The Travelers Companies, Inc.

Second Quarter 2024 Results Teleconference

July 19, 2024, 9:00 a.m. ET

CORPORATE PARTICIPANTS

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Operator
Good morning, ladies and gentlemen. Welcome to the second quarter results teleconference for Travelers.

We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question-and-answer session.

As a reminder, this conference is being recorded on July 19, 2024. 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 second quarter 2024 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 the prepared remarks, and then we will take your questions.

Before I turn the call over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast presentation. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors.

These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements. Also in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investors section on our website.

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

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

We are pleased to have generated a strong bottom-line result in the quarter that included a record number of severe convective storms across the United States. Excellent underlying results, favorable net prior year reserve development and higher net investment income contributed to core income of $585 million or $2.51 per diluted share. Underlying underwriting income of $1.2 billion pretax was up 55% over the prior year quarter. This year's exceptional result was driven by record net earned premiums of $10.2 billion and a consolidated underlying combined ratio that improved 3.4 points to an excellent 87.7%.

Net earned premiums were higher in all three of our business segments. The underlying combined ratio in our Business Insurance segment was an excellent 89.2%, and the underlying combined ratio in our Bond & Specialty business improved 1.7 points to a very strong 86.1%. Looking at our two commercial segments together, the aggregate BI/BSI underlying combined ratio was an outstanding 88.7% for the quarter. The underlying combined ratio in Personal Insurance improved by nearly eight points to a terrific 86.3%.

Turning to the top line. We grew net written premiums by 8% to $11.1 billion in the quarter. Outstanding execution by our colleagues in the field across all three segments contributed to our top line success. We are very pleased to report terrific production results in our commercial segments, where, as you've heard, margins are attractive.

In Business Insurance, we grew net written premiums by 7% to more than $5.5 billion. Renewal premium change remained very strong at 10.1%, while retention remained high at 85%. The combination of strong pricing and retention reflects deliberate execution on our part and a marketplace that continues to be generally disciplined.

New business increased 9% to a record $732 million, a reflection of the fact that our customers and distribution partners value the products and services that we offer and the experiences that we provide.

In Bond & Specialty Insurance, we grew net written premiums by 8% to more than $1 billion, driven by very strong retention of 90% in our high-quality Management Liability business and excellent production in our market-leading Surety business, where we grew net written premiums by 11%.

At year-end 2023, we shared that across our two commercial segments, our E&S writings had reached $2.5 billion for the year, double the level from 2021. Year-to-date, we've grown E&S net written premiums by 16%. The margins continue to be quite attractive.

In Personal Insurance, continued strong pricing drove 9% growth in net written premiums, with growth of 10% in Auto and 8% in Home.

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

Turning to investments. Our high-quality investment portfolio continued to perform well, generating after-tax net investment income of $727 million, driven by strong and reliable terms from our growing fixed income portfolio and higher returns from our non-fixed income portfolio.

Our investment results benefit from the strong cash flow we've generated over a sustained period. This quarter marks the seventh consecutive quarter in which we've generated more than $1 billion in operating cash flow. This isn't a measure that we or the industry talk a lot about, but it's important. Cash flow is what enables us to make strategic investments in our business, return excess capital to shareholders and grow our investment portfolio. Since 2016, we've invested $11 billion in important technology initiatives, returned more than $20 billion of excess capital to our shareholders and grown our investment portfolio by more than $25 billion.

It's a virtuous cycle, as well conceived and executed strategic initiatives, an effective capital management strategy and a thoughtful investment strategy contribute to attractive returns and growth in adjusted book value per share. Strong underwriting is the flywheel that sets it all in motion. Thanks to exceptional franchise value and excellent marketplace execution, we've profitably grown our premium base from about $25 billion in 2016 to more than $40 billion today. Our growth over this period of time has been largely organic, selling products in which we have deep expertise through distribution partners with whom we have long-standing relationships, and in geographies where we have a thorough understanding of the regulatory environment and other market dynamics.

In other words, our competitive advantages have enabled us to effectively execute a relatively low-risk growth strategy. The success of that strategy is evidenced by a return on equity that has averaged about 900 basis points over the 10-year treasury over that period at industry low volatility. But all this boils down to is steady consistent growth in adjusted book value per share after making important investments in our business and returning substantial excess capital to shareholders.

And as a leader in the U.S. P&C market with broad product capability, demonstrated success with innovation and plenty of market share headroom, we're confident there's a lot more opportunity in front of us. To sum it up, we continue to be very confident in the outlook for our business. Our results for the first half of the year include strong premium growth, an excellent bottom line result, record operating cash flow and steadily rising investment returns in our growing fixed income portfolio. With the strong and diversified business and balance sheet, we delivered 13.6% core return on equity over the last 12 months despite substantial industry-wide catastrophe losses. With this momentum, we remain well positioned for success this year and beyond.

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

Dan Frey
Thank you, Alan. We're pleased to have generated record levels of earned premium this quarter and an underlying combined ratio of 87.7%, a 340-basis-point improvement from last year's strong result and the third consecutive quarter below 88%.

This led to one of our strongest ever underlying underwriting gains of $952 million after tax, up $337 million, or 55%, from the prior year quarter. The expense ratio for the second quarter was 28.8%, in line with our expectations and once again benefiting from the combination of our focus on productivity and efficiency, coupled with strong top line growth. We continue to expect 2024's full year expense ratio to be 28% to 28.5%. As Alan mentioned, the industry experienced a very active cat quarter, and our second quarter results include $1.5 billion of pretax catastrophe losses driven by a record number of severe convective storms. As disclosed in the significant events table in our 10-Q, we had five events surpass the $100 million mark in Q2, all in the month of May.

