The Travelers Companies, Inc.

First Quarter 2022 Results Teleconference

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CORPORATE PARTICIPANTS

Alan Schnitzer – *Chairman and Chief Executive Officer*

Dan Frey – *Executive Vice President and Chief Financial Officer*

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Jeff Klenk – *Executive Vice President and President of Bond & Specialty Insurance*

Michael Klein – *Executive Vice President and President of Personal Insurance*

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PRESENTATION

Operator
Good morning, ladies and gentlemen. Welcome to the First 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 April 19th, 2022.

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

Abbe Goldstein
Thank you. Good morning, and welcome to Travelers' discussion of our first quarter 2022 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; Jeff Klenk of Bond & Specialty Insurance; and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take questions.

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

Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements.

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

One more thing before I turn the call over to Alan. I'd like to direct your attention to our updated Overview of Travelers presentation that we posted on the investor section of our website. There's a lot of terrific background and other content in this document. I would encourage you to take a look at it, whether you're familiar with Travelers or new to our story.

And with that, it's my pleasure to turn the call over to Alan Schnitzer.

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

We're very pleased to report excellent results this morning. But before we dive into the quarter, I want to acknowledge the geopolitical crisis and humanitarian nightmare unfolding in Ukraine. Our thoughts and prayers are with those under attack, the millions of refugees seeking life's most basic necessities and the loved ones of those who have lost their lives.

Turning now to our results, we're off to a terrific start for the year, with an excellent bottom line result, growth in all three segments, strong and improved profitability in our commercial business segments, progress addressing the environmental headwinds facing the personal insurance industry, and another quarter of progress on a number of important strategic initiatives.

Core income for the quarter was $1 billion, or $4.22 per diluted share, generating core return on equity of 15.5%. These results were driven by net earned premiums of $8 billion, up 9% over the prior year quarter, and an excellent combined ratio of 91.3%. We're particularly pleased with the continued strong underlying results in our commercial businesses.

Looking at the two commercial segments together, the combined BI/BSI underlying combined ratio was 90.2% for the quarter, an improvement of nearly 2 points from the prior year quarter.

Underlying results in Personal Insurance were impacted by auto loss frequency returning to more normal levels as miles driven has increased, as well as elevated severity in Auto and Property. Against this challenging backdrop of environmental headwinds, PI results for the quarter were nonetheless solid, with a 95.3% all-in combined ratio.

Turning to investments, our high-quality investment portfolio generated net investment income of $539 million after tax for the quarter, reflecting reliable results from our fixed income portfolio and strong returns from our non-fixed income portfolio. As you'll hear from Dan shortly, the recent rise in interest rates positively impacts our outlook for fixed income NII.

Our excellent operating results, together with our solid balance sheet, enabled us to grow adjusted book value per share by 11% over the past year, and that's after making important investments in our business and returning excess capital to shareholders.

During the quarter, we returned $773 million of excess capital to our shareholders, including nearly $560 million of share repurchases.

In light of our strong financial position and confidence in the outlook for our business, I'm pleased to share that our Board of Directors declared a 6% increase in our quarterly cash dividend to $0.93 per share, marking 18 consecutive years of dividend increases, with a compound annual growth rate of 9% over that period.

Turning to the top line, thanks to excellent execution by our colleagues in the field and the strong franchise value we offer to our customers and distribution partners, we grew net written premiums by 11% this quarter to a record $8.4 billion. Each of our three segments made strong contributions.

In Business Insurance, renewal premium change was 9.1%, remaining near all-time highs. At the same time, retention of 87% was an all-time high. We have a very high-quality book of business and keeping it is a priority. Also, as we've shared previously, strong retentions are a sign of a rational and stable pricing market. Underneath the headline numbers, execution at a segmented level was excellent, with higher retentions of our best business and more rate in those segments that need it. New business levels were also strong, up about 17% over the prior year quarter. All-in, BI net written premiums grew 9%.

In Bond & Specialty Insurance, net written premiums increased by 22%, driven by strong production in both Management Liability and Surety. In Management Liability, renewal premium change was up 12% while retention remained high, and new business was up 12%. In Surety, production was terrific, with net written premiums up 29%.

Notwithstanding some severity pressure from the inflationary environment, we're pleased to see continued written margin expansion in both of our commercial businesses, which, of course, will earn-in over time.

In Personal Insurance, net written premiums increased by 12%. Renewal premium change increased in both Auto and Homeowners as we execute to improve margins. As we expected, retention and new business growth moderated a little bit in response.

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

Notwithstanding our terrific results and an economy that, in many respects, feels pretty good at the moment, there is a fair amount to pay attention to in terms of the macroeconomic outlook for the world in general and our industry in particular. There's a wide range of views on the outlook for economic growth, and headline inflation is at a 40-year high. Geopolitical risk is at a decade high as war rages in Eastern Europe, tensions rise elsewhere, and the world nationalizes, reversing a trend of globalization.

Between the plaintiffs' bar, regulatory uncertainty, and weather severity, loss costs are as challenging as ever to predict. The global pandemic reminds us of the risk of unknown unknowns and the one thing we know for sure is that the pace of technological change is accelerating.

Travelers is built for this environment.

For starters, our culture of unmatched underwriting and investment discipline positions us for nearly any environment. That's been the foundation of our success through the 2008 financial crisis, the most severe natural and man-made catastrophes like 9/11 and Hurricane Katrina, a major inflection liability loss cost trends, the pandemic, and now the war in Ukraine.

Through all of the twists and turns, foreseeable and otherwise, we've consistently delivered industry-leading returns at industry low volatility. We didn't exactly predict any of those events but managing our business for long-term success by carefully balancing risk and reward on both sides of the balance sheet positioned us to successfully manage through all of them.

In terms of the economic outlook, if the economy continues to grow, we'll benefit from higher insured exposures, as you've seen in our results over the past few quarters. If we head into a recession, we're very well positioned, having made significant progress at improving productivity and efficiency in recent years.

In terms of higher inflation, there are several things to keep in mind. First, with respect to our fixed income portfolio, we would expect to benefit from higher net investment income, as higher inflation is typically accompanied by higher interest rates.

Second, on the underwriting side, we have a favorable business mix.

