



The Travelers Companies, Inc.

First Quarter 2019 Results Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the first quarter 2019 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 April 18th, 2019.

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 first quarter 2019 results. Hopefully all of you have seen our press release, financial supplement, and webcast presentation released earlier this morning. All of these materials can be found on our website at Travelers.com under the investor section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our three segment presidents: Greg Toczydlowski of Business Insurance, Tom Kunkel 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 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. 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 investor 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.

Our 30,000 employees are engaged in executing on our focused strategic priorities, and we're seeing the impacts. As we've explained in the past, our strategic efforts are geared towards creating attractive top-line opportunities and improving productivity and efficiency. The strong results we delivered across all of our business segments this quarter reflect progress on both fronts.

Net income for the quarter of \$796 million was up 19% over the prior year quarter, generating a return on equity of 13.5%, the highest level in two years. Core income was \$755 million, up 11%, and core return on equity was 13%, also the highest level in two years.

The underwriting gain of \$395 million pre-tax is up more than 50% over the prior year quarter, reflecting higher business volumes and a lower combined ratio. Earned premiums were up 5% to a first quarter record of \$6.9 billion, with each of our business segments contributing.

The combined ratio of 93.7% improved by nearly 2 points. The underlying combined ratio improved almost a point to 91.6%, with strong results in each of our business segments. Notably, we achieved improvements in productivity and efficiency in each of the segments.

Our high-quality investment portfolio performed well, generating net investment income of \$496 million after-tax. While slightly below the result in the prior year quarter due to lower private equity returns, net investment income benefited from higher fixed income returns.

Our strong results this quarter contributed to growth in book value per share of 7% and growth in adjusted book value per share of 2%, after returning \$625 million of excess capital to shareholders, consistent with our longstanding capital management strategy.

Turning to production, we remain very pleased with the execution of our marketplace strategies. During the quarter, we grew gross written premiums to a record \$7.8 billion, an increase of 6%. Net written premiums, which reflect the impact of the new catastrophe reinsurance treaty we discussed with you last quarter, were \$7.1 billion, up 3%. Our premium growth once again reflects high levels of retention and positive renewal premium change. That speaks to the high quality of the business we're putting on the books.

In Business Insurance, gross written premiums increased by 6% as we achieved renewal premium change of 6%, including renewal rate change of more than 2%. For both rate and RPC, those are the highest levels in almost five years.

As you might expect, the price increases were led by the Commercial Auto and Property lines, but with the exception of Workers' Comp, rate was up both year-over-year and sequentially in each of our product lines. That's the result of granular and deliberate execution to meet our return objectives.

We'll continue to seek rate gains selectively and thoughtfully and in close coordination with our distribution partners. Importantly, we are encouraged that while we were improving margins, we maintained retentions at historical highs and generated a higher level of new business.

In our consistently high performing Bond & Specialty business, gross written premiums were up 4%, driven by historically high levels of both retention and new business in our domestic Management Liability business. Surety premium volume was at high levels in both the current and prior year quarters.

In Personal Insurance, which as you know is a great story, gross written premiums were up 6%, reflecting strong results in both our Agency Auto and Agency Homeowners' businesses. You'll hear more shortly from Greg, Tom, and Michael about our segment results.

Lastly, I'm pleased to report that, as a reflection of confidence in our business, our Board of Directors has declared a 6.5% increase in our quarterly dividend to \$0.82 per share, marking 15 consecutive years of dividend increases with a compound annual growth rate of more than 9% over that period.

To sum it up, our first quarter performance is a terrific start to the year. We generated strong results in terms of both profits and returns. On top of that, we had another quarter of excellent production. Our performance, competitive advantages, and commitment to innovation position us to continue delivering industry-leading results over time.

And with that, I'll turn it over to Dan.

Dan Frey

Thank you, Alan. Core income for the first quarter was \$755 million, up 11% from \$678 million in the prior year quarter, and core ROE was 13%, up from 11.9%. Earnings per share and core earnings per share were up 24% and 15% respectively.

