The Travelers Companies, Inc.

Fourth Quarter 2025 Results Teleconference

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CORPORATE PARTICIPANTS

Alan Schnitzer – *Chairman and Chief Executive Officer*

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

Greg Toczydlowski – *Executive Vice President and President of Business Insurance*

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

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

Abbe Goldstein – *Senior Vice President of Investor Relations*

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Operator
Good morning, ladies and gentlemen. Welcome to the Fourth Quarter Results Teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question & answer session. As a reminder, this conference is being recorded on January 21, 2026.

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 fourth quarter 2025 results. We released our press release, financial supplement and webcast presentation earlier this morning. All 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're pleased to report excellent fourth quarter and full year results, with strong and broad-based performance across both underwriting and investments.

For both periods, the bottom line results were driven by very strong underlying underwriting income. Particularly given the written margins remain attractive, this is a durable dynamic.

For the quarter, we earned core income of $2.5 billion or $11.13 per diluted share, generating core return on equity of 29.6%. Underwriting income of $2.2 billion pretax increased 21% compared to the prior year quarter, benefiting from higher underlying underwriting income, higher favorable prior year reserve development and a lower level of catastrophe losses. The underlying result was driven by strong net earned premiums and excellent margins. The underlying combined ratio improved nearly two points to 82.2%. Underwriting results were strong in all three segments.

Our high-quality investment portfolio also continued to perform well generating after-tax net investment income of $867 million for the quarter, up 10%, driven by strong and reliable returns from our growing fixed income portfolio.

Our terrific underwriting and investment results, together with our strong balance sheet, enabled us to return $1.9 billion of capital to shareholders during the quarter including $1.7 billion of share repurchases. Importantly, at the same time we continue to make significant strategic investments in our business. Even after this deployment of capital, adjusted book value per share was up 14% compared to a year ago.

Turning to the top line, through disciplined marketplace execution across all three segments, we grew net written premiums to $10.9 billion in the quarter.

In Business Insurance, we grew net written premiums to $5.5 billion. Excluding the Property line, we grew domestic net written premiums in the segment by 4%. As I shared last quarter, the declining Property premium is a large account dynamic. We'll continue to be disciplined in terms of risk selection, pricing and terms and conditions.

Renewal premium change in Business Insurance was 6.1%. Renewal premium change in Auto, CMP and Umbrella remained in the double digits. Excluding the Property line, renewal premium change came in strong at just over 8% including Workers' Comp which continues to be low single digits positive. Given the attractive returns, we were pleased that retention in the segment remained strong at 85%.

In Bond & Specialty Insurance, we grew net written premiums to $1.1 billion with excellent retention of 87% and positive renewal premium change in our high-quality Management Liability business. In our industry-leading Surety business, we grew net written premiums from a very strong level in the prior year quarter.

In Personal Insurance, net written premiums of $4.2 billion reflected continued strong renewal premium change in Homeowners and higher new business in Auto.

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

Before I turn the call over to Dan, I'd like to take a step back and talk about what's driving this performance and what's ahead. About 10 years ago, we embarked on an innovation strategy designed to position our business to grow at industry-leading returns with low volatility.

As you can see on Slide 18 of our webcast presentation, over the past decade, we've grown our top line at a compound annual rate of 7% while improving our underlying profitability by almost eight points. Notwithstanding a significant increase in our technology spending, that improvement in underlying profitability includes a 3-point or 10% improvement in our expense ratio.

As a consequence of all that, compared to 10 years ago, our underlying underwriting income is more than 4x what it had been, our cash flow from operations has more than doubled and our investment portfolio has grown by 50% to more than $100 billion. As you can see on Slide 19, over that same period, core return on equity has averaged more than 1,000 basis points over the 10-year treasury at industry low volatility, and we've grown earnings per share on average by 12%. In short, the execution of our strategy has been exceptional. We think about that chapter as Innovation 1.0.

Our success with Innovation 1.0 is the result of having done three difficult things very well, identifying the initiatives that really matter and passing on the merely good ideas that don't, executing effectively and capturing the value of what we built.

Over the decade, we developed the competitive advantage of an innovation skill set. Now we're bringing all that hard one know-how to Innovation 2.0 at Travelers, powered by AI and not too far off quantum computing.

The P&C industry is well positioned to benefit from AI across the entire value chain. This generation of AI can understand and execute on the complex stakeholder interactions, well-defined processes, data-intensive workflows and massive amounts of unstructured data that characterize our industry. The gains compound over many, many interactions.

In that context, Travelers is particularly well positioned. As an industry leader, we bring differentiating domain expertise. Because AI amplifies existing strength, leaders in the domain are best positioned to use it to drive improvement. In addition, we have decades of high-quality data from millions of transactions and interactions and the scale to invest at significant levels as AI and technology continue to segment the market.

We have thousands of engineers, data scientists and analysts building AI and other sophisticated technology solutions. Dozens of scale Generative AI tools are already in production. Millions of transactions are now automated. More than 20,000 of our colleagues use AI tools on a regular basis, and agentic AI isn't a future aspiration, it's embedded in our business operations today.

