The Travelers Companies, Inc.

Second Quarter 2026 Results Teleconference

July 17, 2026, 9:00 a.m. ET

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Operator
Good morning, ladies and gentlemen. Welcome to the Second Quarter Results Teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the question and answer session. As a reminder this conference is being recorded on July 17, 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 Second Quarter 2026 Results.

We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section. Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, CFO; and our three segment presidents, Greg Toczydlowski of Business Insurance; Jeff Klenk of Bond & Specialty Insurance; and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take your questions.

Before I turn the call over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast presentation. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements. Also in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investors section on our website.

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

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

We are pleased to report an excellent second quarter – and another in a sustained run of successful quarters – with very strong underwriting performance across all three segments, and a terrific result from our investment portfolio.

Our results continue to reflect steady progress on the innovation front, as many of the initiatives we've shared bear fruit – everything from product enhancements to the impact of AI on straight-through claims processing. There's more of that to come as we continue to invest with discipline and focus on the initiatives that matter most.

For the quarter, we earned core income of $2.2 billion, or $10.04 per diluted share, generating core return on equity of 24.9%. Over the trailing four quarters we generated a core return on equity of 24.2%.

Underwriting income of $1.7 billion pre-tax was driven by very strong levels of underlying underwriting income and favorable prior year development. Reported and underlying profitability in the quarter were excellent in all three segments. The combined ratio improved to 83.6%, and the underlying combined ratio improved to 84.1% driven by a lower underlying loss ratio.

Turning to investments, our high-quality investment portfolio continued to perform well. After-tax net investment income increased by 14% to $883 million, driven by strong and reliable returns from our growing fixed income portfolio and a strong result from the non-fixed income portfolio.

Our underwriting and investment results, together with our strong balance sheet, enabled us to return more than $1.5 billion of excess capital to shareholders during the quarter, including $1.3 billion of share repurchases. Even after that return of capital and having made important investments in the business, adjusted book value per share was 16% higher than a year ago.

Turning to the top line, we generated net written premiums of $11.5 billion in the quarter.

In Business Insurance, we grew net written premiums to $6.0 billion, 5% higher than the prior-year quarter adjusting for the sale of our Canadian business. We grew in every line other than Property, where we continue to be very disciplined about writing National Property. Property premiums were higher in both our small commercial and our Middle Market businesses.

Renewal premium change in the segment was 4.8%, with stable renewal premium change of 6.1% in our core Middle Market business and sequentially higher renewal premium change of 9.4% in our small commercial Select business. By product, RPC was higher or stable in every line other than Property. Excluding the Property line, RPC was 7.8% and about flat sequentially. Retention remained very strong at 86%, reflecting deliberate execution on our part and a generally high level of stability in the market. New business was a record $805 million, up 8% over the prior year quarter.

As I've shared before, pricing, retention and returns need to be evaluated together. The optimization of that combination – together with New Business – creates shareholder value. Looking at them in concert, these results reflect the exceptional execution of a sound strategy by our experienced field organization.

In Bond & Specialty Insurance, we grew net written premiums by 14% to a record $1.2 billion. In our high-quality Management Liability business, renewal premium change remained steady while retention improved to an excellent 88%. New business was up 8% over the prior-year quarter. In our leading Surety business, we grew net written premiums by 40%, reflecting our success with large accounts and continued strong production across the portfolio.

In Personal Insurance, we generated net written premiums of $4.3 billion, with solid retention in both Auto and Homeowners and higher new business in Homeowners.

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 minute to step back from the quarter and talk about what's behind the sustained period of strong results we've delivered. In short, it's the earnings engine we've built.

There are four components that comprise core income: underlying underwriting income; net investment income; catastrophe losses; and prior year development. All four have contributed to our success.

We've shared before the significant increase in underlying underwriting income over the past decade. You can see that on Slide 19 of the webcast presentation. That success is in large measure the result of investments we've made through our focused innovation strategy to strengthen and extend our broad portfolio of competitive advantages.

Leveraging those advantages, we have driven underlying underwriting income higher by growing the top line, while at the same time improving underlying margins. You can see the strength of the result in the contribution of underlying underwriting income to return on equity.

Looking ahead, we expect to continue generating strong premium levels at attractive underlying margins – with the next chapter of our investment work, Innovation 2.0, and our growing scale as added tailwinds. That's why you've heard us describe our strong level of underlying underwriting income as durable.

Net investment income is also a growing and reliable contributor to our bottom line. Strong underwriting cash flows and predictable returns from our fixed income portfolio, complemented by positive returns from our alternative investments, have contributed to an investment portfolio that is now more than $100 billion. Net investment income has been a consistently strong contributor to ROE, and new money rates in the fixed income portfolio continue to outpace the embedded yield. As a reminder, about 95% of our investment portfolio is invested in fixed income, of which 99% is investment grade.

Together, our underlying underwriting income and net investment income have grown into a formidable earnings base substantial enough to absorb significant catastrophe losses and still produce leading returns. In each of the last two years, we've produced among our highest levels of returns in spite of record levels of catastrophe losses.