Turning to prior year reserve development, we had total net favorable development of $230 million pretax.

In Business Insurance, net favorable PYD of $34 million resulted from approximately $300 million of better-than-expected loss experience in Workers' Comp across a number of accident years, largely offset by about $250 million of strengthening in General Liability, driven by Umbrella for accident years 2021 through 2023. In terms of the umbrella line, these are very young accident years made up almost entirely of IBNR.

While we will obviously continue to evaluate loss activity as it comes in, we believe we have been proactive and decisive in addressing the latest observed loss activity and adjusting our view of loss development factors to allow for the prospect of rising settlement costs and lengthening settlement patterns. Importantly, our picks for accident years 2015 through 2020 did not require much adjustment in the first half of this year. It's also worth noting that our returns in the Umbrella line for the impacted accident years remain attractive. As we saw five years ago, when we were the first to call out a change in loss levels tied to an increase in attorney rep rates, sharpening our view of loss costs early in the development of immature accident years and long-tail lines positions us to enhance our risk selection, pricing and claims strategies, ultimately setting us up to outperform in terms of growth and profitability. And on a related note, with court backlogs from the COVID shutdown now largely resolved, that element of uncertainty is, to a large degree, behind us.

In Bond & Specialty, net favorable PYD was $24 million pre-tax. Personal Insurance had significant net favorable PYD of $172 million pre-tax with good news from recent accident years in both Home and Auto.

After-tax net investment income of $727 million increased by 22% from the prior year quarter. As expected, fixed maturity NII was again higher than the prior year quarter, reflecting both the benefit of higher average yields and higher invested assets. Returns in the non-fixed income portfolio were also up from the prior year quarter. Our outlook for fixed income NII, including earnings from short-term securities, has increased slightly. We now expect approximately $675 million after tax in the third quarter and $695 million after tax in the fourth quarter. New money rates as of June 30 are still above the yields embedded in the portfolio. So fixed income NII should continue to improve beyond 2024 as the portfolio gradually turns over and continues to grow.

Turning to capital management. Operating cash flows for the quarter of $1.7 billion were again very strong, and we ended the quarter with holding company liquidity of approximately $1.7 billion. Interest rates increased during the quarter, and as a result, our net unrealized investment loss increased modestly, from $3.7 billion after tax at March 31 to $4 billion after tax at June 30. Adjusted book value per share, which excludes net unrealized investment gains and losses, was $126.52 at quarter end, up 3% from year-end and up 10% from a year ago.

We've returned $498 million of capital to our shareholders this quarter, comprising share repurchases of $253 million and dividends of $245 million. We have approximately $5.5 billion of capacity remaining under the share repurchase authorization from our Board of Directors.

Turning to reinsurance. Page 19 of the webcast presentation shows a summary of our July one reinsurance placements. We increased coverage when we renewed our Northeast property CAT XoL treaty, which now provides $1 billion of coverage above the attachment point of $2.75 billion. A year ago, we purchased $850 million of coverage and the attachment point was $2.5 billion. We also renewed the Personal Insurance hurricane cat excess of loss treaty for coastal exposure, which continues to provide 50% coverage for the $1 billion layer above an attachment point of $2 billion.

Recapping our results. Q2 was another quarter of strong premium growth, excellent underwriting, underlying underwriting profitability and continued growth in net investment income, all of which bode well for our future returns. Our ability to absorb $1.5 billion of pretax cat losses and still deliver $585 million of core income for the quarter is a testament to the overall strength of our diversified franchise and the fundamentals of our business.

To give a little more color on that. Underlying underwriting income has become an increasingly reliable and important component of our earnings power. Going back to the combination of Travelers and St. Paul, from 2005 through 2019, annual underlying underwriting income averaged $1.2 billion after tax. Our focus on profitable premium growth, which began accelerating around 2016, resulted in underlying underwriting income surpassing $2 billion for the first time ever in 2020, and we stayed above $2 billion through 2022. We then surpassed $3 billion in 2023, through the first half of 2024 underlying underwriting income of just over $1.9 billion is up by 32% compared to the first half of 2023.

In short, underlying underwriting income has become a significant and growing contributor to our ability to continue generating industry-leading returns with industry-low volatility.

And now for more color on each segment results, I'll turn the call over to Greg to begin with a discussion of Business Insurance.

Greg Toczydlowski
Thanks, Dan.

Business Insurance had another strong quarter in terms of both top- and bottom-line results. Segment income was $656 million, up more than 60% from the prior year quarter, driven by prior year reserve development, higher net investment income and higher underlying underwriting income. We're once again particularly pleased with the quarter's exceptionally strong underlying combined ratio of 89.2%, our best second quarter result ever. For modeling purposes, property losses for this quarter were about a point favorable to our expectations. Net written premiums increased 7% to an all-time second quarter high of more than $5.5 billion.

Renewal premium change was once again historically high at 10.1%, with renewal rate change of 6.5% driving the majority of the strong pricing. Retention remained excellent at 85% and new business was up 9% to a record quarterly high of $732 million. In terms of pricing, we're pleased to sustain strong levels of renewal premium change, which was double digits for the fifth quarter in a row. The strong pricing was broad-based with renewal premium change in every line other than Workers Comp at or pretty close to double digits. In terms of pure renewal rate change, we're pleased that the exceptional granular execution by our field organization reflects and appropriately balances the current return profile and environmental trends for each line.

In terms of sequential rate movement from the first quarter, CMP, Auto, Umbrella and Workers Comp all increased. Umbrella and Auto led the way with double-digit rate increases. Renewal rate change in our Property line moderated, driven the National Property business, reflecting strong returns after several years of substantial compounding rate and improvements in terms and conditions. Even with these strong pricing levels, retention was improved or flat in every line other than Property. Where some large accounts in our National Property business, in particular, traded away to the subscription market this quarter on terms we weren't willing to accept.