Our domestic Commercial GL and Workers' Comp lines account for about a quarter of our premiums. Both have an audit mechanism for retroactive premium adjustment. And as we've discussed, higher exposures, particularly from wages and sales, contribute to improved margins.

The short tail Personal Insurance lines and commercial property account for almost half of our premiums. In short tail lines, we can identify and price for the impact of inflation reasonably quickly, and the reserves on the balance sheet are significantly less exposed to changes in loss inflation.

Finally, we take into account the inflationary environment and the related uncertainties when we establish our loss picks and set our balance sheet reserves. When assessing inflation, we're generally cautious, especially during periods of elevated uncertainty.

We're also well positioned in terms of geopolitical risk. We're primarily U.S. based, with more than 95% of our premiums coming from North America, and we have a focused international footprint and strong partnerships that provide us with the ability to place our customers' business all over the world. Consequently, our business is, to a significant degree, insulated from the heightened geopolitical risk environment. With our leading franchise in the U.S., we have the pole position in the largest, most advanced, and most stable economy in the world.

Given the size of the U.S. economy, even a modest rate of growth generates substantial growth in dollar terms, and therefore substantial growth opportunities for Travelers. With our footprint, we have opportunities to continue growing through geographies, products, classes of business, and distribution partners that we've known and understood for decades. And given our concentration as a primary insurer in admitted markets, there are meaningful barriers to entry.

Importantly, within the largest insurance market in the world, our business also benefits from significant diversification. We offer nine major lines of insurance to personal and commercial customers. Our portfolio is balanced across these lines of business and further diversified across regions, by distribution partner, and by class and customer size.

In this business, the one constant is that loss costs are going to change. What's important is having the ability to quickly identify and react to the changes – and we do.

We have an advantage in terms of the quantity and quality of our data and the sophistication of our analytics. We've spent decades fostering the culture that knows how to balance the art and science of underwriting. We have a strong orientation towards risk-adjusted returns, and we have an incredibly tight feedback loop among our underwriting, claim, and actuarial disciplines. All of that contributed to our early recognition of social inflation, positioning us to respond early in terms of underwriting and claims handling strategies.

We've been similarly forward leaning in developing underwriting and claim strategies to address weather severity. As we've discussed a few times, over the last five years we've outperformed our market share in terms of CAT losses.

Another thing that's crystal clear is the rapid pace of change in the world. While the current conditions will require us to be laser focused on the here and now – and we are – the dramatic pace of change, together with our scale, industry leadership, deep domain expertise, and talent advantage, presents us with the opportunity to lead in transforming the way business is done.

We have a well-defined innovation strategy and have demonstrated success over the past half-dozen years or so in innovating with desired outcomes: growth, industry leading returns, and industry low volatility.

In short, we feel very well positioned for continued success no matter what environment comes our way. In the meantime, we're innovating on top of a foundation of excellence to transform our business through competitive advantages that are relevant, differentiating and difficult to replicate.

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

Dan Frey
Thank you, Alan.

Core income for the first quarter was $1.04 billion, up from $699 million in the prior year quarter and core return on equity was 15.5%. The increase in core income resulted primarily from the lower level of catastrophe losses, partially offset by a lower level of favorable prior year reserve development and strong, but lower returns in our non-fixed income portfolio. Underlying underwriting income was strong in both periods.

Our first quarter results include $160 million of pre-tax cat losses, much lower than last year's record high first quarter of $835 million pre-tax. Our after-tax underlying underwriting gain of $580 million was consistent with the prior year quarter, reflecting higher levels of earned premium and an underlying combined ratio of 91.2%.

Improvements in the underlying combined ratio in both Business Insurance and Bond & Specialty were more than offset by an increase in the underlying combined ratio in Personal Insurance.

Greg, Jeff and Michael will provide more detail on each segment's results in a few minutes.

The first quarter expense ratio improved in all three segments, with the consolidated expense ratio of 29% nearly a full point below last year's 29.9%. We continue to make significant investments in strategic initiatives, while the combination of a strategic focus on expense discipline and strong top line growth delivered a lower expense ratio.

As we indicated in our fourth quarter earnings call, there will inevitably be some variation in any given quarter. We're still planning for a full year expense ratio for 2022 of around 29.5% and we're on a path towards a full year expense ratio of around 29% in the next year or two.

Turning to prior year reserve development, we had total net favorable development of $153 million pre-tax in the first quarter. In Business Insurance, net favorable PYD of $113 million was driven by better-than-expected loss experience in Workers' Comp, and also includes an environmental charge of $45 million. In Bond & Specialty, net favorable PYD of $35 million was driven by better-than-expected results in the Surety book. Personal Insurance experienced $5 million of net favorable PYD, with modest activity in both Auto and Home.

After-tax net investment income decreased by 9% from the prior year quarter to $539 million. Returns in our non-fixed income portfolio were strong but, as expected, were less favorable than we experienced in last year's quarter. Fixed maturity NII was higher than in the prior year quarter as the benefit of higher invested assets more than offset the impact of lower fixed income yields.

With the recent increase in interest rates, we are raising our outlook for fixed income NII, including earnings from short-term securities, to approximately $440 million after-tax in the second quarter, growing to approximately $460 million in the third quarter and then to $480 million in the fourth quarter. Remember, only about 9% of the portfolio turns over each year, so the higher new money rates will take a while to fully impact run rate NII.

Recall that results for our private equities, hedge funds, and real estate partnerships are generally reported to us on a one quarter lag. While not perfectly correlated, our non-fixed income returns directionally follow the broader equity markets, which were generally down during the first quarter. Accordingly, we expect that to be reflected in our non-fixed income results next quarter.

Regarding reinsurance, as discussed during our fourth quarter results call, we renewed our underlying property aggregate catastrophe XOL treaty for 2022, providing aggregate coverage of $225 million, part of $500 million of losses above an aggregate retention of $2 billion. Through March 31, we've accumulated $175 million of qualifying losses toward the aggregate retention.

Our effective tax rate for the first quarter benefited from the favorable completion of an income tax audit for 2017 and 2018, which resulted in the release of $47 million of tax accruals related to those years.

Turning to capital management, operating cash flows for the quarter of $1.3 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 $1.5 billion.

As interest rates increased and spreads widened during the quarter, we moved from a net unrealized investment gain of $2.4 billion after-tax at year-end to a net unrealized investment loss of $1.4 billion after-tax at March 31.

