The Travelers Companies, Inc.

Second Quarter 2025 Results Teleconference

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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 question until the completion of the 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 17, 2025.

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 2025 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, CFO; and our three segment Presidents: Greg Toczydlowski of Business Insurance; Jeff Klenk of Bond & Specialty Insurance; and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take your questions.

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

These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements.

Also in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investors section on our website. And now I'd like to turn the call over to Alan Schnitzer.

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

We are pleased to report exceptional second quarter results, driven by excellent underwriting and investment performance. We earned core income of $1.5 billion or $6.51 per diluted share. Core return on equity for the quarter was 18.8%, bringing our core return on equity for the trailing 12 months to 17.1%.

Underwriting income reflects strong net earned premiums and a reported combined ratio that improved almost 10 points to 90.3%. The improvement in the combined ratio benefited from strength across the board as lower catastrophe losses, higher underlying underwriting results and favorable prior year reserve development all contributed.

Underlying underwriting income of $1.6 billion pretax was up 35% over the prior year quarter, driven by 7% growth in net earned premiums to $10.9 billion and an underlying combined ratio that improved three points to an excellent 84.7%. All three segments contributed to these terrific results with strong net earned premiums and excellent reported and underlying profitability.

The underlying combined ratio in Business Insurance improved by almost one point to an excellent 88.3%. The underlying combined ratio in our Bond & Specialty business was a very strong 87.8%. And the underlying combined ratio in Personal Insurance improved by seven points to a terrific 79.3%.

Our high-quality investment portfolio also continued to perform well, generating after-tax net investment income of $774 million for the quarter, driven by reliable returns from our growing fixed income portfolio. Our underwriting and investment results, together with our strong balance sheet, enabled us to return more than $800 million of capital to shareholders during the quarter, including $557 million of share repurchases. At the same time, we continued to make strategic investments in our business. Even after this deployment of capital, adjusted book value per share was up by more than 14% as compared to a year ago.

Turning to the top line, through skilled execution by our field organization, we grew net written premiums to $11.5 billion in the quarter, with growth in all three segments.

In Business Insurance, we grew net written premiums by 5% to $5.8 billion. Renewal premium change remained strong 7.7%, with renewal premium change of 8.6% in our core Middle Market business, and 10.7% in our Small Commercial Select business. Those two markets make up 70% of the net written premiums in Business Insurance. Given the high quality of the book, we were very pleased with strong retention of 85% in this segment. New business was a record $744 million, a reflection of the relationships we've built with customers and distribution partners by delivering value products, services and experiences.

In Bond & Specialty Insurance, we grew net written premiums by 4% to $1.1 billion, with retention of 87% in our high-quality Management Liability business. In our industry-leading Surety business, we grew net written premiums by 5% from a particularly strong result in the prior year quarter.

In Personal Insurance, we grew net written premiums by 3% to $4.7 billion, driven by strong renewal premium change in our Homeowners business. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

In May, we announced an agreement to sell most of our Canadian business to Definity for $2.4 billion, or 1.8x book value, excluding excess local capital. As we noted at the time, the transaction does not include our premier Surety business.

We also shared that we expect to allocate about $700 million of the net cash proceeds for additional share repurchases in 2026, and that we expect the transaction to be slightly accretive to earnings per share in each of the next several years. While it was a relatively small transaction for us, it's noteworthy in reflecting an important point: We are relentless in our commitment to disciplined capital allocation and value creation.

Taking a step back, the Canadian marketplace has evolved over the last decade or so in a few significant ways. First, a small number of insurers have built significant scale and market influence, in part, through vertical integration with distribution. There were no compelling inorganic opportunities for us to close the market share gap, and we didn't see vertical integration as a realistic opportunity for us. Also, the regulatory environment has become more challenging. But we were confident that we could continue to manage successfully in Canada. The outlook for our Canadian business relative to our other businesses, combined with the very attractive offer from a strategic buyer, made reallocating the capital the better decision.

Disciplined capital management isn't only about deciding how to deploy the marginal dollar. It's also about continually and rigorously reassessing the capital we have already deployed and whether it's still delivering the best long-term value.

I want to thank our outstanding team in Canada and recognize the value they've created over many years. I'm confident that they and our Canadian customers and brokers will benefit from being part of the country – of one of the country's leading and fully-integrated Property Casualty insurers.

I also want to reaffirm our commitment to our ongoing international businesses. This deal is not part of a broader geographic repositioning, it's simply a smart transaction. Transaction speaks volumes about the way we think about our business. At Travelers, we're optimizers, relentlessly focused on ensuring that both our capital and our retention are invested where we can generate attractive returns, profitable growth and the greatest long-term value for our shareholders.

