lower exposures and to some degree, that just feels like gravity to me. It's something that we all have to deal with. But when you take a step back, the price per unit of risk is improving, and so from that perspective, margins are improving. I mentioned that we've had a resilient top line, and so, I take a step back and I look at that, it feels okay where we are, and it feels like we're well positioned for the economy as it improves, and it will improve at some rate.

Tracy Benguigui

Okay. Let's talk about CAT so far with thirteen named events. The quarter is shaping up to be active, not just number-wise, but dollar-wise. Can you share any early insights of your CAT experience so far?

Alan Schnitzer

Yeah, so I think we've got our third hurricane of the season making landfall today, which is a relatively high number. We've had a very significant straight-line windstorm this quarter, a very, very active wildfire season in California and Oregon. Without putting a number on it, these things are still evolving so I think it's too early to put a number on CATs for the quarter, we've got a couple of weeks left.

I do think it's reasonable to expect an above-average CAT quarter and I think, going beyond that, I would expect, probably, I don't have the numbers in front of me, but it feels like at least on a gross basis, an above-average non-CAT weather quarter. So, very active from a weather perspective this quarter.

Tracy Benguigui

Okay, maybe shifting gears to talk about capital management. All the years that I've met with Travelers, even with your predecessors, I've always heard Travelers speak about being stewards of capital for shareholders. As a steward of capital, how do you strike the balance between capital deployment through share buybacks versus alternative options such as M&A or assumption of more insurance risk?

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Alan Schnitzer

Yes, so we've been very consistent in our approach to capital management over a very long period of time. I don't think I would describe it as a balance. I think I would describe it as a prioritization. When we think about the capital that we generate, our first objective is always to invest that back in the business when we think we can do that and create a return for shareholders. If we've got an opportunity to invest in growth, whether that's organic or inorganic or an opportunity to invest in talent or technology or other capabilities, we always want to do that.

But as you said it, we are stewards for somebody else's capital and so we are highly disciplined in making those assessments. When we're confident we can do it and meet our return expectations, we'll invest the capital. When we can't, we're going to give that money back to the capital providers and so less of a balance, more of a prioritization.

Tracy Benguigui

Okay, maybe just to unpack that a bit. Travelers has suspended buyback activity until there's more clarity on the state of the economy. Can you share what factors you're considering to make this determination?

Alan Schnitzer

Yeah, just to clarify, we didn't announce that we were suspending. We announced that we would be taking the circumstances into account as we thought about it. I'll unpack that, too.

When we think about the capital we're going to give back, the foundation of that decision-making really is the proposition that we want to be a strong AA-rated company. We've got a view of the capital that we need to maintain that position, and then we evaluate that against known requirements for capital and also the risk of unanticipated requirements for capital.

When you're in a circumstance like we're in now when we're somewhere in the middle of a pandemic that's going to run for a while, and we're still gaining clarity on that, when we're in hurricane season and wildfire season, when you have this level of uncertainty, you take a step back and you say -- at least we say, having a little bit more capital feels better than having a little bit less capital.

We haven't bought back any shares, but we didn't say that we were suspending buybacks. We said that, as the rest of the year unfolds, we may buy back some or none depending on how we feel in that assessment that I just described.

Tracy Benguigui

Okay and I guess just one clarification there. Do you hold capital buffers for downturn protection above the AA rating objective that ultimately play into the amount of capital available to fund buybacks?

Alan Schnitzer

Sure, yeah and I think I described that when I said that we hold capital back for unanticipated needs. We don't know how the weather is going to turn out. We don't know what the wildfires are going to do for the rest of the quarter, for the year. I think we maintain that buffer by acknowledging that we don't know all the requirements for capital, and so we definitely take that into account.

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Tracy Benguigui

Okay, maybe shifting gears to the low interest rate environment. It's interesting because P&C insurers tend to take risk on the liability side versus the asset side. However, investment income significantly eclipses underlying underwriting income if you exclude CATs and PYD. Given where we are with interest rates at unprecedented levels, do you think we'll get to the point where underwriting income becomes a more meaningful contributor to earnings?

Alan Schnitzer

Well, certainly, on a relative basis, it should become a more meaningful contributor to earnings. If you're asking whether it's actually going to be higher than investment income, I don't know exactly that relationship so we're agnostic about where the return comes from. We're agnostic about whether the return comes from underwriting or investments, but we are intent on meeting our return objectives.

If we anticipate because of a lower interest rate environment that we're going to be getting less of the return from the investment side of the house, we do expect that we will make that up on the underwriting side of the house, and so interest rates are a factor in our insurance pricing model. So yes, I would expect, as the interest rate environment plays out that will result in underlying underwriting income being a relatively greater contributor to earnings.

Tracy Benguigui

Got it. If you had to put a number on it and say, I don't know, for every 100 bps drop in interest rates, how much would you have to make up on the points on the combined ratio to breakeven?