Remember, the changes in unrealized investment gains and losses do not impact how we manage our investment portfolio. We generally hold fixed income investments to maturity. The quality of our fixed income portfolio remains very high and changes in unrealized gains and losses have little or no impact on our statutory surplus or regulatory capital requirements.

Adjusted book value per share, which excludes unrealized investment gains and losses, was $112.19 at quarter end, up 2% from year-end and up 11% from a year ago.

We returned $773 million of capital to our shareholders this quarter, comprising share repurchases of $559 million and dividends of $214 million. And as Alan mentioned earlier, our board authorized a 6% increase in the quarterly dividend to $0.93 per share.

Sticking with the topic of capital management, you are likely aware that Standard & Poor's has proposed changes to its capital adequacy model. Without final guidance and the actual proposed models from S&P, it would be premature to draw a conclusion as to the potential impact.

What I can say is that, as always, we are most interested in our own view of the appropriate level of capital to ensure our financial resilience.

As we have consistently demonstrated, including with our excellent results in 2021 and the first quarter of 2022, our disciplined approach to risk selection, asset management, prudent reserving, and thoughtful capital management come together to deliver profitable growth while ensuring that we have the financial strength to navigate even the most challenging of circumstances.

While we believe it's important to remain very well-capitalized and continued growth in the business will require higher levels of capital going forward, we will not maintain a level of capital beyond what we consider to be appropriate simply to obtain a certain rating level.

Finally, as related to the hostilities in Ukraine, we don't have any direct exposure to Ukraine or the Russian Federation in our investment portfolio, and given the current scope of the hostilities, our insurance exposures in the impacted areas are not significant.

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

Greg Toczydlowski
Thanks, Dan.

Business Insurance is off to a terrific start in 2022, with an exceptionally strong first quarter. Segment income of $669 million was well over double the first quarter of 2021, driven by lower catastrophes and higher underlying underwriting income.

The quarter's underlying combined ratio of 91.8% was almost 2 points better than the first quarter of 2021. The loss ratio improved by about a point, driven by higher earned pricing despite elevated severity, reflecting the inflationary environment. The expense ratio also improved by about a point, resulting from the combination of the leverage from higher earned premiums and the benefits of our strategic focus on productivity and efficiency.

Net written premiums increased 9% to an all-time quarterly high of $4.5 billion, benefiting from historically high renewal premium change and retention as well as an increase in new business. All lines of business were up over the prior year quarter.

Turning to domestic production for the quarter, renewal premium change of 9.1% included renewal rate change of 4.4% and an all-time high for exposure growth of 4.9%, reflecting continued improvement in our customers' outlook for their businesses. Retention of 87% was also a record high. And finally, new business of $544 million was up 17% from the first quarter of last year, driven by our success with large accounts and Middle Market as well as continued success with our innovative BOP 2.0 product in Select.

We're pleased with these production results and our superior execution in the marketplace. Given our high-quality book, as well as several years of meaningful rate increases and improvements in terms and conditions, we're thrilled to have produced record retention levels. The rate gains we achieved in the quarter reflect deliberate execution, given the significant improvements in profitability across the portfolio and the benefit of higher exposures.

Rate in Workers' Comp was a little more negative than we've seen over the past year, which is consistent with the strong profitability of the line. Having said that, overall renewal premium change in the Workers' Comp line was well into positive territory, as exposure growth was at the highest level we've seen since 2006. Given the headwinds and uncertainty in the current environment, we will continue to execute our granular pricing, careful management of deductibles, attachment points, limits, sub-limits, and exclusions to achieve profitable growth.

As for the individual businesses:

In Select, renewal premium change was a strong 9%, while retention of 83% ticked up a point sequentially and was up 4 points from the prior year quarter. New business was up 16% from the prior year quarter, driven by the continued success of our BOP 2.0 product, as I mentioned earlier. With improved margins in this business, we're pleased with the higher retention levels and continued momentum in new business growth.

In Middle Market, renewal premium change remained strong at 8.8%, while retention reached an all-time high of 89%. New business was up 20% from the prior year quarter, driven predominantly by our success with large accounts, as I mentioned earlier.

To sum up, Business Insurance had a great start to the year. We continue to improve the profitability of the book while investing in capabilities to enhance our position as the undeniable choice for the customer and an indispensable partner for our agents and brokers.

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

Jeff Klenk
Thanks, Greg.

Bond & Specialty started the year with a terrific quarter on both the top and bottom lines. Segment income was $217 million, up 58% from the prior year quarter, driven by higher underlying underwriting income, lower cat losses, and a higher level of net favorable prior year reserve development.

The underlying combined ratio of 82.2% improved by 2 points from the prior year quarter, reflecting the benefit of earned pricing that exceeded loss cost trends. Also, the prior year quarter had about a point or so from some large Cyber loss activity that didn't recur.

Turning to the top line, net written premiums grew an outstanding 22% in the quarter, with strong contributions from all our businesses. In Domestic Management Liability, renewal premium change remained in double digits and improved by a little more than a point from the fourth quarter.

Retention remained strong despite the impact of our ongoing strategy to non-renew Cyber accounts that do not meet our minimum cybersecurity protocols, including multi-factor authentication. That change in our underwriting is having a meaningfully favorable impact on Cyber claim frequency. We expect to complete the execution of this strategy across our renewal portfolio by the end of the second quarter.

Notably, Domestic Management Liability new business increased 12% from the prior year quarter.

We were also pleased with the strong production this quarter from our Domestic Surety and International businesses. So, both top and bottom line results for Bond & Specialty were terrific this quarter, reflecting both excellent execution across our business and the value of our market-leading products and services to our customers and distribution partners.

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

Michael Klein
Thanks, Jeff, and good morning, everyone.

Personal Insurance began 2022 with solid profitability in the context of an ongoing challenging environment. First quarter segment income was $225 million, down $89 million from the prior year quarter as lower underlying underwriting margins and lower favorable prior year reserve development were partially offset by lower catastrophes.

The total combined ratio was 95.3% for the first quarter with an underlying combined ratio of 92.8%, which was 7.4 points higher than the prior year quarter. This increase was driven by higher losses in both Automobile and Homeowners, which I will discuss in further detail in a moment. Partially offsetting this increase was a reduction in our underwriting expense ratio, which continues to reflect the benefit from higher earned premiums.

