The Travelers Companies, Inc.

Third Quarter 2025 Results Teleconference

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CORPORATE PARTICIPANTS

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Operator
Good morning, ladies and gentlemen. Welcome to the Third Quarter Results Teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question & answer session. As a reminder, this conference is being recorded on October 16, 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. Welcome to Travelers' discussion of our third 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 and 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. Then we will take 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 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. Thank you for joining us today. We are pleased to report excellent third quarter results. We earned core income of $1.9 billion or $8.14 per diluted share. Core return on equity for the quarter was 22.6%, bringing our core return on equity for the trailing 12 months to 18.7%. Very strong underwriting results and higher investment income drove the bottom line. Underwriting income of $1.4 billion pre-tax more than doubled compared to the prior year quarter, benefiting from both the lower level of catastrophe losses and higher underlying underwriting income. The underlying result was driven by higher net earned premiums and an underlying combined ratio that improved 1.7 points to an exceptional 83.9%. Underwriting income was higher in all three segments. Our high-quality investment portfolio also continued to perform well, generating after-tax net investment income of $850 million for the quarter, up 15% driven by strong and reliable returns from our growing fixed income portfolio.

Our underwriting and investment results, together with our strong balance sheet, enabled us to return almost $900 million of capital to shareholders during the quarter including $628 million of share repurchases. At the same time, we continue to make strategic investments in our business. Even after this deployment of capital, adjusted book value per share was up 15% compared to a year ago. With strong results over the past year in a particularly light cat quarter, we have a higher-than-usual level of excess capital and liquidity. Consequently, we anticipate a higher level of share repurchases over the next couple of quarters. Dan will have more to say about that in a minute.

Turning to the top line, we grew net written premiums to $11.5 billion in the quarter. In Business Insurance, we grew net written premiums by 3% to $5.7 billion, led by 4% growth in our domestic business. Excluding the Property line, we grew domestic net written premiums in the segment by more than 6%. The declining premium volume in Property continues to be a large account dynamic. In fact, we grew Property in both Middle Market and Small Commercial. We've seen this dynamic in the large Property market before, and we won't compromise our underwriting discipline. Over time particularly as catastrophic events inevitably unfold, the value of that discipline and the cost of those who abandon it will become unmistakable.

Renewal premium change in Business Insurance was 7.1%, driven by continued historically high RPC in our Middle Market and Select businesses. Excluding the Property line, renewal premium change in the segment was a very strong 9%, and renewal rate change was a very strong 6.7%. Greg will share additional detail by line. Retention in this segment was 85%. Given the high quality of the book, we were very pleased with that result.

In Bond & Specialty Insurance, we grew net written premiums to $1.1 billion with higher renewal premium change and continued strong retention of 87% in our high-quality Management Liability business. Net written premiums in our market-leading Surety business remains strong.

In Personal Insurance, net written premiums were $4.7 billion, with strong renewal premium change in our Homeowners business. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

As we head toward the end of the year, our planning for 2026 is well underway. As always, that process involves assessing the environment ahead. There are uncertainties out there. Economic, political, geopolitical, not to mention the loss environment. We are very confident that we're built and very well positioned for whatever lies ahead.

We're operating from a position of considerable strength. Profitability is strong, reflecting our leading underwriting expertise and the operating leverage we've built through a sustained focus on productivity and efficiency. Our competitive advantages have never been stronger or more relevant. Strong underwriting is the flywheel that sets everything in motion. Our premium growth at attractive margins has generated strong cash flow, which enables us to make strategic investments in our business, return excess capital to shareholders and grow our investment portfolio.

Since 2016, we have successfully invested $13 billion in technology, returned more than $20 billion of excess capital to our shareholders and grown our investment portfolio by nearly 50% to more than $100 billion.

Scale matters, increasingly so. We have the scale to win in an environment where technology and AI will continue to segment the marketplace. We have a track record of identifying the right strategic priorities and driving value from them. You can see that in the 300-basis point reduction we've achieved in our expense ratio since 2016, even while we were significantly increasing our overall technology spend.

Importantly, our size gives us the data to power AI, creating a virtuous cycle, better insights, better decisions, better outcomes, more resources to invest. For example, our long-time focus on organizing and curating data has given us access to more than 65 billion claim data points from decades of history across multiple business lines. We leverage that to sharpen our underwriting and shape our claim strategies.

With the vast majority of our business in North America, we hold a leading position in the largest and most stable insurance market in the world - an advantage that insulates us from much of the risk arising from the economic instability and geopolitical uncertainty around the globe. Our fortress balance sheet and exceptional cash flow provide us with the financial strength to invest consistently in the business regardless of the external conditions.

Our financial strength also enables us to manage comfortably through large loss events like the January California wildfires. When it comes to the loss environment from weather volatility to the impact of social inflation on casualty lines, no one is better positioned. Diversification provides powerful protection. In fact, our business mix produces a consolidated loss ratio that's actually less volatile than the loss ratio of our least volatile segment. That's the power of a balanced and diversified portfolio.

Equally important is our demonstrated ability to confront the loss environment head on. We have the data, the analytics and the discipline to establish reserves and loss picks appropriately and generally ahead of the market. That matters because until you have an accurate view of the loss environment, your risk selection, underwriting and claim strategies are all operating with the wrong inputs.