To sum things up, our results for the first half of the year reflect exceptional underwriting performance, record operating cash flow and steadily rising investment returns in our growing fixed income portfolio. We're building on the strong momentum through continued disciplined execution of our proven strategy. With our diversified business operating from a position of strength, our outlook for continued premium growth at attractive underwriting margins, orderly conditions generally in our target markets and a positive trajectory for investment income, we remain highly confident in the outlook for our business. And with that, I'm pleased to turn the call over to Dan.

Dan Frey
Thank you, Alan. We're very pleased with our financial results this quarter, both overall and by segment. We generated higher earned premiums and meaningfully improved both the reported and underlying combined ratios compared to the prior year quarter.

At 84.7%, the underlying combined ratio marked its third consecutive quarter below 85%. The combination of higher premiums and the excellent underlying combined ratio led to our fourth consecutive quarter with after-tax underlying underwriting income of more than $1 billion, up $339 million or 36% from the prior year quarter.

The expense ratio for the second quarter was 28.6%, 20 basis points better than last year's second quarter and in line with our expectations. That brings the year-to-date expense ratio to 28.4%, and we continue to expect the full year expense ratio of 28% to 28.5%.

As we've discussed previously, the second quarter is historically our most active cat period. This year, however, our pre-tax cat losses of $927 million, or 8.5 combined ratio points, while significant, were nearly four points less than the second quarter cat plan we shared with you during our year-end earnings call in January.

Turning to prior year reserve development, we had total net favorable development of $315 million pre-tax. In Business Insurance, net favorable PYD of $79 million pre-tax was driven by better-than-expected loss experienced in Workers Comp, partially offset by reserve additions in our runoff book related to environmental, abuse and other long-tail exposures with no single adjustment being particularly noteworthy.

In Bond & Specialty, net favorable PYD was $81 million pre-tax with favorability in Fidelity and Surety. Personal Insurance had net favorable PYD of $155 million pre-tax, driven by recent accident years in both Auto and Home.

After-tax net investment income of $774 million increased by 6% from the prior year quarter. As expected, fixed maturity NII was again higher than the prior year quarter, reflecting both the benefit of higher invested assets and higher average yields. Returns in the non-fixed income portfolio were positive but not as strong as in the prior year quarter. Notably, for the first time, total invested assets surpassed $100 billion, excluding the net unrealized loss.

Our outlook for fixed income NII, including earnings from short-term securities, has increased from the outlook we provided a quarter ago. We now expect approximately $770 million after tax in the third quarter and $805 million after tax in the fourth quarter. New money rates as of June 30 are more than 100 basis points above the yield embedded in the portfolio. Fixed income NII should continue to increase beyond 2025 as the portfolio continues to grow and gradually turns over, with higher yields replacing maturing yields.

Turning to capital management, operating cash flows for the quarter of $2.3 billion were, again, very strong, and we ended the quarter with holding company liquidity of approximately $2 billion. This marks our 21st consecutive quarter with operating cash flows of more than $1 billion, totaling more than $40 billion over that time frame.

Interest rates decreased during the quarter, and as a result, our net unrealized investment loss decreased from $3.3 billion after tax at March 31 to $3 billion after tax at June 30. Adjusted book value per share, which excludes net unrealized investment gains and losses, was $144.57 at quarter end, up 4% from year-end, and up 14% from a year ago.

We returned $809 million of capital to our shareholders this quarter, comprising share repurchases of $557 million and dividends of $252 million. And we have approximately $4.3 billion of capacity remaining under the share repurchase authorization from our Board of Directors.

Turning to reinsurance, page 18 of the webcast presentation shows a summary of our July 1 reinsurance placements. We renewed our Northeast Property Cat XoL treaty, which continues to provide $1 billion of occurrence coverage above the attachment point of $2.75 billion. We also replaced our Personal Insurance Coastal Hurricane Cat XoL treaty with an all-perils countrywide personal insurance treaty that provides 50% occurrence coverage for the $1 billion layer above an attachment point of $1 billion. You may recall that last year's treaty had an attachment point of $2 billion. While in a modeled year, we wouldn't expect this to have much of an impact, given the prospect of continued weather volatility, we were pleased to obtain broader coverage at a reasonable cost.

Recapping our results. Q2 was another quarter of continued premium growth in all three segments. The quarter also featured excellent underwriting profitability, both on an underlying and as-reported basis and rising net investment income. These strong fundamentals delivered core return on equity of 18.8% for the quarter and 17.1% on a trailing 12-month basis, and position us very well to continue delivering strong returns in the future.