Net written premiums for the quarter were up 12% and included higher renewal premium changes in both Automobile and Homeowners.

In Automobile, the first quarter combined ratio was 99.3%, an increase of 17.5 points compared to a prior year quarter that reflected low loss activities due to the pandemic. In the current year quarter, Automobile loss levels increased due to a combination of claim frequency returning to more normal levels and higher loss severity as vehicle replacement and repair costs remained elevated.

During the first quarter, we increased rates in 23 states in response, at an average rate of approximately 7%. Rate actions in additional states are scheduled to take effect in the coming months and quarters. As we indicated last quarter, although it will take time for these rate actions to earn-in to our results, we remain confident we're on track to address the near-term profit challenges.

In Homeowners and Other, the first quarter combined ratio improved by 8 points from the prior year quarter to 91.2%, primarily driven by 17 points of lower catastrophes. As Dan mentioned, the prior year quarter had elevated catastrophe losses from winter storms and freeze events. Results for last year's first quarter also included higher net favorable prior year reserve development.

The underlying combined ratio of 86.9% was 3 points higher than the prior year quarter, as we continued to see higher severity related to a combination of labor and material price increases. We will continue to seek increased pricing in response.

As a reminder, for Homeowners, we expect the upcoming second quarter to be the seasonally highest quarter for weather-related loss levels.

Turning to production, we were very pleased to deliver another strong quarter in both Automobile and Homeowners.

For Domestic Automobile, retention was strong and, as we expected, down slightly to 84%, as renewal premium change increased by about 2 points from the prior quarter to 3.1%. We expect renewal premium changes will continue to accelerate in each of the next three quarters and approach double digits by the end of the year.

In Domestic Homeowners and Other, retention was 84% and renewal premium change was 12.3%. The increase in RPC was primarily due to increased insured values in response to the inflationary environment.

Before I wrap up, I'd like to take a minute to address the important issue of increasing motor vehicle fatalities. More than 46,000 people lost their lives on U.S. roads in 2021, the highest total in more than 30 years – a grim reminder of the human cost of the increasing frequency and severity of auto accidents. Most research points to higher speeds and increased distraction as the most prominent drivers of the rise in fatalities.

Recent data published by Cambridge Mobile Telematics, the partner that helps power our IntelliDrive program, showed that phone related distractions in February of this year increased to the highest level they have ever recorded. Our own IntelliDrive data aligns with this result. Further, the most recent edition of the Travelers Risk Index continues to show evidence of higher levels of distracted driving among those surveyed.

In light of these observations and given April is Distracted Driving Awareness Month, I wanted to highlight a couple of ways Travelers is working to make a difference. In partnership with the Travelers Institute, we continue to support our Every Second Matters initiative, which empowers drivers, passengers, cyclists, and pedestrians to speak up, set positive examples, and play an active role in changing roadway behaviors to help prevent injuries and save lives.
Additionally, the inclusion of distraction as a rating variable in our IntelliDrive offering shows some promise in terms of changing behavior. We've seen a reduction in distracted driving events for drivers enrolled since introducing this variable. Of course, we all play a role in keeping our roads as safe as possible. These are just a couple of examples of how we're raising awareness and trying to make a difference.

Before I turn the call back over to Abbe, I'd like to welcome the Trov team to Travelers. We were pleased to be able to acquire technology assets and hire a team of talented people from Trov earlier this year. We look forward to applying their expertise and capabilities to meet our customers where they are, give them what they need, and serve them how they want.

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

Abbe Goldstein
Thanks, Michael, and operator, we are ready to open up for Q&A.

QUESTION AND ANSWER

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

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

Michael Phillips
Thank you. Good morning, everybody. Alan, I guess just first high-level question for you just about the cycle. It's obviously a different cycle just in terms of its longevity for a number of reasons. But we're pretty clearly at the tail end of that, and I think we're at the tail end of that at a time when there's pretty specific nuances that could possibly make somebody concerned that loss trends accelerate faster than they otherwise would at the tail end of a cycle – things you mentioned in your opening comments, demand surge, voluntary policy, demand, demographic shifts, inflation. That list goes on and on and it seems to be added to on a daily basis.

So, the question we get, and I know you've heard this question before, is will those things that are unique to the current situation make for pricing to tick back up again, if you will? And it's not, I guess, if your book of business, it's different. So, maybe you could talk to, are you concerned about that? Are you surprised by that? Any concerns at all that BI pricing is indeed continuing to accelerate at a time when there's lots of risk out there for loss trends?

Alan Schnitzer
Yes, thanks for the question and let me paint a picture for you. The pricing environment – despite what you're focused on, which I suspect is the rate number – the pricing environment is actually quite strong. And you see that in BI and BSI, with overall pricing near record levels. Earned and written continues to exceed trends. The margins, on a written basis, are expanding. When we look at the breadth of pricing gains, very good. The significant majority of our accounts continue to get positive rate. And you look at retentions at near all-time highs, that tells you that the overall market is pretty stable and what we're doing is deliberate, right? You look at that retention, and that tells you what we're doing is deliberate.

If we weren't able to achieve what we wanted to achieve, retention would be lower. You've got to add to that the pretty good progress we've made over actually, at this point, many years of very, very strong pricing gain. So, you've got improving margins and so, that's sort of where we are right now.

So, having said that, as you point out, there are some clouds out there that we are very well aware of. I think the industry is very well aware of them. And as we price the marginal product, we're looking at what the expiring rate is, we're looking at what loss trend is, we're looking at other factors that impact margins, and then we're putting a price on the product. We're not troubled by anything in this production environment that you see or the outlook, frankly.

Michael Phillips
Thank you, Alan, appreciate that. Maybe a little bit more drilled down question for my second one, and probably for Michael. On Personal Auto, a lot of attention, obviously, on severity for the physical damage side, but medical inflation has been one of the best performers in the CPI index, and yet there's concerns it might tick up, but it hasn't yet. And I think bodily injury liability is trending pretty high.

Can you talk about that disconnect and what you're seeing in your bodily injury liability book?

Michael Klein
Sure, Michael. Great question and good morning. I would say your assessment on medical inflation is right. I mean, it's ticked up slightly but from a low level, so something we pay attention to but not a particular concern. You know, it is interesting, we haven't spent a lot of time talking about bodily injury liability trend in PI, not because bodily injury liability trend isn't high, but because it's not really high in excess of our expectation.