Last week, we and Anthropic announced a partnership to empower 10,000 of our engineers, data scientists, analysts and product owners with personalized context-aware and integrated AI assistance. This initiative will enhance and accelerate the development of software, analytics and predictive models. In extensive testing, we achieved significantly improved engineering output and meaningful productivity gains.

We expect that this will result in faster and more cost-effective delivery of new capabilities across Travelers, everything from product development to new business prospecting, to underwriting speed and quality, the agent and customer service and more, benefiting our business, our customers and our distribution partners.

In our Claim organization, more than half of all claims are now eligible for straight-through processing, with customers adopting straight-through processing about two-thirds of the time. Another 15% of all claims are processed with advanced digital tools. All of those percentages are growing. To accommodate customers who still prefer to call in to report a claim, just last week, we launched a natural language Generative AI voice agent that takes first notice of loss by phone. Early customer adoption is exceeding our expectation.

The results are tangible. In our Claim organization, investments we've made, including in automation, straight-through processing and analytics, refine indemnity payouts and drive operational efficiencies. It's worth pointing out that the efficiency gains in our claim organization come through loss adjustment expense, benefiting the loss ratio.

As just one example, our Claim call center population is down by a third. And this year, we'll be consolidating four Claim call centers down to two. And of course we're deploying AI broadly across the business. Other use cases enhance underwriting decision quality and efficiency and improve the experience for customers, agents, brokers and employees. You'll hear some examples from Greg, Jeff and Michael. We're still early in this transformation which means the benefits, more effective underwriting, improved operating leverage and profitable growth will continue to build.

To sum it up, our results this year and over time reflect the power of our earnings engine, fueled by the disciplined execution of our strategy. For the full year, core income was up 26% to $6.3 billion or $27.59 per diluted share, generating core return on equity of 19.4%. And during the year, we grew adjusted book value per share by 14% after returning $4.2 billion of excess capital to shareholders and investing more than $1.5 billion in cutting-edge AI and other technology initiatives.

Our operational and financial success in the face of another year of elevated catastrophe losses for the industry supports our ability to be there for our customers. In 2025, we handled 1.5 million claims. That's about one every 20 seconds and paid out more than $23 billion in claim payments. We also met our objective of closing 90% of claims arising out of catastrophes within 30 days. In 2026 and in future years, we'll be there to help our customers and communities recover and to enable individuals and businesses to thrive.

Looking ahead, we're also very well positioned to continue generating substantial shareholder value. The durability of our strong underlying business performance provides a powerful foundation for continued strong bottom line results, leading returns and strong cash flows. Operating from this position of strength, we remain highly confident in the outlook for Travelers in 2026 and beyond.

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

Dan Frey
Thank you, Alan. Core income for the fourth quarter was $2.5 billion and core return on equity was 29.6%, as we once again delivered excellent financial results on a consolidated basis and in all three segments. The full year underwriting results were also excellent on both an underlying and as-reported basis, and net investment income was once again higher than a year ago. The strong fourth quarter finish brings full year core income to $6.3 billion and full year core ROE to 19.4%.

In Q4, we generated higher levels of written and earned premiums compared to a year ago while delivering excellent combined ratios on both the reported and underlying basis. At 82.2%, the underlying combined ratio marked its fifth consecutive quarter below 85%. The combination of higher premiums and the improved underlying combined ratio led to a 15% increase in after-tax underlying underwriting income. That brings the full year after-tax underlying underwriting results to $5.5 billion, up 23% from the prior year.

The growth in underlying underwriting income in recent years is worth an extra minute of commentary. In 2022, we reported a very strong $2.1 billion after tax. Through the successful and disciplined execution of our strategy, we grew that figure to $3.2 billion in 2023 and to $4.5 billion in 2024 and now to $5.5 billion for 2025.

Those earnings are what drives strong cash flow from operations which, after averaging about $4 billion for the 10 years from 2011 through 2020, surpassed $9 billion in 2024 and reached $10.6 billion in 2025.

Expense ratio for the fourth quarter was 28.4%, bringing the full year expense ratio to 28.5% as expected. We continue to expect the expense ratio for 2026 to be right around 28.5%. Catastrophe losses in the quarter were $95 million pretax.

Turning to prior year reserve development, we had total net favorable development of $321 million pretax in the quarter, with all three segments contributing. In Business Insurance, net favorable PYD of $205 million was driven by favorability in Workers' Comp. In Bond & Specialty, net favorable PYD of $30 million was driven by better-than-expected results in Fidelity and Surety. Personal Insurance had $86 million of net favorable PYD with favorability in both Auto and Home.

After-tax net investment income of $867 million increased by 10% 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. Driven by the strong cash flows I referenced earlier, during 2025, we grew our investment portfolio by approximately $7.5 billion to $106 billion. As of December 31, new money rates were about 70 basis points above the yield embedded in the portfolio.

In terms of our outlook for fixed income NII for 2026 including earnings from short-term securities, we expect approximately $3.3 billion after tax, beginning with about $800 million in the first quarter and growing to about $870 million in the fourth quarter. As with underwriting income, the growth in investment income over the past several years has been significant. Our 2026 outlook represents nearly twice as much fixed income NII as we delivered in 2021 just five years ago.