Alan Schnitzer

More math than I want to do in my head on a live webcast, but on a historical basis, it's probably derivable from the financial supplement that we put out, and maybe the answer is a little bit different going forward given the rate we've been achieving, but I don't have the numbers off the top of my head.

Tracy Benguigui

Okay, fair enough. How do low interest rates reshape your asset allocation posture?

Alan Schnitzer

If the question you're asking is, do we change as a result of low interest rates or are we going to change our risk profile from an investment perspective to try to reach for yield? The answer is no. We don't do that. We take the risk on the liability side of the balance sheet, not the asset side of the balance sheet.

It's not that we don't take any risk, but we think about risk-adjusted returns, so we wouldn't change the asset allocation to reach for yield on the investment side, I guess, is the answer to your question.

Tracy Benguigui

Okay, maybe if I could just ask a culture question, and it's just because I know Travelers so well. I'm wondering, how does your legal upbringing, if you think about your background, you were the Chief Legal Officer, you're a partner at a leading law firm. How does that shape your view of tort liability, policy language, terms and conditions, et cetera? Because if I kind of compare and contrast you versus some of your peers, they come from, let's say, the more traditional

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underwriting and actuarial background, even though you've been exposed to that, obviously, through the years.

Alan Schnitzer

Yeah, I would say that my background positions me to understand those issues and engage with my colleagues as we talk about managing those issues. I think I can be a contributor to it, but around Travelers and given our underwriting history, our expertise in that area is broad, deep and tenured. Fortunately, nobody is relying on me to come up with terms and conditions or to evaluate terms and conditions, but I do think it positions me to understand and participate in it.

Tracy Benguigui

Okay, got it. What about on the tort liability, just given your background, and you've been talking a lot about social inflation? I guess, how does your upbringing shape your view there?

Alan Schnitzer

I'd give you the same answer. We've been talking about social inflation for a couple of years now, certainly very vocally, going back to the fourth quarter of 2018. I think my background and upbringing gave me the ability to really understand those issues when the claim organization, when the actuaries, when the underwriters, we started talking about this, put me in a position to help connect dots and really understand what was going on and understand what it was we needed to do to respond to it. I think it positions me to certainly participate in that.

Tracy Benguigui

I'm wondering, just sticking on tort liability, I mean, do you think the current environment right now might be a little bit more benign, if you think about a backlog of court cases that might contribute to a bump up of tort activity?

Alan Schnitzer

I think what you're asking is, is there some latent volume of cases out there we haven't seen because courts have been closed? And, probably, there's some of that and we may experience some bump in cases as courts start to open up and the economy starts to unclog, but there's also forces going the other way.

As the economy has been relatively shut down and economic activity has been low, you don't have people, for example, walking into stores, tripping and falling. As a consequence, there's going to be some degree of lower level of frequency from the lower level of economic activity and just people sheltering in place, so I don't know what the net of those two things is going to be.

Tracy Benguigui

Got it. Let's shift gears and talk about Workers' Comp. I just want to get your view on the adequacy of rates there. It seems that the NCCI had a July 16th memorandum that next year's rates will not be adjusted to reflect COVID-19, and rate filing so far are actually appropriate in their view. I guess, to paraphrase what NCCI is basically saying that the uncertainty surrounding the course of COVID-19 pandemic and the unavailability of data prevents determining the credible estimate of future losses and makes forecasting uncertain.

They have also mentioned that certain companies have the ability to make their own determination on rate increases. So I guess my question for you is, on that backdrop, how

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confident are you that Workers' Comp. is capturing some of the COVID-19-related losses and the rate adequacy of that line?

Alan Schnitzer

I don't think there's anything surprising in what we've heard on the NCCI on this. We all know Workers' Comp. is a long tail line, and so it's not surprising that somebody would look at the experience we've had in 2020 and say that's not going to factor into 2021. I think, in some cases, it's going to be years before we know what this experience we've had in 2020 means for the line and rate adequacy going forward. There's nothing in that, that surprises me.

What was the rest of your question, Tracy?

Tracy Benguigui

Oh, yeah, I guess, maybe shifting gears to, I guess, there's some thought out there that Workers' Comp might be bottoming in terms of rates. What's your picture going into 2021?

Alan Schnitzer

We said last quarter, and I would reiterate it again, that based on everything we see in our data and based on the data that we see from rating bureaus, I would say that we're approaching a bottom. I don't know if we're exactly there or it's coming sometime in 2021, but I think we're getting to a bottom and then sometime after that, a transition.

Tracy Benguigui

Okay and maybe just sticking on Workers' Comp. It's interesting, if you go a number of years back, when it was a less profitable business line, you've guys still did really well. And you actually had a growth spurt when others had minimized their position.