As for the individual businesses, in Select, renewal premium change was exceptionally high at 12.3%, with a renewal rate change of 5.3%, up 1.5 points from the first quarter and more than two points from the second quarter of last year.

Retention remained healthy, but ticked down a bit from recent periods to 83% as we begin to purposely optimize our risk/return profile in a couple of targeted geographies and classes. New business remains strong and increased 8% from the prior year quarter. We're pleased with the impact that our production, product and platform initiatives are having in the marketplace and building a high-quality mix of business and driving profitable growth in this market.

In Middle Market, renewal premium change remained strong and consistent with recent levels at almost 10%. Renewal rate change of 7% was up more than a point from the second quarter of last year, and that has now been at or around the 7% mark for the fourth consecutive quarter. Retention also remained strong at 89%, and new business of $383 million was the highest ever second quarter result.

Lastly, fresh off my most recent round of field visits, I couldn't be more pleased with our team's execution, ideation, energy and enthusiastic adoption of the tools and capabilities that have come from the strategic investments we've been making. And our distribution partners were once again crystal clear about our team's value and shared many examples of how our local teams, the best in the business, distinguish themselves. These trips continue to highlight for me the value of our high-performing talent and training curriculums, as well as the dividends we are receiving from our investments to be 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 posted another strong quarter on both the top and bottom lines. We generated segment income of $170 million and a strong combined ratio of 87.7%. The underlying combined ratio improved 1.7 points to a very strong 86.1%. The underlying loss ratio improved 4.1 points to an excellent 46.4%, reflecting the comparison to an elevated level of losses in the prior year quarter from a small number of Surety accounts. As we discussed last quarter, the expense ratio is modestly elevated primarily due to the Corvus acquisition. We expect that to continue to be the case for a few more quarters as we integrate the operation and as premiums from Corvus' attractive book of business ramp up and earn in.

Turning to the top line. We grew net written premiums by 8% in the quarter to a record high. In our high-quality domestic Management Liability business, we again delivered excellent retention of 90% with positive renewal premium change that is generally consistent with recent quarters. We're pleased that we grew new business by nearly 60% from the prior year quarter to a record $111 million, driven by Corvus.

As a reminder, all of Corvus production will continue to be reflected in new business through next quarter. We grew net written premiums in our market-leading Surety business by a terrific 11% in the quarter, reflecting a robust construction environment and continued strong demand for our Surety products and services. So we're pleased to have once again delivered strong top- and bottom-line results this quarter.

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

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

In Personal Insurance, an excellent underlying underwriting results and strong net favorable prior year reserve development drove a significantly improved bottom-line result relative to the prior year quarter despite another period of elevated industry-wide catastrophe losses. The underlying combined ratio of 86.3% reflects nearly an eight-point improvement compared to the prior year quarter, primarily driven by higher earned pricing in both Automobile and Homeowners & Other. Continued strong price increases in both Auto and Home drove 9% growth in net written premiums.

In Auto, we're pleased with another quarter of improved profitability and with the underlying fundamentals of the business. The second quarter combined ratio of 97.9% improved more than 10 points compared to the prior year quarter, due to a lower underlying combined ratio as well as favorable prior year development. The underlying combined ratio improved more than eight points, driven by the benefit of higher earned pricing and, to a lesser extent, lower losses from physical damage coverages. For modeling purposes, we view roughly 2.5 points of the improvement in the quarter as non-recurring.

In Homeowners & Other, the second quarter combined ratio improved over 16 points compared to the prior year quarter, reflecting a lower underlying combined ratio as well as higher favorable prior year development. While catastrophe loss dollars were similar to the prior year quarter, they had a smaller combined ratio impact as price increases continued to benefit earned premiums. Catastrophe losses this quarter, primarily resulting from severe convective storms, again, significantly exceeded long-term industry averages. The 28 PCS-designated cat events were the most ever for a second quarter, and 150% of the historical 10-year average.

Our catastrophe losses in the quarter were consistent with our market share, and, for context, our average annual cat losses over the last five and 10 years remain below our market share. This most recent experience will, of course, be reflected in our models going forward, and we will continue to weigh our recent experience more heavily in our ongoing process of optimizing our exposure, underwriting and pricing. The underlying combined ratio of 77.6% improved 7.6 points due in large part to lower-than-expected fire and non-weather water losses as well as the benefit of earned pricing. For modeling purposes, we expect approximately five points of the improvement in the Homeowners & Other underlying combined ratio to be non-recurring.

Turning to production. Our results reflect the ongoing execution of a granular state-by-state strategy as we balance profitability and growth across the portfolio. In Domestic Automobile, retention of 82% remains strong. Renewal premium change of 15.8% continued to moderate as anticipated. Auto renewal premium change will continue to gradually decline, reflecting the improved profitability in the line. While new business premiums were higher than the prior year quarter in many states, new business premium in aggregate was down slightly relative to the second quarter of last year.

This is the result of our continued efforts to manage Auto profitability in a few remaining challenged states, as well as the cross-line impact resulting from some of our Property actions, particularly in high-risk cat areas. Production results in Homeowners & Other reflect our focus to manage growth while improving profitability. Renewal premium change increased sequentially to 15.1%, reflecting higher rate change, while retention remained strong at 85%. We expect renewal premium change to remain at this level through year-end. As we intended, new business and policies-in-force declined, reflecting our efforts to thoughtfully deploy capacity.

To sum up for the Personal Insurance segment overall, we are pleased with our progress as we continue to deliver improved profitability. We're confident that the actions we've taken and continue to take will result in a profitable growing portfolio of Personal Lines business over time. Now I'll turn the call back over to Abbe.