Page 22 of the webcast presentation provides information about our January 1 catastrophe reinsurance renewal, and we're very pleased with the changes for 2026. Our long-standing CAT XoL treaty continues to provide coverage for both single CAT events and the aggregation of losses from multiple CAT events. The per occurrence loss deductible is unchanged at $100 million. And for 2026, we dropped the attachment point to $3 billion compared to the $4 billion attachment point we had in 2025.

We believe an all-perils CAT aggregate is the most efficient way to protect the balance sheet. And the combination of our industry outperformance, refined reinsurance structures and more favorable reinsurance pricing have allowed us to meaningfully improve our coverage with only a modest increase to our total ceded premium costs.

We also renewed the enhanced Casualty reinsurance program first introduced for 2025. We were once again able to purchase working layer coverage on a roughly margin-neutral basis.

On Page 23 of the webcast presentation, we have again provided both a summary of the seasonality of our CAT losses over the prior decade and a view of our CAT plan by quarter for 2026. As you can see, the 2026 CAT plan in terms of combined ratio points is higher than both the 5- and 10-year averages. As a reminder for your modeling in terms of seasonality, as you can see from the data, the second quarter has historically been our largest CAT quarter.

Also of interest for 2026, we continue to value our relationship with Fidelis and are very pleased to have once again renewed our 20% quota share with them. The renewal includes the same loss ratio cap we've had in place since the quota share began in 2023.

Interest rates decreased during the quarter, and as a result, our net unrealized investment loss decreased from $2 billion after tax at September 30 to $1.5 billion after tax at December 31. Adjusted book value per share which excludes net unrealized investment gains and losses, was $158.01 at year-end, up 14% from a year ago.

Turning to capital management, we returned $1.9 billion of capital to our shareholders this quarter, comprising share repurchases of $1.65 billion and dividends of $244 million.

In our prepared remarks last quarter, we indicated that we expected to execute roughly $1.6 billion of share repurchases in the first quarter of 2026 including the use of about $700 million from the sale of our Canadian operations which did close as planned on January 2. Even with the increased level of share repurchases we just executed in Q4, given the strong finish to the 2025 year, we now expect repurchases of around $1.8 billion in Q1.

Of course, the actual amount and timing of repurchases will depend on a number of factors including CAT events and other quarterly earnings impacts as well as other factors we disclosed in our SEC filings.

I'd like to make one other comment on capital management to help with your models. Given the growth we've generated over the past several years and the outlook for continued growth, we're now more likely to issue debt every year, assuming we're comfortable with market conditions. Our recent history has been to issue debt every other year. Annual debt issuance allows us to maintain a more consistent debt-to-capital ratio.

Recapping our results for 2025, we're very pleased to have delivered net and core income of $6.3 billion, core return on equity of 19.4%. We ended the year with our all-time high in adjusted book value per share and with our largest investment portfolio ever. In short, we're extremely well positioned for 2026 and beyond. And with that, I'll turn the call over to Greg for a discussion of Business Insurance.

Greg Toczydlowski
Thanks, Dan. Business Insurance had another very strong quarter, rounding out another terrific year in terms of financial results, execution in the marketplace and progress on our strategic initiatives.

Segment income for the quarter was nearly $1.3 billion and up more than $100 million from the prior year quarter. Improvement from the prior year was driven by higher net investment income, higher favorable prior year reserve development and lower catastrophes. The all-in combined ratio of 84.4% was a great result and about one point better than the prior year quarter.

We're once again particularly pleased with our exceptional underlying combined ratio of 87%. The underlying loss ratio was the second-best quarterly result ever trailing only last year's fourth quarter record. The expense ratio remained excellent at 29.3%.

Turning to the top line, net written premiums reached an all-time fourth quarter high of more than $5.5 billion. We grew our leading Select and Middle Market businesses by 4% and 3%, respectively. These two markets make up almost 3/4 of our net written premiums for Business Insurance in the quarter. We saw a decline in National Property premiums, reflecting our disciplined execution in terms of risk selection, pricing and terms and conditions. Excluding the Property line, domestic net written premiums were up 4%. As always, our focus is on writing business that meets our risk profile and underwriting standards and where we can get an appropriate price with terms that reflect the exposures perils.

As for production across the segment, pricing remained attractive with renewal premium change of just over 6%. Excluding the Property line, RPC was strong at 8%. Renewal premium change was positive in all lines including Property and double digits in CMP, Umbrella and Auto. Retention remained excellent at 85% and new business of $675 million was up 6% from the prior year quarter.

We're pleased with these production results and our field's 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 and renewal rate change both remained strong for the quarter and about flat with third quarter levels. Retention was up two points from the fourth quarter of last year as we continue to wind down our CMP risk return optimization efforts. Lastly, new business was up 6% from the fourth quarter of last year to a healthy $139 million.

In our core Middle Market business, renewal premium change remained attractive at 6.6%. Price increases remain broad-based as we achieved higher prices on about 3/4 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. To a large degree, the sequential decline in RPC was impacted by the Property line, where RPC remains positive, healthy and reflective of attractive returns. We're pleased that Middle Market retention remained exceptional at 87% and new business of $395 million was up 11% to an all-time fourth quarter high.