And our resilience to catastrophes is about more than the size of that earnings base. As we've said before, our share of the industry's Property catastrophe losses over the past decade has been meaningfully lower than our corresponding market share – a direct result of our disciplined risk selection, pricing and exposure management, all powered by leading data and analytics. Those are the same capabilities that position us to handle the prospect of continued weather volatility.

That brings me to the balance sheet and prior year reserve development. We don't plan for PYD. When we set our reserves, we're deliberate about taking uncertainties into account, so we're never counting on favorable development to materialize. And yet it has. We've recognized net favorable prior year reserve development in 19 of the last 20 years, totaling $15 billion pre-tax which speaks to the discipline in our process. We're confident that our balance sheet is as strong today as ever.

The earnings and cash flow this engine generates go well beyond what we can effectively put to work to run and grow the business – and that gives us valuable choices about how to deploy the excess capital. Our first priority is always to reinvest – organically or inorganically – where we can earn attractive returns. When we generate capital beyond those opportunities, we don't think of it as ours to keep; as responsible stewards, we return it to our shareholders.

We've done that consistently and with discipline. We've raised our dividend every year for more than two decades, at a compound annual rate of 8%. And we've returned meaningful capital through share repurchases. Since we started our share repurchase program, we've retired 70% of the shares then outstanding, and as a result, spread our growing earnings, dividends and book value across fewer shares – increasing each shareholder's stake in the earnings power we've built.

Just by virtue of our share repurchase program, a shareholder's percentage ownership of Travelers has increased 9% since the beginning of 2025. The percentage ownership of a shareholder who owned Travelers stock when we began our share repurchase program in 2006 has more than tripled.

As an aside, by returning excess capital to our investors, we give them the ability to allocate their investment dollars as they see fit, including by investing in companies with different growth profiles or capital needs, thereby contributing to the efficiency of the capital markets. The efficient allocation of capital contributes to a stronger economy.

To wrap it up, that's the earnings engine – tuned to continue delivering industry leading returns at industry low volatility. And this engine funds its own improvement. The earnings and cash flow we're generating are what allow us to invest well more than $1.5 billion a year, including in focused technology initiatives, such as AI, to strengthen the very advantages behind these results. It's a virtuous cycle, and one that scale only makes more powerful.

Ultimately, all of this is what allows us to deliver on the promise we make to our customers; serve our 30,000 colleagues and the communities that count on us; and support the distribution partners who represent us.

Operating from this position of considerable strength, we remain highly confident in the outlook for Travelers.

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

Dan Frey
Thank you, Alan. Travelers delivered $2.2 billion of core income in the second quarter, resulting in quarterly Core ROE of 24.9% and a trailing 12-month Core return on equity of 24.2%.

Second quarter earnings were driven by another very strong quarter of underlying underwriting income, which at $1.3 billion after-tax marked our eighth consecutive quarter of more than $1 billion. Net investment income of $883 million after-tax and net favorable prior year reserve development of $456 million after-tax also contributed to the strong bottom-line result. After-tax CAT losses were a little more than $400 million.

The all-in combined ratio of 83.6% was again excellent. Underlying underwriting income reflects $10.8 billion of earned premium and an underlying combined ratio of 84.1%.

Within the underlying combined ratio, the second quarter expense ratio of 29% was slightly higher than in the prior year quarter. As underwriting profitability has been stronger than expected, certain variable expenses have also been higher than expected – for example, profit sharing and contingent commissions – and that's a trade-off we're happy to make. Even with those higher profit-driven variable costs, we continue to expect the full year expense ratio to be in line with our prior guidance of around 28 1/2%.

We reported net favorable prior year reserve development in all three segments in the second quarter, totaling $578 million pre-tax. In Business Insurance, net favorable development of $319 million was driven by Workers Comp and Commercial Property. In Bond & Specialty, net favorable PYD of $75 million was driven by better-than-expected results in Management Liability coverages and Fidelity & Surety. Personal Insurance recorded net favorable PYD of $184 million, with favorability in both Home and Auto.

After-tax net investment income increased 14% from the prior year quarter to $883 million. Fixed income NII was higher than in the prior year quarter and in line with our expectations, benefiting from both higher yields and a higher level of invested assets. New money yields at the end of Q2 were about 90 basis points higher than the yield embedded in the portfolio.

Our outlook for fixed income NII by quarter – including earnings from short-term securities – is consistent with the guidance we previously provided, expecting approximately $840 million in the third quarter and roughly $870 million in the fourth quarter. And fixed income NII is expected to continue to grow beyond 2026, as the portfolio becomes larger and new money rates continue to be higher than the yield embedded in the portfolio.

Net Investment Income from our alternative investment portfolio was also higher than in the prior year quarter.

Turning to capital management, operating cash flows for the quarter of $1.9 billion were again very strong, and over the trailing 12 months operating cash flows surpassed $11 billion.

As interest rates decreased during the quarter, our net unrealized investment loss decreased – from $2.4 billion after-tax at March 31 to $2 billion after-tax at June 30.

Adjusted book value per share, which excludes unrealized investment gains and losses, was $168.20 at quarter-end, up 16% from a year ago. Adjusted book value per share also increased 6% from year end, despite the very strong level of share repurchases in Q1 and Q2, the 14% increase in the quarterly dividend per share, and our continued investments in technology and other strategic initiatives.

