The Travelers Companies, Inc.

Fourth Quarter 2020 Results Conference Call

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PRESENTATION

Operator
Good morning and thank you for holding. Welcome to the fourth 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 & Answer session. As a reminder, this conference is being recorded on January 21, 2021.

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 so much. Good morning, and welcome to Travelers' discussion of our fourth quarter 2020 results.

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

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

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

Before I turn the call over to Alan, I would 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.

Before I address our fourth quarter and full year results, a quick comment on current affairs. Yesterday, we witnessed the most American of events, the peaceful transfer of power from one democratically elected administration to the next. It's not a political statement, but a patriotic one, to say that we want to see this next administration succeed.

We have significant challenges to overcome: a pandemic threatening the health and safety of our loved ones and neighbors; a distressed economy imperiling the lives and livelihoods of millions; and a deeply divided society, which undermines our collective sense of security and wellbeing. Let's hope yesterday marks the beginning of our political leaders, on both sides of the aisle, taking a constructive approach to addressing these challenges.

And with that, I'll turn to results.

We're pleased to report a very strong finish to the year, with fourth quarter core income of $1.3 billion, or $4.91 per diluted share, and core return on equity of 20.5%, each up meaningfully from the prior year quarter.

We're also pleased to report full year core income of $2.7 billion, generating core return on equity of 11.3%, a substantial margin over the risk-free rate and our cost of equity. Our ability to deliver these results in the face of an historic pandemic, a record high number of PCS catastrophe events and record low-interest rates is a testament to the strength of our franchise; more specifically, to our talented and committed workforce; the value of our hard-to-replicate competitive advantages; and our expertise in balancing risk and reward to achieve industry-leading returns over time.

The principal driver of the higher level of core income for the quarter was very strong underlying underwriting income, resulting from record net earned premium of $7.5 billion and an underlying combined ratio that improved 3.4 points to an excellent 88.7%. We're pleased with the underwriting results in all three segments.

We once again recorded a sub 30% consolidated expense ratio for the quarter and the full year, demonstrating that our strategic investments in improving productivity and efficiency continue to pay off.

Turning to investments, this quarter our high-quality investment portfolio performed well, generating net investment income of $572 million after-tax, as the non-fixed income portfolio continued to recover from the pandemic-related impacts earlier in the year.

Our operating results, together with our strong balance sheet, enabled us to grow adjusted book value per share by 7% during the year, after returning $1.5 billion of excess capital to shareholders, including $672 million of share repurchases, which we resumed in the fourth quarter.

Turning to production, notwithstanding the challenges in the economy, we continued to successfully execute on our marketplace strategies to generate growth in the top line. Net written premiums in the quarter grew by 3%, driven by strong renewal rate change broadly across the book and continued strong retention in all three segments. Given the headwinds facing the industry, we expect the favorable pricing environment to continue for some time.

In Business Insurance, in our core Middle Market business, renewal rate change was a record 9.1%, up 4.5 points over the prior year and about 1 point sequentially, while retention remains strong. Segmentation and pricing is key in this business, and to that end, the quality of the execution underneath the headline production numbers was excellent.

In Bond & Specialty Insurance, net written premiums increased by 12%, as renewal premium change in our domestic Management Liability business achieved a record 10.9%, driven by record renewal rate change, while retention remained strong.

In Personal Insurance, net written premiums increased by 7%, driven by strong renewal premium change in our Agency Homeowners business, and strong retention and new business in both Agency Auto and Agency Homeowners.

Fourth quarter production contributed to full year record net written premiums of almost $30 billion, up 2% compared to last year. Adjusting for the premium refunds we offered to our Personal Insurance Auto customers, net written premiums were up 3%. A strong top-line result in the context of this year's difficult economic environment.

Taking a step back, let me direct your attention to slide 18 of the webcast presentation and put this year's results into a broader context. I've shared before our belief that any commitment to delivering industry-leading return on equity over time requires a strategy to grow over time. To that end, a few years ago we laid out a strategy to achieve profitable growth in the context of the forces of change we have previously identified as impacting the industry. As you can see on the slide, despite the challenging economic and operating environment, 2020 was another successful year of the execution of that strategy.

Since 2016, we have grown net written premiums at a 4.5% compound annual rate, substantially outpacing both GDP growth over the same period and our growth rate over the prior years in the decade. We accomplished that while maintaining a stable underlying underwriting margin. In other words, we haven't grown by underpricing the product or changing our risk profile. The growth has come organically from customer segments, products, geographies and producers that we know well. Over that same period, through our ongoing and relentless focus on optimizing productivity and efficiency, we've also improved our expense ratio by about 2 points compared to the run rate from earlier in the decade.

As you can also see on the slide, the result of all of that is significantly higher underlying underwriting income, meaningfully higher cash flow from operations and double-digit growth in invested assets.

Those results have contributed to our ultimate objective of creating shareholder value through industry-leading return on equity over time. Our core return on equity has increased in each of the last three years and averaged 11% over that period. And that 11% is after bearing the impacts of significant cat and non-cat weather activity, a meaningful increase in social inflation, historically low interest rates and a global pandemic.

In short, our performance this year and over recent years is the result of a sound strategy and a successful achievement of our strategic objectives. Looking forward from here, thanks to our team, our strategy, our capabilities and our strong track record of innovation and execution, we feel very well positioned to capitalize on the opportunities ahead as the economy continues to recover and beyond.

Before I turn the call over to Dan, I want to acknowledge and thank my 30,000 colleagues – many of whom are listening this morning – for their tireless efforts over this past year. Notwithstanding concerns for their own safety, and responsibilities for taking care of loved ones and educating their children, they never wavered from our purpose of taking care of the people we're privileged to serve or our mission of creating shareholder value. I couldn't be more proud of this team.

I also want to acknowledge and thank all of those who have been involved in the extraordinary effort of developing and manufacturing COVID vaccines in record time – from the scientists to the regulators to those who volunteered to participate in the trials. It's a remarkable feat. The sight of those vaccines rolling off the line inspires optimism for the coming year, and the sheer human will and ingenuity behind the effort inspire hope for the future.

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

Dan Frey
Thank you, Alan. Core income for the fourth quarter was $1.262 billion, up from $867 million in the prior year quarter, and Core ROE was 20.5%, up from 14.8%. The improvement in both measures was the result of very strong underlying underwriting results.