Thinking more broadly outside Workers' Comp, as the industry underwriting capacity is being squeezed, are you willing to be a capital provider of last resort in a line like what you've done in Workers' Comp. similar to maybe a Berkshire and any pocket of business that others are shunning right now?

Alan Schnitzer

I wouldn't describe it as a provider of last resort. That makes us sound like we would change our underwriting appetite to find some opportunity and that's not who we are. We've benefited over a very long period of time by having very consistent risk appetite, and I think that's important from a couple of perspectives.

It's important in understanding the risk that you're taking on and being able to price it and write it profitably, and I think it's also important from a relationship with our distribution partners in having a very consistent approach to risk is important. But, one of the ways that served us well, and I think this is responsive to your question, is we can maintain a consistent level of appetite in risks that we know well and watch competitors come in and out of those lines. If they want to get into a line and write it on a basis that we think is not profitable, we're perfectly content to sit back and let somebody write it on that basis and eventually that business will come back to the market and our consistent appetite will position us to write it at that point.

A perfect example of that, and we saw that, I don't know, a year or two ago in some property lines when there were a few markets out there that were reducing line size or in some cases, geographic concentration or making other decisions to exit business, and in those circumstances, we will find opportunities by being consistent. You've got to be careful in those

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circumstances because often, when somebody sheds a risk, it's for a good reason so you've got to make sure that you don't pick it up without evaluating it carefully. But I would say that we benefit from a consistent risk appetite. We wouldn't change that to become, as you said, provider of last resort.

Tracy Benguigui

Got it. I guess, another large business line of yours is Commercial Auto, which you're the number two Commercial Auto writer. I'm just curious if Commercial Auto is becoming the enabling product of a Commercial multi-peril package policy with the same client, similar to what we'd seen with Workers' Comp. a number of years ago when that was less profitable. And then I guess the second part of my question is your views of rate adequacy for Commercial Auto.

Alan Schnitzer

Well, if by enabling, do you mean is Commercial Auto a loss leader? I would say, no. I mean, certainly, we want to sell more lines to a customer. That's good for us, and we think good for them too, and so we want to write multiple lines, but we manage profitability at both an account and business unit level and at a line level. We're always triangulating those two things. We would never write a line as a loss leader.

Your second question, is commercial auto rate adequate? Commercial Auto has been a struggle for the industry for years now, and we've all been getting pretty good rate on it. I would say, given the rate we've gotten on a written basis, the outlook today is certainly better than it has been over the past couple of years, but it's not where it needs to be and I would expect continued rate increases in Commercial Auto.

Tracy Benguigui

Okay, I guess, how come we don't actually see a tie-in with Personal Auto side with lower miles driven? Do you think they'll have any interplay for Commercial Auto in improving loss frequency?

Alan Schnitzer

You mean as a consequence of the pandemic?

Tracy Benguigui

Yes.

Alan Schnitzer

Your miles driven? To some degree, we do see lower level of miles driven and a lower level of frequency in Commercial Auto. We don't see it to the same degree we see it in Personal Auto. Also, on the commercial side, there has been, to one degree or another, some offsetting increase in severity, so you don't see the same degree of benefit in commercial as you do in personal. Also, I think this is a moment in time. I mean, the economy is going to improve. People are going to get back on the road. We're going to see miles driven and frequency increase.

On most lines, and particularly on the components of Commercial Auto that are longer tail, like bodily injury, for example, it would be a mistake to assume anything other than a reversion to longer-term trends.

Tracy Benguigui

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Okay, I guess before moving away from underwriting income, I just wanted to point out, I don't think it's going to change your answer, but I think I goofed when I looked at the polling result for the recessionary impact, so it's actually more optimism that rate could make up for that shortfall.

But just quickly turning to technology, we get a sense that consumer expectations include some type of Amazon-ification effect. Can you recap Travelers' technology story and what are your plans for Simply Business?

Alan Schnitzer

Okay, there's a lot in that question. We could have spent the whole time talking about our technology story and our innovation agenda, but let me spend a minute on it. In short, in 2017, we actually did this earlier internally, but in 2017, externally, we announced really three innovation priorities that would relate to our technology investment.

First, we wanted to expand our lead in risk expertise. We've built the business over many decades in really being an expert in risk and the products and services our customers need, but extending that risk and investing is a priority for us. That's investing in artificial intelligence and data and analytics and risk segmentation and products and things like that, and so that's one prong.

The second prong to your Amazon-ification comment is creating best-in-class experiences for customers, agents and brokers, and employees, really all of our stakeholders.

And the third prong has been productivity and efficiency. We've been investing in those things, and I guess, to take a step back, really, I think, to a large degree, that's about digitizing the entire value chain. So really, with those three ends in mind, and so we've been at that for a few years. If you take a step back and look at what we accomplished from 2017 when we announced that through the first quarter of this year when the pandemic struck, we actually achieved a higher rate of growth than we had in previous years, and we made very significant improvements in our expense ratio.