We've got a relatively, I'll say, high view of what bodily injury severity is. I think our views on it are consistent across commercial and personal lines. But again, we haven't been talking about it because it's not the item that's been the surprise, right? The vehicle severity items have been the ones that had the unexpected inflection point in the middle part of last year and remain elevated.

Michael Phillips
Does that mean, Michael, that your bodily injury liability is what we're seeing from the industry? It's above 10%?

Michael Klein
I wouldn't put a specific number on it maybe, Michael, but I would say we're in that neighborhood.

Michael Phillips
Thank you.

Operator
Your next question comes from the line of Ryan Tunis with Autonomous Research.

Ryan Tunis
Hey, thanks. Good morning. A question on Business Insurance margins, we improved year-over-year, and I realize the past couple quarters we've been benefiting from some favorable non-cat weather and also some frequency related items in things like Commercial Auto.

Could you paint us a picture of, to what extent did those come back this quarter into the results that we saw?

Dan Frey
Hey, Ryan, it's Dan. Yes, so not real big movements there. I think Greg gave you what's a pretty straightforward story to the quarter, about a point better in the loss ratio really tied to earned pricing being ahead of what we're seeing in the loss environment and about a point of improvement in the expense ratio.

To your point, there are other things that will impact quarters differently and there's some variability from quarter to quarter. This quarter, the net of those things, when we compare to what we saw in the first quarter of a year ago, is just about a wash.

Ryan Tunis
Got it and a follow up on the Bond & Specialty side, just trying to get a feel for the re-underwriting of the Cyber book. What type of tailwind that could be for underwriting margins? Can you just give us an idea of maybe what percentage of the Management Liability book has a Cyber component?

Jeff Klenk
Sure. Thanks for the question. This is Jeff Klenk. I think, first and foremost, I'd remind you that we do have a significant reinsurance treaty on the book of business. And so, that's something that's important to remember. We do feel really confident that the focus on the cybersecurity protocols is having an impact. It's still early for us, right, because we started it effective in June, but we're seeing it on the frequency. And so, more to come, but we definitely feel good about the result we're seeing so far.

Dan Frey
Hey, Ryan, it's Dan. I'd just add, and I think you were getting to it in the tail end of your question. Cyber, is not a huge percentage of the premium base within Bond & Specialty. It's an important line of business that everybody's paying attention to. It's not a huge component of the book.

Ryan Tunis
Thanks, Dan.

Operator
Your next question comes from the line of Greg Peters with Raymond James.

Greg Peters
Good morning, everyone. I would like to focus in on the expense ratio and I know you've spent some time recently with investors talking about some initiatives. Dan, in your comments, and I don't want to put words in your mouth, but it seemed like you are suggesting that the full-year expense ratio might move to around 29.5% and then, a year out, maybe 29%, assuming that I remember that correctly.

I also noted in Michael's comments that the expense ratio benefited from higher earned premium. So, I'm trying to bridge the gap between the expense ratio improvement that's coming from the higher than normal premium volumes versus what the true underlying improvement in expenses is.

Dan Frey
Yes, Greg, it's Dan. I'm not sure that I would try to break it into pieces. We're managing to a total return. And within that, we're trying to manage to what we are comfortable with from an expense ratio perspective. We made a lot of progress in improving the expense ratio from where we were five or six years ago. We said when it got down to the 30% level a couple years ago, we were pretty comfortable somewhere around 30%.

Coming out of last year, we signaled that we thought this year would be around 29.5% and all I was really trying to give you in my comments was that's still what we're planning for this year. I don't know exactly where it's going to come out, but that's the neighborhood of where we would expect it to come out, a little better than that in the first quarter of the year. That's partially due to the fact that premium volumes were little stronger than we would've expected. It's also partially due to the fact that there's some timing from quarter to quarter in terms of what's going to come through expenses.

But we are managing the strategic investments we're making to move the business forward, balanced with expense discipline to make sure that we're continuing to improve productivity and efficiency, also balanced with what our view is of where the top line's going. So, we're looking at all three of those things together and saying we were in the 32s a few years ago. We got down to 30%. We told you this year we think that'll go down to about 29.5% and then the next step will be to go down to 29%, but it's really balancing all those three things together.

Greg Peters
Got it, makes sense and the second question I have would be around the commentary on investment income. With the upward movement in interest rates, just trying to understand, within the fixed income component of your portfolio, where the new money yields are relative to expiring. And I note that you did raise your investment income guidance for the balance of the year so, trying to understand some of the moving pieces behind that.

Dan Frey
Sure, Greg. It's a good question because this is the quarter in which we actually flip from new money rates being below what's embedded in the portfolio, as has been the case for the past several years – and you see that in the fact that the portfolio is now in an unrealized loss position as opposed to an unrealized gain position.

But exiting the quarter, we think that new money yields are somewhere between 50 and 70 basis points higher than what's running off. As the portfolio slowly turns over, that is contributing to our increased view compared to the outlook that we had provided at year-end in terms of what will happen to fixed income NII increasing now as we get to the latter part of 2022.

Greg Peters
Got it. Thank you for the answers.

Dan Frey
Thank you.

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

Elyse Greenspan
Thanks. Good morning. My first question, a couple times you guys mentioned elevated severity in this inflationary environment. So, I was just curious, within Business Insurance, you had been running at a 5% loss trend assumption. Where did you take that to this quarter?

Dan Frey
So, Elyse, it's Dan. I'll take that one. And I'll say that we're thinking about, especially in this environment with exposure near all-time highs, you've got to compare what we are doing on the total pricing side – including the piece of exposure that behaves like rate – with what's happening in the overall loss environment.
As you heard in Greg's comments and in Alan's comments, we have reflected a higher level of severity tied to inflation in our view of what we're booking for losses in Business Insurance. That's largely tied to higher levels of inflation.

Higher levels of inflation also bring with it an offsetting benefit as you think about what we'll earn-in on a go-forward basis from higher exposures so, things like higher wages paid to the same worker – so we're going to get a higher exposure and a higher premium on the same risk – as opposed to increases in exposure related to things like more workers where we're collecting more premium, but there's more risk because you got additional workers.