Our fourth quarter results include $29 million of pre-tax cat losses, compared to $85 million of pre-tax cat losses in last year's fourth quarter. Recall that last year's fourth quarter cat losses included a $101 million benefit from recoveries under the underlying Aggregate Cat Treaty, whereas in 2020, we exhausted the Cat Treaty in the third quarter, so there were no recoveries under the treaty in this year's fourth quarter. This quarter's cat results include about $40 million of favorable development in our loss estimates for events that occurred earlier in the year.

PYD in the current quarter, for which I'll provide more detail shortly, was net favorable $180 million pre-tax.

The underlying combined ratio of 88.7%, which excludes the impacts of cats and PYD, improved by 3.4 points from the prior year quarter.

Our pre-tax underlying underwriting gain of $804 million increased by nearly 50% over the prior year quarter, reflecting the benefit of higher levels of earned premium, and higher margins, driven by earned pricing that exceeded loss cost trend and continued favorability in Personal Auto loss experience.

For the quarter, losses directly related to COVID-19 totaled a modest $31 million pre-tax, split about evenly between Business Insurance and Bond & Specialty Insurance. More than offsetting those losses were lower levels of auto claims in both Personal Insurance and Business Insurance. The net impact of the COVID environment on the consolidated underlying combined ratio amounted to a benefit of about 2.5 points, mostly in Personal Insurance. We continue to take a cautious approach in estimating the net impact of COVID-related losses given the ongoing uncertainty in this environment. As has been the case throughout the year, the majority of direct COVID losses that we've booked through year-end remains in IBNR.

Looking at the full year net impact of COVID costs and benefits – including the impact of premium refunds to policyholders – our consolidated underlying combined ratio benefitted by about 1 point.

The fourth quarter expense ratio of 29.4% brings the full year expense ratio to 29.9%. While throughout the year we continued to make the investments necessary to fuel our continued success, our ongoing focus on productivity and efficiency once again resulted in a sub-30 expense ratio, despite the downward pressure on earned premiums from the impact of a soft economy on insured exposures and the premium refunds we issued to our Personal Auto customers. We continue to be comfortable with a consolidated expense ratio of around 30%.

After-tax net investment income improved by 9% from the prior year quarter to $572 million, as strong returns in the non-fixed income portfolio and a higher level of invested assets were partially offset by the expected decline in fixed income yields.

Looking forward to 2021, we expect that after-tax fixed income NII – including earnings from short-term securities – will be between $420 and $430 million per quarter, as we project that the benefit of higher average levels of invested assets will be more than offset by a lower average yield on the portfolio, given the lower interest rate environment.

Turning to reserves, net favorable prior year reserve development occurred in all three segments and totaled $180 million pre-tax in the fourth quarter.

In Business Insurance, net favorable PYD of $124 million was driven by better-than-expected loss experience in Workers' Comp, primarily from accident years 2017 and prior, partially offset by an increase to reserves related to very old years in our run-off book.

In Bond & Specialty, net favorable PYD of $32 million resulted primarily from better than expected loss development in the Surety book.

And in Personal Insurance, net favorable PYD of $24 million was driven by the Automobile line.

When our combined 2020 Schedule P is filed early in the second quarter, the line of business analysis will provide more detail on the loss trends we've noted in our commentary throughout the year, with favorability in Workers' Comp, Commercial Property and the Personal Lines coverages and some strengthening in the Commercial Liability lines, much of which was in very old accident years relating to our run-off book.

Page 19 of the earnings presentation provides information about our January 1 Cat Treaty renewals. Our long-standing Corporate Cat XOL Treaty renewed on terms in line with the expiring treaty and continues to provide coverage for both single cat events and the aggregation of losses from multiple cat events.

Regarding the Underlying Property Aggregate Catastrophe XOL Treaty we first purchased for 2019, we have renewed the treaty again for 2021. While the treaty will continue to address qualifying PCS-designated events in North America for which we incur losses of $5 million or more, the 2021 renewal includes a $5 million deductible per event. In prior years, PCS-designated events that cost us more than $5 million counted towards the treaty from dollar one. The treaty provides aggregate coverage of $350 million, part of $500 million of losses above our aggregate retention of $1.9 billion. The aggregate retention for 2021 increased from 2020's $1.55 billion, largely reflecting recent years' experience and anticipated growth in our property book. Hurricane and earthquake events once again have a $250 million per occurrence cap and for 2021 wildfires are also capped at $250 million per event.

Incorporating our assumptions about cat and non-cat weather for 2021, we expect the full year impact of the treaty on our underlying combined ratio to be roughly half a point and we anticipate only a minimal impact on the total combined ratio. Both of those impacts are consistent with the assumptions we had in each of the past two years.

Turning to capital management, operating cash flows for the quarter of $1.9 billion were again very strong, all our capital ratios were at or better than target levels, and we ended the quarter with holding company liquidity of approximately $1.7 billion. For the full year, operating cash flow exceeded $6 billion for the first time ever, and reflected the benefit of continued increases in premium volume, subrogation recoveries from PG&E related to the 2017 and 2018 California wildfires and lower overall claim payouts as court room and other settlement activity slowed throughout the year due to COVID-related shutdowns. Higher levels of cash flow give us the flexibility to continue to make important investments in our business, return excess capital to our shareholders and grow our investment portfolio.

Interest yields decreased modestly as credit spreads tightened during the fourth quarter, and accordingly our net unrealized investment gain increased from $3.8 billion after-tax as of September 30 to $4.1 billion after-tax at year-end.

Adjusted book value per share, which excludes unrealized investment gains and losses, was $99.54 at year-end, a 7% increase from a year ago.

We returned $419 million of capital to our shareholders this quarter, comprising dividends of $218 million and share repurchases of $201 million. For the year, we returned $1.5 billion of capital to shareholders through dividends and share repurchases.

Finally, on a financial modeling note, let me turn your attention to slide 20 of the webcast presentation. As we enter 2021, we again thought it would be helpful to highlight the seasonality of our cat losses over the prior decade. As shown in the data, the second quarter has regularly and noticeably been our largest cat quarter. Cat losses in the second quarter have been about twice as much as any other quarter, on average, and the second quarter has been our largest cat quarter in seven of the past ten years.

To wrap it up, we are very pleased with the quarter and full year results, especially given the challenging circumstances.