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

Greg Toczydlowski
Thanks, Dan. Business Insurance had a very strong second quarter, delivering segment income of $813 million, up nearly 25% from the prior year quarter, driven by higher net earned premiums and a combined ratio that improved 2.5 points from the prior year quarter to a terrific 93.6%. The improvement was broad-based, reflecting higher underlying underwriting income, higher favorable prior year reserve development, higher net investment income and lower catastrophes. We're extremely pleased with our underlying combined ratio of 88.3%, which improved from the prior year by almost one point, driven by the benefit of earned pricing.

Moving to the top line, our net written premiums increased 5% to an all-time quarterly high of $5.8 billion, led by strong growth of 10% in our core Middle Market business. This was partially offset by a 3% decline in net written premiums in National Property and Other, reflecting our disciplined underwriting. As for production across the segment, pricing remained strong with renewal premium change of nearly 8%, driven by renewal rate change of 5.3%.

Renewal rate change and renewal premium change in every line other than CMP and Property were about the same or higher compared to the first quarter. Renewal premium change in both Umbrella and Auto were both well into double digits. Renewal premium change in CMP was a little lower, but remained in the double digits. The decline in renewal premium change in Property was driven by National Property, reflecting the outlook for continued attractive returns after several years of compounding price increases and improvements in terms and conditions. Renewal premium change in the Property line outside of National Property was down some but remained solid.

Retention across the segment remained excellent at 85%. Retention in Middle Market was strong, while retention in our National Property business was a bit lower as we ceded some large accounts to the subscription market on terms and pricing that we weren't willing to accept. Lastly, new business of $744 million was a new quarterly record.

We're pleased with these production results and particularly our field segmented execution. Our proven strategy focuses on managing our business in a granular manner, balancing retaining our high-quality book of business while obtaining appropriate pricing.

Our rate and retention results this quarter reflect excellent execution, aligning rates, terms and conditions with environmental trends for each line. While our continued high retention levels are an indication of a rational marketplace, we believe our execution is differentiating. It's the best people in the business, powered by the best analytics and tools at the point of sale that deliver these segmented production results, ultimately producing these strong returns across BI.

As for the individual businesses, in Select, renewal premium change remained strong at nearly 11%, marking the seventh quarter in a row of double-digit renewal premium change. Renewal rate change of 5.3% was in line with the prior year level. As we expected, retention was stable at 80%, reflecting our targeted CMP risk-return optimization efforts, which we will begin to wind down next quarter. New business of $148 million continues to benefit from our industry-leading product offerings, including BOP 2.0 and our new Commercial Auto product, which is now live in 42 states.

In our core Middle Market business, renewal premium change also remained strong at almost 9%. Renewal rate change of 7.1% was up a bit from the second quarter of last year, while retention remained excellent at 89%. New business of $430 million was a second quarter record.

To sum up, Business Insurance had another outstanding quarter. We continue to grow our quality book of business while investing in differentiating capabilities that position us for long-term profitable growth. With that, I'll turn the call over to Jeff.

Jeff Klenk
Thanks, Greg. Bond & Specialty posted another very strong quarter on both the top and bottom lines. We generated segment income of $244 million and an outstanding combined ratio of 80.3% in the quarter. The underlying combined ratio was strong at 87.8%, up modestly, driven by the impact of earned pricing on our Management Liability business.

Turning to the top line, we're pleased that we grew net written premiums by 4% in the quarter. In our high-quality domestic Management Liability business, renewal premium change improved to 3.2%, while retention remained strong at 87%. These results reflect our intentional and segmented initiatives to improve pricing given the loss environment.

As expected, new business was lower than the second quarter of 2024. As a reminder, Corvus production was reflected as new business in the prior year quarter and is now mostly reflected as renewal premium. Comparisons to prior year new business levels will be similarly impacted for the remainder of the year.
Turning to our market-leading Surety business, we grew net written premiums by 5% from a very strong level in the prior year quarter, reflecting continued robust demand for our Surety products and services.

So we're pleased to have once again delivered strong top and bottom line results this quarter, driven by our continued underwriting and risk management diligence, excellent execution by our field organization and the benefits of our value-added approach and market-leading competitive advantages.

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

Michael Klein
Thanks, Jeff, and good morning, everyone. I'm very pleased to share that Personal Insurance delivered segment income of $534 million for the second quarter of 2025. Significantly improved underlying underwriting income and favorable prior year development contributed to this excellent bottom line result.

The combined ratio of 88.4% improved 20 points relative to the prior year quarter, driven by a decrease in catastrophe losses of nearly 14 points and a seven-point improvement in the underlying combined ratio. The underlying combined ratio of 79.3% reflects the benefit of the actions we've taken to improve the fundamentals of our business in both Auto and Homeowners. Net written premiums grew 3% in the quarter, driven by higher renewal premium change in Homeowners.