We returned more than $1.5 billion of capital to shareholders in Q2, with dividends of $266 million and share repurchases of $1.3 billion, leaving us with roughly $3.9 billion remaining under prior Board authorizations for share repurchases.

Turning to reinsurance, page 18 of the webcast presentation includes some highlights. First, we replaced our expiring CAT bond in May with a new CAT bond, increasing the bond size from $575 million to $750 million and decreasing the retention slightly. Second, on July 1 we renewed our Northeast Property CAT XOL treaty, which continues to provide $1 billion of occurrence coverage above the attachment point of $2.75 billion. It's also worth noting that we chose not to renew the Personal Lines CAT XOL treaty we had purchased in 2024 and 2025. Recall that when we renewed our general corporate CAT treaty at January 1 this year, we decreased the attachment point from $4 billion to $3 billion, and the efficiency of that all-perils, enterprise-wide program was a more attractive way of getting the reinsurance coverage we wanted.

In summary, our second quarter results once again demonstrated significant and durable underwriting earnings power, steadily increasing Net Investment Income from our growing investment portfolio, and attractive returns across our well-diversified book of business.

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 terrific second quarter in terms of both top and bottom-line results. Segment income of $1.2 billion was a second quarter record reflecting strong underlying underwriting income and favorable prior year reserve development.

We delivered an underlying combined ratio of 88.2%, a second-quarter record. The improvement in the underlying loss ratio reflects favorable loss experience – including favorable experience consistent with the kind of investments we make in areas like predictive models, risk selection, products, technology, Claim and Risk Control. This gives us confidence that we're investing effectively.

Turning to the top line. Our net written premiums reached a new quarterly record of $6 billion. Excluding the impact of the sale of our Canadian business in the first quarter, we grew segment net written premiums by 5%, led by 7% growth in our Middle Market business and 4% growth in our Select business. National Property premium declined, as we maintain our deliberate and disciplined underwriting standards, passing on business where price and terms don't align with our view of the risk.

Turning to production across the segment, renewal premium change was 4.8%. Excluding the Property line, RPC was 7.8% and about flat sequentially. Retention remained very strong at 86%, reflecting our continued focus on retaining our high-quality book of business. New business was strong at $805 million reaching a new quarterly record. The strength of these results reflects our ongoing commitment to investing in products, underwriting precision, and the capabilities we are building for our field organization and distribution partners.

As for the individual businesses:

In Select, renewal premium change increased sequentially to a strong 9.4% for the quarter. New business of $153 million was solid. These results underscore our continued investment in products and the industry-leading experience we deliver to our agents and brokers. BOP 2.0 remains a key contributor, with industry-leading segmentation embedded in the product continuing to support profitable growth. We are encouraged by the new capabilities we are piloting within TRAVIS, our digital platform, with recently developed AI advancements that make submission uploads seamless through advanced data extraction, rapid prefill of submission information, and the application of sophisticated underwriting rules that generate quotes in seconds - improving the speed and ease of doing business for our distribution partners and for us.

In Middle Market, renewal premium change remained steady at 6.1% while retention of 89% remained at historically high levels. New business in Middle Market of more than $500 million reached an all-time high this quarter up 17% from prior year levels driven by our strong value proposition.

To sum up, Business Insurance had a terrific second quarter in terms of both financial results and execution. We continue to grow our high-quality book while investing in differentiating capabilities that position us for long-term profitable growth.

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

Jeff Klenk
Thank you Greg, and good morning everyone. We're pleased to report that Bond & Specialty posted another strong quarter on both the top and bottom lines.

We generated segment income of $234 million and an excellent combined ratio of 82.8%.
Turning to the top line, we grew net written premiums by a terrific 14% in the quarter to a record $1.2 billion.

In our high-quality domestic management liability business, retention ticked up a point from the first quarter to 88%, while renewal premium change remained consistent. Our outstanding field team continues to achieve rate gains where appropriate through segmented and data-driven pricing initiatives.

And we are very pleased with the 8% increase in new business reflecting the value that our distribution partners and customers place on our products and services.

Turning to our market-leading Surety business, we are also very pleased to have grown net written premiums by 40% from the prior year quarter to a record level. The exceptional production this quarter spanned across our high credit quality portfolio and included a small number of large projects and increased bonding for data center development. We are pleased that our outstanding team's efforts to build the right customer relationships, and our investments to support the long-term success of our portfolio of premier contractors, generated such terrific production in this profitable business.

So, Bond & Specialty Insurance delivered strong profitability and excellent growth in the quarter, while continuing to make strategic investments in our competitive advantages, including in our market leading team, and important technology and artificial intelligence capabilities to improve risk selection and efficiency.

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

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

I am pleased to share that in Personal Insurance, we delivered segment income of $827 million for the second quarter. Strong underlying underwriting income, modest catastrophe losses, and favorable prior year reserve development contributed to this excellent bottom line result.

The combined ratio was an outstanding 79.5% in the quarter and the underlying combined ratio of 77.3% once again demonstrated strong profitability in both Automobile and Homeowners & Other. Net written premiums for the segment were $4.3 billion as retention remained solid while pricing moderated, reflecting strong profitability. New business in Homeowners was higher year over year.