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

Greg Toczydlowski
Thanks, Dan. For the fourth quarter, Business Insurance produced $713 million of segment income, an increase of almost 60% over the fourth quarter of 2019. Higher net favorable prior year reserve development, underlying underwriting income and net investment income as well as lower cat losses all contributed to the favorable year-over-year increase.

We're pleased with the underlying combined ratio of 93.6% which improved by 2.8 points from the prior year quarter. We benefited again from earned pricing that exceeded loss trend, with an impact this quarter of a little more than one point and a half. There is also one point and a half of improvement due to the favorable comparison to the fourth quarter of 2019, which was elevated due to the re-estimation of losses for prior quarters.

Turning to the top line, in light of the ongoing macroeconomic challenges, we remain pleased with the resilience of our business. Net written premiums were only slightly lower than in the prior year quarter, with strong rate and high retentions mostly offsetting modestly lower levels of insured exposures, as well as lower new business. The lower insured exposures reflect lower levels of economic activity as well as impacts from our active management of terms and conditions and deal structures, including deductibles, attachment points and limits.

Turning to domestic production, we achieved a record renewal rate change of 8.4%, up almost 4 points from the fourth quarter of last year, while retention remained high at 83%. This quarter marks the eighth consecutive quarter in which renewal rate change was higher than the corresponding prior year quarter. We continued to achieve higher rate levels broadly across our book as rate increases in all lines, other than Workers' Compensation, were meaningfully higher during the quarter as compared to the prior year.

Importantly, we continue to feel great about our deliberate and granular execution in terms of rate and retention on an account-by-account and class-by-class basis. The segmentation beneath the headline numbers was, once again, excellent. Also, one other thing that's not apparent in the headline numbers is the contribution to margins from the active management of terms, conditions and deal structure that I mentioned a minute ago. We're doing this broadly across the book, but most notably in our National Property business. The tighter terms tend to persist beyond the rate cycle.

New business of $440 million was down $35 million from the prior year quarter. Given the lower levels of economic activity, and given the hardening market conditions, there is a higher proportion of distressed business in the market. Our new business production reflects our disciplined approach to that business. Risk selection is particularly important during circumstances like these.

As for the individual businesses:

In Select, renewal rate change increased to 4.2%, up more than 2 points from the fourth quarter of 2019 and more than 1 point from the third quarter of this year. Retention of 77% was down from recent periods, a result of deliberate execution as we pursue improved returns in certain segments of the business. As I mentioned above, we're pleased with the segmented execution underneath the aggregate result. Importantly, we have not slowed down our commitment to invest in product development and ease of doing business which position us well for long-term profitable growth in this business.

In Middle Market, renewal rate change increased to 9.1%, while retention remained strong at 86%. Renewal rate change was up 4.5 points from the fourth quarter of 2019 and almost a point from the third quarter of this year. Additionally, we achieved positive rate on more than 80% of our accounts this quarter, a more than 10 point increase from the fourth quarter of last year.

To sum up, we feel terrific about our results and execution, especially given some of the unusual economic challenges related to the pandemic. We continue to improve the profitability of the book, while investing strategically for the future. These investments include enhancing the experiences for our customers and distribution partners, developing new insights for our underwriters, digitizing the underwriting transaction and creating efficiencies.

Examples of capabilities released this year include:

- Roll out of our completely redesigned BOP 2.0 Small Commercial product, which includes industry-leading segmentation and a fast, easy quoting experience. This new product is now available in 23 states and performing consistently with our expectations;

- Advancement of our industry leading strategic work intake initiatives, which allow for automated receipt of submissions from the various technology solutions our agent partners use and the seamless routing of those submissions, which improves the experience for our distribution partners and is more efficient for us;

- Enhancing our MyTravelers customer self-service application;

- And lastly, our Simply Business and Zensurance platforms continue to advance their digital capabilities and offerings in the alternative platform space.

We're as confident as ever that strategic investments like these together with our meaningful competitive advantages position us well for long-term profitable growth.

Concluding, I would like to acknowledge and thank our employees, agents and brokers for their partnership as we seamlessly delivered virtual solutions for the benefit of our combined customers.

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

Tom Kunkel
Thanks, Greg. Bond & Specialty delivered strong returns and double-digit growth in the quarter despite the ongoing headwinds of COVID-19.

Segment income was $164 million, nearly flat with the prior year quarter, as the benefit of higher business volumes and a higher level of net favorable prior year reserve development were offset by an underlying combined ratio which, while still strong at 85%, was higher than the prior year quarter.

The underlying combined ratio [increased] 3.7 points, driven by the impacts of higher loss estimates for Management Liability coverages, primarily losses attributable to COVID-19 related economic conditions.

As we discussed last quarter, the products that we write in this segment are susceptible to elevated loss levels in times of severe economic downturn. We experienced that during the financial crisis and again in recent quarters due to the impacts of the pandemic. Nonetheless, with the strong rate levels we're achieving, we expect that the underlying combined ratio in 2021 will improve a little bit from the roughly 87% in the second half of 2020.

Turning to top line, net written premiums grew an outstanding 12% in the quarter, reflecting continued improved pricing in our Management Liability business with nearly flat Surety production despite the continued economic impact of COVID-19 on public project procurement and related bond demand.

In our domestic Management Liability business, we are pleased that renewal premium change increased to a record 10.9%, driven by record high renewal rate change, while retention of 89% remained near historical highs.

These production results demonstrate the successful execution of our strategy to pursue rate in light of elevated loss activity while maintaining strong retention levels in our high-quality portfolio. We will continue to pursue rate increases where warranted.

Domestic Management Liability new business for the quarter [decreased] $13 million, primarily reflecting our thoughtful underwriting in this elevated risk environment. Consistent with last quarter, submissions are up while quote activity is down.

So, Bond & Specialty results were again strong despite the challenges brought on by COVID-19.

Beyond the numbers, notwithstanding our focus on managing through the challenging environment, we continued to invest in differentiating our businesses in the eyes of our customers and agent and broker partners, while positioning ourselves for continued profitability and competitiveness in the future. Some highlights from 2020 include:

- Continuing investments in our Surety business to help our contractor clients more effectively manage risk while providing insights that will enable them to more profitably manage their business;
- Piloting digital platforms that will improve the speed and convenience of accessing Management Liability and small Surety products for our agents and brokers; and

- Investing in new sales management platforms that will enhance productivity, optimize workflow management and increase sales.

Lastly, I would like to thank our employees and distribution partners for their commitment to creatively and effectively addressing the needs of our customers in these most unusual times.