These improvements resulted from lower catastrophe losses and higher underlying underwriting margins, partially offset by lower net favorable prior year reserve development and lower private equity returns.

Pre-tax underlying underwriting gain, which excludes the impacts of CATs and PYD, increased by 16%, driven by improvements in all three segments. Underlying results benefited from higher business volumes, and the consolidated underlying combined ratio of 91.6% improved by 0.8 points from the prior year quarter, driven by a lower expense ratio.

Successful execution of our productivity and efficiency initiatives resulted in improved operating leverage, as insurance G&A expenses were nearly flat while net earned premiums and grew by 5%.

Our first quarter results include \$193 million of pre-tax catastrophe losses, down significantly from \$354 million in last year's first quarter. Net favorable prior year reserve development in the first quarter was \$51 million pre-tax, down from \$150 million in the prior year quarter.

In Personal Insurance, net favorable PYD of \$69 million pre-tax resulted primarily from better than expected performance in Auto. In Business Insurance, net unfavorable PYD of \$21 million pre-tax compares to net favorable PYD of \$66 million pre-tax in the prior year quarter.

The change primarily resulted from the enactment of the Child Victims Act in New York during the first quarter. This legislation extends the statute of limitations for cases of child sexual abuse, creating potential exposure to claims in the general liability line that were previously time barred. Excluding the impact of the New York law change, Business Insurance would have reported net favorable prior year reserve development.

Workers' Comp had net favorable reserve development. Commercial Auto was largely unchanged, and Commercial Multi-Peril had modest net unfavorable reserve development.

Pre-tax net investment income decreased by 3% from the prior year quarter to \$582 million as higher fixed income returns were more than offset by lower returns in our non-fixed income portfolio. Fixed income NII increased by \$39 million pre-tax due to the higher average yield on invested assets and an increase in the amount of average invested assets.

Lower returns in the private equity portfolio reflected the market downturn in the fourth quarter of 2018, as these private equity results are generally reported to us and consequently by us on a quarter lag.

As we discussed on our earnings call last quarter, we added a new catastrophe reinsurance treaty for 2019, providing coverage for PCS designated events for which we incur \$5 million or more in losses above an aggregate retention of \$1.3 billion. The cost of this new treaty is reflected in ceded premiums, and that is the primary reason that the growth rate in net written premiums is less than the growth rate in gross written premiums this quarter.

Because the ceded written premium is all recorded up front, this impact will not recur in the remaining quarters of the year. On an earned premium basis, the new reinsurance treaty will affect the results of all four quarters in 2019. Most loss recoveries from this treaty would likely benefit our net CAT losses, which are excluded from underlying results.

Based on our assumed weather losses for the year, the treaty would have about a half a point adverse impact on the full year underlying combined ratio, but a minimal impact on the full year total combined ratio, and we assume that any recoveries would likely only benefit the second half of the year. Of course, the effect on our underlying and total combined ratios for 2019 will be impacted by the level of PCS events we actually experience.

Turning to capital management, operating cash flows for the quarter of \$639 million were again very strong. All our capital ratios were at or better than target levels, and we ended the quarter with holding company liquidity of approximately \$1.9 billion.

Holding company liquidity is temporarily elevated as we issued \$500 million of thirty-year debt at 4.1% ahead of our upcoming \$500 million debt maturity in June. We took advantage of attractive market rates and issued the new debt in early March. So, we're carrying an artificially high level of holding company liquidity exiting the first quarter that will naturally adjust itself before the end of the second quarter.

In terms of the unrealized gain, interest rates decreased during the first quarter. And as a result, we went from a net unrealized investment loss of \$113 million after-tax at year-end to a \$1 billion after-tax unrealized gain as of March 31st.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was \$89.09 at March 31st, 2% higher than at year-end. We returned \$625 million of excess capital to our shareholders this quarter, comprising share repurchases of \$421 million and dividends of \$204 million. And as Alan noted, the Board raised our quarterly dividend from \$0.77 per share to \$0.82 per share.