Since our early identification of the acceleration of social inflation in 2019, we've grown the business and delivered significantly improved margins. Getting an accurate and timely view of the loss environment isn't just about the balance sheet. It's foundational to running the business effectively. Our internally managed investment portfolio is another source of strength. Our disciplined focus on achieving appropriate risk-adjusted returns has served us exceptionally well through various markets, especially during periods of market turmoil. More than 90% of our portfolio is in fixed income with an average credit rating of AA.

We're highly selective. We don't reach for yield. We hold the vast majority of our fixed income securities to maturity, and we carefully coordinate the duration of our assets and liabilities. The track record speaks for itself. Our default rates during the most challenging environments over the past two decades were a fraction of industry averages. This consistency comes from a world-class investment team with extraordinary tenure and a shared long-term perspective. In short, the franchise we've built, the capabilities we've developed and our depth of expertise create advantages that are durable across operating environments.

Before I wrap up, I'll share that we're just back from one of the industry's premier conferences, where we had the opportunity to meet with dozens of our key agents and brokers who collectively represent a substantial amount of our business. We left as convinced as ever that our position with the independent distribution channel is an unmatched strategic advantage. We heard clearly that our strategic investments are resonating and that looking ahead, we're focused on the right priorities to extend that advantage.

I want to acknowledge and thank all of our distribution partners. I also want to reiterate our unwavering commitment to being an indispensable partner for them, and the undeniable choice for their customers. To sum it up, we're very well positioned and very confident about the road ahead.

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

Dan Frey
Thank you, Alan. In the third quarter, we once again delivered excellent financial results on a consolidated basis and in each of our three segments. Core income for the quarter of $1.9 billion resulted in core return on equity of 22.6%, reflecting both excellent underwriting results and strong investment income.

We generated higher levels of written premium and earned premium, while delivering excellent combined ratios on both a reported and underlying basis. At 83.9% the underlying combined ratio marked its fourth consecutive quarter below 85. The combination of higher premiums and the excellent underlying combined ratio led to an 18% increase in after-tax underlying underwriting income, which surpassed $1 billion for the fifth consecutive quarter. The expense ratio for the third quarter was 28.6% bringing the year-to-date expense ratio to 28.5%.

We continue to expect an expense ratio of around 28.5% for the full year 2025 and expect to manage to that level again in 2026. Catastrophe losses in the quarter were fairly benign at $402 million pre-tax consisting mainly of tornado hail events in the Central United States. Turning to prior year reserve development. We had total net favorable development of $22 million pre-tax.

In Business Insurance, the annual asbestos review resulted in a charge of $277 million. Excluding asbestos, Business Insurance had net favorable PYD of $152 million driven by continued favorability in Workers' Comp. In Bond & Specialty, net favorable PYD was $43 million pre-tax with favorability in Fidelity and Surety. Personal Insurance had net favorable PYD of $104 million pre-tax driven by favorability in Auto.

After-tax net investment income of $850 million increased by 15% from the prior year quarter. Fixed maturity NII was again the driver of the increase reflecting both the benefit of higher invested assets and higher average yields. Returns in the non-fixed income portfolio were also up from the prior year quarter.

During the quarter, we grew our investment portfolio by approximately $4 billion. Our outlook for fixed income NII including earnings from short-term securities has increased from the outlook we provided a quarter ago, and we now expect approximately $810 million after-tax in the fourth quarter. For 2026, we expect more than $3.3 billion with quarterly figures starting at around $810 million in Q1 and growing to around $885 million in Q4. New money rates as of September 30 are roughly 70 to 75 basis points above the yield embedded in the portfolio. Turning to capital management. Operating cash flows for the quarter were a new record at $4.2 billion, and we ended the quarter with holding company liquidity of approximately $2.8 billion.

Interest rates decreased during the quarter, and as a result, our net unrealized investment loss decreased from $3 billion after-tax at June 30 to $2 billion after-tax at September 30. Adjusted book value per share, which excludes net unrealized investment gains and losses, was $150.55 at quarter end, up 8% from year-end and up 15% from a year ago. Also of note for Q3, we issued $1.25 billion of debt back in July with $500 million of 10-year notes and $750 million of 30-year notes. This was simply ordinary course capital management, maintaining a debt-to-capital ratio in our target range as we continue to grow the business.

Sticking with the theme of capital management, we returned $878 million of our capital to shareholders this quarter, comprising share repurchases of $628 million and dividends of $250 million. As Alan shared, our very strong earnings over the past year have provided us with an elevated level of capital and liquidity well in excess of what we had planned to use for investment and to support continued growth. As a result, we expect to increase the level of share repurchases in the fourth quarter to roughly $1.3 billion. Also keep in mind that we previously shared our plan to deploy about $700 million from the sale of our Canadian operations, expected to close in early 2026, for additional share repurchases as well.

So if we look across the three-quarter period from Q3 2025 through Q1 2026, our repurchases in Q3, combined with our current outlook for the next two quarters, has us repurchasing a total of somewhere around $3.5 billion worth of our stock. Using the average share price over the past 30 days for purchases during the next two quarters, that would result in a reduction of our outstanding share count of about 5% in the 9-month period. Of course, the actual amount and timing of repurchases will depend on a number of factors including the timing of the closing of the transaction in Canada, actual quarterly earnings and other factors we disclosed in our SEC filings.