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

Michael Klein
Thanks Tom, and good morning, everyone. In Personal Insurance we are very pleased with our fourth quarter and full year results.

For the fourth quarter, segment income increased to $457 million and our combined ratio improved to 84.1%. Full year segment income was $1.2 billion and the combined ratio was 89.7%. The significant improvement for both periods compared to the prior year is primarily driven by lower frequency of automobile losses as well as the benefit to underwriting income from higher business volumes. In addition, the full year results include higher net favorable prior year reserve development and elevated catastrophe losses.

Net written premium growth for the fourth quarter and full year was 7% and 5%, respectively, with continued strong retention and higher levels of new business, resulting in record net written premiums of more than $11.3 billion for the year.

Agency Automobile profitability was very strong, with a combined ratio of 86.5% for the fourth quarter. The underlying combined ratio for the quarter improved 12 points, continuing to reflect favorable frequency levels. Approximately one-third of the improvement in the quarter is from favorable re-estimates of activity for prior quarters in 2020.

We continue to observe lower claim frequency as a result of fewer miles driven reflecting the ongoing impact from the pandemic. We will continue to analyze and incorporate current trends into our state specific underwriting and pricing decisions as we balance business volumes and profitability.

In Agency Homeowners and Other, the fourth quarter combined ratio of 81.9% increased relative to the prior year quarter driven by a higher underlying combined ratio, and an increase in catastrophe losses. The fourth quarter included one catastrophe, Hurricane Zeta, with no recoveries from the Catastrophe Aggregate Reinsurance Treaty.

The underlying combined ratio of 78.5% was 5 points higher than the prior year quarter due to higher non-catastrophe weather-related losses, and to a lesser degree, increases in other losses, specifically elevated fire losses.

The full year combined ratio of 93% was comparable to the prior year, with increased favorable prior year reserve development and improved underlying results offset by elevated catastrophe losses. The underlying combined ratio of 82.9% was almost 3 points better than last year driven by lower non-catastrophe weather-related losses. This improvement demonstrates the success of our continuing efforts to improve returns in property, while growing the business.

Turning to quarterly production, overall results were again very strong.

We're pleased with our momentum in Agency Automobile. Retention was 84% and new business increased 12%, contributing to the 3% year-over-year growth in policies-in-force. Renewal premium changes were lower given our pricing actions in response to the favorable loss environment. We continue to seek growth in this profitable line.

Agency Homeowners and Other delivered another excellent quarter with retention of 85%, and a 21% increase in new business, while renewal premium change again exceeded 8%. Policies-in-force were up 8% from a year ago. These results reflect our continued efforts to grow, while improving profitability.

Looking back, 2020 was both a challenging and successful year for Personal Insurance. We achieved record levels of segment income, net written premiums and policies-in-force.

Our continued success reflects the execution of our strategy to meet customers where they are, give them what they need and serve them how they want. Examples include:

- Nearing completion of our Quantum Home 2.0 rollout, which is now available in over 40 states;

- Increasing the take-up rate of Intellidrive by enhancing our auto telematics offering in 17 states, and, just this week, we introduced Intellidrive in Canada as well;

- Improving our customer self-service capabilities with our new MyT mobile app, which will be rolled out more broadly throughout the first quarter of 2021;

- Planting an additional 500,000 trees for customer enrollment in paperless billing, bringing the total number of trees planted through our partnership with American Forests to 1.5 million; and

- Just recently, announcing the acquisition of InsuraMatch, an innovative, digital, online platform that allows customers to compare offerings from more than 40 carriers across the United States. We expect to complete the acquisition in the first quarter of 2021, subject to customary closing conditions.

Before I wrap up, I'd like to add my thanks to our team and our distribution partners for continuing to deliver value to our customers despite a challenging and uncertain environment. We have strong momentum going into 2021 and are well positioned to deliver profitable growth while investing in capabilities that will continue to enhance the value of our franchise.

Now I will turn the call back over to Abbe.

Thomas Kunkel
Michael, this is Tom Kunkel. I just want to jump in quickly and mention that I did misspeak when I was discussing Management Liability new business. I believe I said it increased by $13 million and it actually decreased by $13 million.

Abbe Goldstein
Thanks, Tom. Thank you. Operator, we are now ready to turn to questions.

QUESTION AND ANSWER

Operator
As a reminder, if you'd like to ask a question, please press star one on your telephone keypad. To remove your question, press the pound key. In the interest of time and to allow everyone an opportunity, please limit yourself to one question and one follow up.

Our first question comes from the line of Michael Phillips with Morgan Stanley. Your line is open.

Michael Phillips with Morgan Stanley, your line is open.

Michael Phillips
Hi, everybody. Can you hear me?

Alan Schnitzer
We can. Good morning.

Michael Phillips
Good morning. Thanks. I've had a choppy connection. I apologize if you couldn't hear me. Congrats on the quarter. I'll start on Business Insurance.

You're seeing nice improvements still in the core margins. A bit of a slowdown in the renewal rate change, still strong, at your highest, you said. It's been quite a while, but a bit of a slowdown from prior quarter.

Any reason to think, and I think, Alan, you said you expect rates to continue to move up if I heard you correctly. Given the margin improvement and what I've seen as a bit of a slowdown in the renewal rate change there, any reason to not think we're close, if not already at a peak, in pricing for Business Insurance?

Alan Schnitzer
Michael, we're at record levels and we're compounding on compounding. It's hard to look at this execution and find any negative in that, and from here, the outlook is positive. Also, on the historical numbers, that segmentation is really important and I think the point Greg made in his prepared remarks about the benefit of the tightening terms and conditions and other levers. So, all that's really important.

From here, I think this plays out for a while and it's a function of rate adequacy. All the drivers are environmental, primarily, loss activity, think about social inflation, think about weather, think about wildfires. You’ve got the interest rates that appear to be lower for longer, cost and availability of reinsurance, pandemic losses impacting the industry. And I suspect, for some markets, maybe still reckoning with social inflation.

I expect the favorable rate environment to continue and to persist at levels that will result in expanding margins for a while.

Michael Phillips
Okay. Thank you very much for that and then, a second question. Greg, you mentioned Comp and pricing there on Comp. What we're hearing from external sources, and a lot of the market's results, that it's a bit of an inflection in Comp pricing. Not much, but a bit of a turn, at least.