Abbe Goldstein
Thank you, and operator, we're ready to open up for Q&A.

Operator
Thank you. We will now begin the question-and-answer session. If you would like to ask a question, please press star-one on your telephone keypad to raise your hand and join the queue. If you would like to withdraw that question, again, press star-one. And please limit yourself to one question and a single follow-up. For any additional questions, please re-queue.

Your first question comes from David Motemaden with Evercore ISI. Please go ahead.

David Motemaden
Thanks, good morning.

I just had a question on the moving pieces around reserves in Business Insurance. So just the $250 million of recent accident years Umbrella charges, that comes after $100 million last quarter. So I guess I'm wondering if you could just elaborate on some of the more puts and takes and maybe give some confidence that you've put this behind you after the changes you made this quarter?

Dan Frey
Hi David, it's Dan. So you're right. We've seen Umbrella and the General Liability lines require some strengthening in the last few quarters. As we said in prepared remarks, we think that we're being proactive in reacting early and being decisive and meaning that we're being reasonably comprehensive by reacting in a meaningful way to what we're seeing.
I think the confidence we have is two pieces. One is we are reacting both to the changes in actual versus expected and allowing for longer development factors going forward on the very recent accident years.

So for the most part, we haven't even seen these claims come in yet, but we are allowing for the fact that when claims come in, they're likely going to cost more and take longer to settle. And then I think importantly, the 2015 through 2020 period has held up pretty well given the actions that we had taken through the end of 2023.

David Motemaden
Got it. Okay.

And maybe also within Business Insurance, the underlying loss ratio, if I sort of adjust out the light non-cat weather this quarter and then in 2Q '23, there still was around 50 basis points of improvement year-over-year on a clean basis. Could you talk about, I guess, what was driving that improvement? And especially given all these changes, was there any change to loss trend baked in there?

Dan Frey
Yes, David, it's Dan again. So I'll take that.

So I'll start with the second part first. So every time we have an impact PYD, we re-evaluate, it's not going to have an impact on current loss year, jump-off point or loss trend. We said last quarter that we had added beginning last quarter, some IBNR to the current accident year. So we had already taken some action. The changes that we made in PYD had some carry forward impact on the Umbrella line. But there's puts and takes across a variety of lines, and when you blend them all together inside of Business Insurance, it did not result in a big movement.

In terms of the overall movement in BI's underlying loss ratio, you've got the big parts. There's still some benefit from earned pricing. Greg called out the fact that property losses other than cat were about one point favorable than our expectations. Other than that, in any quarter, you're going to have a half a dozen things that move favorably or unfavorably from mix to base year to the impact of reinsurance and you're seeing the net of those things. Nothing significant in there in terms of those individual movements.

David Motemaden
Thank you.

Operator
Our next question comes from Elyse Greenspan with Wells Fargo. Please go ahead.

Elyse Greenspan
Hi, thanks, good morning.

My first question, I'm looking at the BI pricing trends, which the RRC decelerated by 40 basis points. Is that just due to Property, given that Select and Middle Market did improve in the quarter?

Greg Toczydlowski
Elyse, this is Greg. Good morning.

Yes, you can see in the webcast the individual pieces of Select and Middle Market, and Select is up and Middle Market is flat, and I did call out that National Property is the primary driver of that slight deceleration.

Elyse Greenspan
Okay. Great. And then just going back to the Umbrella increase as well. Can you give us a sense, maybe just some more color by accident here. And then maybe just a little bit more, following up on David's question, what emerged, I guess, in the Q2 more than what you saw in the Q1 to think that you've put this issue to bed, that we're not going to be dealing with additional charges as we go through the balance of this year.

Dan Frey
Yes, Elyse, it's Dan. So I think it's a pretty narrow range. We're giving you that it's three accident years, '21, '22 and '23, I don't really feel the need to break it apart between the three. And it's a little bit more of the same, right? Things have continued to come in a little higher, whether it's attorney rep rate or severity, jury awards, all of those things, lengthening of the tail. What we're doing this quarter is, again, both reacting to – what did we see that came in differently than what we would have expected and adjusting the development factors that we're going to use going forward in that, that's what we mean when we say we think we're being proactive and decisive in this quarter's action.

Elyse Greenspan
Thank you.

Operator
Your next question comes from the line of Rob Cox with Goldman Sachs. Please go ahead.

Robert Cox
Hi, thanks for taking my question.

Yes, I just wanted to ask on the data surrounding the court backlog, I thought that was interesting. The court backlogs are now resolved from the COVID shutdown. Could you give us a little more color on that? Are you referencing data for Travelers? Or is that external industry data?

Alan Schnitzer
Yes, Rob, good morning, it's Alan. That is really an evaluation of our own data. But we think we've – we probably have the market relevance to understand what's going on more broadly, but that's based on our view of our data.

Robert Cox
Okay. Got it. And the changes to reinsurance, do you expect any impacts to the combined ratio at all or the underlying combined ratio from any of the movements there?

Dan Frey
Rob, it's Dan. So not really. Pricing was about in line with what we would have expected. And I'll just remind you that although cost of reinsurance might have gone up a little bit, we're getting price increases on the direct side. So the margin impact is insignificant probably, if any.

Robert Cox
Okay. Great. Thank you.

Operator
Your next question comes from Gregory Peters with Raymond James. Please go ahead.

Gregory Peters
Good morning, everyone. I'd like to, for my first question, focus on slide eight of your powerpoint presentation, and what I'm focused on is your competitive positioning. If I look at the year-to-date top-line results, kind of seeing the movements that I'm surprised by, I guess, seeing National Accounts grow as much as it did on a year-to-date basis kind of seems like it's counterintuitive, you expect the larger account business to be more competitive. And then on the Select and Middle Market, I kind of anticipate maybe that to be higher growth areas for you from a net premium written perspective. So maybe you can provide some color on that topic.