So that's sort of the technology story. If there's one thing I think investors might be missing about us, it's the fact that we announced those objectives, we delivered on those objectives, and we got the results we were hoping for, so that's been a great story. The waters have been a little bit muddied by the pandemic, but we'll get beyond this and it's one reason why we feel so well positioned for Travelers as we make our way through the pandemic and then post-pandemic.

Tracy Benguigui

Got it. Maybe then switching gears to ESG. It's my understanding for Travelers that it's not just a feel-good thing for you, you actually think it's good for shareholders. Can you elaborate?

Alan Schnitzer

Yeah, I think it's pretty simple. Taking care of all of our stakeholders is a predicate to financial success, so taking care of our business partners, our shareholders, our employees, or for that matter, the environment. When you run a business with an over time objective, and that is our stated objective, to deliver industry-leading return on equity over time. When you have an over time perspective on what you're trying to achieve, you can't assume you can do that unless you

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bring all of your stakeholders along with you. It's not a nice to have, it's not a headline or a bumper sticker, it's got to be part of your strategy to succeed financially.

The flip side of that coin is you can't take care of your stakeholders unless you do succeed financially. So again, when you run a business for the long-term, the fallacy is that those two things are in conflict. I don't think they're in conflict at all. I think they're perfectly synergistic. And for anybody who hasn't seen it, I would encourage you to take a look at www.sustainability.travelers.com, which is our sustainability website. We spent over a year putting that together and trying to be responsive to the interest in sustainability, and it lays out in some detail both our thesis on that as well as our approach to achieving it.

Tracy Benguigui

Got it. I guess, on the topic of ESG, it always assumes that one of the low-hanging fruit is on the underwriting posture on coal. It's pretty easy in a way to address that. I guess how are you thinking about it on an underwriting exposure outside of coal?

Alan Schnitzer

Yeah, we don't write a lot of coal-related business. I mean it's certainly not zero, but we don't write a lot of it. At the moment, the economy is, at some degree, reliant on coal, and so we can't completely abandon it. If you want to cook your food or have air conditioning, we're not in a position to abandon it today.

But when you think of what we do have exposure, it's, for example, on surety bonds that ensure that the environment will be restored to pre-mining levels, and so in a sense, we're making sure, through the products and services that we offer, that the environment is taken care of.

Tracy Benguigui

Great. Just reminding folks to submit questions. And with that, I guess I could ask you a big-picture question. Looking into 2021, Alan, do you have any bold predictions either for Travelers or the world that you'd want to share your pearls of wisdom with us?

Alan Schnitzer

Yeah, that's a big question. It's been such a difficult six months and really uncertain times, and I'm an optimist, and I've got great confidence in our ability, whether it's a pandemic or making progress on racial equality, whether it's getting through an election in tumultuous times, this isn't a political comment. I've got great confidence in people generally and the American people to get through it, and so I'm an optimist.

Tracy Benguigui

Okay. Excellent. I think, with that, we're out of time. So Alan, thank you so much for a very great discussion this morning. We'll talk again soon. Thank you.

Alan Schnitzer

Thanks, Tracy. It's good to be with you. You take care.

Tracy Benguigui

Okay. Bye.

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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 court decisions or legislative or regulatory actions taken in response to COVID-19;
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company’s asbestos and other reserves;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the potential benefit associated with the Company’s ability to recover on its subrogation claims;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment (including changes in interest rates), economic (including inflation, changes in tax law, changes in commodity prices and fluctuations in foreign currency exchange rates) and underwriting market conditions;
- strategic and operational initiatives to improve profitability and competitiveness;
- the Company’s competitive advantages;
- new product offerings;
- the impact of new or potential regulations imposed or to be imposed by the United States or other nations, including tariffs or other barriers to international trade; and
- the impact of developments in the tort environment, such as increased attorney involvement in insurance claims and legislation allowing victims of sexual abuse to file or proceed with claims that otherwise would have been time-barred.

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

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

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

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

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- 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

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from independent rating agencies, changes in levels of written premiums, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors, including the ongoing level of uncertainty related to COVID-19.

Our forward-looking statements speak only as of the date of this presentation or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on July 23, 2020 and in our most recent annual report on Form 10-K filed with the SEC on February 13, 2020, in each case as updated by our periodic filings with the SEC.

In this transcript, we may refer to some non-GAAP financial measures. For a reconciliation of these measures to the most comparable GAAP measures and a glossary of financial measures, we refer you to the earnings press release and financial supplement that we have made available in connection with our most recent quarterly results on the "Investors" section at Travelers.com as well as our most recent annual report on Form 10-K filed with the SEC on February 13, 2020.