What are you seeing in Comp? Your PYD there was strong. Loss trends seem to be pretty favorable there. So, maybe comment on, if you are seeing a bit of a turn in pricing in Comp, what's driving that? And should we expect that to last given the loss trends that seem to be pretty favorable there as well? Thanks.

Gregory Toczydlowski
Good morning, Michael. This is Greg. We continue to think we are at or near a bottom in Workers' Comp and the evidence that we look at is the Bureau loss cost recommendations and our own rate structure. And so, we continue to believe that.

I'll just remind you that we are an account solution and we feel terrific about our entire book of business. Workers' Comp is usually just one of the many solutions that we're offering our customers. But, we continue to believe we're at or near the bottom.

Michael Phillips
Okay. Great. Thank you, Greg.

Operator
Your next question comes from the line of Ryan Tunis with Autonomous. Your line is open.
Ryan Tunis
Thanks. Good morning. This is a question for Alan. I didn't see the 4Q numbers, but through the third quarter, you had really substantial increases in IBNR and economically exposed lines, like Commercial Auto and GL.

Obviously, reported claims have been slow to come in relative to your picks. I'm curious what you're learning as courts reopen and things like that. Is that still starting to look conservative? Or are you seeing a higher pace of reported claims that would support those initial loss estimates?

Alan Schnitzer
Ryan, I think the best way I can explain it is, obviously, going back a few years, we saw some elevated loss activity. We responded to that over a couple of quarters. And I'd say that more recently, we've been sticking to that higher level.

What we're seeing in the data, frankly, might be a little bit favorable to what we've expected, but we're not responding to that because we think there is some disruption in the data. For now, we're going to stick with our view of the longer-term trends. Is that responsive?

Ryan Tunis
That's helpful. And then for Greg, looking at the growth in Business Insurance. Similar to last quarter, but it looked like some of the KPIs with better exposure was a little bit better sequentially and even new business wasn't down quite as much. It looked like a lot of that was Workers' Comp.

I'm just trying to think about how are we trending into 2021 based on what you're seeing relative to the negative -3% that we posted here in the fourth quarter?

Gregory Toczydlowski
As you said, Ryan, we have seen improved exposure as the economy starts picking up. We've shared with you for some time now that we do believe we're highly correlated with the overall GDP in terms of the GL, Workers' Comp, the ratable products that follow payroll and sales receipts of that sort.

As that starts picking up, we believe we'll see, as we're starting to see in our book already, some improvements in our production, specifically through the exposure metric.

Alan Schnitzer
Although, I'll just add to that, Ryan, that our book is, Greg's point's exactly right, there's a correlation there. But, I just think, given the high quality of the accounts and business that we write, we've actually done a little bit better than even we might've thought relative to economic activity.

Ryan Tunis
Thanks.

Alan Schnitzer
Thank you.

Operator
Your next question comes from the line of Tracy Benguigui with Barclays Research. Your line is open.

Tracy Benguigui
Thank you. Good morning. In the tort liability arms race, who's ahead? Pricing or loss trends? I'm mindful that the economic slowdown just means less court activity.

Dan Frey
Tracy, it's Dan. You broke up a little bit at the beginning of the question. Do you mind repeating it?

Tracy Benguigui
Absolutely, apologize for that. Just thinking about the tort liability arms race. If we think about them in a race. Who may be ahead? Pricing or loss trends? I'm mindful that given the economic slowdown, there's less court activity.

Dan Frey
So, remember, Tracy, when we talk about loss trend in BI, that's all-in, and that's including our more recent views over the last couple of years of elevated loss environment for things like social inflation. When we're looking at the written, and now earned, rate numbers that are coming through Business Insurance that's clearly ahead of loss trend.

I think to your second point, we are looking at the data as it comes in now and not assuming that that's the new normal. We assume that what we're seeing is slower levels of claim payments that won't necessarily ultimately be lower levels of claim payments.

So, we've stuck with our more normal long-term view that we think those loss costs are higher. But having said that, where rates are now, we think rates are ahead of loss trend.

Tracy Benguigui
Okay. Excellent. And then, for my follow-up, Greg was talking about improvement in terms and conditions. Wondering if you could just unpack that? Maybe give an example?

I've heard on the reinsurance side, they've been a little bit tighter on the silent cyber. I don't know if Tom had any views for Management Liability.

Gregory Toczydlowski
Sure, Tracy, I'll just give you a sense. You have two different dynamics between the property and the casualty lines. Property, you have a lot more opportunity on terms and conditions – think deductibles, insured to value margin clause – language changes that help improve the margins for us and provide some coinsurance back to the customer.

I referenced the term deal structure and you can think of that more on the casualty side, so umbrella, attachment points are increasing and limits management, making sure that we're booking very thoughtful capacity around the limits that we offer.

So, that's one of the activities that we're doing across the portfolio.

Alan Schnitzer
Tracy, in BI, just to give you a specific example because you asked for that, we do add, for example, communicable disease exclusions in industries and segments and customers where we think that's important to do so.

Tom?

Thomas Kunkel
The way it looks in the Management Liability business is, the focus has been largely on pricing. Certainly, a lot of work on deductible, self-insured retentions and limits coming down in a number of cases. If we are really going to see a change in policy terms in the near future, cyber would certainly be the most likely place where that would occur in the short-term.

Tracy Benguigui
Thank you.

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

Elyse Greenspan
Thanks. Good morning. My first question was on the Business Insurance margins. You said we have 150 basis points of rate exceeding trend in the quarter. Was there anything else one off that was in the margin? Then, could you give us a sense of—sorry if I missed it—the net COVID benefit including the frequency impact within BI in the quarter?

Dan Frey
Hey, Elyse. It's Dan. I'll take that. So, price versus trend, I think Greg's comment was a little more than a point and a half, so think about that as being between a point and a half and two points.

The other thing that Greg called out, which we would say in terms of the comparison might be a little unusual, is remember at last year's fourth quarter, we told you we took about a point and a half of prior quarter catchup as we adjusted our view of the liability loss ratios last year. That impacted the year-over-year comparison as well.

To the COVID question, very modest, as it was last quarter, not really big enough to mention. A small favorable, but think about that in the tenths of points, which is why it didn't get attention in the scripts.

Elyse Greenspan
That's helpful. Then, my second question is on the expense ratio side. I think last quarter, you pointed to seeing around 30% as a good run rate, but you continue to come in better than that. And, especially within Business Insurance, the expense ratio continued to improve this quarter like it did last quarter. Is there something related to COVID in expenses or is the expense ratio moving down a little bit when we think about where you could come in on a go-forward basis?