Dan Frey
So Greg, it's Dan. I'll say maybe Greg will chime in. So National Accounts on a relative basis in terms of its contribution to Business Insurance in total, not the biggest piece, and it's large accounts. So how many you retain – you could lose one account in a quarter and that has a big impact on retention. You could write one new big new piece of business that's going to change the premium base.

So I'd say two things about National Accounts. One, we're really with the profitability of that book. Two, I'm not surprised to see the variability, given one, that it's a relatively small base and that two, the accounts themselves tend to be big.

In terms of Select and Middle, look, we love the performance of both of those businesses. Greg did make comments in his script about some refinement of the way we're thinking about underwriting in Small Commercial. Middle Market margins are really good, 8% growth. We're very happy on how we focused on the balance of retention and price where we need it. But I don't know, Greg, anything to add to that?

Greg Toczydlowski
Yes, Greg, maybe just to start with the bigger picture, the total business, 7%, so a really good result given the attractive margins in this business right now. And you pointed out some of the individual business units when you look at them from quarter-to-quarter, a number of items can have some level of variation, including booking lags, reinsurance processing, things that Dan just referenced. But in terms of the aggregate results, I'd point you, as close as they are, the quarter to year-to-date, I'd point you to the year-to-date number as that's a better indicator of how we're feeling about the top line of the business right now.

Gregory Peters
Fair enough. I guess for my follow-up question, I'm going to pivot to the Personal Insurance segment. And Michael, I appreciate your comments about the challenged states and trying to get positioned – the right positioning and pricing for your Auto product. One of the largest and most visible peer seems to be really good gaining share at this moment in time in the Personal Auto space. And I guess when I look at your policy in-force count going down, both in the first and second quarter. I'm just curious if you think your competitive positioning in Personal Auto is consistent with what's going on in the marketplace.

Michael Klein
Yes, Greg, I think it's a great question. I would say, to your point about is it consistent with what's going on in the marketplace. It's interesting, the one peer you're talking about is the one peer with those results. Not everybody else, inclusive of us. So I would take a step back, first of all, and say, certainly, kudos to them and the results they're generating and the success that they're having. But it's really not us who is the outlier.

And then underneath that, I think, again, I tried to detail it for you. We are having success in the geographies that I'll say are the ones that aren't noisy. And, generating new business growth in those places where we like the Auto margins and were not impacted by some of the Property actions, number one. That growth is, if you just look at the Auto line by itself, being hampered by those challenged geographies. And then I also think that it's important to think about the differences in our strategy and our book of business when you look at our Auto growth numbers, right? We are predominantly a package writer of Personal lines business. The competitor that's growing auto is not predominantly a package writer of Personal lines business.

And when you look at the challenged geographies from a Property standpoint and you look at the independent agent channel, what you find in the marketplace is that, in many of those geographies, in order to write the Property, the carrier is insisting on also writing the Auto. And so if you are a competitor that's less dependent on Auto business that brings Property with it, you're not as challenged by those marketplace dynamics in those high-risk Property geographies.

So those are – I think those are some of the things that explain the differences. But again, I would come back and say we're very pleased with our ability to generate Auto new business growth in the places where we're not challenged by those factors.

The other thing is, if you were to look underneath the new business growth numbers, first of all, you can see in aggregate, Auto new business growth is much better than Property new business growth and particularly in those challenged geographies from a Property standpoint, our Auto new business is down, but it's not down nearly as much as the Property new business in those geographies.

Alan Schnitzer
And Greg, I would just point out at a very high level, Michael points out some distinguishing characteristics of our Personal Insurance business. There are some significant benefits from that business model. I mean, obviously, it's having the impact it's having on growth, but there are some significant offsetting benefits to that business model. And we're well on the way to sorting this out.

Gregory Peters
Got it. Thank you very much for the detailed answers.

Operator
Your next question comes from the line of Jimmy Bhullar with JPMorgan. Please go ahead.

Jimmy Bhullar
Hi, good morning. So first, I just had a question on – just your cat losses. Given the changes we've seen in the reinsurance market the last 1.5 years, should we assume that you're going to be absorbing higher levels of cats going forward? Or is the high number that you posted this quarter, same quarter last year as well, more of a function of the type of events we've seen?

Dan Frey
Yes, Jimmy, it's Dan. So if you look at the reinsurance detail we gave at the January one renewals and now again into July one renewals, we're not really holding on to more. We tend to buy more tail coverage on big cat events. The attachment points have gone up, but the attachment points have gone up naturally as a result of the growth in the premium base and the growth of the insured values. So what's coming through our net result is not really any impact from less use of reinsurance.

Jimmy Bhullar
Okay. And then just for Michael, can you talk about just competitor behavior in the Personal Auto line, both in terms of pricing and then advertising spending by some of the larger peers?

Michael Klein
Sure, Jimmy. I would say in terms of pricing, we continue to see renewal premium changes and price changes working their way into books of business across the industry similar to what we're seeing. I do think it's important when you look at our renewal premium change number, though, to distinguish between what's coming through renewal premium change and the rate that's being filed for go-forward business, right? What you're looking at when you look at our renewal premium change number and many renewal premium change numbers across the industry is the lagged effect of the rate that's already been taken.

When we look at filing activity for ourselves and for others, you see a much less significant amount of rate filing this time this year than you would have seen this time last year. And so again, what you're seeing in renewal premium change in Auto is the lagged impact of that.