Recapping our results. Q3 was another quarter of excellent underwriting profitability on both an underlying and as-reported basis and another quarter of rising net investment income. These strong fundamentals delivered core return on equity of 22.6% for the quarter and 18.7% on a trailing 12-month basis and position us very well to continue delivering strong results 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 quarter, delivering a record third quarter segment income of $907 million and an all-in combined ratio of 92.9%. The quarter reflected relatively benign catastrophes and the continued strong contribution from our exceptional underlying underwriting results. This quarter's underlying combined ratio of 88.3% marked the 12th consecutive quarter where we've produced an underlying combined ratio below 90%.

We're pleased that our ongoing strategic investments have contributed to this sustained level of profitability. In particular, through meaningful advancements in data and analytics, we continue to advance our underwriting tools. One specific highlight is the development and utilization of sophisticated models that derive risk characteristics, refined technical pricing and summarize historical and modeled loss experience, all of which is provided to our underwriters at the point of sale.

Moving to the top line. Our net written premiums increased to an all-time third quarter high of $5.7 billion. We grew our leading Middle Market and Select businesses by 7% and 4%, respectively. These two markets make up 70% of the net written premiums in Business Insurance. We saw a decline in net written premiums in National Property and other, which, as you heard from Alan, reflects our disciplined execution in terms of risk selection, pricing, and terms and conditions.

As for production across the segment, pricing remained attractive with renewal premium change just over 7%. Renewal premium change remained strong in Select and Middle Market. From a line of business perspective, renewal premium change was positive in all lines, double digits in Umbrella, CMP and Auto and up from the second quarter or stable in all lines other than Property. As you heard from Alan, excluding the Property line, renewal premium change in the segment was 9%. Retention remained excellent at 85%, and new business of $673 million was about flat to a very strong prior year level.

We're very pleased with these production results and particularly our field execution of our proven segmentation strategy. Across the book, pricing and retention results this quarter reflect excellent execution, aligning price, terms and conditions with environmental trends for each line.

As for the individual businesses, in Select, renewal premium change of 10.8% was about flat with the second quarter. Retention ticked up, as expected, as we near completion of our targeted CMP risk-return optimization efforts. And lastly, for Select, we generated new business of $134 million, up 3% over the prior year.

As we've mentioned previously we've made meaningful strategic investments in this market in both product and user experience. Our new BOP and Auto products have been well received in the market. We're pleased that the industry-leading segmentation contained in both products is contributing to profitable growth. We're also very pleased with the success of TRAVIS, our digital experience platform for our distribution partners.

As we continue our strategic rollout, TRAVIS is already producing over 1 million transactions annually. In our core Middle Market business, renewal premium change of 8.3% was also about flat sequentially from the second quarter. Price increases remain broad-based as we achieved higher prices on more than three-quarters of our Middle Market accounts. And at the same time the granular execution was excellent with meaningful spread from our best performing accounts to our lower-performing accounts.

We're pleased that retention of 88% remained exceptional, given the level of price increases we achieved. And finally, new business of $391 million was our highest ever third quarter result and up 7% over the prior year. We're pleased with the new business risk selection and strength of pricing and overall with the combination of strong returns and customer growth in Middle Market.

On a strategic note for Middle Market, we continue to enhance our industry-leading underwriting workstation. With models that assess new business opportunities for risk characteristics with the propensity to produce the highest level of lifetime profitability. This information helps our field organization focus on the highest priority opportunities, resulting in a greater likelihood of success in winning more accounts that contribute to strong margins.

To sum up, Business Insurance had another terrific quarter. We're pleased with our execution in driving strong financial and production results while continuing to invest in the business for long-term profitable growth.

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

Jeff Klenk
Thanks, Greg. Bond & Specialty delivered very strong third quarter results. We generated segment income of $250 million and an outstanding combined ratio of 81.6%, nearly one point better than the prior year quarter. The strong underlying combined ratio of 85.8% drove very attractive returns in the segment. Turning to the top line. We grew net written premiums in the quarter to $1.1 billion. In our high-quality domestic Management Liability business, renewal premium change improved to 3.7% and while retention remained strong at 87%. These results reflect our intentional and segmented initiatives to improve pricing in certain lines with a focus on Employment Practices Liability, Cyber and Public Company D&O.

We're pleased with the strong underlying pricing segmentation achieved by our outstanding field organization on both renewal and new business, enabled by our advanced analytics and sophisticated pricing models. New business was lower than the third quarter of 2024 as we expected, as Corvus production was reflected as new business in the prior year quarter, and is now mostly reflected as renewal premiums. Comparisons to prior year new business levels will be similarly impacted for the remainder of the year.

Outside of the Corvus impact, we're pleased with early returns on multiple tech and operational investments we've made to drive account growth. For example, in our Private and Nonprofit business, we're leveraging predictive analytics and AI to enhance our customer segmentation and sales effectiveness. We're pleased that these initiatives drove a 40% increase in new lines of business sold to existing customers as compared to the prior year quarter.