Dan Frey
Elyse, COVID has had some pluses and minuses on the expense side. On the one hand, there have been some higher provisions for things like bad debt, but there have been savings in things like travel and expense.

When you step back and look at the full year and on a consolidated basis, I'm not at all surprised where we were. I think coming out of last year, we said we'd be happy with something around a 30%. The full year this year is a 29.9%. I said, again, in my comments, we're probably pretty comfortable with this level. I think we've said all we're probably going to say on what we're thinking about expense ratio.

Elyse Greenspan
Thank you for the color.

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

Jimmy Bhullar
Good morning. I had a question first on your views on Business Interruption exposure. It seems like it's trending in the favor of the insurance industry so far, at least in the U.S. But what is your view in terms of your exposure and whether the FCA decision makes you reassess your exposure in Europe?

Alan Schnitzer
Good morning. Our view on Business Interruption exposure for us remains unchanged. There's nothing in that FCA decision in Europe that caused us to think any differently about our exposure or the reserves that we've put up for it.

More recently, there was a decision earlier this week in Ohio, related to another insurance company, that was averse to that company. Generally speaking, we prefer not to comment on pending litigation, whether it's ours or anyone else's. But, since you asked a question, I would just point out that our standard policy language is different from the language at issue in that case in some very key respects.

In Ohio and elsewhere, we remain very confident in our policy language and feel no differently about our Business Interruption exposure.

I would just caution everybody to keep in mind that over the last few months, and across the country, the vast majority of these cases have been in the favor of insurers.

Jimmy Bhullar
Then, secondly, what are your views on pricing in Commercial Auto? Obviously, recently, litigation activities declined a lot, but do you think prices have caught up to loss costs if social inflation and litigation go back once the virus abates?

Alan Schnitzer
Jimmy, there's just not much more competitively sensitive than our pricing strategy. So, I think we're going to probably stay away from where pricing is going by line. But I'll just reiterate what we said before, which is we think this is a favorable pricing environment that's going to play out for a while. It's a function of rate adequacy and there still is a rate need in Commercial Auto. To one degree or another, we will continue to benefit from the rate environment in Commercial Auto.

Jimmy Bhullar
Thanks.

Operator
Our next question comes from the line of Mike Zaremski with Credit Suisse. Your line is open.

Mike Zaremski
Good morning. Thanks. First question, thinking about top line versus buybacks. I recall pre-COVID, given top line was picking up, you wanted to make sure we understood that buyback levels might not resume at the same ratios as in the past.

Trying to think through the dynamics going forward. Earnings are healthy and improving, but the top line's still… I'm not going to put words in your mouth, but it seems maybe still to be a little weak due to the economy. So, should we be thinking that there might be more room for buybacks in the near term?

Dan Frey
Hey, Mike. It's Dan. I think you're thinking about the right dynamics, I don't know that it's necessary to lead you to a conclusion about what we're going to do in the near term and, again, we're going to think about this over a longer period of time.

The degree that, as Alan commented, we have experienced and been able to generate more top line growth in recent years than we had historically, the current COVID environment notwithstanding, that's something that we look to do on a go-forward basis. Even this year, plus 3%, when you adjust for the Personal Insurance Auto refunds that we made, the comments that we made a year or so ago would still hold true.

To the degree that the top line grows, that's going to require us to hold more capital because everything that requires capital grows with it, reserve balances grow, your investment portfolio grows. The only point we were really trying to make when we made those comments a year or so ago was don't think about us perpetually being able to return 100% of earnings in the form of dividends and buybacks. We're going to have to hold some of that for growth, so that would still be true.

The amount by which we would have had to increase capital this year might be slightly less than we would have expected coming into the year because COVID had a little bit of a dampening effect on the top line. But directionally, all those same themes would still hold true.

Mike Zaremski
Understood. That's helpful and lastly, shifting to Workers' Comp, specifically. Some firms have talked about, and it sounds like you guys too, less claim frequencies during the pandemic. But, still holding, you said, too, like broadly in the BI segment, your picks conservatively.

Historically, have you seen more of a catch up or later claim filings in Workers' Comp after previous recessionary periods? Is that a dynamic you are contemplating?

Alan Schnitzer
Let me just give you a little bit of color on how we see and are thinking about the Workers' Comp loss activity. First of all, the COVID related claim rate is relatively low relative to the infection rate and lower than we might have expected. The severity on COVID related Workers' Comp is also coming in a little better than we had thought.

There continues to be some benefit from non-COVID related frequency, as people are working from home. But, there still is, in our minds, a degree of uncertainty to your point about how COVID related Workers' Comp claims are going to play out over time. We've been pretty cautious in the way that we've been booking for Workers' Comp losses to make sure that we don't get surprised by that.

Now, putting COVID aside, historically in a recession, you get offsetting forces in Workers' Comp. You've got people who want to stay on the job, so they're less inclined to go out, so frequency is down a little bit. But, severity goes up a little bit because once people go out, they tend to stay out longer on Workers' Comp.

Historically, for us, in recessionary periods, the net of those two things have been a little bit of a positive. Every circumstance is different and so, hard to know for sure, but that's generally what we've seen in the past.

And so, I think that's the landscape as we see it on Workers' Comp loss activity.

Mike Zaremski
I was trying to figure out post-recession, did you see a jump or spike in frequency? I appreciate the comments about during the recession, there was a net benefit. Just curious if there was a catchup historically post-recession?

Alan Schnitzer
I just don't have that data in front of me from prior recessions. I'm a little hesitant to shoot from the hip. I'm just not sure. As we're looking around the room at each other, I don't think there's anything that we think would be all that particularly significant, but again, I just don't have the data in front of me to be responsive to that.

Mike Zaremski
Thank you.

Operator
David Motemaden with Evercore, your line is open.

David Motemaden
Thanks. Good morning. Another question on the Business Insurance underlying loss ratio and 150 basis points of core improvement now in the fourth quarter, that's improved. I think last quarter, you said it improved 100 basis points year-over-year. As we think about rate earning in above the 5% loss trend, is there any reason to think that shouldn't continue to accelerate as we head into 2021?