In terms of your question about advertising, certainly, we see increased advertising amongst some of our competitors who are big advertisers across the industry in marketplaces where we bid for demand, where we bid for leads, we see the prices of those leads going up. That's reflective of that increased advertising spend and that increased appetite for leads. But I think that those – both of those things, I think, demonstrate that what you're seeing is improved profitability in Auto across the industry and a pivot towards profitable growth, very consistent with the conversation and the messaging that we're sharing.

Jimmy Bhullar
Thank you.

Operator
Your next question comes from the line of Josh Shanker with Bank of America. Please go ahead.

Josh Shanker
Yes, thank you very much. I guess for Michael, you're right to point out that the Property declines are greater than the Auto declines. I'm wondering if you can talk about whether there's non-renewals of customers who you no longer want given their geographies, or whether it's pricing actions that are driving those customers away? When you look at the policy count changes in Homeowners, what's driving them?

Michael Klein
Sure, Josh. The biggest driver of the policy count decline in Homeowners is the reduction in new business. You see with the retention holding relatively steady. And so for the most part, new business production being down is what's driving the PIF decline. I'll also say that – sort of consistent with my comments earlier, the new business reduction in the cat challenged states is down more significantly than the new business reduction you see in the production highlights, as we work to manage the distribution of our Property exposure. There is some limited non-renewal activity that I would say is really twofold. One is normal course, good hygiene, evaluating the worst-performing risks in the portfolio and taking action on them. The other is some targeted non-renewals again, as we manage the geographic distribution of our exposures and manage growth in some higher concentration, higher cat geographies.

But again, those actions are all intentional and the new business reductions, as I said in my prepared remarks, really are as intended as part of our efforts to improve profitability.

Josh Shanker
And then a quick question on catastrophes. It's been quite a decade in terms of catastrophe losses. While you've made changes over time, you were – cat management firm has been pretty consistent. You like the risk and you only have protection of really at the top for very extreme events. A broken clock is right twice a day in hindsight, it's 2020, but looking at the last 10 years, has the cat program at Travelers been the most efficient use of your capital? And when you revisit that this is exactly what we need to do for the next 10 years?

Alan Schnitzer
Yes, Josh, I think we're very comfortable with being a net underwriter. We think that we've got the data, the analytics, the culture to manage this the right way. And you can't expect a reinsurer to take on losses without conveying a margin to them. And so when we look at the strength of our underwriting, we think that there's a real advantage for us in being largely a net underwriter.

Josh Shanker
Okay, thank you very much.

Alan Schnitzer
Thank you.

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

Ryan Tunis
Okay, thanks, good morning. First question, a couple of parts on Casualty. First of all, I guess, with what you're seeing in Umbrella, is it safe to assume that the underlying cause of a lot of those losses you're seeing is mostly Auto related? That's the first part. And then the second part, I remember like six years ago in 2019, you guys experienced some of this earlier than others. Is there something about your Small Middle Market, you're writing lower limit that there's a little bit less of a tail. So just the nature of your business, kind of experiences some of the inflationary impacts we've seen from 2021 to 2023 faster?

Alan Schnitzer
Hi Ryan, let me start there. So in terms of what we're saying, no, it's not – actually not a predominantly Auto issue. This is a combination of economic inflation and social inflation driving claim activity into the Umbrella line, in short. And economic inflation sort of speaks for itself. Social inflation, it's an aggressive plaintiff's bar. It's third-party litigation funding. It's sympathetic jury. It's the exact same constellation of factors we've been talking about, just a little bit more pronounced. In terms of our ability to see it sooner, I don't – honestly don't think it's a function of our book of business or limits or anything else. I think it's a function of our data, our analytics and, really importantly, our culture.

We've got a culture that looks for this, that sees it. We've got a very, very important and very valuable feedback loop among our claims professionals, our pricing actuaries, our reserving actuaries and our underwriters that can put together a story very, very quickly. And it's actually a competitive advantage. As Dan highlighted in his prepared remarks, the ability to sharpen a view of loss cost very, very early in the life of immature long-tail lines is a huge advantage. It's a difference on whether you're subject to adverse selection or inflicting adverse selection.

And we think this positions us very well. Again, it's very, very early. These years are predominantly IBNR. And our – the returns that we're looking at in those years actually continue to be very attractive.

So I get the interest in it. Believe me, we're interested in it too. But our ability to see this and react to it really is a competitive advantage for Travelers.

Ryan Tunis
Got it. Then I guess just a follow-up. I think Greg mentioned lower retention in Select Accounts. I heard the word geography, is – I mean, to the extent that you are seeing elevated cats in commercial lines, I'd be curious if you guys think you are, is that more of a Small Commercial issue? Or if not, is it kind of more Middle Market or a National Accounts?

Greg Toczydlowski
Ryan, this is Greg. Yes, we're not seeing cats disproportionately across any of the business units in Business Insurance. And it's just our normal good housekeeping in Select that we're going through and looking at the book of business and understanding parts of it where we need to get a better risk return profile. And folks certainly aren't going to share the individual geographies as that's market sensitive, but that's what's going on underneath that statement.

Alan Schnitzer
It's a kind of optimizing we do in every business every day.

Ryan Tunis
Understood, thank you.

Alan Schnitzer
Thank you.

Operator
Your next question comes from Brian Meredith with UBS. Please go ahead.

Brian Meredith
Hi, thanks. A couple of quick questions here. First one, there was some legislation in Florida, I guess that passed past in June that talked about Medicare reimbursement rates to doctors, that will affect Workers' Comp. I'm just curious if you could maybe talk a little bit about how that would affect Comp pricing and loss cost severity trends. And is that something you see continuing throughout the U.S.?