So, our view of the loss environment is higher. Whether you put that in loss trend or whether you leave your loss trend unchanged and book a medium-term over-the-top severity on top mechanically, you're going to get to the same answer. If you believe that the inflationary impact is going to be somewhat persistent, at least over the medium-term, you'd put it in loss trends. That's reflected in the numbers that Greg talked about in terms of a point of margin expansion in the quarter and in the commentary that, on a written basis with the production results we saw this quarter, we expect margins to continue to expand going forward.

Elyse Greenspan
I get that it impacts both sides of the equation. It seems like it probably went up maybe to 5.5%, maybe even 6%. Can you provide the magnitude of the increase or would you rather just talk through the components of the positive and the negative aspects of exposure and loss trend?

Dan Frey
I think directionally that's the way to think about it, Elyse. But keep in mind, as you said, there is both sides of the equation and we're going to and are seeing the benefit on the exposure piece as well.

Elyse Greenspan
And then Alan and Greg, both of you also talked about strong retention just showing the stability of the market, and you saw pretty good growth in all of your businesses. But sticking with BI, if we're talking about elevated loss trend, pricing getting close to that loss trend, can you just help us think through why now seems like a good time to show higher premium growth?

Alan Schnitzer
Yes, Elyse, just as a reminder, we've had this conversation over the years. We don't go out and hold up a sign that says grow or shrink. We execute one account at a time and when there's an account out there on the pricing terms we want to put in the portfolio, we do.

And this quarter, Greg and his team did a fantastic job and the result of that, again, the accounts we want on the pricing terms that we want, resulted in that growth. So, there's no sort of overall coaching message, other than go out and execute the next account. Greg, you want to…

Greg Toczydlowski
No, I think that's exactly right. I think through this cycle, we've had the benefit of having a high-quality book of business, so we haven't really had to remediate broadly from an underwriting point of view and it's been funding for some of these perils that we've talked about. So, we're very pleased with, when we add up all the numbers and see the execution at a very granular level from our most profitable accounts to our least profitable, what that retention slope looks like and we're very comfortable with that.

Dan Frey
And keep in mind, Elyse, we're talking about very strong margins at the time and saying even at this level, we continue to expect that we're expanding margins. I mean, these are some of the best underlying combined ratios that Business Insurance has seen in the last 14 or 15 years. So, to have retention at all-time highs when margins are as strong as they are feels great.

Elyse Greenspan
Thanks for the color.

Dan Frey
Thank you.

Operator
Your next question comes from line of Yaron Kinar with Jefferies.

Yaron Kinar
Good morning, a couple of questions on ROEs. I think you had a 13% operating ROE last year. You have 3x investment leverage. So, if you got another point of interest rate increases coming into the portfolio, you'd get another 2 points of ROE. So, you're essentially at the ROE target, I think, for the cycle with higher interest rates. So, with that in mind, would you kind of expect to take the foot off the rate and terms and conditions at all to achieve greater growth or do you think there is more to do on the underwriting side?

Alan Schnitzer
Well, first of all, I think it's hard to talk with such a broad brush. I assume you're directing your comments to BI. It's a $16 billion book of business with lots of different products, so it's hard to paint with a broad brush.

As you heard, this quarter written margins continued to expand. That'll earn-in and we continue to execute from here to continue to improve margins. If we're going to try to be mid-teens over the cycle, that means at some point, ideally, you'd get above it.

Having said that, we've got a 10-year Treasury that's on the move, but it's still not near sort of historical norms. Even at 2.8 or 2.9, just by historical standards, relatively low. So, that does impact our hurdle rate and what we're trying to achieve.

And then the last thing I'd say is, from here, the price change is going to increase in some lines and some businesses, it's going to go sideways in some, and it's going to go down in others. So, that's just a function of granular execution.

Yaron Kinar
That's helpful and then my second question on returns, I think the stock's currently at 1.6 book ex-AOCI, which would suggest that you need a roughly 16% ROE to break even on buybacks here. So, with that, maybe you can talk a little bit about your preferred avenue of capital deployment at this time. Is it to really achieve more growth as margins are expanding or do you expect to do more buybacks?

Alan Schnitzer
Let me start, Dan. So, Yaron, the way we think about it, and I think that it's important to go through the whole chain here, we generate more capital than we need that we can profitably deploy back into our business and so, when we have more capital that we need, we're going to give it back and that is a philosophical principle that we've operated under for a pretty long time. And so, we've got a couple of options on how we're going to give it back and we know we've got a certain segment of our shareholder population that's looking for a dividend yield, and we're going to make sure that we're paying something that's competitive.

Then beyond that, we're going to buy our stock back. And we're not investing in our stock. We're not trying to time the market. We're trying to right-size capital. And we've bought back plenty of stock at these levels over the years.

We started our stock buyback program in 2006, I think, and the average price per share at which we've bought back the stock is about $70.00.

So, I really think you've got to think about it in that broader context. It's been an exercise in capital management for us, but it's been a fantastic investment over the years. I think when you look back at this moment in time years from now, you're going to say the same thing.

Dan Frey
Yes, I'd echo those exact same thoughts.

Yaron Kinar
I appreciate the color. Thank you.

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

Tracy Benguigui
Good morning. Just one question for me, it's a follow-up to Dan's comments about holding assets to maturity, reminding us, on a statutory perspective, that unrealized losses on investments doesn't really matter for regulatory capital purposes. I wanted to ask if the same is true on your internal economic capital model and how you think about capital allocation.

Dan Frey
Yes, pretty much, Tracy, which is one of the reasons why, when we talk about book value per share, we almost always talk about adjusted book value per share. The unrealized gain or loss position in the portfolio, we think of as we have duration in the portfolio, interest rates are going to move, you're going to have an unrealized gain or loss. It's not really driving the economics of how we think about the capital position of the company.

Tracy Benguigui
Thanks. That's all for me.

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

Meyer Shields
Thanks. I was hoping to start with a question for Michael. I understand that we're ramping up rate increases and they're going to earn-in going forward for Personal Auto. But I was surprised with the level of new business growth and retention and I'm wondering whether the strategy now is to write a fair amount of business as competitors dial down advertising and count on overall market rates rising and therefore the ability to retain some of that business.

In other words, are you writing business below target margins right now in Auto with the expectation that there'll be upticks over time?