Dan Frey
It's Dan. All those being equal, no, mathematically, I think what you've seen in the last couple of quarters is what you would have expected to see based on the comments that we started making a year ago when we felt that we were reaching the point where written rate was reaching or exceeding loss trend. As that would start to come through on an earned basis to the extent that written pricing has continued to increase, we would expect the earned impact of that to continue to increase on a lagging basis. Again, all else being equal and rarely is all else equal, but looking at those two things, yes.

David Motemaden
Right, okay, thanks. I appreciate that, Dan.

Greg, a question on exposure growth and specifically you had mentioned the dampening impact of terms and conditions and the impact that had on exposure growth. Is there any way to quantify that? As we think about heading into 2021, any sort of view in terms of how terms and conditions may dampen exposure growth as we enter into 2021?

Gregory Toczydlowski
Hey, David. It's Greg. That's competitively sensitive. We give you exposure overall. We give you rate. We give you RPC. But, we really don't break down exposure in terms of the insured exposure versus deal structure in terms and conditions. That's just something we don't provide.

David Motemaden
Okay, that's fair. Thank you.

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

Brian Meredith
Thanks. The first one, Greg, on the Select business, if I take a look at the retention rates, dropped pretty meaningfully from the second quarter. The question there, is that due to the economy and the impact that's having on small businesses? Or is it that you're pushing rate, terms and conditions here and that's having an effect on your retention? What point do you need to lay off maybe a little bit to get that retention ratio back up?

Gregory Toczydlowski
Good morning, Brian. It really is a combination of both our profit improvement initiatives, which isn't just for Select. As we've been sharing, that's across the entire BI portfolio. When we look at the uptick in rate and the offset in retention, our product managers and underwriters can see the variance in the loss ratios versus what we retained and what lapsed. We feel very comfortable with the tradeoff between those two. We're going to continue to improve the margins on that Select business.

Then, in terms of your comment on the pandemic, we've certainly seen, since the pandemic, the Select business has felt the most reduction with the pandemic on smaller businesses. New business has absolutely felt that, but we feel great about the quality of the new business that we are writing in the Select business right now.

Brian Meredith
That would affect your retention, too, couldn't it?

Gregory Toczydlowski
Sure, it could. Yep.

Alan Schnitzer
Brian, just to put a finer point on Greg's comment, which I agree with. We've been at these types of retention levels before in Select. This isn't an unusual place for us to be and you're all looking at headline numbers. We're looking at a very granular set of data underneath that shows us exactly what the execution is in terms of rate, retention, loss ratios. We feel very, very good about this execution.

Brian Meredith
Great, and then, my follow up here. Alan, how are y'all thinking about potential liability exposures to back-to-work plans as eventually the economy reopens? Do you have protections in some of your policies to maybe mitigate some of that exposure? What are your thoughts on that?

Alan Schnitzer
It's a great question. I'm glad you asked. We would've hoped that there would have been some federal liability protection. I think given the way things have played out, that's probably less likely to happen, but there are a couple of things that still help.

One, there have been a number of states, I think more than 30 states, that in one form or another have taken some kind of action to provide some COVID liability protection. At the federal level, we've got a more right-leaning bench today than we did four years ago, certainly, so that helps a little bit.

Then, we can address it through things like rate, risk control and risk selection. And as I mentioned before, in some industry classes we have started to put in communicable disease exclusions where we think that could be important.

So, it's an exposure. It's out there. I think it's unfortunate because I think it's the plaintiffs’ bar that benefits at the expense of economic recovery, but we'll manage through it just fine.

Brian Meredith
Great. Thank you.

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

Josh Shanker
Thank you.

Josh Shanker
Anyway, an area that doesn't really get enough attention is National Accounts because we always talk about Business Insurance, ex-National Accounts. What is the trend there in terms of premium? How much of the fall-off in that area do you think is temporary? How much comes back? What's the distribution of that business in terms of premium volume to think about as we get to the end of COVID?

Gregory Toczydlowski
Hey, Josh, this is Greg. National Accounts was down 5% for the year and that's a business where a couple large accounts can make up a quarter or a year. That was the case for us in 2020 where we just had more lost larger accounts than new ones and we felt that on the top line.

Now, as you said, it's an important part of our portfolio. We're encouraged around the National Accounts and we've recently launched a service entry for claims service and we continue to invest in it and it's an important part of our portfolio.

Josh Shanker
In terms of the accounting for that, I assume there's a lot of audit accounting. Are we still in the audit accounting phase for that? And now we're earning through? And as the economy picks up, we'll see audit accounting go the other direction? How should we expect that to trend?

Dan Frey
Josh, it's Dan. I'm not quite sure I understand your question, but to the degree — that a lot of our Business Insurance accounts are subject to audit, including some business in National Accounts. Generally speaking, in this year, we've seen a lower level of audit premium additions, not surprisingly, given the lower level of overall economic activity.

I don't have the data in front of me. I don't know that we've heard anything that's particularly different in the National Accounts front than, say, in Middle Market. I think broadly speaking, we've seen audit premium activity behave, probably not surprisingly, in response to what you're seeing in the more general economy.

Josh Shanker
Yeah, now I'll stop. Are we more or less through the audit account period by the fourth quarter, where it was a bigger issue in the second and third quarters, and now, the premium submissions are in line with the exposures? Or are we still at a period of time where we're seeing that headwind come through on your premium numbers due to weaker audit accounts?

Dan Frey
I'd be careful about thinking headwind. In terms of year-over-year, there's less audit premium than there was last year. We haven't yet reached the point where in aggregate audit premiums have turned negative, they’re just lower positives. So, it impacts the growth rate year-over-year.

To your point, it will continue for a while because, in many cases, you're doing audits 15 months after the policy terms were set in the first place. There's still a while to work through the COVID impact on policies that haven't yet reached that maturity level.

Josh Shanker
All right. Well, thank you. I'll probably have some more questions, but I'll take them offline. Thank you very much.

Alan Schnitzer
Thanks, Josh.

Operator
Your next question comes from the line of Meyer Shields with KBW. Your line is open.

Meyer Shields
Great, thanks, one quick question on Personal Insurance and then a follow up on Business Insurance.

Michael, are you pricing Auto for normalized driving? Or are you trying to adjust pricing for the short-term, but fluctuating, driving behavior that we're seeing during COVID?

Michael Klein
This is Michael. I would say that we are, as I mentioned, continuously adjusting pricing levels to reflect our outlook. Again, driving levels have continued to be depressed. Therefore, frequency levels have continued to be depressed.