In Automobile, the second quarter combined ratio was 85.3% and included a five-point benefit from favorable prior year development. The underlying combined ratio of 89% improved 6.2 points compared to the second quarter of the prior year. This improvement was driven by favorable loss experience across both bodily injury and vehicle coverages and, to a lesser extent, the benefit of higher earned pricing.

In Homeowners and Other, the second quarter combined ratio of 91.3% was a significant improvement compared to the prior year, reflecting lower catastrophes and strong underlying underwriting income. The underlying combined ratio of 70.3% improved over seven points compared to the second quarter of 2024. This year-over-year improvement was driven by both favorable non-catastrophe weather losses and the continued benefit of earned pricing.

Turning to production. Our results reflect further progress toward positioning our diversified portfolio to deliver long-term profitable growth. In domestic Automobile, retention of 82% remained consistent with recent periods. Renewal premium change continues to moderate as intended, reflecting improved profitability and our focus on returning to profitable growth in Auto.

We're pleased to note that Auto new business premium increased 12%. In addition, for the first time in more than a year, we wrote more new business policies than in the prior year quarter. The new business momentum was primarily driven by our continued efforts to improve Auto growth. The relaxing of some of our Property restrictions also contributed to the new business momentum in Auto.

In domestic Homeowners and Other, retention remained relatively consistent. Renewal premium change of 19.3% reflects our continued actions to align insured values with rising replacement costs and secure rate increases in geographies where we have the need. The decline in Homeowners policies in force continues to be a result of our deliberate actions to manage exposures in high cat risk geographies. We're pleased with the progress we've made.

While we will maintain restrictions on Property capacity where we can't achieve appropriate risk-reward, we expect to relax many of our rate and non-rate actions in most markets by the end of 2025.

To sum it up, this was a great quarter. We delivered strong segment income as our team continued to improve the fundamentals of our business while further positioning our portfolio for long-term profitable growth.

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

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

Operator
Thank you. In order to ask a question, press star, then the number one on your telephone keypad. We respectfully ask that you limit your questions to one question and one follow-up. We'll pause for just a moment to compile the Q&A roster.

And our first question comes from the line of Gregory Peters with Raymond James. Please go ahead.

Gregory Peters
Good morning, everyone. So I think for the first question, I'll zero in on Business Insurance and pricing. Looking at the renewal premium change, both in Business Insurance ex National Accounts and Select Accounts and Middle Market, I feel like pricing is holding up pretty good. Maybe there's some pockets of weakness that you're seeing or some pressure?

But Greg, in your comments, you talked about in the large National Account market, losing some accounts to the subscription market. When you talk about the pricing environment, how much of the Select or Middle Market business has exposure to potential subscription market price competition? And just some additional color on where you're seeing pricing pressure in your Middle Markets business.

Greg Toczydlowski
Yes, good morning, Greg. Yes, first of all, it wasn't casualty. It was National Property that I referenced. And so yes, typically, you would see a shared and layered, a large Property schedule be built into a tower and we're definitely seeing that some of the softer element of the Property business in those larger schedules. That would leak a little bit into the top end of Middle Market, but not much and not be relevant for Select.

Alan Schnitzer
Greg, just to come back and paint a picture here. And I think Greg laid out a lot of detail in his answer, but just to create the context again. I think as you shared, price in National Property was lower. Workers Comp pricing was about the same, but price change in every other line, including the component of Property that's outside of the National Property business was actually quite strong. And in that context, I would also point to retention, which we've always shared is a real indicator of market stability. So we are quite comfortable with the very, very strong execution.

Gregory Peters
Absolutely. That's apparent in slide seven on your ROE slide.

Can I pivot to the Personal Lines business? And I think, Michael, you said in your comments, you're going to relax some restrictions by the end of the year. Can you sort of foreshadow what that looks like in terms of premium production or how that might affect either your renewal – well, your retention rates or your policy count growth?

Michael Klein
Sure, Greg. Thanks for the question. I think the reason I made the comments around the plans to relax some of our restrictions in Property by year-end was just to give you a little bit of a feel for the progress that we're making. As I mentioned, we're pleased with our progress there, and we continue to see progress in our ability to improve profitability and manage volatility in the Property line.

The other reason I mentioned it is, as we've talked about in the past, those Property actions have been a headwind to Auto production. And so while most of our progress this quarter in Auto really was a direct result of our efforts to grow Auto, some of the states we've begun to relax have also shown signs of progress in Auto growth.

So the point there on the Property side is, we've got a game plan in terms of the places we need to reduce exposure to manage volatility. We've got a game plan in terms of pricing and terms and conditions, we need to make changes to improve profitability, and we're making good progress in executing that plan, and most of those actions should be completed by the end of 2025.

Operator
Our next question comes from the line of David Motemaden with Evercore. Please go ahead.