As we close out 2025, let me provide a little color on full year results before turning the call over to Jeff. We're very pleased to report segment income of nearly $3.7 billion, an underlying combined ratio of 88% and top line of $22.7 billion. This was the third year in a row where we delivered an underlying combined ratio of less than 90%. As for production, renewal premium change and retention both remained historically high, while new business premiums approaching $3 billion reached an all-time best. These sustained exceptional results are a direct reflection of our strong value proposition as well as the successful execution of our thoughtful and deliberate strategies.

Beyond our execution excellence, we're pleased with the contributions we're getting from our ongoing strategic initiatives. The decision support tools we're putting in the hands of our underwriters at the point of sale including models that drive risk characteristics, refine technical pricing and summarize historical model loss experience results in better risk selection, pricing and terms and conditions.

In addition, we're encouraged by the impact we're seeing from our product and user experience initiatives including how well they've been received in the market. Our new BOP product is now fully rolled out, and our new Auto product is live in 46 states. Both products contain industry-leading segmentation which contributes to profitable growth. We also continue to enhance the insights around our submissions based on quality and appetite that allow our underwriters to focus on those new business opportunities that we most want to add to the portfolio.

We're pleased with our progress with Gen AI. We're building and executing a robust portfolio of Gen AI initiatives that will enable enhanced risk assessment and selection, ultimately improving loss experience as well as drive gains in productivity and efficiency and improve our industry-leading experience for our agents and brokers.

As just one example, we've recently rolled out Gen AI agents to efficiently mine both internal and external data sources to better understand and synthesize the risk characteristics and ensure appropriate business classification. This capability both accelerates the underwriting process and results in improved risk classification and segmented pricing.

To sum up, we feel terrific about our performance and financial results in 2025. We're excited about what we're investing in for the future, and we have the best people in the business. And they're not only executing with excellence in the market today but they're also helping to shape the transformation of our industry. In short, we're well positioned for continued profitable growth.

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

Jeff Klenk
Thank you, Greg. And good morning, everyone. Bond & Specialty ended the year with another strong quarter on both the top and bottom lines.

In the fourth quarter, we generated segment income of $236 million and an excellent combined ratio of 83%. A strong underlying combined ratio of 85.7% was a little more than one point better than the prior year quarter. Turning to the top line.

We grew net written premiums by 4% in the quarter to $1.1 billion. In our high-quality domestic Management Liability business, renewal premium change was 2.8%, while retention remained strong at 87%. We're very pleased with the progress we've achieved to improve pricing through our purposeful and segmented initiatives while continuing to deliver strong retention.

As we expected, new business was lower than the fourth quarter of 2024. As a reminder, this is the final quarter of year-over-year new business impact from our Corvus acquisition, with most Corvus production now reported as renewal premium.

Turning to our market-leading surety business, net written premiums increased from the very strong prior year quarter, reflecting strong demand for our products and unparalleled value-added services.

So we're pleased to have once again delivered strong results in Bond & Specialty this quarter.

Reflecting on the full year, we're also very pleased with the performance of our business in 2025. In our Management Liability business, we successfully navigated ongoing soft market conditions, and we're among the first carriers to drive higher pricing to improve product returns where needed. Despite market headwinds, we drove profitable account and premium growth by leveraging our investments in advanced analytics including the automated delivery of next-generation sophisticated pricing models.

Our AI investments to automate submission intake for new business reduced our time to ingest submissions from hours to just minutes, and we recently extended automation capabilities to renewal workflows.

We've also made important investments in sales effectiveness and enhancements to our product offerings. In capitalizing on our Corvus acquisition, we've successfully extended cyber risk services to customers across our portfolio. This includes always-on threat monitoring with same-day alerts, continuous dark web surveillance, 24/7 access to a tailored policyholder dashboard and personalized security consultations from our in-house cyber experts. As we've expected, these capabilities are helping our customers to more effectively manage cyber risks and are mitigating our exposure to evolving cyber vulnerabilities.

In our Surety business, we drove solid growth by capitalizing on our industry-leading expertise and premier value-added service offerings. We've entered into new and expanded distribution arrangements domestically and internationally that position us for continued growth. We've more closely aligned and integrated our outstanding Canadian Surety operation which contributes to our position as the leading surety in North America. And in our Commercial Surety flow business, we've leveraged AI to enhance distribution submission and fulfillment experiences, improving efficiency and fueling growth.

All of these investments and initiatives and the terrific execution by our outstanding team drove another strong year of profitable growth in Bond & Specialty, and we're excited about the opportunities that lie ahead.

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

Michael Klein
Thanks, Jeff.

I'm very pleased to share that Personal Insurance generated segment income of more than $1 billion in the quarter and a combined ratio of 74%. Both results reflect the strong underlying fundamentals of our business.

For the full year, Personal Insurance generated over $2 billion of segment income and a combined ratio of 89.5%. These results improved compared to the prior year, notwithstanding significant losses from the California wildfires, reflecting the strength of our diversified book of business and our disciplined approach to selecting pricing and managing risk.