Our view is that in 2021, that will start to normalize, but we think we're going to be at depressed driving in frequency levels for a period of time. We are factoring that into our pricing. As I mentioned last quarter, we filed a handful of decreases in about 5 states in the fourth quarter and we have some more planned in the first part of 2021, again, to respond to that better than long-term normalized loss experience.

Meyer Shields
That's helpful. Then, a follow up for Greg. I'm wondering whether it's fair to say that maybe Business Insurance results were better than they look because presumably, there were some headwinds from the exposure that act like trends and because, also presumably, Workers' Compensation represented a smaller percentage of earned premiums. I was hoping you'd comment on those two factors.

Dan Frey
Hey, Meyer. It's Dan. Mix will contribute, as you suggest, to the degree that there are different loss ratios and different parts of the book are growing at different paces. That's going to have an impact.

I'll jump in here on this one because on the exposure front, we've said when exposure is positive, a portion of exposure behaves like rate, and therefore, can be helpful to margins. It's not necessarily the case that when exposures are modestly negative, as they are here, that the same holds true on the inverse.

Here what you're seeing is generally lower levels of insured exposures, fewer employees, lower levels of cash register sales, things that drive GL type exposure. Unless you actually got to the point where, say, there was wage deflation and the price per risk was going down, you don't, at least at this point, have the same adverse impact on margins from negative exposures that helped margin when exposures are running positive.

Meyer Shields
Okay. Fantastic. Thank you.

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

Paul Newsome
Good morning, and congratulations on the quarter, quite remarkable. Greg, you made a comment about a higher proportion of distressed business in the market, and I want to make sure I was interpreting the comment correctly. Are you talking about essentially more of the business going into excess and surplus lines? Or are you thinking more along the lines of just the businesses themselves are struggling with the economy?

Alan Schnitzer
Paul, let me just jump in, and I'll let Greg fix whatever I get wrong, but I think neither, actually. In a market like this where, in some cases, you’ve got some capacity issues, where you've got firming rate, distribution generally is solving problems in the market and so, the accounts that end up in the market for trading are just more difficult risks to write.

So, it's not that it's necessarily moving to E&S and it's not that they’re businesses necessarily with economic issues. These are just difficult from an insurance risk perspective.

Paul Newsome
Okay, then, just quickly, investment income is also very, very, strong, I thought. We've been so focused on underwriting. Anything in there that we should consider this as a good run rate? Or is there anything we should just take note of in investment income results?

Dan Frey
Hey, Paul. It's Dan. I'd point you to the net investment income slide in the webcast presentation and I'd point you to page 6. We gave you some outlook in terms of what we think the run rate looks like for the fixed income portfolio. The variability that we've seen in the last three quarters has really been in the non-fixed income portfolio.

If you look at the bottom right-hand quadrant of that chart, it shows non-fixed income over the last eight quarters or so. What you could see is the last three quarters pre-COVID had been $70 million or so of non-fixed income. Then, you see a big dip in the second quarter. Remember, at that time, we talked about, that was the impact of the disruption to the equity markets that happened in the first quarter coming through our results on a lagging basis in the second quarter.

Then, as markets have come back, we've seen some of that rebounds come through our numbers. What you see in the third and fourth quarters are very strong results in the non-fixed income portfolio. But, if you just look at that chart, you should get the sense that part of that is the bounce back from the big dip we saw in the second quarter. And so, I wouldn't take that as indicative of a new run rate on the non-fixed income piece.

Paul Newsome
Great. Thanks, folks, and congrats on the quarter, again.

Operator
We have time for one final question. Phil Stefano with Deutsche Bank, your line is open.

Phil Stefano
Thanks for squeezing me in at the end here. You had mentioned the court case in Ohio and that there's a difference in the terms and conditions, and I was hoping you could just remind us what the difference in the policy wordings is that continues to give us this confidence that BI issue is less so for Travelers than it might be for others, just given how that court case went?

Alan Schnitzer
Phil, so the circumstance is subject to continuing pending litigation, so I'm hesitant, particularly without the policy wording, theirs or ours, frankly, right in front of me to start parsing the language for you. Maybe we can take it offline and figure out a way to do it, but probably right now is not the right venue.

I will say we've said from the very beginning that we've got confidence in our policies and the way we think it would respond to Business Interruption. So far, in virtually every case we've had, we haven't had a bad outcome, anyway.

I'll just reiterate our confidence in the language that we have and say that we don't feel any differently about our Business Interruption exposure and leave it at that for now, if that's okay.

Phil Stefano
That's fine. I figured that was the answer, but it's always worth a shot.

The second follow up for you. Looking at the underlying loss ratio in Auto and trying to compare and contrast third quarter to fourth quarter results, it felt like we had the story of miles driven being down, auto accident frequency benefiting, but we're looking at a difference of 700 basis points, give or take, of underlying.

How much of this is miles driven coming back? How much of this is potential short-term pricing actions that you're contemplating? How do we look at these two quarters to help us as a base for what the forward COVID impact could be?

Dan Frey
Phil, it's Dan. Let me jump in. I think we'd look at both of the last two quarters as extremely good results and the third quarter was maybe an outsized good result.

Remember, as we've gone throughout the year, we've been trying to set our expectation of when you look at miles driven, when you then filter that through, what are the specifics of our book, what do we expect to see for losses? Then, as months and quarters go by, losses actually emerge. It's a little bit of a moving target.

The variances have been significant. I wouldn't put a tremendous amount of stock in the difference of what came through the loss ratio in one quarter versus the next, but I think as Michael probably indicated and as you would not be surprised by, on a go-forward basis, we wouldn't expect margins to continue to be that strong in Auto and you see that reflected in our pricing actions in the most recent quarters.

I'd step back more and think about the year in aggregate, which has definitely had a benefit from the COVID environment. And recall that in response to that, we've also returned more than $200 million of premiums to policyholders. I can't give any more specific answer than that.

Phil Stefano
Great. Thanks.

Operator
The Question & Answer session has ended. It is now my pleasure to turn the call back over to Abbe Goldstein for final remarks.

CONCLUSION

Abbe Goldstein
Hi. Thank you, all, again, very much for joining us. We appreciate that and as usual, if there's any follow up, please get in touch directly with Investor Relations. Thanks, and have a great day.

Operator
This concludes the Travelers fourth quarter 2020 results conference call. We thank you for your participation. You may now disconnect.

Forward-Looking Statements and Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

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

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