Turning to our market-leading Surety business, where production can be lumpy based on the timing of bonded construction projects, net written premiums remained strong relative to the record high quarter in the prior year. This reflects our customers' continued confidence in our industry-leading Surety expertise and value-added service offerings as well as benefits from digital investments we've made to enhance distribution experiences in our Small Commercial Surety business.

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

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

Michael Klein
Thanks, Jeff. And good morning, everyone. In Personal Insurance, we delivered third quarter segment income of $807 million an excellent result that reflects the continued impact of our disciplined approach to selecting, pricing and managing risk. The combined ratio of 81.3% improved 11 points relative to the prior year quarter driven primarily by lower catastrophe losses and a lower underlying combined ratio.

The underlying combined ratio of 77.7% was five points better compared to the prior year quarter driven by continued improvement in both Homeowners and Other and Auto. Net written premiums of $4.7 billion in the third quarter reflect our continued focus on improving profitability in Homeowners while seeking growth in Auto as we execute our strategy to deliver appropriate risk-adjusted returns across the portfolio. The ceded premium impact of the enhanced Personal Insurance excess of loss reinsurance program we announced last quarter, reduced net written premium growth in the quarter by one point as the full year's worth of ceded premium was booked in the third quarter.

In Auto, the third quarter combined ratio was very strong at 84.9% and reflecting lower catastrophe losses, a strong underlying combined ratio and favorable net prior year development. The underlying combined ratio of 88.3% improved by 2.9 points compared to the prior year quarter. The improvement was driven by favorable loss experience in bodily injury and to a lesser extent, vehicle coverages.

Similar to last year's third quarter results, this quarter's underlying combined ratio included a two-point benefit related to the re-estimation of prior quarters in the current year. The year-to-date underlying combined ratio was also 88.3% and reflecting sustained profitability in an Auto book that is larger than it was five years ago, both in terms of premium dollars and policy count.

Looking ahead to the fourth quarter of 2025. It's important to remember that the fourth quarter Auto underlying loss ratio has historically been six to seven points above the average for the first three quarters because of winter weather and holiday driving.

In Homeowners and Other, the third quarter combined ratio of 78% improved by 13.5 points compared to the prior year quarter, primarily because of lower catastrophe losses and improvement in the underlying combined ratio. Net prior year development was favorable, but lower compared to the prior year. The underlying combined ratio of 68% improved by almost 6.5 points compared to the prior year quarter.

The year-over-year favorability in Homeowners was primarily related to the benefit of earned pricing as well as favorable non-catastrophe weather. Overall, these outstanding results reflect favorable weather conditions throughout the third quarter along with our actions to manage exposures in high catastrophe risk geographies to help optimize risk and reward.

Turning to production. We're making progress in positioning our diversified portfolio to deliver long-term profitable growth. While our production results don't quite show it yet, we're confident that the actions we're taking will build momentum towards this objective. In domestic Auto, retention of 82% remained consistent with recent quarters.

Renewal premium change of 3.9% continued to moderate and will continue to decline in the fourth quarter, reflective of improved profitability and our focus on generating growth. Auto new business premium was up year-over-year for the fourth consecutive quarter as new business momentum continued in states less impacted by our Property actions.

In Homeowners and Other, retention of 84% remained relatively consistent with recent quarters. Renewal premium change remained strong at 18% as we continue to align replacement costs with insured values. We expect RPC to remain elevated in the fourth quarter and then drop into single digits beginning in early 2026 as values will have largely aligned with replacement costs.

We continued to execute actions to reduce exposure and manage volatility in high-risk catastrophe geographies in the quarter, causing further declines in Property new business premium policies in force. Most of our Property actions will be completed by the end of the year, at which point the downward pressure on both Property and Auto growth should begin to moderate.

As we conclude this year and ahead into 2026, we're focused on building momentum toward generating profitable growth. To that end, we have a range of actions currently or soon to be in market including the following: adjusting pricing appetite, terms and conditions to better reflect improved profitability in both Auto and Home, removing temporary binding restrictions and winding down some of our Property non-renewal actions in certain geographies, appointing new agents and partnering with existing agents to consolidate books of business, continuing to modernize our specialty products and platforms and investing in artificial intelligence and digitization to deliver better experiences for our agents and customers.

These messages resonate as we share them in the marketplace, reinforcing our commitment to being the undeniable choice for consumers and an indispensable partner for our agents.

To sum up, we delivered terrific segment income as our team continued to invest in capabilities and deliver value to customers and agents. These results position us well to build on a long track record of profitably growing our business over time.

Now I'll turn the call back over to Abbe.

Abbe Goldstein
Thanks, Michael. With that, we're ready to open up for Q&A.

Operator
Thank you. We will now begin the question & 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 your question, simply press star one again. We ask that you please limit yourself to one question and one follow-up.

Your first question today comes from the line of Gregory Peters from Raymond James. Your line is open.

Gregory Peters
Well, good morning everyone. Well, you're producing great bottom-line results, kind of surprising the stock is down as much as it is on the open. I think, probably a reflection of the top line. I know you spoke in detail about the different headwinds that you're facing, whether it's in Business Insurance, the Property, Corvus and Bond & Specialty or the underwriting actions in Personal Insurance that have affected your top line. When you go beyond the balance of this year and you start thinking at '26, '27, what does the Travelers business model look like in terms of top line growth on a consolidated basis? And how are you thinking about that?