In Automobile, bottom-line results continue to be very strong. The second quarter combined ratio was 82.8%, reflecting a 4 1/2 point benefit from favorable prior year reserve development and a strong underlying combined ratio of 85.8%.

The underlying combined ratio improved just over three points compared to the prior year. This strong result was driven by favorable loss experience across coverages, including about a two-point benefit from the re-estimation of the prior quarter in the current year. These benefits were partially offset by the impact of lower earned pricing, reflective of our strong profitability.

In Homeowners & Other, the second quarter combined ratio was an excellent 76.7%, reflecting modest catastrophe losses and very strong underlying underwriting income. The underlying combined ratio of 70.1% was comparable to a strong prior year quarter.

We are pleased that our Property results continue to demonstrate the benefit of our disciplined approach to optimizing our risk-return profile, through effective management of our appetite, business mix, pricing, terms, and conditions.

Turning to production, we continue to make progress toward our objective of delivering profitable growth over time.

In Automobile, retention of 82% was consistent with recent periods. Renewal premium change was flat, as we continue to incorporate improved profitability in our pricing. New business levels in Auto remain healthy and we continue to be pleased with the high-quality profile of the business we are writing.

In Homeowners and Other, retention was strong at 85%. Renewal premium change of 6.6% continued to moderate, as intended, given improved profitability and our successful efforts to align insured values with replacement costs.

We are pleased with the increase in both new business premium and the number of new business policies compared to the prior year, as we have broadened our targeted efforts to deploy Property capacity.

We continue to execute a range of initiatives designed to generate growth in both Auto and Property:

- adjusting rate levels to reflect strong profitability;
- enhancing product and pricing segmentation;
- refining eligibility restrictions;
- and pursuing new agent appointments and book consolidation opportunities.

This quarter's results underscore the strong fundamentals across both Auto and Home – the product of deliberate, disciplined actions over the past few years to improve profitability, manage volatility, and position our portfolio for the long term.

We also continue to invest in capabilities to deliver value to our customers and distribution partners by digitizing the insurance journey, modernizing our infrastructure, and simplifying our approach.

We remain confident that our disciplined approach to performing today and investing for tomorrow will generate profitable growth over time.

With that, I will turn the call over to Abbe.

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

Operator
Thank you. We will now begin the question and answer session. If you have dialed in and 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 to allow everyone an opportunity to ask a question.

We'll take our first question from Mike Zaremski at BMO.

Mike Zaremski
Hi, good morning, and thanks for taking my question. First one is just on the competitive dynamics in Business Insurance, maybe specifically on the Select account sandbox. Maybe you can kind of talk about why pricing appears to be bucking the downwards trend line that the medium and larger accounts are experiencing. Is this you think more Traveler specific due to things you're doing? Or do you think it's reflective of the broader environment?

Greg Toczydlowski
Good morning Mike, this is Greg. Well first, there's no strategic shift underneath the Select book. That really is a function of the rate filings that get approved on a state-by-state basis from quarter to quarter. So that can just fluctuate. That's really that's what's underneath that.

Alan Schnitzer
Hi Mike, leading to your question, you said bucking the trend of other pricing numbers going down. I just want to point out that other than Property, really National Property, the pricing environment was very stable.

Mike Zaremski
That's helpful. I think maybe we focus a little too much – or at least I'm a little guilty of focusing a little too much on Property. Okay. Just my final follow-up is any – in terms of just the excellent profit margins pretty much across the board, any prior quarter adjustments that impacted the accident loss ratio that we should be considering?

Dan Frey
Hi Mike, it's Dan. So if you're asking about Business Insurance, in particular, the answer is no, happy to see 0.5 point or so of improvement in the underlying loss ratio in Business Insurance, a little bit of pricing benefit still, a little bit of mix, a little bit of an improved view of the loss environment overall. And as Greg mentioned in his comments, a bunch of the investments that we've been making there are probably starting to pay off. Michael did mention in PI and Auto, in particular, a couple of points of favorable prior quarter re-estimation.

Operator
We'll move next to Gregory Peters at Raymond James.

Gregory Peters
Well, good morning everyone. So for the first question, I'm going to step back and just ask about the ROE – the 24.2% ROE on a trailing 12-month basis versus your mid-teens target over time.

Alan, I'm just curious, as we look across the enterprise, do you think you could consider relaxing some of your underwriting standards at price – get more aggressive on pricing to grow faster, considering your over – your returns are far in excess of what your target is longer term? And I guess related to that is, when do we get back to that destination of the mid-teens core ROE over time?

Alan Schnitzer
Good morning, Greg. Well first of all, we're happy to be above that mid-teens core return on equity over time objective. But to your question, are we going to relax underwriting standards or pricing to try to grow, that's a fool's errand, and we've always said that's a fool's errand. This is a very competitive marketplace. And if you relaxed pricing, all you do is end up with same size book of business with lower margins.

So our objective is to compete on franchise value. And every – firstly, every investment that we're making is geared towards making sure that we've got the franchise value to grow this company profitably. But competing on pricing in this business is a fool's errand.

Gregory Peters
Great. It seems to every quarter I ask technology questions, and I just can't help myself. In the last couple of months, there have been numerous reports and commentary about the rising cost of technology implementation, including things like token costs, et cetera. As we've been looking at it from the outside-in, we thought – at least, I've been thinking about technology investments as a way to improve efficiency.