David Motemaden
Hi, good morning. Alan, I had a follow-up question just on the Property side. So, I hear you loud and clear, renewal premium change in Property outside of National Property was down a little bit, but I guess, obviously positive still. How concerned are you about the durability of that? And if some of that weakness that you're seeing in Large Account, National Account, Property starts to trickle down more into Middle Market and even further down?

Alan Schnitzer
Hi, David, I think you're sort of missing the forest for the trees. I mean, the overall landscape is very positive and really consistent with what we're seeing in terms of returns. Now, we would expect the overall Property market to sort of move in a direction. But historically, the Property outside of National Property has just performed differently, as you'd expect.

David Motemaden
Got it, thank you. And then maybe just a follow-up question for Greg. So on the Business Insurance underlying loss ratio, very strong at the 58.4%. I think in 2Q last year, there was about one point of light non-cat weather. Any of that happened again this year in second quarter that may have flattered the results a little bit? Or is this sort of a cleaner number?

Dan Frey
David, it's Dan. I'll take that. So you're right in remembering that we did point out a little bit of favorability in last year's quarter. We saw a little bit of favorability again in this year's quarter. I don't know if it's a new normal, but we've now seen several quarters where we've had a little bit of favorability there. Again, it wasn't a big component last year. So yes, we see a little bit of favorability again this year, but plus or minus one point, the combined ratio is still outstanding in Business Insurance.

Operator
Our next question comes from the line of Brian Meredith with UBS. Please go ahead.

Brian Meredith
Yes, thanks. A couple. Just back on the underlying, call it, loss ratios in BI. How do you think about kind of the effect of tort inflation and, kind of, what that's doing with your underlying loss picks? I appreciate you're seeing improvement, but I would have thought just with what we're hearing about all the problems with tort inflation out there, you may not see that much improvement in underlying loss ratios at this point because of some conservatism there.

Alan Schnitzer
Yes, Brian, the tort inflation is alive and well, hasn't gone anywhere and continues to show up in the numbers. I would say we've got an expectation for it, we're pricing for it. It appears the whole market is pricing for it if you look at what pricing is doing. And so all the social inflation we see is inside the numbers that you're looking at.

Brian Meredith
Great. So you're pricing for it and it's not having much effect to margins. Okay.

Second one, Michael, I'm just curious, I appreciate the comments about what's going on with personal Auto. Do you expect kind of retention to kind of trend back towards, call it, the mid-80s, is kind of I think where personal Auto has been. Is that kind of where we should think about things heading?

Michael Klein
Yes, Brian, I think it's a great question. Certainly, you're right to recall that historically, in Auto, we would have run more, say, an 84% retention versus an 82%.

I would tell you that coming into 2025, our expectation was we would have seen retention recover as pricing moderated. Clearly, you haven't seen that in the numbers. I think that's reflective of the overall competitive environment in Auto, but we continue to focus on both new business production and retention improvement as we see margins in Auto continue to improve. So again, our focus is on returning Auto to growth, and we've got a number of efforts underway to drive that. But we are still a couple of points off the historical run rate of retention in Auto.

Brian Meredith
Appreciate it, thank you.

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

Meyer Shields
Thanks. So two questions. First, Michael, if I can follow up on that. If you're growing an a new – well, let me ask you differently. How confident are you that there's no maybe telematics-related adverse selection if you're growing in new business but retention hasn't yet come back to where you expected?
Michael Klein
I think it's a good question, Meyer. I would tell you that underneath the production levels that we're generating, we look at retained business, we look at new business, we look at the profile underneath it. We don't see any signs of adverse selection in our profile metrics for either the business we're retaining or the new business we're writing. So we really don't see any evidence of that.

Meyer Shields
Okay. Excellent. And then, I guess, Alan, and on the commercial side, is there any sense that when lines of business soften in sort of the current cycle, and I know it's very line of business specific, do you think it seems to be softening faster than we've seen after past hard markets? I know right now, we're focused on Property and D&O a couple of years ago, but I'm wondering whether there's a theme there of this sort of rapid softening that we hadn't seen.

Alan Schnitzer
I'm not sure I get the question, Meyer. But I don't think so. What's your hypothesis that it's softening faster because of what?

Meyer Shields
So I'm not sure what the because of it would be. But in the past, you had like very sudden and abrupt rate increases when the market got hard and then it would totally soften and the problem was that it softened for too many years at a moderate level. And I'm wondering whether for the lines of business that are seeing softening now, whether it's emerging faster than it had in the past. I have no good suggestion in terms of why that would be happening. I'm just wondering if it's happening.