Alan Schnitzer
Good morning, Greg, it's Alan. Thanks for the thoughts and the question. So we're not going to give outlook on the top line, as you can imagine. But clearly, we understand that in order to meet our objective of delivering industry-leading return on equity over time, we need to grow over time. So it's a priority for us. And if you look back over the last couple of years, we've been very successful with that.

In our – as you noted by segment, we've talked about what's driving the results this quarter. But I guess what I would say is – we are very confident that we've got the right value proposition. We're investing in the right capabilities to make sure we're positioned to grow this business. So we feel very good about the execution in the quarter. We feel very good about what we've accomplished in recent periods, and we feel very good about the outlook.

Gregory Peters
Okay. The other – I seem to ask this like every other quarter on the technology front, but you keep bringing it up – you talked about the digital initiatives you have going on in Business Insurance. Talk about some of the stuff going on in Personal Insurance. I think one of your peers came out earlier in the third quarter and talked about the potential of artificial intelligence to deliver human resource savings and headcount reductions over time, maybe up to 20%. I'm just curious if we can just go back to – I know you've got a best use case on technology and AI, but go back to how you're thinking about this in a three- to five-year period in terms of what it might mean to your expense ratio?

Alan Schnitzer
Yes. So Greg, I'll tell you, we are very bullish on AI, and we're leaning into it. We're spending more than $1.5 billion a year on technology. A lot of that is focused on AI – we expect significant benefits from it. I think we've got a long track record, as I said in my prepared remarks, of identifying the right strategic initiatives and then driving value from them.

We're not going to tell you what our plan is for the expense ratio beyond next year. But I'll also tell you that more than our focus is on the expense ratio, it's on creating operating leverage, and that's what gives us the flexibility to deploy those gains however want to deploy them. So maybe it will be efficiency, maybe there'll be productivity, but we are very bullish about the opportunity for the investments that we have underway. We're very bullish about the data we have to fuel the AI and think that it will make a big difference in the years to come.

Gregory Peters
Got it. Thanks for the answers.

Alan Schnitzer
Thank you.

Operator
Your next question comes from the line of David Motemaden from Evercore. Your line is open.

David Motemaden
Hi, thanks, good morning. I had a question. You gave the RPC and rate ex Property. I was wondering that's a new disclosure. Wondering if you can just talk about what that was last quarter versus this quarter? Then maybe zooming in specifically in Business Insurance – what do you guys see in Property pricing outside of National Property this quarter?

Alan Schnitzer
Yes, Greg, do you want to take that?

Greg Toczydlowski
Yes, certainly. Well on the first one, David, it is a metric that we're not going to give every quarter. We're not going to go back and give that. We offered it up this quarter just to give you some color and let you know how much Property – the leverage it had on the pricing for this particular quarter. As we've shared with you, the large Property has definitely been a market where typically leads in, terms of when softening may happen, and it certainly has been the case over the last couple of quarters in the Select and Middle Market to directly answer your question, we continue to get positive price increases there. But it's certainly – we're seeing some deceleration, but again, certainly still seeing positive increases.

David Motemaden
Got it, thank you. Then maybe this is just sort of related to your answer there. But on Business Insurance premium growth by market. So it was good to see the tick up in Select year-over-year. In National Accounts, sort of, we know the story there, but I'm surprised we saw the deceleration in growth in Middle Market. I was hoping you could just unpack that a little bit. Is that just sort of the Property dynamics you just mentioned?

Greg Toczydlowski
Yes. And if you're looking at overall quarter of Middle Market, I think you're reading that wrong, the quarter alone was up for Middle Market, 7% relative to year-to-date of flat.

David Motemaden
Got it. Yes. No. I was just looking at – because I know 1Q had the reinsurance dynamic. So I was just comparing it to 2Q, the 10 decelerating to seven – that's what I was looking at there, but I appreciate the answer.

Operator
Your next question comes from the line of Mike Zaremski from BMO. Your line is open.

Mike Zaremski
Hi, great. My first question is on the loss cost trend line. I know it's not easy painting a broad brush, but if we look at kind of your reserve release trend line, the loss ratio trend line, you're also adding IBNR. But a lot of good things going on. Curious if your view on loss cost inflation has changed at all or directionally? Is it – I feel like you've only raised it over recent years, over long periods of time. Is it flattening out? Thanks.

Dan Frey
Mike, it's Dan. So another quarter of net favorable PYD despite the asbestos charge. I don't really think you can put a trend on PYD. And really what matters for us is in aggregate across the enterprise, is it favorable or unfavorable. We've got now a very long track record of generally having that favorable – as it relates to loss trend, we haven't explicitly commented on loss trend for a while because we think it's just too narrow a way to look at the business in terms of what's pure rate versus what's some blended number of loss trend, but it hasn't moved dramatically in a recent period. Alan's talked about that in prior quarters. We do take a look at it every quarter. Some lines do move up a little bit, some lines do move down a little bit over time but it's been pretty stable for a while now.

Alan Schnitzer
And Mike, there was nothing in the quarter that particularly surprised us when it comes to loss activity.