So, across all key measures, we remain pleased with our strong financial position. And with that, I'll turn the microphone over to Greg for a discussion of Business Insurance.

Greg Toczydlowski

Thanks, Dan. Business Insurance had a strong first quarter, as reflected in our underwriting and production results. As you heard Alan say, both renewal rate change and renewal premium change were at the highest levels in almost five years. Significantly, we achieved that while maintaining very strong retention levels. And importantly, we also continued to invest in strategic initiatives to position us for the future.

Segment income for the quarter was \$414 million dollars, while the combined ratio was 98.1%. The underlying combined ratio of 95% improved by half a point from the prior year quarter, even after the impact on earned premium from the new CAT reinsurance treaty.

The treaty increased the underlying combined ratio by a half a point, split about evenly between the loss ratio and expense ratio. Let me break the underlying combined ratio down a bit further. The underlying loss ratio was 0.8 point higher than the prior year quarter, driven by about 1 point of elevated losses in our international business. I'll provide some additional comments on international in just a minute.

In addition, the change in the underlying loss ratio also included a little more than 0.5 point from lower non-CAT weather losses, which was mostly offset by the impact of the new CAT treaty as well as a little less than 0.5 point from higher Commercial Auto loss estimates consistent with the re-estimates we reported in the fourth quarter of 2018.

Auto losses for the quarter were generally in line with our expectations. The underlying expense ratio was favorable to the prior year quarter by 1.3 points, about half of which was driven by continued growth in premium volumes while maintaining generally flat insurance G&A expense dollars.

The other half of the improvement resulted from a benefit this quarter related to a state assessment.

Before I turn to top line and production, I'll spend a minute more on what we're seeing in our International business. For a couple of quarters in a row now, we've shared with you that we've experienced some elevated loss activity. These losses are predominantly Property driven, and have come primarily from a small number of large losses and, to a lesser degree, higher attritional losses. We're pursuing meaningful rate increases to address what we believe to be industry-wide challenges.

In addition, we're applying risk selection and risk control measures in response to the losses we're seeing and taking targeted actions to exit certain lines and accounts. These measures are well underway and our production results in these markets reflect the progress we're making in our efforts to improve profitability.

Now to the top line. Gross written premiums for the quarter were up 6% over the prior year, reflecting strong production results. We continue to be pleased with the impact that our strategic initiatives are having in creating opportunities for us to grow the top line profitably.

In terms of domestic production, we achieved strong renewal premium change of 6% in the quarter, including renewal rate change of 2.2%. The renewal rate change of 2.2% was up 0.6 point from both the prior year and the fourth quarter, with the Commercial Auto and Property lines leading the way.

Importantly, at the same time as we achieved these pricing increases, we maintained historically high retention of 86%. In addition to what you see in RPC, we've also been improving terms and conditions, particularly in our large property business, which improves the risk profile of the book. New business was a very healthy \$564 million. We're pleased with our production results which reflect our thoughtful balance towards retaining our best business, improving pricing where we need to in order to meet our return objectives, and pursuing attractive new business opportunities.

As for the individual businesses, in Select, renewal premium change and renewal rate change both remained consistent with the past several quarters, while retention remained strong at

83%. New business was strong and comparable to the prior year quarter. We're pleased with the returns in this business and these production results reflect our strategic execution.

In Middle Market, renewal premium change was 6% with renewal rate of 2.2%, up 0.7 point from the prior year and 0.6 point from the fourth quarter, while retention remained historically high at 87%. New business premiums of \$336 million dollars were up 4% from the prior year quarter.

Building on the success from the business centers we have had in our Commercial Accounts business, we have begun to roll out the utilization of these same centers across several of our other Middle Market businesses. As with Commercial Accounts, the goal is to be more active in the marketplace by creating additional capacity for our field underwriters to partner with our agents and brokers to create more solutions for our customers.

To sum up, a strong start to the year for Business Insurance and we continue to feel great about our execution in the marketplace. With that, I'll turn the call over to Tom.