Net written premiums in the fourth quarter were comparable to the prior year, reflecting strong renewal premium change in Homeowners and other and higher Auto new business premiums. Full year net written premium increased 2% to a record $17.4 billion.

In Auto, the fourth quarter combined ratio was 89.4%, reflecting a strong underlying combined ratio and favorable net prior year development. The underlying combined ratio of 92.2% improved just over four points compared to the prior year quarter, driven by continued favorable frequency across coverages with sustained moderation in severity, partially offset by the impact of continued moderation in earned pricing.

This quarter's underlying combined ratio included a 3-point benefit related to the re-estimation of prior quarters in the current year. The full year Auto combined ratio of 85.7% represents improvement of over nine points compared to the prior year as we experienced favorability in both frequency and severity. In Homeowners and Other, the fourth quarter combined ratio of 60.3% improved by 7.5 points compared to the prior year quarter, primarily as a result of improvement in the underlying combined ratio and lower catastrophe losses.

The underlying combined ratio of 59.9% improved by 5.5 points compared to the prior year quarter, reflecting the impact of our actions to achieve target returns. The year-over-year favorability was primarily related to the benefit of Property earned pricing as well as favorability in non-catastrophe weather and non-weather losses.

Stepping back, the 2025 full year Property combined ratio of 93% was a notable improvement compared to the prior year. This reflects our actions to manage exposures in high catastrophe risk geographies, along with favorable non-catastrophe weather losses.

Turning to production, our results reflect continued disciplined execution to position our diversified portfolio to deliver long-term profitable growth.

In Domestic Auto, retention of 82% increased slightly from recent quarters. Renewal premium change of 2.2% continued to moderate as expected and will continue to do so in 2026, reflecting our sustained profitability and our focus on generating growth.

Auto new business premium was up year-over-year as new business momentum continued in states less impacted by our Property actions.

In Domestic Homeowners and Other, retention of 84% remained relatively consistent with recent quarters. Renewal premium change remained strong at 16.7% as we concluded our efforts to align replacement costs with insured values. We continue to expect RPC to drop into the single digits beginning in early 2026, reflecting improved profitability and values that have now largely aligned with replacement costs.

Quarterly new business premium and policies in force declined compared to the prior year. These production results reflect the deliberate choices we've made to improve profitability and manage volatility in Property.

Over the past few years, we've executed a granular strategy to reposition our portfolio to optimize our risk return profile. The results have been meaningful. We reduced Property policies in-force by 10%, with most of that decrease coming from high CAT geographies, reflecting disciplined risk selection and concentrated actions to manage volatility and reduce local market aggregations of exposure.
While these actions impacted Auto policies in-force, the impact was muted as we grew Auto in many of the markets less affected by our Property actions, demonstrating our ability to sustain a competitive position where portfolio economics remain favorable. Overall, the net impact of our actions is shifting the portfolio back toward a better balance between Auto and Property.

Looking ahead to 2026, as we wind down many of our actions in Property, we're focused on maintaining this progress by deploying Property capacity in support of writing package business.

The strength of our 2025 results reflects years of disciplined execution and strategic investment. Since year-end 2020, net written premiums grew $6 billion to $17.4 billion, while we generated an average combined ratio of 98%. Over that same period, our Domestic Auto book grew both in terms of PIF and premium. And in our Homeowners portfolio, our actions to address profitability, geographic distribution and terms and conditions have meaningfully improved risk-adjusted returns.

In addition, we continue to invest in and deploy strategic capabilities. As just one example, we're leveraging artificial intelligence to make our renewal underwriting process more effective and efficient. We start with a proprietary AI-enabled predictive model that scores every account in the Property portfolio. Based on this score, accounts with the highest probable risk of loss are presented to underwriters for review. From there, our renewal underwriting platform leverages Generative AI to consolidate data into summaries of relevant actionable information for our underwriters to evaluate, with early results showing more than a 30% reduction in average handle time.

The net result is that our underwriters focus their efforts on decisions most likely to improve profitability and do so more efficiently.

To sum up, thanks to the continued diligent efforts of our team and with support from our distribution partners, Personal Insurance continues to deliver 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, and we are 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. And if you would like to withdraw your question, again press star one. We also ask that you limit yourself to one question and one follow-up. For any additional questions, please re-queue.

And your first question comes from Gregory Peters with Raymond James. Please go ahead.

Gregory Peters
Good morning, everyone. And as you said in your comments, you did have a great year, so congratulations.

I wanted to -- thank you for the commentary around the technology.

I've been asking you about this off and on, like others have, for a couple of years now.

In Dan's guidance for the expense ratio, I think he said it's going to be flat in '26, 28.5% versus what it was in '25 versus the same in '24. So, I guess what I'm trying to reconcile is the emphasis on growing the strategic investments, you're harvesting efficiencies with these technology investments.

Just wondering when the structural shift in the expense ratio might materialize. And maybe I was looking at the responsible artificial intelligence framework section of your website. Maybe you could talk about some of the regulatory and other considerations that might delay some of the expected benefits from your technology spend.

Alan Schnitzer
Greg, thanks for the question. I appreciate it.