So I'm just curious, as the cost side of technology implementation seems to be rising. Do you think that's going to offset the expected efficiency gains? And related to that, there was a story that popped up about some software glitch that may have happened at your company through an implementation. Just curious, when you deploy technology, how you manage potential challenges as that is being rolled out. Thank you.

Alan Schnitzer
Yes. There's a lot in that question, Greg, but thanks for the question. We are laser-focused on the cost of technology and innovation. We have substantial productivity and efficiency gains. We talked about in terms of operating leverage. We've generated substantial operating leverage over recent years and even longer periods. So we feel great about that.

In terms of token costs and how you manage expenses of a large innovation and investment program, you've got to remember that we've been innovating as a strategy for more than a decade now and there's a lot of hard-won know-how in doing that. We said we've done three things really well. We've identified the right priorities. We've executed them very well and we've harvested the benefits. And part of harvesting the benefits is making sure that you understand your cost and that you're managing your costs. And we are laser-focused on that and very comfortable that we're doing a great job there, actually.

In terms of the software glitch that you mentioned, it really wasn't a software glitch. The underlying platform is working just fine. We were moving substantial amounts of information as part of a system conversion, and that is just a highly complex undertaking. As always, we regret any disruption to any customer or agent. But sometimes these things happen when you have these large complicated programs. Many of the issues have been resolved, and we will stay at it until every single one of them is resolved.

Operator
We'll go next to Paul Newsome at Piper Sandler.

Paul Newsome
Good morning. A little bit of the same question on the ROE, but more talking about capital management. I would love to hear a little bit more full discussion of the high-class problem of the ROE and how you think that we should think about the change – any change in capital management prospectively, given you should be generating quite a bit of excess capital prospectively?

Dan Frey
Hi Paul, it's Dan. So, I think we've had a long-standing capital management philosophy which Alan referred to in his prepared remarks that's served us and our shareholders really well. That's been throughout various cycles of either under-earning relative to the mid-teens long-term objective or over earning relative to the mid-teens ROE objective. So I think the beauty of that capital management philosophy is that you're able to apply it sort of in all circumstances. So I said simply, again, we expect to generate strong levels of capital. We want to be a strongly capitalized company. We have consistently generated more capital than we need to run the business, including to support the growth of the business. We're going to look to deploy it, whether that's organically or inorganically, if we think we can do so and generate attractive returns. To the degree that we've accumulated more capital than we can, we're going

to return the rest of it through dividends and share repurchases which you've seen from us here clearly in the past several quarters.

Paul Newsome
Any difference and thoughts on the M&A environment which to be part of that capital management?

Alan Schnitzer
No. But we are highly attuned to M&A opportunities, and confident that whenever attractive M&A opportunities come around, that we'll find a way to finance them. So our view of M&A doesn't change. It doesn't change relative to the excess capital that we have.

Operator
We'll take our next question from Katie Sakys at Autonomous Research.

Katie Sakys
Good morning, thank you for the question. First, I wanted to unpack the new business momentum in domestic BI, Middle Market, a little bit more. Greg, wondering if you could just give us a better understanding of some of the drivers behind the uptick this quarter? And how sustainable you think new business momentum is in the Middle Market going forward?

Greg Toczydlowski
Yes, Katie, thank you. Yes. We're certainly proud of the number we put up in Middle Market. It can be lumpy from time to time given that's a transactional business, but Dan already referenced – in my prepared comments, I also talked about the investments we're making that not only impact the loss experience, they impact production also, by making sure we've got the best predictive analytic tools, the best risk selections and product and technology that we're putting into the marketplace, in addition to Claim and Risk Control. Those items are definitely in demand of our distribution. I think that helps with the new business also. But given that transactional business, it can bounce around from quarter-to-quarter.

Katie Sakys
Yes. I totally understand that. Then perhaps as a follow-up, sticking with Middle Market, completely understand the difficulties in National Property and the desire to maintain underwriting discipline there. Are you guys seeing any signs of pricing terms not aligning with your view of risk in Middle Market Property? Or are trends kind of hanging in higher there, or stronger there, I should say.

Greg Toczydlowski
Yes, no. We're not really seeing a material shift in terms and conditions in the Middle Market Property. We're so much on an account provider there. We're also going to typically have the GL and the Comp, but that's been more of a National Property dynamic.

Operator
We'll take our next question from Ryan Tunis at Cantor.

Ryan Tunis
Hi, thanks, good morning. First question is just for Michael. On the Personal Auto side, just looking for a little bit of an update on what you're seeing in terms of frequency and severity. Obviously gas prices have been a little bit higher. Curious if there's any impact flowing through results from that?

Michael Klein
Sure, Ryan. Yes. This is Michael. I would say as I mentioned, the improvement in underlying in Auto was a really favorable experience across coverages. That's actually a combination of favorable frequency and severity. As respect to the question on frequency related to gas prices, I think I've said this before, it's always a little tough to diagnose what's driving frequency improvements. There tend to be a range of factors. And we can point to a few things, most importantly, improving vehicle technology and advanced safety features in vehicles, less distraction that again we can measure. But there's not a ton of evidence, at least at this point that there have been material changes in driving behavior related to gas prices, particularly as we look through the first part of this year.