Michael Klein
Yes. Thanks, Meyer. It's Michael. I would say the strategy is to get the rate we need to improve the profitability, and the growth that you're seeing is a byproduct of how our rate shows up in the market relative to that of our competitors.

And actually, when you look underneath it on a state-by-state basis, you actually see quote volumes moving around based on industry rate level – think more industry rate being taken in a state drives quotes into the market. You also see our close rate varying in one state versus another based on the rate level that we've taken and how that compares to our competitors.

So, it's really less about looking for growth on a tactical basis. It's really all about looking at the rate indications, recognizing that we need to make progress on pricing, and filing the indications and the rate requests with the state and getting them in as quickly as we can. The growth you're seeing is a byproduct.

I would say, to your point, retention dipped a bit, from 85% to 84%, again, relatively consistent with what we would have anticipated given the change in RPC. And while new business production dollars were up 4%, which is the same number they were up in the fourth quarter of 2021, more of that 4% is now represented by price change than was in the prior. So, there's some slight deceleration in the underlying growth and we anticipate, as we continue to push for rate, we'll probably see some more that.

Meyer Shields
That makes sense. A bigger picture question, so maybe for Alan, unlike last quarter, there was no mention, at least that I could catch, of the pandemic having any impact on the underlying loss ratio. Is that a correct read? In other words, that particular component doesn't seem to be relevant anymore?

Alan Schnitzer
I would say, Meyer, and I'm looking at Dan, very small.

Dan Frey
Yes, and it also gets, Meyer, more and more difficult. So, in terms of did we have any directly COVID related charges, it was never a big story for us in the first place and it's certainly not a big story now.

Then in terms of the underlying loss environment, things that were indirectly impacted by COVID, it just gets sort of harder and harder to parse out what is a change in COVID and what is just the new normal in terms of whether its people working from home or things like that.

I think you're reading is right, there's not a big story in the quarter related to COVID.

Meyer Shields
Okay, perfect. Thanks so much.

Alan Schnitzer
Thank you.

Operator
Your next question comes from the line of Josh Shanker with Bank of America.
Josh Shanker
Thank you, a couple of questions. Can we speak to fourth quarter and first quarter? Obviously, there was a big change in the underlying loss ratio. I read through the Q as quickly as I could, it didn't seem like you're calling out anything unusual there. In making the sequential comparison, is there anything that you want to point out between the two quarters or maybe seasonal items we should think about?

Dan Frey
Josh, are you talking about on a consolidated basis or one of the segments in particular?

Josh Shanker
I'm sorry. Business Insurance, of course. Yes, Business Insurance.

Dan Frey
I think there is seasonality in different parts of the segments. Greg did call out in his fourth quarter comments property losses not related to cats were a little better than our expectations.

I think we've had this conversation, Josh, before. We really don't think about that sort of sequential quarter to quarter reconciliation. There are different things that occur in different quarters. So, I think the most apples-to-apples comparison, in our view, is Q1 versus Q1, and that's the way we do it.

Josh Shanker
That's fine and then on Workers' Compensation, obviously a big part of the favorable development in Business Insurance in the quarter, can we talk about what you're seeing in the segments or I should say the lines of business other than Workers' Comp on prior development and whatnot?

Dan Frey
Sure. So, in BI, the pieces I gave you, $113 million in total for the quarter for BI, the largest piece being Comp, that was $80 to $85. We had $45 million of a charge for environmental related to the older years.

So, that leaves you with the other things. So, the General Liability lines, a fair amount of favorability spread across many accident years; Property, a modest amount of favorability spread across many accident years; CMP, net favorability from a number of accident years; and the International business showed some favorable development in PYD as well.

None of those things were sort of individually significant, which is why I didn't call them out in my comments, but we saw favorable development in those lines as well.

Josh Shanker
So, it's fair to say universally favorable across all lines is the takeaway I would come with.

Dan Frey
The one line that I didn't mention was Auto and not because it was a huge outlier, but I don't think that the net result of Auto was much more than a wash within Business Insurance.

Josh Shanker
Well, it's still a very good result. Thank you very much.

Operator
Your next question comes from the line of Alex Scott with Goldman Sachs.

Alex Scott
Yes, good morning. First one I had was just to follow up on Cyber. I was interested in if you could provide any commentary on the war exclusions you have. I know this isn't a real big business for you, but I'd be interested in that, and any claims experience you're seeing so far from the Russia-Ukraine conflict, if at all.

Jeff Klenk
Thanks, Alex. This is Jeff Klenk. Relative to the second part of your question, no active experience relative to the current situation. There has been, obviously, a little more dialogue on this topic recently. Relative to our offering, we're comfortable with the Cyber offering's exclusionary language and have no immediate plans to change it. As always, we'll continue to monitor our policy language in the context of evolving risks, but thanks for the question.

Alex Scott
Got it. Thank you and maybe just one more follow-up on frequency. I think Josh and Ryan both asked about this a little bit, but any way you can quantify at all for us any frequency benefits that still remain for Workers' Comp and GL specifically in BI? I get that it was sort of a wash when you look at the items year-over-year comparison-wise, but when we think about it relative to the pre-pandemic. And appreciate it may or may not actually revert to those levels, but I'm just trying to gauge if there's still a benefit there we should we considering.

Dan Frey
To the degree that there's any, Alex, I think it's pretty small. The other thing that we've used to describe reserving in the uncertainty of the COVID environment and court closure environment is that we've tried to remain cautious. And so, I think we have tried to remain cautious. So, even though some of the data might still be indicating some modest benefits from frequency, we're making sure that we're booking losses to allow for what might come through either later or on the severity side. So, not really a big benefit coming through the quarter.

Greg Toczydlowski
Alex, I'd just add on the Workers' Comp comment, obviously as the economy starts opening up again, we would start to see some of the frequency normalization, which we have seen in the Workers' Comp line, but certainly at expectations, nothing above that, so right what we were expecting.

Alex Scott
Understood. Okay, thank you.

Operator
Your next question comes from the line of David Motemaden with Evercore ISI.

David Motemaden
Hi, thanks for squeezing me in. I had a question on Business Insurance and the commentary around written rate being above loss trend, and really trying to drill down just how much exposure is acting like rate. If I just compare the 4.4% renewal rate change in Business Insurance with the loss trend of call it 5% to 6%, it implies that, to expand margin, you would need around a point to point and a half of the exposure change that's acting as rate.