In terms of the expense, I mean we give you sort of a year outlook of where we'd like it to be, and that's not something that happens to us. That's something we manage. And we talk a lot about trying to optimize operating leverage.

So in other words, we want the gains from the efficiencies that we're generating. And that just gives us a lot of flexibility in the way we run the business. We can let it fall to the bottom line if we want through lower expense ratio, we can continue to invest it in other capabilities. Just gives us the flexibility to manage the business.

And as I shared in my remarks, the extent that some of these productivity and efficiency benefits are in the Claim organization, those come through loss adjustment expense in the loss ratio. Again, we've got the flexibility there to think about that as an operating leverage component.

But just in terms of where those benefits are or where they might arise in the future.

In terms of the regulatory environment, from our perspective, it's constructive. We try to make sure that we're using the technology in ways that are thoughtful and careful. And frankly, we, as a company and we, through our trade association are on a regular basis, working with policymakers to make sure that we're achieving smart public policy and regulations as it comes to the development and implementation of technology.

Gregory Peters
Thanks for that answer. I guess related on the regulatory front, there are increased example – more examples of regulators becoming more focused on the profitability of the insurance business and particularly the Personal Lines business. I'm just curious if you have a view on any regulatory push back you might be getting on the profit levels in your business? And if you think there's anything – bigger issues at play that's going to spread throughout the country as it relates to that?

Alan Schnitzer
Yes. Greg, we certainly understand the affordability issue and I think it's an important one for all of us to be focused on, and we are focused on it. And let me just put the profitability of our Personal Insurance business into some perspective.

We had a good year in '25. We had a good year in 2024. But the two years prior to that, our combined ratio was over 100%. And if you look at the last five years, it was 98%, I think. So that would be below our target returns. And so this really is a business that you need to look at and manage over a period of time. And I think when you think about Personal Insurance results over a period of time I mean certainly, in our case, you wouldn't say that we're over-earning. So, we are trying to get the right price on the risk and earn a fair return for helping customers manage their risk.

Operator
Your next question comes from the line of Ryan Tunis with Cantor Fitzgerald.

Ryan Tunis
Hey, thanks, good morning. Alan, in your prepared remarks, I think you mentioned that in Business Insurance, renewal premium change ex-Property was a little over 8%. I think that number was 9% last quarter. Just curious how much of that one point deceleration is attributable to rate versus exposure?

Alan Schnitzer
Yes. So we're looking for the exact breakout, Ryan. It's a little bit of both.

Greg Toczydlowski
Yes. I mean Ryan, if you look at the Middle Market webcast, you can see exposure was down. You can do the math between rate and RPC, it's not perfect math. So to Alan's point, a little bit of an exposure and a little bit of rate.

Ryan Tunis
Got it. And then I guess just on the Property side, clearly it was a bit of a challenging year in the large account space just from a trading standpoint. Just curious how you guys are thinking about overall rate adequacy in National Property headed into 2026.

Alan Schnitzer
Yes. Ryan, it's a challenging year. I mean the pricing dynamic is what the pricing dynamic is. But to a very large degree, that's reflective of the profitability of that business. I mean that business has been achieving rate gains over a very long period of time and have gotten to a point where the profitability was strong. So we don't really look at a macro level and look at it and say it was challenging and appropriate.

It's not – you can certainly find examples of accounts and we'll scratch our head and say "Gee, we're surprised that got priced that way" or – and honestly, more than price, we're surprised sometimes with the terms and conditions that we see given away in the marketplace that we're not willing to do.

But sort of with large, we look at it and we say it's not so crazy when you think about where the returns are.

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

David Motemaden
Thanks, good morning. Dan, just had a follow-up just on the capital return. So hear you loud and clear on the $1.8 billion that's expected in the first quarter.

But just given what sounds like a change in terms of the – just how you guys are managing the debt load and what looks like $1 billion of excess at the holding company now before the Canada proceeds and pretty healthy statutory capital levels. Any sort of thought in terms of how we can think about the buybacks throughout the rest of this year, outside of 1Q into '27, just given the current growth environment?

Dan Frey
David, so I'd say not really. I mean we can't really sit here at the very beginning of the year and give much guidance on what we think buybacks are going to look like in the second, third and fourth quarters of this year.

There's no change in our capital management strategy, and we made these comments last quarter when we alerted you to the fact that we did expect higher levels of buybacks in at least Q4 and Q1 because we had, as you recognize, reached a point where were probably carrying a little more capital on the balance sheet than we needed to.

But no change in the overall capital management strategy and the rest of the year is going to be impacted by all the usual things that would impact buybacks.

What do CAT losses look like? What does overall profitability look like? How do we feel about the growth environment?

And we're going to responsibly manage the capital, right. We're not looking to hoard capital. We're looking to hold the right amount. And when we have excess, it's not ours, and we're going to give it back to the shareholders.

Alan Schnitzer
The only thing I would add to that, David, is our first objective for every dollar of capital that we generate is to invest it back into the business.

David Motemaden
Got it. Thanks, that makes sense. And then just as my follow-up, just looking at Slide 23 and the 7.8% expectation for catastrophe losses in 2026.