Tom Kunkel

Thanks Greg. Bond & Specialty delivered another quarter of strong results. Segment income was \$138 million dollars and both the combined ratio and underlying combined ratios were an excellent 81.1%. Net written premiums for the quarter were up 2% driven by continued growth in our domestic Management Liability business.

Considering the high-quality of our Management Liability portfolio, we are pleased that domestic retention remained high at 89%, with renewal premium change of 3.6%. New business continued at historically-high levels and up 6% from the prior year quarter.

Surety premiums were strong in both the current and prior year quarters, and we remain well-positioned to capitalize on potential increases in public infrastructure investments. So, Bond & Specialty results were strong, and we feel great about our marketplace execution, competitive advantages and our ability to continue delivering leading returns and profitable growth. And now I'll turn it over to Michael to discuss Personal Insurance.

Michael Klein

Thank you, Tom, and good morning everyone. Personal Insurance is off to a great start in 2019 with strong profitability and solid production. Segment income was \$278 million dollars, the highest quarterly total in a decade, and an improvement of \$149 million dollars over the first quarter of 2018.

Our combined ratio of 90.1% improved 7.4 points driven by lower catastrophes, improved underlying underwriting results and higher net favorable prior year reserve development. On an underlying basis, the combined ratio was 89.1%, an improvement of 1.4 points, even after an 80 basis point impact from the new catastrophe reinsurance treaty.

Turning to the top line, gross written premiums grew 6%, demonstrating continued momentum in the segment. Net written premiums were up 2% in the quarter, reflecting the impact of the new CAT treaty. The impact is more pronounced in Agency Homeowners' and Other, where net written premiums grew 1% compared to gross written premium growth of 9%.

Agency Automobile delivered an impressive quarter, with a combined ratio of 89.4%, 5.4 points from the prior year quarter, the best result in more than ten years. The quarter benefited from higher net favorable prior year reserve development and very strong underlying results. The

underlying combined ratio of 92.1% improved 4.2 points relative to the prior year quarter, due primarily to earned pricing exceeding loss trend, including the benefit from continued improvements in observed frequency levels. Just as a brief reminder, the first quarter underlying auto combined ratio is typically the lowest of the year.

We are also very pleased with our first quarter results in Agency Homeowners' and Other, where our combined ratio improved by more than 10 points from the prior year quarter to 88.2%, driven by lower catastrophes.

On an underlying basis, the combined ratio was a solid 82.6%. The increase of 2.4 points versus the prior year quarter primarily reflects the impact of the new CAT treaty.

Turning to quarterly production, Agency Automobile retention remained solid at 84%, with renewal premium change of 5.1% and a 7% increase in new business from the prior year quarter. We are encouraged by these production trends as we work to grow the line at returns that meet our objectives.

Agency Homeowners' and Other delivered strong production results as well, with retention at 85%, renewal premium change up over a point and a half from the from the fourth quarter, and increased momentum in new business, driven primarily by the successful roll-out of Quantum Home 2.0.

Our Quantum Home 2.0 product is now available in 25 states, versus three states at this time last year. We are on track to launch the product in most states by year-end, including enhancements like our expanded smart home discount and the home sharing endorsement, both of which we've introduced since the initial launch. To date, the product is performing well, both in terms of marketplace reception by agents and customers, and in terms of production and profitability.

To recap, we're pleased to be off to a great start to the year in Personal Insurance and are well positioned to grow profitably while continuing to invest in the business. With that, I'll turn the call back over to Abbe.

Abbe

Thanks, Michael, and thank you, operator. We are ready to begin Q&A.

QUESTION AND ANSWER

Operator

At this time, I would like to remind everyone in order to ask a question, please press "*" then "1" on your telephone keypad. We'll pause for a brief moment to compile the Q&A roster. Your first question comes from Jay Gelb with Barclays. Your line is open.