Mike Zaremski
Okay. Great. And my follow-up is honing in on the Home segment, maybe you need to comment on Auto too since there's a lot of bundle in there. But if we – if you look at the RPC trends, they remain very high, I'm assuming that there's terms and conditions, changes that you're incorporating in kind of those double-digit RPC increases. But the last few years haven't been great for you all in the industry. Consensus kind of has you guys pegged at a 95% combined ratio for the foreseeable future in Home. Maybe you can kind of remind us what – do we expect RPC to eventually fall? Are those terms and condition changes going to help? Is 95% the right combined ratio that you guys are targeting given how profitable Auto is? Thanks.

Michael Klein
Sure. Thanks, Mike. It's Michael. So just to unpack the RPC part of your question for starters, as I mentioned in my prepared remarks, RPC remains elevated. And again this is – it's rate and exposure, right? So RPC remains elevated largely because we're raising insured limits to keep up with rising replacement costs and my point about RPC dropping to single digits in 2026 is we'll have largely caught up in getting replacement costs in line with insured values. And so the change in RPC as we head into 2026 will really be those – the premium impact from increasing coverage A, the dwelling limits on Property coming back to more normal levels. Yes, baked into RPC is also a reflection of a number of the other actions we're taking on the book, I think increasing deductibles, particularly across the Midwest.

I think different strategies around targeted limits on how big a coverage A we're going to write in some hail-prone geographies. All other things like that are all rolled into that figure. And again, I think it's just reflective of the actions that we're taking to improve the profitability of that book. As respect to target combined ratio, we're not going to really disclose the target combined ratio by line. We are certainly encouraged by the progress we've made, particularly in improving the underlying combined ratio in Property. It's down period-to-period, quarter-over-quarter for something like the last 10 or 11 quarters in a row. So that is demonstrative of the progress that we're making there. And again continue to be pleased with our progress there.

Mike Zaremski
Thank you.

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

Meyer Shields
Great, thanks, good morning. I don't know if this is a question for Alan or Greg. But is there any way of disentangling the – how much of the Property premium decline in BI is from non-renewed business as opposed to accepting lower rates because you still had adequacy?

Alan Schnitzer
Yes. Meyer, I don't think we're going to unpack that, certainly not right here right now. I don't think we're going to get into that level of detail. Honestly, we don't have that level of data at our fingertips right now.

Meyer Shields
Okay. Fair enough. I also want to talk a little bit Michael talked about, I guess how book rolls in Personal lines. Does that involve any changes to agency commissions or what other tools are you using to encourage that?

Michael Klein
Sure, Meyer. Thanks for the question. Yes. So typically, and again book rolls, consolidations in the Personal line space are pretty much standard operating procedure. We had stepped away from them. The reason I mentioned it is because we had stepped away from them as we were working to improve profitability. And I think it's an important point to recognize that we're back, actively engaged in the marketplace in those conversations with agents looking for situations where their book of business may be disrupted for one reason or another. It is fairly typical in a book consolidation scenario to offer enhanced commission on that book roll for the first term as that business comes over.

Meyer Shields
Okay. Thank you. Thanks so much.

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

Tracy Benguigui
Good morning. My first question is for Mike. I'm curious what you're seeing that's driving favorable loss experience in bodily injury and to a lesser extent, vehicle coverages?

Michael Klein
Sure, Tracy. Thanks for the question. I mean it really is a combination of favorable frequency in both bodily injury and physical damage losses as well as continued moderation in severity. Again, really across coverages.

Tracy Benguigui
Got it. And a follow-up on Dan's comment about elevated level of capital liquidity, driven by your earnings that's well in excess of your investment needed to support growth. As you know, capital is a big focus for me. I've really not seen so much excess capital for the entire sector. So is it fair to assume that your excess capital position surpasses the buyback targets you shared – and could we expect concurrent deployment of capital in the technology side and/or M&A?

Dan Frey
Yes. Tracy, it's Dan. So I think I understand the question. So I guess I'd start by saying, look, there's no change at all to what has been now our long-standing capital management philosophy, which is, we've got a business that's generating terrific margins. We generate a lot of capital. We generate more than we need just to support the growth of the business.

First objective for that excess capital is going to be to find a way to deploy it and generate a return. And so we'll make all the technology investments that we think we can and should make, always be open to M&A – open to any opportunity to generate returns on an excess capital. Once we've exhausted all those opportunities, then it's not our capital, it's shareholders', and we're going to give it back through dividends and buybacks.

Tracy Benguigui
Got it. Thank you.

Operator
Your next question comes from the line of Robert Cox from Goldman Sachs.

Robert Cox
Hi, thanks, good morning. I just wanted to go back to the removal of the growth restrictions. It looks like a couple of parts of the business, CMP within Select and then also in Homeowners – can you give us a sense of how much business is being unlocked for growth here? And if easing those restrictions can result in a noticeable uplift in growth?

Greg Toczydlowski
Yes Robert, this is Greg. I'll start off and then Michael can talk about the PI. We've been talking about the Select mix optimization for some time now. And as we begin to finalize some of those actions, you saw a slight tick up in our retention. We're not really going to quantify what that means for overall growth – but that was the reason that we pointed out the slight tick up in retention.