If I just sort of do rough math on the 2025 premium levels, that implies a little bit above, I think $3.4 billion, $3.5 billion which is above where you guys have the retention at your XoL – your aggregate XoL.

So could you help me understand a little better the moving pieces there? And then just relatedly, just the cost of that, how much of a drag that might be on BI premium growth in 2026?

Dan Frey
Sure, David. Thanks for the question.

So I guess I'll start with the second part of it and say we don't expect it to be much of a drag. In my prepared remarks, we talked about improvements in pricing in the reinsurance environment and a couple of other things we're doing around the edges that we don't think the year-over-year impact of ceded premium is going to be that big a deal in '26.

Really importantly, though, what you were getting to in terms of CAT load on a percentage point basis and what that might translate into dollars, the thing you got to remember when you think about the attachment point of the treaty is the first $100 million of every event is ours. So you can't just say if we thought we were going to have $3.X billion of CAT losses next quarter, anything over $3 billion goes to the treaty. First $100 million of every event is ours.

We said with this treaty, historically, this is really we're buying tail protection for the balance sheet. That's still true. Clearly, with a $3 billion retention compared to a $4 billion retention, we're a lot closer in on the tail of possibly being able to hit that book. But if we looked at – if you look, for example, at if we had that treaty in 2025, we would not have attached that treaty.

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

Michael Zaremski
Hi, good morning. My question is around all the great color you gave on technology initiatives. Would you be able to share what you may be roughly expect your organic headcount growth or shrinkage to be on a percentage basis this year versus maybe last year or so?

Alan Schnitzer
Mike, we gave you an example of narrow view of that in our Claim organization in our call centers. We're not going to get into projecting headcount beyond that.

But what I would say is premium per employee is up, thanks to some productivity and efficiency initiatives, and we expect premium per employee to continue to go up.

Michael Zaremski
Okay. Got it. That's helpful. Switching gears for my follow-up to Commercial Lines.

I think we can tease it out based on the comments in the prepared remarks. So maybe you could just tell us in Casualty, Commercial, maybe non-Workers' Comp, what was the change in pricing kind of sequentially? Or what's the trend line looking there? Thanks.

Greg Toczydlowski
Yes, Mike, good morning. Frankly, that would predominantly be the GL line and the Umbrella. And in my prepared comments, I shared with you, Umbrella had double digit in terms of renewal premium change.

What I didn't include was GL. GL think has been running in the mid-single digits in terms of renewal premium change. Those would be the two components outside of the Comp.

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

Katie Sakys
Yeah, thank you. Good morning. Alan, you mentioned in your prepared remarks that the strength seen in underlying underwriting this quarter is a durable dynamic.

I guess with pricing momentum seeming to continue to slow down here, can you map out for us what's driving your confidence that those underlying results hold in 2026?

Alan Schnitzer
Good morning, Katie, so Dan shared and I shared the trajectory of underlying underwriting income in our prepared remarks, and you can see it in the slides and the webcast.

We are a larger and more profitable company today than we have been historically. And thanks to investments that we've made in products, services, experience, capabilities and so on, we are very confident in our ability to continue writing premium at substantial levels. And we're very happy with the business that we're putting on the books.

So when you combine those premium levels with reasonably strong profitability, you get high levels of underlying underwriting income.

And if you look at the trajectory, you get a sense of what it's done over the last several years and we're confident it will continue to be a strong foundation for strong results in the years to come.

Katie Sakys
And then as a follow-up, I think last year in the fourth quarter, the Business Insurance underlying loss results included some additional IBNR for Casualty lines.

I guess with the net favorable reserve development results this year, that probably seems to be holding in fairly well. But could you give us any additional color there? And let us know if there was any similar additions to IBNR this quarter?

Dan Frey
Katie, it's Dan.

So we did say as you recall from last year, that we were including in the accident year loss pick for 2024, what we call sort of a load for uncertainty related to the Casualty lines.

I'm pretty sure we said we were doing that again in 2025, and we did do that again in 2025. And just to get the question out of the way as we head into 2026, our planned loss ratio for 2026 once again includes an uncertainty provision in the Casualty space.

I would say the Casualty loss has generally performed about as we expected, not really better than we had expected.

The Business Insurance Workers' Comp favorability has really been driven by Workers' Comp.

But long tail line still in the Casualty space, a little bit of uncertainty. So we're going to stay prudent and stick with that load again in '26.

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

Meyer Shields
Great, thank you so much and good morning. I think it is probably for Dan. I know you talked about not having much of an overall margin impact from lowering the catastrophe reinsurance attachment point. Should there be any impact on a seasonal basis? In other words, is there any pressure on first quarter combined ratio components?

Dan Frey
Yes, I don't think so, Meyer, again because when we look at our reinsurance program in the aggregate in terms of what we're going to pay out for ceded premium, given the pricing dynamic in the reinsurance space and again some other changes we made around the margins on the reinsurance program, we don't think it's going to have much of an impact.

Meyer Shields
Okay. Perfect. Thanks. And just a question for Michael. When you look forward to 2026 and beyond, are you comfortable growing the more CAT prone state policy counts in line with the overall book? Or are we still constraining growth?