Jay Gelb

Thanks, and good morning. In domestic Business Insurance renewal, I'm sorry, the renewal rate change, so it was good to see that rate change accelerated in the first quarter and you mentioned that was largely due to Commercial Auto and property with an offset from Workers' Compensation. We've seen in the past, how that's gone up comparatively one quarter versus the prior quarter and then has shifted down over time. Do you think this has momentum to stay at this level or potentially increase, or do you think this might be more of a one-time boost?

Alan Schnitzer

Jay, good morning. It's Alan. If you go back and think about when we started talking about rate most recently, the beginning of 2017 and we said then we were starting to push for rate. And if you plot out the line for either rate or rate in RPC, you'll see an upwards sloping line and that's been very deliberate on our top part.

I shared in my prepared remarks that we intend to continue to push for renewal rate change and just in terms of managing the returns. And we are getting some help from exposure and that counts to both in terms of the component of exposure that behaves like rate, and the expense leverage we get from it. And if you see in the Outlook section of the 10-Q that we filed, you'll see that we've, we are calling for higher RPC there as well. That's a single number, there's a lot of texture underneath, we are forecasting essentially nine months out, so who knows. But, we're going to continue to push in this direction.

Jay Gelb

All right, great. Higher RPC. And then separate question on small commercial, we've seen a number of potential competitors looking to move into small commercial on a direct basis like Berkshire Hathaway and Progressive, what's your perspective on how much that business could shift to the direct channel given that Traveler's primary presence on that is clearly an independent agent?

Greg Toczydlowski

Jay, this is Greg. Small commercial marketplace has always been a competitive section of the marketplace and we obviously are monitoring and assessing all the competitors that enter the space and we make the assumption that some of them are going to be successful and we accordingly manage to that way. And in terms of the channel preference, we're not seeing any material shift in channel preference right now. We believe we've got a model that's very effective and we are investing to make it as frictionless as possible. So, wherever the consumer ultimately goes in the future, we think we are going to be positioned very well.

Jay Gelb

Okay, including direct?

Greg Toczydlowski

Correct.

Jay Gelb

Appreciate that. Thank you.

Operator

Your next question comes from Mike Phillips with Morgan Stanley. Your line is open.

Mike Phillips

Thank you. Good morning, everybody. I'll take a shot at this one first on the PYD. Any chance you can give the dollar impact on the New York law change?

Dan Frey

Hey, Mike. It's Dan. I think we're going to not be real specific on that given that it's an issue that we expect to be involved in legislation over a particular coverage matter. We did try to give you at least a direction of magnitude early in the press release. I think we talk about the year-over-year change in PYD, which on a pretax basis was pretty close to hundred million dollars being

primarily attributable to the Child Victims Act. And in our minds, that means more than half, but I think to get much tighter than that, would be more detail than we want to give.

Mike Phillips

Okay. No, I appreciate that. Thanks. On the Workers' Comp, PYD, was any of that from accident year '18?

Dan Frey

That's a good question. Off the top of my head, I will tell you in one second. Comp, '18 is a very young year on a long tail line, so not a lot of movement in '18. Favorability and Workers' Comp is some recent accident years, but that's a little too recent for us to be making much of a change.

Mike Phillips

Okay, thanks. And then I guess on the Business Insurance, sticking with that for second. You know there's clearly a few moving parts in the expense ratio from you mentioned in the Q, the Simply Business expansion, the state assessment and such, I guess is there a way for us to maybe help us think about how kind of a good run rate going forward would be? I don't know how much of the state assessment was or how much the Simply Business expansions were in that kind of thing because it's a good expense ratio with a lot of moving parts there.

Dan Frey

Yeah, so it's Dan again. I guess I'll think about expense ratio more at an enterprise level and from a high level, we gave you some outlook at the end of last year, which was expecting this year to be broadly consistent with what we saw last year. Last year as an enterprise, we were at about a 30.1%. This year the first year, it's a 29.7%.

There's a little bit of a benefit, as Greg mentioned from the state assessment change. You can think about that as 20 or 30 basis points back in the expense ratio. This is an example of things can be a little bit lumpy from one quarter to the next. We're happy with the expense ratio in the first quarter, but not taking that as a permanent improvement versus what we had expected previously.