Alan Schnitzer
Brian, what I would say about Workers Comp loss trend is that we continue to book at pace on a long-term basis, and frequency and severity both continue to emerge favorable to our expectations. So there's nothing that we're seeing out there that's necessarily adversely impacting that perspective, but it's a long-tail line, and we're going to have a lot of respect for the duration of the liability.

Greg Toczydlowski
And Brian, in terms of any specific state change that you mentioned, our product managers are looking at that at a state level. They're estimating what some of the bills and changes are and we factor that in the pricing over time as we see those trends come in. So if there's a new reg out there, and we think it's meaningful, we certainly are going to take an estimate of that and how it plays out in the marketplace.

Brian Meredith
Terrific, thanks. And Alan, second question is, you all have seen some great growth in your E&S capabilities. And clearly, it seems like you're building those out. I'm just curious, you've typically been known as kind of the largest standard commercial lines and Middle Market player in the U.S., why kind of the sudden change, or not sudden change, but the kind of gradual change in strategy here toward more focus on the E&S markets?

And do you think this continues here for Travelers that E&S will become a larger and larger percentage of your overall, call it, commercial business mix?

Alan Schnitzer
I would – so Brian, we are predominantly a standard lines writer, and we will continue to be that for the foreseeable future. We're not changing any strides here. And we've had substantial E&S capability for a very long time. So for a long time, a lot of our National Property business has been written on E&S paper. We've got our Northfield E&S business. We've got our Lloyd's business, some of what we do in our Bond & Specialty business is written on E&S paper. So it's been a capability that we've had for a long time. And there have been ebbs and flows in business in and out of the E&S for a long time. And so part of this is what's been flowing into it and our ability to capture it.

In addition is, we've seen an attractive E&S opportunity, we leaned into it a little bit. So, I think what we've done with Fidelis and our acquisition of Corvus, and those have been contributors too. So, this isn't a changing of strides by any stretch of the imagination, but there's an opportunity out there, and we're participating in it at very attractive margins.

Brian Meredith
Great, helpful. Thank you.

Alan Schnitzer
Thank you.

Operator
Your next question comes from Meyer Shields with KBW. Please go ahead.

Meyer Shields
Great, thanks, and good morning. I guess first question, I'm not sure who this is best sent to – but does the Supreme Court overturning the Chevron doctrine, how does that impact exposure for various casualty lines?

Alan Schnitzer
I don't really know how to answer that, to be honest, Meyer, and we'll see over time whether there's any significant impact at all from Chevron. I mean, I hesitate to speculate on that at all and maybe it depends on who the regulators are in place and how that changes from one administration to the next. But I'm trying decide whether I want to – whether I want to answer this off the top of my head or not, because it's not something that we've really run our hands over. But – if you imagine that regulatory activity is a contributor to loss activity, the impact of that decision on the Chevron doctrine, you'd expect might be a good guy, frankly. But I think it's too early for us to make that call.

Meyer Shields
Okay. Fair enough. And the second question, I guess, this is for Michael. When you look at the sort of potential outcomes for non-catastrophe weather and catastrophe losses, do you think of those as being inversely related or unrelated?

Michael Klein
Meyer, I think it depends on the quarter. The non-cat weather in Personal Insurance, sometimes we'll see a benefit because much of the weather gets classified as a cat. That actually was the case in the second quarter of last year. That was less so the case this year. When we talked about the underlying result this quarter, I talked about the fact that it was really just fire and non-weather water losses just to put a point on it and really didn't talk about non-cat weather because in this quarter, it really – we had both elevated catastrophes, and we had about what we expected from a non-cat weather standpoint. So in some cases, you'll see a little bit of an inverse relationship depending upon sort of the footprint of the weather and how significant the events are, but they're not always inversely related or directly related for that matter.

Alan Schnitzer
I mean it was a little bit of a factor for us this quarter in Business Insurance. Not huge, but it did have that impact this quarter and – so when we do think about our weather, obviously, we're managing it as one, but there's a lot of what we would report favorably or unfavorably in small weather that you would see in the catastrophe line as some of our peers.

Meyer Shields
Okay, that's perfect, thank you so much.

Operator
Your next question comes from Mike Zaremski with BMO. Please go ahead.

Mike Zaremski
Hi, thanks, good morning. Just stepping back and thinking about the competitive environment in commercial lines, maybe a little more focused on Business Insurance, but maybe not. Would you expect current pricing power trends and maybe for the industry to kind of be stable? Or would there – would you expect kind of an upward sloping trend if indeed, Travelers is kind of ahead of the others in terms of being proactive on loss trends, especially on the Casualty side?

Alan Schnitzer
You know, Mike, I think we're going to try very hard not to give outlook on pricing. But I will say that from here, we would expect renewal price change continue to be positive and strong and in particular, driven by Casualty. Now whether that means up a little bit or down a little bit in one line or another. I don't really know. But I would say we expect it to remain relatively strong. There's a lot of uncertainty out there. And you've heard from others about their experience in the Casualty lines. As we look at the Schedule Ps, honestly, we expect there to be more of that coming from the industry. When we look at our position relative to the industry position, we would expect there to be more coming from the industry. So I would say, positive and strong, particularly driven by Casualty.

Mike Zaremski
Got it. And a quick follow-up, and I wish there was a live transcript there's not because of this global IT issue. But I feel, Dan, that you made some prepared remarks that were a bit longer. And you talked about kind of underlying profitability and consistency. Is there – can you unpack what was the message you were trying to convey to us and investors? Are you trying to tell us to focus kind of more on the underlying loss ratio and less on kind of PYD levels? Or am I just mis-understanding what you meant by that?