Ryan Tunis
Got it. Then a follow-up just on Dan probably, but just the favorable development in Business Insurance. How about the – just curious with the casualty lines outside of Workers Comp, Commercial Auto, GL. What was kind of the bottom line of the reserve review this quarter? Thank you.

Dan Frey
Sure, Ryan. So BI, good solid number. I mentioned Comp and Commercial Property. Those were the biggest drivers. And just to give you a sense of magnitude on those, Comp was a little more than $200 million. Commercial Property was around $80 million, and if you think about what's left and you think about all – there's definitely ups and downs in some of the other lines of business, but the net of those things was a good guy. We have paid particular attention to the Casualty lines, including Umbrella and Commercial Auto and did not see any pressure there at all this quarter.

Operator
We'll move next to Mark Hughes at Truist Securities.

Mark Hughes
Yes, thank you, good morning. Talked about the Bond & Specialty. It sounds like a couple of the large projects helped the premium there, and then the data center impact. How durable do you think that will be?

Jeff Klenk
Yes, Mark, good morning, it's Jeff Klenk. We did see some exceptional growth in the quarter across the portfolio, and you've referred to the things I called out in the prepared remarks. It's important to remember that the majority of Surety production is coming from new bonds, right? So renewals are really limited to just a few types of obligations in Commercial Surety. So we've always expected there will be top line variability. I wouldn't get into projecting the durability of those things.

But if you think about the type of projects, the large projects, the data center construction, as the leader in Surety in North America and our high quality portfolio, high credit quality customers, we believe that we're well positioned to benefit from that future investment in infrastructure, particularly when it involves public spending, but also included in these other opportunities I've called out.

Mark Hughes
I appreciate that. Then a quick follow-up on the Commercial Property in Business Insurance, the downdraft was less than it had been the last few quarters. Was that anything to do with mix in the quarter? Is the worst behind us in terms of your top line experience in Commercial Property?

Greg Toczydlowski
Yes. Good morning. This is Greg again. Yes. I think if you're just referencing the net written premium delta from the first quarter to the second quarter, the slight improvement there. There's a number of items, timing variances, reinsurance, the treaties that come up in that particular quarter. But I wouldn't read into that, that that's a signaling of the pricing cycle. I would say that it's incrementally softer and certainly not a reflection of that net written premium delta.

Operator
We'll take our next question from David Motemaden at Evercore.

David Motemaden
Hi, thanks, good morning. Dan, in a prior question, you had mentioned – on Business Insurance, you had mentioned a little bit of an improved view of the loss environment overall. I was wondering if you could elaborate on that and maybe just talk about if you've changed the loss cost trend assumption?

Dan Frey
David, Dan. So we're going to stay away from the loss trend question and sort of for that reason, because we say look, loss trend is one particular, fairly narrow definition, you also consider things like changes in base year over time and how you view the loss environment. So not a big number, so I wouldn't shine a big light on it. It was just one in a series of modestly favorable items. But the reality is, if you just look back at the last couple of years, the margins in Business Insurance from an underlying perspective have been very good. So we've seen a little bit of favorability, probably relative to what we might have thought things were going to look like year and a half or two years ago, and we're cautiously baking some of that into our picks now. But very small, David.

David Motemaden
Got it. No. That makes sense. And then one of the drivers Greg and Dan also mentioned just – you also just mentioned just on the investments that you've been making that are probably starting to have an impact within the underlying loss ratio in BI. I guess how should we think about that flowing through going forward? Or is that just a step change now that's embedded in the run rate? Or is that sort of an ongoing tailwind that will keep building as an offset that we should consider to some of the pricing dynamics.

Dan Frey
So David, Dan, again I'll start. Again we're talking about very small numbers, right? The underlying loss ratio in Business Insurance changed by about half a point. So these are not big things. But it does go into sort of our thought process of why it's important to think about more than just what's the pure rate number or what's the pure renewal premium change number. There are other things that impact the loss environment, including actions we take with underwriting appetite terms and conditions, deductible levels, claim efficiency, all those things.

Operator
We'll go to our next question from Brian Meredith at UBS.

Brian Meredith
Yes, thanks. First, I'm just curious, Workers Compensation insurance, we've seen some reports out there about maybe longer recovery times happening and perhaps that's related to just some of the fears of unemployment with respect to AI. Curious, are you seeing that? And maybe in that context, how does that kind of factor in your thoughts on reserving for Workers Comp?

Dan Frey
Hi Brian, it's Dan. So I'll take it at least from a reserving perspective. So again, first quarter and second quarter here, again another couple of favorable quarters in terms of PYD, which would tell you that we're really not seeing pressure from a severity perspective. And Comp continues to be favorability, both on frequency and severity.

I would just go back to the comments we've made many times before, which is we take very respectful view of what the long-term severity trend in Workers Comp is going to be. And even if the more recent periods have been pretty benign, our assumption in our loss picks and in our reserves is still that severity is going to go back to some higher more normal long-term trends.