Mike Phillips

Okay, thank you.

Alan Schnitzer

Mike--

Mike Phillips

--That's very helpful. Yes, sir?

Alan Schnitzer

Just as a point of clarification, Mike, the Simply Business investment wouldn't be in the expense ratio, just for clarification.

Mike Phillips

Okay. No, I guess I was reading something out of the Q that said part of your G&A expense was due to expansion in Simply Business. That's what I was referring to.

Alan Schnitzer

Yeah, it's G&A because all of G&A doesn't go into the expense ratio. Insurance G&A does. We can take it off-line.

Mike Phillips

Okay. Thank you. I appreciate it.

Operator

Your next question comes from Elyse Greenspan with Wells Fargo. Your line is open.

Elyse Greenspan

Hi, good morning. My first question, I wanted to follow up on some of the commentary on the renewal premium change with within Business Insurance. So, your outlook is now more positive for the year.

So, your outlook is now more positive for the year. If we go back, you guys didn't see a slowdown in the third and the fourth quarter and on the renewal rate which picked up this quarter. Commercial Auto and Property have been lines that have getting price for some time so just trying to get a better sense of what really drove the sequential increase and gave you conviction to raise your outlook for the rest of 2019.

Greg Toczydlowski

Hey, Elyse. This is Greg. First of all, the outlook as a reminder is an estimate and so we try to give you as much transparency and our best feel around where that is going to go on a going forward basis and if you look at the webcast slide for domestic BI overall you can see that the 6% for the first quarter we think is a terrific number and is the highest number on the page. And as Alan just said we are going to continue pursuing our margin improvement campaign going forward also.

Alan Schnitzer

And Elyse I would add that the rate increases are pretty broad other than Workers' Comp. So, all products other than Workers' Comp higher sequentially and year-over-year rate increases on a higher percentage of overall accounts for example. So, it's reasonably broad-based although rational by product line relative to the returns we are getting in those lines.

Elyse Greenspan

Okay, that's great. And then my second question on International, you guys pointed to about one point of underlying margin drag within Business Insurance from your International business. You did some color on steps that you are taking to look to improve the margins there. Can you just talk to timeframe? I am assuming there is a certain level of drag that is embedded within your outlook for the next three quarters of the year. And just how long do you think those initiatives will take to work their way through your book of business?

Alan Schnitzer

Yeah, Elyse, this is--that's probably more precise than either we can get or would want to share on that. We have got all of the efforts focused on it. We are working on it and there is an assumption that some of what we saw in the first quarter was an aberration and a return to more

normal levels reasonably quickly and there's other work that we are going to be doing that's going to take some more time. But to give you any more precision than that would probably be-- would probably give you a sense of precision that just doesn't exist.

Elyse Greenspan

okay. And then in terms of the size of the first-quarter losses would you put it kind of in-line with you know the fourth quarter of last year?

Alan Schnitzer

I think, Elyse, we are going to stick with the 1.0 point that Greg shared in his prepared remarks.

Elyse Greenspan

Okay. Thank you very much.

Alan Schnitzer

Okay, thank you.

Operator

Your next question comes from Ryan Tunis with Autonomous Research. Your line is open.

Ryan Tunis

Hey, thanks. Good morning. My question is just on this whole discussion around rate and you know I guess for Alan, are we at a point where the better than expected rate, the acceleration is you have been factoring in the way you have been thinking about your outlook this year for margins or is it more just you are taking the rate where you need it, where you are seeing some elevated losses, you are responding to it? So broadly this is just the type of rate you think you need to be able to keep things broadly consistent or slightly better on the year?

Alan Schnitzer

Ryan, if I understand your question, I think the answer is yes to both. The rate we are getting when we give you some perspective by segment in the outlook and we give you some perspective on the outlook for margin in the outlook, and the outlook we give you on margin does take into account as best as we can tell what we are going to achieve in terms of rate and exposure.