Michael Klein
Yes. And Robert, Michael following up here on the Personal lines side. I think the important point to note in terms of the impact on growth in Personal Insurance as we relax those Property restrictions is our goal is to leverage that Property capacity to write package business. And so if you my suggestion, if you want to sort of dimensionalize it, just look back historically at retention and new business levels in Property and in Auto, you can see that retention remains depressed right now given the actions we're taking, again, the Property actions depress retention in both lines. And you can see, particularly in Property, the new business levels are pretty significantly depressed relative to what they've run historically. So those levers, I think, would give you a way to kind of dimensionalize it.

Robert Cox
Okay. Great. Thanks for the color there. Then, I just wanted to follow up on the Business Insurance underlying loss ratio. When you think about the margin improvements during this year, are we seeing improved picks in Casualty at all? Or is the improvement year-to-date largely been a shift lower in some of the shorter tail exposures?

Dan Frey
Hi Rob, it's Dan. Look, I think if you look at the improvement – you're talking about Business Insurance specifically, right?

Robert Cox
Yes.

Dan Frey
Yes. I think the single biggest factor we'd say in terms of that sort of 50-basis-point improvement on a year-to-date basis has been the continued benefit of earned price. So in the casualty lines, especially, and we've talked about this a couple of times, we're continuing to include some provision for a level of uncertainty in those lines that we think is going to serve us well in the long term as opposed to taking those picks down. In the improvement in the loss ratio you have other things that impact every quarter too, mix will change a little bit. But headline number the main driver of the improvement year-over-year has been the continued benefit of earned price.

Robert Cox
Thank you.

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

Elyse Greenspan
Hi, good morning. I guess I want to stick there with Business Insurance. So if we look, I guess, just specifically at the underlying loss ratio that was stable year-over-year in the Q3, so I'm not sure if there were certain pushes and pulls that you want to point out specific to the third quarter or if maybe this quarter rate earned rate got close to trend, and that's kind of what we're seeing in the numbers. And just how do we think from here, just given slowing pricing, which I know is mostly driven by Property, how do we think about just the underlying loss ratio in BI. Should we think about that starting to deteriorate as rate gets closer to trend?

Alan Schnitzer
Yes, good morning Elyse. Let's just start with where the margins are in Business Insurance. I mean they are pretty spectacular margins. I don't think we're going to parse out that level of detail, and we're certainly not going to get into what the outlook for margins is, but I'll tell you, at these margins, we really like the margins and we really like the business that we're putting on the books at these margins.

Elyse Greenspan
Okay. Then I guess – my second question would be, I guess maybe shifting to Personal Auto. Have you guys seen any impact of tariffs at all in the quarter, whether it was September relative to July and August. And how are you guys currently thinking about a potential impact of tariffs on the margins in that business?

Michael Klein
Sure, Elyse. It's Michael. Thanks for the question. I would say we haven't seen a ton of impact to date from tariffs but our results for the third quarter do include a small impact from tariffs. That said, it's well below the single-digit severity numbers that we discussed a couple of quarters ago. There certainly is the potential for that impact to grow, the longer tariffs remain in effect. As you know it's a very fluid situation. Tariff changes weekly, daily, fairly frequently. So predicting is challenging, but we are keeping a very close eye on it.

To your point, there are some external indices that show some moderate increases. Others look largely unaffected. So we're going to continue to closely monitor it, but there is a little bit of a provision in the third quarter results for tariff increases, but it's not yet at the level that we had potentially forecast.

Alan Schnitzer
And just to be clear, Michael, correct me if I'm wrong, we've got a provision in there because we expected that we might see it. We're not really seeing it in any meaningful way.

Michael Klein
Yes. It's not significant. Again, we're seeing it on the margins. So we booked a provision for it, but again well below the mid-single-digit level that we had described before.

Elyse Greenspan
Thank you.

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

Paul Newsome
Good morning. Yesterday, Progressive gave us a little unpleasant news about the quarter charge. Just curious if that is something that you've looked at yourself? And also curious about the accounting related to these kinds of things. I know that this quarter's not unique, there are other states that have restrictions on profitability. I'm just curious about how you account for that as well.

Michael Klein
Sure, Paul, it's Michael. I'll start with sort of the response on the overall situation, maybe Dan can chime in on accounting. The Florida excess profit provision and the statute isn't actually a new thing. It's sort of standard operating procedure in Florida. It's actually fairly infrequent that people have to return premiums given the statute. What I would say about our business in Florida is we're pleased with our Auto business in Florida but we don't expect to need to make a return of premium to policyholders in Florida due to excess profits for the '23 to '25 accident years period for which we would make the filing in 2026.

The only thing I would say is, given the size of our business in Florida, think of our Florida Auto business, less than 10% of our PI Auto business, think of the Florida PI Auto business, 1.5% of Travelers overall premium. I mean, it's just not going to be a significant issue for the organization, even if we were to need to make a return of premium, which we don't anticipate.

Dan Frey
Then Paul, it's Dan. With regard to the accounting, I guess I'm going to not give a definitive answer. One of the reasons I won't give a definitive answer is if you go back to Covid when we and some of our peer companies returned premium because frequency and losses declined so rapidly, so quickly. Not every company accounted for that the same way so we had a view of how that should be accounting for. That's what we reflected in our results.

Other peer companies had a slightly different view of how that should be accounted for and reflected differently in their results by which I mean some companies took that as an expense. Some companies took that as a return to premium. And as Michael said, since we've not had to deal with the Florida excess profit issue, we haven't done a real deep dive on how we think it would come to the P&L. But most importantly, I think as Michael said, if we ever had it, we wouldn't expect it to be much of an impact on our consolidated results in any event.