I'm just wondering, is this the right way to think about it roughly, just like a point of the 5 points of exposure change acting as rate?

Dan Frey
David, it's Dan. I think mathematically, if you just took a point in that equation, that would get you to somewhere around breakeven and we're telling you that we think, on a written basis, margins are still expanding.

I appreciate what everybody's trying to do. It's difficult to have a rule of thumb for how much exposure behaves like rate because, as I said in the answer to an earlier question, the things that are driving exposure can vary from period to period. Whether its inflation driven or units of risk driven, the lines of business mix changes from quarter to quarter and that impacts it.

I think the short answer I would say is, when we're looking at the level of exposure that we wrote in the first quarter, I think more than a point of that we think of as behaving like rate, but I really wouldn't try to put much finer a point on it than that.

Alan Schnitzer
The other thing I'll just add, David, is loss trend for this purpose is really a very blunt instrument. And that's one number, aggregating loss trend across, that we look at a very granular level. So, we just don't approach it at the sort of macro blunt instrument level that you do, which is I think why we're all sort of looking at each other wondering how to respond to that. I get you're just trying to get to some measure of cost of goods sold. It's just a blunt instrument and it's hard to do.

The other thing I'll say is loss trend, changes in long-term view of frequency and severity, that's just a mechanic for booking losses, and there are other mechanics for booking losses. And so, it's rarely the only thing impacting a quarter. So, I'd just caution you against looking at something that seems very simple and thinking that's the answer.

David Motemaden
Thanks. I appreciate that.

Alan Schnitzer
Thank you.

Operator
We currently have time for one final question. Your final question comes from the line of Brian Meredith with UBS.

Brian Meredith
Thanks for taking my question. Alan, I want to chat a little bit about Business Insurance a little more broadly speaking here. As we look at GDP in the U.S., as you look back, how closely correlated is exposure growth and RPC relative to GDP in the U.S.? Is there a lag effect? And then maybe take that also on loss trend, and what impact do you typically see economic growth or deceleration having on loss trend?

Alan Schnitzer
It's a really good point, a really good question. We do see exposure growth having a reasonably high – not one to one – but a reasonably high degree of correlation with GDP. So, I do think you're on to something there. Again, it's within a range, and there's some lag to it, and that's also sort of an overtime measure. I don't think you can look at GDP today, this week, this month, this quarter and say that's what exposure's going to be. You do need to look at it over time, and you generally get there.

When you talk about the impact of economic activity on losses, that's also going to vary by line, and it's hard to paint with a broad brush. I do think probably, just making an observation at a macro level, that there is a correlation between an economy heating up and loss trend going up. I think there's several lines that would contribute to that. But you do need to remember, again to the first point, is that as an economy heats up, you do get exposure growth that, to one degree or another, will offset that higher level of loss trend.

Brian Meredith
Makes sense and then my second question quickly here, you've talked a lot about the severity side in BI and inflation. What are you seeing as the court system opens up in the U.S.? Are you seeing kind of return to the old social inflation environment we were seeing back in 2018, 2019?

Alan Schnitzer
I will tell you we absolutely expect that. I don't think the court system is opening up yet. I mean, it's opening up and unwinding very slowly, and I think it's going to play out over a while. You'd think by now that it would be open and running at pre-pandemic levels, and it's just not. But our full expectation, Brian, is, consistent with your comment, we would expect to see that pre-pandemic environment in terms of social inflation.

Brian Meredith
Makes sense. Thank you.

Alan Schnitzer
Thank you.

Operator
Ms. Goldstein, I'll turn the call back over to you now for closing remarks.

CONCLUSION

Abbe Goldstein
Thank you all very much for joining us. We appreciate your time and as always, if there's any follow up, please feel free to reach out to Investor Relations and have a good day. Thank you.

Operator
This concludes today's conference call. Thank you for participating. 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," "views," "estimates" and similar expressions are used to identify these forward-looking statements. These statements include, among other things, the Company's statements about:

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•the impact of COVID-19 and related economic conditions;
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•strategic and operational initiatives to improve profitability and competitiveness;
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•the impact of developments in the tort environment; and
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Insurance-Related Risks

•high levels of catastrophe losses;
•actual claims may exceed the Company's claims and claim adjustment expense reserves, or the estimated level of claims and claim adjustment expense reserves may increase, including as a result of, among other things, changes in the legal/tort, regulatory and economic environments, including increased inflation;
•the Company's potential exposure to asbestos and environmental claims and related litigation;
•the Company is exposed to, and may face adverse developments involving, mass tort claims; and
•the effects of emerging claim and coverage issues on the Company's business are uncertain, and court decisions or legislative changes that take place after the Company issues its policies can result in an unexpected increase in the number of claims.

Financial, Economic and Credit Risks

•a period of financial market disruption or an economic downturn;
•the Company's investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses;
•the Company is exposed to credit risk related to reinsurance and structured settlements, and reinsurance coverage may not be available to the Company;
•the Company is exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that it has with third parties;
•a downgrade in the Company's claims-paying and financial strength ratings; and
•the Company's insurance subsidiaries may be unable to pay dividends to the Company's holding company in sufficient amounts.

Business and Operational Risks

•the ongoing impact of COVID-19 and related risks, including with respect to revenues, claims and claim adjustment expenses, general and administrative expenses, investments, inflation, adverse legislative and/or regulatory action, operational disruptions and heightened cyber security risks;
•the intense competition that the Company faces, including with respect to attracting and retaining employees, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which it operates;
•disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape;
•the Company's efforts to develop new products, expand in targeted markets, improve business processes and workflows or make acquisitions may not be successful and may create enhanced risks;
•the Company's pricing and capital models may provide materially different indications than actual results;
•loss of or significant restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of the Company's products; and
•the Company is subject to additional risks associated with its business outside the United States.

Technology and Intellectual Property Risks

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

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•changes in regulation, including higher tax rates; and
•the Company's compliance controls may not be effective.

In addition, the Company's share repurchase plans depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining 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, changes in tax law 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," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Forward Looking Statements" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on April 19, 2022 and in our most recent annual report on Form 10-K filed with the SEC on February 17, 2022, 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.