Alan Schnitzer
Well, I think the bigger trend here, if you look back over a very long period of time, the amplitude of the pricing cycle, I think, is shrinking. The last time we made a bottom, we didn't really go below zero and price has been positive for years now in most lines. The other dynamic you see really is dispersion of pricing by line as a function of rate adequacy and returns. And so that's really what I think we're seeing. I think it's less of some market dynamic and big shifts up or down. I think it's pretty rational relative to what we're seeing in terms of returns.

Meyer Shields
Okay, perfect, that’s very helpful. Appreciate it.

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

Robert Cox
Hi, thanks. For the first question, I just wanted to revisit the tariff discussion that you all provided us with helpful thoughts on last quarter. How are you considering tariffs within the pricing and margins today?

Alan Schnitzer
Yes. We really haven't seen really any impact of tariffs across any of our businesses, not – certainly not in any meaningful way. And we do have some expectation that there could be an impact. I think we said last quarter that we would expect it in the back half of this year. And to the extent we do expect it, we'll put it into our loss picks, and that will make its way through to our pricing indications. But so far, no impact really.

Robert Cox
Okay. Great. And then a question on distribution. Just curious how you all are thinking about this continued consolidation of insurance brokers and how that might impact Travelers. You guys obviously have some great relationships. Is that a tailwind?

Alan Schnitzer
Yes. This has now become a pretty long-term trend, and we've been evaluating it really probably over more than a decade now. And I think for the most part, it has been a tailwind and no reason to expect that wouldn't continue. We've got great relationships with those on the acquiring side. So we tend to be a net beneficiary of that process.

Operator
Our next question comes from the line of Alex Scott with Barclays. Please go ahead.

Alex Scott
Morning. First one I have is just on sort of Casualty versus Property and mix shift. I think for the whole industry, some of the growth in Property over the last couple of years has been pretty helpful for underlying margins, at least, maybe even overall margins.

Would you expect over the next 12 months, just given what's going on with Property and that being a little bit more pressure in terms of price, would you expect any reversal on that? Any help you can provide us in just making sure we're capturing that dynamic over the next 12 months?

Dan Frey
Yes, Alex, it's Dan. So, we give you every quarter written premium by product in Business Insurance. And we did make the comment maybe a year, maybe 1.5 years ago or so when Property was growing faster than the rest of the book, largely because of the significant price increases that were occurring, but we're also taking some new business that, that had a modest benefit to margin and mix. And maybe a quarter or two ago, we got a question of has that sort of gone away as the level of price increase in National Property has moderated, to which the answer was yes. And if you look at Property growth now, it is no longer outsized relative to Business Insurance overall.

So the short answer, is it doesn't have much of an impact in terms of mix change. It was never big enough that we actually called it out in any meaningful way, but it was a slight good guy maybe 1.5 years ago, and that's sort of gone away, but that's inside of the terrific results we just posted this quarter.

Alex Scott
Got it. Helpful. Second one I have is on Workers Comp. I was just interested if you're seeing any impact from some of the heightened claim environment in California, I think, related to cumulative trauma claims and so forth. And also maybe just broadly, if some of the medical cost pressures that we're hearing some of the health insurers talking about or finding their way into Workers Comp loss cost trend at all?

Greg Toczydlowski
Alex, yes, this is Greg. Regarding cumulative trauma, clearly, we're seeing that in California, and it's not a new quarterly trend. It's something we've been seeing for a few years now. We've been very responsive with underwriting and claim strategies to make sure we're managing that dynamic. I think if you look at the overall rate indications of the bureau in the state that are just been approved, cumulative trauma is definitely a dynamic underneath that. So I think it's just a good exemplar where, again, our evidence-based culture and our collaboration has us in a really well-positioned position right now.

Alan Schnitzer
Alex, the thing I'd add generally on Workers Comp is loss trend continues to come in favorable to our expectations and consistent with the trends we've been seeing really over a couple of years.

Operator
Our next question comes from the line of Wes Carmichael with Autonomous Research. Please go ahead.

Wes Carmichael
Hi, good morning. Just wanted to come back to Business Insurance and in particular, Middle Market. Pretty strong premium growth there at 10% in the quarter. It seems like renewal rate change is pretty stable. But I just want to get any additional color on if you think you can sustain that type of premium growth rate in Middle Market? Or maybe what's driving the relatively stronger growth there in your view?

Greg Toczydlowski
Yes, good morning Wes. Yes, we're not going to give you an outlook in terms of where Middle Market pricing is going to go up. I'll just give you some color underneath that 10%. You pointed out the two – well, the three dynamics. We have strong rate exposure change that's driving good premium change. And then retention continues to be near historical highs on that business, which I think, just demonstrates the strong value that we're bringing out into the marketplace. And in new business, our underwriters have been incredibly active in the marketplace and to put those three into action in the quarter and you get a terrific number like 10%.