So even if there were some increases in severity, whether it's because people are out longer or injuries cost more, unless it gets outside of your pick, we're not going to have a problem. The other thing I'd say just specific to your question, we didn't really see anything specific in the most recent data that aligns with the problem you are alluding to.

Alan Schnitzer
But the other thing I would add, Brian, just as a sort of a general matter, is that is that we expect some changes in frequency and severity in Workers Comp as a function of economic activity. So that will impact the frequency at which workers go out and the length that they stay out. So we've got a view on whether improving or deteriorating economy is going to – to what degree is going to contribute to those. So we bake that into our assumptions.

Brian Meredith
Makes sense. Thanks. The second one, I guess for Michael. Michael, I know there's a bunch of initiatives that you're implementing to try to get growth going in Personal Auto Insurance. But maybe I'm just curious, how reasonable is to think that growth is going to actually pick up there, given just the competitive dynamics? It seems like every company out there is looking to grow, and cutting prices.

Michael Klein
Yes, Brian, I mean I think you're describing the environment. And again, you all have visibility into just like we do, to the rate environment, and you see the filings and broadly speaking, rate continues to be decreasing in Personal Auto. I would say what we are doing is everything that we think is appropriate to profitably grow that business. The things that I mentioned, I would just put a little more color around, like when we talk about adjusting rate levels to reflect strong profitability, Alan talked earlier about lowering price in this business to grow as a fool's errand. That's not what we're doing, right? What we're trying to do is match price to risk.

So our strategy in Auto is we want to match price to risk, we want to have the most sophisticated segmented product we can have in the marketplace. We want to have the appropriate eligibility that aligns with our appetite. Then we want to make sure that we are in all the places, taking advantage of all the opportunities that we can to be able to produce profitable business. And again as I talked about this quarter, new business levels in Auto have been healthy, and we're very pleased with the profile of the business that we're writing as a result. So we're going to continue to execute our strategy. The outcome of that strategy, to your point, is going to be a little bit the function of the market, but we're going to do what we think is appropriate to profitably grow the business.

Operator
We'll move to our next question from Pablo Singzon at JPMorgan.

Pablo Singzon
The first question I have is for Michael. As you pivot to growth in Personal lines, can you talk about your approach to treating off or, I guess balancing margins versus unit growth rate? And I guess sort of simplify the question right, at what combined ratio would you be comfortable running the book, recognizing that it's producing margins that are really good today right? And that your book is more balanced between Personal Auto and Homeowners, compared to the broader market.

Michael Klein
Sure, Pablo. Maybe just to put a point on the comment I made earlier, right? We have target returns. Our target return is mid-teens over time. When we talk about adjusting pricing to reflect profitability, that's what we're doing, right? We're reevaluating our loss experience state by state in the line of business, whether we talk in Property or Auto, determining what we think an adequate price is at those target returns and then we're filing for that pricing. So that's the approach we've taken. It really is driven towards mid-teens ROE over time. Clearly, we're above the mid-teens right now. So that's why you see renewal premium change moderating in both lines of business.

Pablo Singzon
Thanks for that. Then the second question, I have for Dan. I guess just on the full year expense ratio guide of 28 ½%. I was wondering if you could provide just more color on what gets you there in the second half of the year, right? You're implying that there's going to be improvement. Is it contingent tailing off, just premium growth picking up, expense ratio? So any color or commentary would be helpful there, Dan. Thanks.

Dan Frey
Yes, Pablo. So not a lot I can give you other than, again I think we made this comment last quarter. If you go back and look at the last five years or so of our results, I think with the exception of 2025 which was pretty steady, it's not at all unusual to see the expense ratio vary within a year by a point or more from quarter-to-quarter. So we've got an outlook view of what we think some of our run rate expense levels are. We line that up against what earned premium looks like. You get little math quirks like there are actually more days of earned premium in the second half of the year than there are in the first half of the year. That's our view.

Currently, there's no particular change coming in the second half of the year strategically, or any kind of slowdown in investment spending or anything like that. We just think when we put the four quarters together, we're going to still be pretty close to that 28 ½%.

Operator
We'll take our next question from Rob Cox at Goldman Sachs.

Rob Cox
Hi, thanks, good morning. Just a follow-up on the Property discussion. I know large account Property and cat rates get a lot of attention, but we've noticed Travelers and the industry, CMP loss ratios are at historic profitability as well. Maybe you could just talk about how you're viewing that book right now and if we should expect the gap between large and small account pricing could start to narrow.

Greg Toczydlowski
Yes. Let me give you a couple of comments on that. Typically, you'll see in the change of cycles, National Property, large scheduled Property leading both the firming and the softening, the trough of the marketplace. You won't see the rest of the Property portfolio, all to the depths or the peak you would see on National Property. That's kind of the cycle we're in right now. The Property outside of National Property in our core Middle Market business, the component underneath CMP Select that you just referenced, has a little bit of softening to it, but certainly not to the degree that you're seeing in the National Property and the large schedules.

Rob Cox
Okay. That's really helpful. And then if I could just ask more directly on some of the, I think, opening comments on the claims straight-through processing, enhancements and AI initiatives there. Are we starting to see that in the Business Insurance margin this quarter? And how should we expect that to trend?