Paul Newsome
Great. That's super helpful. That's all I had. I appreciate it.

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

Josh Shanker
Yes, thank you very much for taking my question here at the end. I was trying to understand a little bit about your retention – effective retention numbers that you give in the back of the supplement about Auto and Home. Your retention bottomed, I guess about three quarters ago, and it's ticked up, but you're still losing more cars or more policies than you were before. Is that a projected retention based on where you're pricing the business today? Or have you already seen retention bottom and it's improving here?

Dan Frey
Josh, it's Dan. So retention is a way that we try to give you color relative to what's the change in net written premium. So a couple of things we know definitively. We know definitively at any point in time how many policies are enforced. We give you that number. We know definitively at any point in time how much premium made it into the ledger, we give you that number.
Production statistics like retention, renewal premium change, new business are all in the disclosure. Say they're all subject to actuarial estimate of what do we think the ultimate retention is going to be. Because you could start on day one of a policy and look like you'd retained all of them, but we know that there's in some period, of those, they're going to cancel early in the term and either go somewhere else or drop their insurance. So it's very challenging to do, I think what you're trying to do at a very specific level and go – A plus B equals C. The production statistics are really color around what's happening with the top line.

And I'm sorry, I can't give you a more helpful answer than that.

Josh Shanker
If I look back at 3Q '24, is that a more – because now you have all that data, is that a more accurate representation of what you know to have happened over the past year?

Dan Frey
Production statistics do get updated. So if you went back and true in Business Insurance, true in Personal Insurance, if you looked at historical quarters, you could almost do a triangle of what was retention as originally reported because it's an estimate, we true those up as time goes on.

Josh Shanker
And can you confidently say and I'll leave it at this, that retention has improved from where it was a year ago? Or it's still not certain?

Dan Frey
I think we're pretty confident in saying that retention has improved from where it was a year ago.

Josh Shanker
Okay, thank you.

Operator
Your next question comes from the line of Alex Scott from Barclays. Your line is open.

Alex Scott
Hi, thanks. First one I have is on Commercial Auto and General Liability. Just noticing those are sort of the lines were net written premium is growing more. I was just interested in, if that's more a reflection of – the rate is obviously different there than maybe some of the other lines where there's pressure. But is there anything about the Commercial Auto product launch and some of the things you're doing that are actually causing you to lean into those businesses a little more?

Greg Toczydlowski
Alex, this is Greg. Just to get the second part of your question, we did roll out a new Automobile product across all Business Insurance that includes Select and Middle Market that would roll up into the aggregate Commercial Auto numbers. So we do think that that's our most sophisticated product in Auto that we brought into the marketplace. So that helps us from a segmentation point of view. But we've been very thoughtful around our growth in Commercial Auto. The thrust of what you're seeing there in the premium delta really is based on renewal premium change. That's why I gave you some of that color in my prepared comments at a product line level.

Alex Scott
Got it. Okay. That's helpful. Over Personal Lines, I mean, the appetite, but you've been pretty clear on – and that should help on the growth front. Is there anything from just a marketing spend kind of standpoint and thinking through the expense ratio we should be aware of as you think through ramping up growth?

Michael Klein
Sure, Alex. It's Michael. I would say that on the margins, we have increased our marketing spend in Personal Insurance, largely in support of our direct-to-consumer business, but it's a very different ball game for us than marketing spend other places. Our direct-to-consumer business is less than 10% of our overall business. So we are on the margin increasing marketing spend there to drive more growth, but it doesn't have a dramatic impact on the overall financial results of the business.

Alex Scott
Got it. Thank you.

Operator
And we have time for one more question, and that question comes from the line of Ryan Tunis from Cantor. Your line is open.

Ryan Tunis
Hi, thanks, good morning. I just had a question, just one on Business Insurance, just on incurred losses. But I do think in National Property we don't trend losses like we do – or Property for that matter. We don't trend losses like we do with other stuff, but certainly are still attritional losses on that line. I guess I'm just curious if those attritional losses have run better or worse or in line with your expectations so far this year?

Dan Frey
Ryan, it's Dan. I think the quarterly results are really strong. The weather was generally leaning towards favorable including in Business Insurance. If you're wondering about whether it's so significant that we would say, you know, this isn't really a clean jump-off point for Business Insurance and you make some big adjustment, we would say no, sort of inside of the normal realm of variability from quarter-to-quarter, but leaning towards the favorable.

Operator
And we have reached the end of our question-and-answer session. I will now turn the call back over to Abbe Goldstein for closing remarks.

Abbe Goldstein
Thanks, everyone, for joining us today. And as always, please follow up with Investor Relations if you have any other questions. Have a good day.

Operator
This concludes today's conference call. Thank you for your participation. 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, 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, including executing on that agenda with respect to artificial intelligence;
- the Company's cybersecurity policies and practices;
- new product offerings;
- the impact of developments in the tort environment;
- the impact of developments in the geopolitical environment;
- the impact of a continued shutdown of the U.S. government; 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 and the impact of tariffs;
- 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, including with respect to artificial intelligence, 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 October 16, 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.