Wes Carmichael
Thanks, fair enough. And maybe just coming back on social inflation and loss cost. For Travelers, is this as pronounced in Middle and Small accounts as it is for National? And I guess if there is a discrepancy, is there any way to think about it in terms of rule of thumb and differences in loss cost trend?

Alan Schnitzer
Yes, I do think that you probably see it maybe a little bit more pronounced in larger business where there are larger limits involved and it's a more potentially attractive target for the plaintiffs' bar. But we pretty well see it across the entire book.

Operator
Our next question comes from the line of Ryan Tunis with Cantor Fitzgerald. Please go ahead.

Ryan Tunis
Hi, thanks, good morning. I guess just first question, just trying to think about where your business might be impacted by the macro, I guess, in Business Insurance, there's like a small tick down in exposure. Is it kind of safe to say that that tells the whole story? Or is there something else you'd point to underneath it that might say something else?

Greg Toczydlowski
Ryan, this is Greg. Yes, clearly, when you look at the exposure trend in Business Insurance, it's aligned with economic activity. And that shouldn't be surprising where inflation trends have been coming down also. So I think it's more linear with the longer-term economy than anything short term right now.

Ryan Tunis
Okay. And then I guess just one for Dan. On the sale of the Canada business, should we think about that as having any type of pro forma impact on the combined expense ratio, the underlying loss, I guess, any of those figures?

Dan Frey
Yes, not much of an impact, Ryan. So for two reasons. One is just a very small component of the overall mix of our business. So the inclusion or exclusion of those results is – and we don't expect to have a significant impact on margin really one way or the other, which is one of the reasons that we said when we announced the deal, we expect it to have a favorable but modestly favorable impact on EPS going forward.

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

Elyse Greenspan
Hi, thanks, good morning. I guess my first question is going to be a follow-up just on the Canadian sale. You guys marked part of the proceeds, right, to be used for buyback, but that leaves some extra capital. So is that being set aside for growth or for M&A? And regardless of whether you pick the M&A bucket, maybe Alan, you can just kind of give us a current update on just views surrounding M&A?

Alan Schnitzer
Good morning, Elyse. So, you can just think about that capital as being reallocated to our other capital needs of supporting our business, supporting our growth, supporting other capital objectives that we have. It's not really big enough to change our view towards M&A one way or the other, frankly. So I don't think it makes M&A even more or less likely, but we continue to be very active in looking for things that would meet our objectives. And as we've been pretty consistent about for a long time, we would be interested in opportunities that would improve our return profile, improve volatility or provide us with other strategic capabilities. So there's really no change to our M&A strategy or approach.

Elyse Greenspan
Thanks. And then my follow-up is kind of coming back to just medical inflation. Are there any considerations from the OBB legislation? And then obviously, we've seen, combined with just the fact that we've seen some companies already point to higher utilization stemming from some changes in Medicaid availability.

Alan Schnitzer
We really haven't seen any – nor would we expect any significant or even meaningful impact from Medicaid at all. Typically, Workers Comp claims tend to come from people that are employed and aren't on Medicaid, so that wouldn't be an issue. And even if you had somebody who was both employed and on Medicaid, they almost always default to Workers Comp anyway because it's a better health care alternative for them. So there's really nothing in OBB or in the Medicaid world generally that we think is impacting Workers Comp.

Greg Toczydlowski
And the one thing I'll add, Elyse, there was a change to the Medicare fee schedule, but that was within expectations and historical norms. So no surprises for that either.

Elyse Greenspan
Thank you.

Operator
Our next question comes from the line of Cave Montazeri with Deutsche Bank. Please go ahead.

Cave Montazeri
Thank you. My first question is on the elevated amount of share repurchases in the quarter. Was that mainly linked to market volatility in April and the proceeds that you had from Canada? Or should we think of that level as being kind of a new baseline going forward?

Dan Frey
Hi, it's Dan. So a couple of things on that. So one, we don't have proceeds from the Canada transaction. We said we'd expect that transaction to close in the early part of 2026. So that's when you'd see the incremental $700 million for share repurchases sort of start to become available.

Second, we don't really forecast a level of share repurchases. What we're doing is rightsizing capital. And so also related to the first part of the first part of your question, we're really not market timing in terms of what the stock price is at any given moment. We have a long-term view of stock price, intrinsic value, likely growth in book value and our view of what stock price is likely to be.

And when we reach a point where we have excess capital because we continue to generate excess capital, as Alan just said, we'll look for opportunities to deploy it, either to grow the business organically, to look for inorganic opportunities, make new strategic investments. When we've exhausted all those opportunities, it's not our capital, it's investors' and we're going to return it to shareholders. But that's really what we're doing, and we're not leaning in or leaning out based on stock price at any particular moment as long as we're comfortable that the value relative to our view of long term is still there.