Dan Frey
No, Mike. So, thanks for listening. I think the main gist was sort of – there was a period of time where underlying underwriting income was a pretty steady level, and it was a long period of time, and that was a period of time when written premium growth was sort of kicking around low single digits for a fair amount of time. And then when we started to accelerate the rate of top line growth again, around 2016, that and did it at consistent margins. The point was, that's just translated into a much bigger base of pretty reliable underlying underwriting income. You can't quite go so far as to say it's just going to come in like the tide. But if you look at the last five years where we – before 2020, we'd never reached to $2 billion in after-tax underlying underwriting income, we crossed $2 billion in 2020 and stayed there, then we crossed $3 billion in 2023 and in the first half of the year, we're up 30-something percent compared to that. So it was – I sometimes think that people don't think of us as having grown, but really the underlying earnings power of the franchise is just in a completely different ballpark than it was five or six years ago.

Alan Schnitzer
And that's the important point, Mike. When you look at the various things that impact the bottom line, underlying underwriting income has been a much bigger, much more reliable contributor to that. And when you think about the earnings power of the Travelers, that's an important contributor. And well, I'll leave it at that.

Mike Zaremski
Thank you.

Operator
And we have time for one more question. And that question comes from Bob Huang with Morgan Stanley. Please go ahead.

Bob Huang
Great, thank you. Just maybe Workers Comp a little bit. Obviously, California benchmark rate decreased by 2%. As we think about more and more people go back to work, cost of medical inflation going up, can you maybe talk about the dynamics between your pricing, your severity as well as your frequency? And how we should think about the $300 million release this quarter? And then also just the overall reserving position for the book on Workers Comp.

Alan Schnitzer
So what's there, Bob and I'm not – honestly – I'm not sure what the question is. The Workers Comp book continues to be extraordinarily attractive. We are the market leader and very good at it. We like the business. We like the returns. We feel great about the balance sheet position. I mean if there's a specific question there, let me know so we can be responsive.

Bob Huang
Yes. Sorry, maybe it got cut off. I'm just trying to get a better understanding of given where the rates are, given where medical cost inflations are going, which has increased, right? And given that frequency or, at least, from the fact that more and more people are going back to the office, should we expect frequency to go up? Should we expect severity to go up from here? And how do you think about after, when you take the $300 million of Workers Comp reserve release this quarter, how should we think about just the ongoing reserve position of that book? Because that's where I'm trying to get to.

Alan Schnitzer
Yes. So I mean, we've had favorable development in the Workers Comp line for many, many, many quarters now. And I don't know what it's going to be next quarter or the quarter after that, but I can tell you that we continue to feel positively about the balance sheet reserves sitting behind the Workers Comp book. In terms of frequency and severity, look, frequency has been on a long-term secular decline. And again, we're not going to project where that's necessarily going, but it's been on a long-term secular decline that – the pandemic and the work from home that's followed it, it's probably too early to make a call on it. But at the margins, that's been probably positive. And if people came back to work and it ticked up a little bit, that wouldn't be particularly troubling for us because, as we think about where frequency and severity go from here, as we've always done, given the duration of the liability, we are very respectful of those two things. And so, we continue to book frequency and severity as if it's going to go back to long-term trends, and so we feel fine about the line and where loss trend is and where it could go.

Bob Huang
Okay. Got it. If I can just sneak in the last one, revolve around the New Jersey Homeowner's price. I know that pricing was up significantly. Just curious what's the rationale about the New Jersey's Homeowner's pricing increase, if there's any?

Michael Klein
You're asking about New Jersey Homeowner's price increases?

Bob Huang
Yes sir.

Michael Klein
I mean pricing in Homeowner's broadly is up driven by rates. New Jersey has actually been a challenging place from a Homeowner's pricing standpoint. And it's one of the reasons we're actually dramatically shrinking the book of business in that state. And it's really driven by the loss environment. So New Jersey has been, again, a challenging environment from a loss standpoint. And the regulatory challenges there are really the driver of our need to shrink that book. If we could get approval for the rate that we think we need, then we'd be happy to write business there. But right now, the regulatory dysfunction is a significant challenge.

Bob Huang
Really appreciate that, thank you very much.

Michael Klein
Thank you.

Operator
And that concludes our question-and-answer session. I will now turn the conference back over to Ms. Abbe Goldstein for closing comments.

Abbe Goldstein
Thank you very much for joining us. And as always, if there's any follow-up, please feel free to reach out to Investor Relations. Have a good day.

Operator
This concludes today's conference call. Thank you for your participation, and you may now disconnect.

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

- the Company's outlook, the impact of trends on its business, and its future results of operations and financial condition;
- the impact of legislative or regulatory actions or court decisions;
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company's reserves, including asbestos;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses and modeling;
- the impact of investment, economic and underwriting market conditions, including interest rates, inflation and disruption in the banking and commercial real estate sectors;
- the Company's approach to managing its investment portfolio;
- the impact of changing climate conditions;
- strategic and operational initiatives to improve profitability and competitiveness;
- the Company's competitive advantages and innovation agenda;
- new product offerings;
- the impact of developments in the tort environment;
- the impact of developments in the geopolitical environment; and
- The impact of the Company's acquisition of Corvus insurance Holdings, Inc.

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

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

Insurance-Related Risks

- high levels of catastrophe losses;
- actual claims may exceed the Company's claims and claim adjustment expense reserves, or the estimated level of claims and claim adjustment expense reserves may increase, 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 (including as a result of a failure to raise the "debt ceiling");
- 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 or services, 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.

Regulatory and Compliance Risks

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

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Our forward-looking statements speak only as of the date of this press release or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Forward Looking Statements" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on July 19, 2024, and in our most recent annual report on Form 10-K filed with the SEC on February 15, 2024, in each case as updated by our periodic filings with the SEC.