Alan Schnitzer
I think the answer is yes. I mean that was the reference in Greg's Script, Dan referred to it. So we are seeing benefits coming from the investments and the innovation. I mean it was a half a point improvement in the underlying loss ratio. There's a couple of things going one way or the other in there, but that was big enough that it was worth bringing some attention to it. I wouldn't say this is still the first time it's ever appeared. It's just – it's in the context of some other pieces that are moving one way or another, but we are very clearly generating benefits from the innovation and AI investments that we're making.

Operator
We'll go next to Elyse Greenspan at Wells Fargo.

Elyse Greenspan
Hi, thanks. Good morning. My first question was just going back to the BI discussion. And just some of the commentary, Dan, you just gave around the change in view on loss trends in the quarter. Does that mean that you took down the uncertainty provision that you guys had put up over the last couple of years?

Dan Frey
No, Elyse, it does not. So we had the uncertainty provision in '24 and '25 and said I think at the end of the first quarter, we had carried it into '26, and we continue to carry it into 2026.

Elyse Greenspan
Okay. Thanks. Then my second question, going back to the capital discussion. I know at times you guys have kind of balanced capital return relative to capital needed for growth as premium growth, right, is slowing relative to some of the more recent years, should we think about repurchases and dividends combined constituting a greater percentage of operating earnings from here?

Dan Frey
Yes, Elyse, it's Dan. So I think the short answer would be, over time, yes. I don't think you could sort of apply that to any particular quarter or even necessarily full year, we're going to always see what's happening in a particular quarter given profitability, cat activity in particular. But over time yes, and that's why we made the comment probably going back now three years when the business was growing, that street, we thought, had gotten a little ahead of itself in terms of expected buybacks by not factoring in the need to hold capital for additional growth. We still expect to grow and are still growing, but to the degree that, that growth might be a little slower than it had been in recent years, the need to

accumulate additional capital is going to come down a little bit with it.

Operator
And we have time for one more question, and that question comes from Meyer Shields at KBW.

Meyer Shields
Thanks. Alan, if I can go back to the comments you made on trading some excess margin for growth. I guess the question is, that I would assume that in the fragmented Small or Middle Market, that there are companies that simply can't keep up with their pricing because of their scale and analytical advantages. Am I missing something there?

Alan Schnitzer
I'm not sure I understand the question, Meyer?

Meyer Shields
So let me try and rephrase. Like when – so you talked about how it's a fool's errand to lower pricing to gain share, and I understand that conceptually, but my impression or presumption is that you won't necessarily invite the same level of competitiveness because business that's very profitable for Travelers is not going to be anywhere near as profitable for companies with higher expenses and less capable loss control which would, I think call for maybe a little bit more aggressive pricing. So wondering what I'm not thinking of there.

Alan Schnitzer
Yes. So I shared sort of a principle, Meyer. Of course there are going to be variations from that principle in different circumstances. The other thing I would distinguish is lowering price where you're actually lowering returns versus lowering price because you can do so without impairing returns. Those are two different scenarios.

But there's circumstances that are exceptions to every rule. But as a general rule, it's our big preference not to compete on price because for all the reasons we've shared, and we prefer to compete based on franchise value.

Meyer Shields
Okay. Understood. Then just a brief question on Surety, how should we think about the policy terms, especially for the larger projects and the data center stuff, does that extend the earnings period for the written premium?

Jeff Klenk
So larger projects might have longer durations, Meyer. This is Jeff Klenk, by the way, good morning. So there is an aspect on some of that. The underlying terms of all of these projects are bespoke, the contract between the contractor, the project owner, are carefully analyzed. We actually provide consultative underwriting as part of that process. So it's not like there's standard policy terms. These are all individual contracts and the Bond responds to those. It's actually one of our competitive advantages and the service that we provide to our customers is engaging in that process. But it's fair for you to think that on some of this business, the larger they are, they might be longer. But for our portfolio broadly, we've got lots of different sizes of contractors and types of projects in there. So while there is some movement on some of the larger, it doesn't move the overall needle very much. Thanks for the question.

Meyer Shields
Thank you.

Operator
And that concludes our Q&A session. I will now turn the conference back over to Abbe for closing remarks.

Abbe Goldstein
Thanks everyone for joining us. We appreciate your time. And as usual, if there's any follow-up, please get in touch with Investor Relations. Have a good day.

Operator
And 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, 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; and
- the impact of developments in the geopolitical environment, including the war with Iran

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.

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Insurance-Related Risks

- high levels of catastrophe losses;
- actual claims may exceed the Company's claims and claim adjustment expense reserves, or the estimated level of claims and claim adjustment expense reserves may increase, 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 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 pursue acquisitions or dispositions 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; and
- future pandemics

Technology and Intellectual Property Risks

- as a result of cyber attacks (the risk of which could be exacerbated by geopolitical tensions, including the war with Iran) 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 changes in tax laws; 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 appropriate capital levels for the Company's business operations, changes in the levels of written premiums, funding of the Company's qualified pension plan, regulatory capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions, changes in tax laws and other factors.

Our forward-looking statements speak only as of the date of this press release or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Forward Looking Statements" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on July 17, 2026, and in our most recent annual report on Form 10-K filed with the SEC on February 12, 2026, in each case as updated by our periodic filings with the SEC.