Michael Klein
Yes. Thanks, Meyer. I think my point in my prepared remarks about deploying Property capacity to support package growth, but maintaining the progress that we've made implies that certainly at most, we would grow CAT prone states in line with the rest of the portfolio, but we do still have some spots where we'll be constrained. So I'd expect in aggregate, the Property PIF growth will continue to trail Auto as it has been, but both – the growth trajectories of both lines should improve.

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

Alex Scott
Hi, thanks for taking the question. First one is on just capital deployment, maybe a little bit of a follow-up of the question earlier. How are you viewing the prospects for M&A relative to organic growth at this point? I mean the profitability seems really attractive, but the growth is obviously a bit lower. So I'm just trying to gauge if the organic growth isn't quite as attractive to you. Could M&A be a way that you go?

Alan Schnitzer
Alex, I'm going to give you the same answer I've given probably for 10 years. So I'm sorry for – probably not going to be the satisfying answer you're looking for.

But the answer to that question for us is we're always looking for M&A opportunities. And we've got the capital, and we've got the expertise to diligence the deals and find the deals and execute the deals. And we are always looking for attractive inorganic opportunities.

And – but I would have answered that question the same way at any point in the last decade.

Alex Scott
Okay. Understood. I guess second one for you on tariffs. And just all of a sudden, it seems like maybe a wider range of outcomes again. How does that affect the way that you go about pricing maybe across all your businesses, but I'd be particularly interested in Personal Auto.

Alan Schnitzer
A couple of quarters ago, when we first started talking about tariffs, we shared our view that we thought that the impact was going to be relatively mild for us. And if you go back and look at the transcripts, and we shared a fair amount of commentary about how we got there. And at the time for lines that are potentially impacted, we did provide a little bit of in the loss pick for that.

What we've seen so far hasn't even been the relatively modest amount that we expected. Now as the world changes and as the tariffs are out there longer, certainly, that dynamic could change, but we feel like the provisions that we've made in the loss picks for potentially impacted lines are there to cover it.

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

Brian Meredith
First one for Michael. I'm just curious, Michael, the Personal Auto insurance space is getting increasingly more competitive, some new entrants in the agency space. Maybe you could talk a little bit about those competitive dynamics. And what is going to enable Travelers to actually maybe recoup some of the market share you've lost over the last couple of years in Personal Auto, given the competitive dynamics in that market?

Michael Klein
Yes. Thanks, Brian. I would start with the marketplace is always competitive. And certainly, I think a lot of the news that you see is around competition in the IA space. The first thing I'd say about that is I think it's a great validation of our strategy to be largely an independent agent carrier for Personal Lines and the value of choice and advice in this type of a marketplace.

The second thing I would say is we've competed successfully in the independent agent channel for years. We remain confident in our ability to compete successfully in that channel. And I think it really comes down to a handful of competitive advantages in the space. Certainly, the strength and the durability of our relationships with independent agents, our investments in digitization and ease of doing business. And then lastly, and again I've been talking about this for the last several quarters, the value of our package value proposition for both agents and customers and our ability to deliver balance sheet protection for consumers is another key advantage that we have in that space. And again we're confident in our ability to compete going forward.

Dan Frey
Yes, Brian, it's Dan. I'll just add one more comment in there on the Auto space in particular. So last couple of years, we've seen policy count down. But if you looked at the business now compared to what it was, say five years ago, we're up one of only a very small number of carriers that's actually got a higher PIF count now than we did five years ago.

And our view always again on growth is how you think about growth over time right? We're not really looking to influence a growth number in the next quarter or even necessarily the next year. What's the right balance of returns, and are you sure that you're growing over time?

Brian Meredith
Great. That's helpful. And then, Alan, I'm just curious, I always welcome your thoughts on the tort environment and Casualty trend. And what you see here going forward? Anything positive that's developing here that maybe curves that kind of loss trend on tort inflation?

Alan Schnitzer
Yes, Brian, I mean it continues to be a very challenging environment, and I wish I could say that we saw improvement. It continues to be a pretty challenging environment.

What may be a little bit of a bright light is we do see more states reacting to a difficult tort environment. And certainly, the impact of tort costs is impacting affordability for businesses and consumers. And I think we're seeing that in some states.

And so that's a potential positive. The other thing we are seeing more of is disclosure requirements when it comes to third-party litigation financing, and that's also a very good thing.

So we are continuing to put our shoulder into it and there's more work to do.

Operator
That's all the time that we have for questions.

I would now like to turn the conference back over to Ms. Abbe Goldstein for closing comments.

Abbe Goldstein
Thanks everyone, for joining. I know we left several analysts in the queue. But as always, please feel free to follow up with Investor Relations. Thanks, everyone.

And have a good day.

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

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

- the Company's outlook, the impact of trends on its business and its future results of operations and financial condition;
- the impact of legislative or regulatory actions or court decisions;
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company's reserves, including asbestos;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses (including the 2026 Plan) and modeling;
- the impact of investment, economic and underwriting market conditions, including interest rates, 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; and
- the impact of a continued shutdown of the U.S. government;

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, including with respect to artificial intelligence; 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 our most recent annual report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 13, 2025, in each case as updated by our periodic filings with the SEC.