Cave Montazeri
Okay. And then if I could pivot to Personal Lines. You did mention relaxing some restrictions on the Property side and you did say it's going to be – it's going to have an impact on rate and non-rate actions by year-end. But does that also include relaxing the ratio of how much business you write in Property versus Auto? I think you did mention in the past that you would like them to move in line just to keep a pretty good balance in your portfolio between the two. Is that changing as well? Would you be more likely to write more Auto, even if you can't write as much on the Property side? Or that's no change to that view?

Michael Klein
Yes. So this is Michael. Thanks for the question. I think when we've talked about shifting the mix of business in the past and the mix of the portfolio in the past, our focus really has been shifting it more toward Auto to get the portfolio back in balance between Auto and Property. When you look at the PIF changes over time, you see progress in that regard, right. While we do still see a reduction in Auto PIF, it's about 25% of the reduction in Property. So that demonstrates progress in mixing toward Auto.

As we relax the restrictions in Property, our goal would be to deploy that Property capacity in support of writing package business, which is our primary strategy in Personal Insurance. And so we would expect the relaxing of some of the Property restrictions to bring with it both Property and Auto opportunities as we look forward.

Operator
We have time for one more question, and that question comes from the line of Vikram Gandhi with HSBC. Please go ahead.

Vikram Gandhi
Hi, morning, everybody. My question relates to cyber. If you guys have seen any signs of moderation in the rate reductions for cyber and whether any of the recent losses might help turn the sentiment for the better?

Jeff Klenk
Hi, good morning. This is Jeff Klenk. I'd say that cyber remains a competitive price environment from a market perspective. As I pointed out in my prepared remarks, inside our Management Liability business, we've been taking some segmented and disciplined focus on a couple of specific lines of business. Cyber is one of those that we believe the loss environment is not fully reflected in the pricing in the marketplace. So that's our perspective on it. What it means for the future of that market, I wouldn't forecast.

Vikram Gandhi
Okay, thank you. And my follow-up is related to the investment book. So, in terms of the ratings mix for the investment portfolio, I see a notable downward movement from the AAA bucket to AA. I'm assuming that would have been driven by the Moody's action on the U.S. Could you confirm if that was indeed the case? And what does that do to your capital model and the capital requirements on your internal model?

Dan Frey
Yes, it's Dan. So that's correct, that's the driver. Both levels of credit quality, still super strong. We're very comfortable with the overall mix of the portfolio and the overall credit rating of the portfolio. We're well within our internal guidelines and really don't view the U.S. government credits as necessarily any less likely to be collected than they were previously. So it's moved down one notch. You're correct, that's the driver and not really a level of concern for us.

Vikram Gandhi
Thank you.

Operator
I will now turn the call back over to Ms. Abbe Goldstein for closing remarks.

Abbe Goldstein
Thanks very much. We appreciate everyone joining us today. And as always, if there's any follow-up, please reach out to Investor Relations. Have a good day.

Operator
Thank you again for joining us today. This does conclude today's presentation. 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, such as the impact of elevated industrywide loss costs in Personal Insurance, 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, the impact of tariffs and inflation;
- the Company's approach to managing its investment portfolio;
- the impact of changing climate conditions;
- strategic and operational initiatives to improve growth, profitability and competitiveness;
- the Company's competitive advantages and innovation agenda;
- new product offerings;
- the impact of developments in the tort environment;
- the impact of developments in the geopolitical environment; and
- the sale of our Canadian personal insurance business and the majority of our Canadian commercial insurance business, including with respect to the expected closing of the transaction, use of proceeds, including share repurchases, and financial impact of the sale.

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

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

Insurance-Related Risks

- high levels of catastrophe losses;
- actual claims may exceed the Company's claims and claim adjustment expense reserves, or the estimated level of claims and claim adjustment expense reserves may increase, or increases in loss costs may not be
- offset with sufficient price increases, including as a result of, among other things, changes in the legal/tort, regulatory and economic environments, including increased inflation;
- the Company's continued 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 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;
- the Company is subject to additional risks associated with its business outside the United States;
- future pandemics (including new variants of COVID-19); and
- the sale of our Canadian insurance business (excluding surety) to Definity Financial Corporation is subject to closing conditions, including obtaining required regulatory approvals and the satisfaction of other customary closing conditions, and may not occur.

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.

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 appropriate for the Company's business operations, 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 laws and other factors.

Our forward-looking statements speak only as of the date of this press release or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Forward Looking Statements" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on July 17, 2025, and in our most recent annual report on Form 10-K filed with the SEC on February 13, 2025, in each case as updated by our periodic filings with the SEC.