Ryan Tunis

But it doesn't seem that the outlook for margins has changed materially despite the better I – guess the better rate we are seeing this quarter so just trying to reconcile. I mean how exactly are you thinking about the 2.2? Is it just I guess what was needed or you feel better about where margins are going to be here in 2019 than you did when we talked at the fourth quarter call?

Alan Schnitzer

Yes, again to both. We feel good about the 2.2 and we feel great about the 6.0 points of overall price. If you go back and look over a decade and you look at what rate and RPC have done you

would say 6.0 points of price is pretty good by historical standards and particularly when you think about the fact that in '16, end of '16 into '17 total price actually never went negative. So, before it went negative it started moving back up. So, we feel good about what we are achieving and we feel good about returns.

Ryan, if you take the results in the quarter and if you normalize for prior-year development and weather you get a pretty good result and so it would be probably a little bit less than what we printed because there were some other good things that happened but you get a pretty good result so we don't look at the returns that we are generating on a consolidated basis today and say they are disappointing. But as we look out the windshield into the future, we think there is more work to do in terms of achieving our objective of mid-teens over time. And so, we are not disappointed with the 2.2, we are not disappointed with the 6.0 and we are going to keep pushing. There's more work to do.

Ryan Tunis

Thanks. That is all I had.

Alan Schnitzer

Thank you.

Operator

Your next question comes from Brian Meredith with UBS. Your line is open.

Brian Meredith

Yeah, a couple of questions here for you. First one, Personal Auto. I noticed your outlook on underlying margins looks for some deterioration for the rest of the year on Auto. I am just curious why is that? Is it because you are seeing the elevated severity? Is that what you are kind of factoring?

Michael Klein

Sure, Brian. It's Michael Klein. No, it's actually not due to that. It's actually pretty consistent with the outlook we gave for the full year and has a lot to do with seasonality in the Auto business. So, when we gave the outlook for the full year, we said that Auto experience would likely be better than the prior year in the first half and worse than the prior year in the second half than this is really just a reflection of the first quarter rolling off and now we are just looking at the nine months versus the nine months.

Brian Meredith

So, you are not seeing any issues with severity or anything?

Michael Klein

When you look at severity, I would say we continue to see some of the same things you are seeing in the industry physical damage, repair costs continue to be rising but they have been. When you look underneath that you see a little bit of a shift in vehicles towards heavier vehicles

and SUVs. You see higher repair costs due to improvements in technology and more technology in the vehicle. So, we think that those severity trends sort of are persisting. The good news and we refer to this in our comments is that frequency has continued to be better than expected and is in the quarter was an offset to that and part of the results that we produced in Q1. But again, the outlook is really just a quarter dropping off and consistent with the outlook that we had for the full year.

Brian Meredith

Got you. And then basically going back to the reserve development and business charge on the Child Victims Act, is that kind of when I think about the charge are you thinking about kind of on a national basis because of the law change there in New York or is it possible that this law in New York legislative action, spreads to other states and could it get worse?

Dan Frey

Brian, so it's Dan. So to be clear this reaction in the first quarter is to the New York change only, right? So, we are setting reserves actuarially and from an accounting standards perspective based on what the law is. We are aware that there are a number of other states that have discussed possible similar legislation on a go-forward basis and are keeping a close eye on those. If more states enact we would react accordingly as other states react. The one that looks to be sort of in the nearest term potentially ready to go would be New Jersey. We have made an assessment of New Jersey and would expect that to not be anywhere near the magnitude of what we just recognized from New York. But it is an ongoing issue in a number of states that we are keeping an eye on.

Brian Meredith

Great. Thanks for the answers.

Operator

Your next question comes from Mike Zaremski with Credit Suisse. Your line is open.

Mike Zaremski

Hey, thanks. A follow-up to Brian's question on personal lines. So, Auto results continue to outperform and it feels to be like an industry-wide trend. Maybe you can comment on if you expect the competitive environment there just to naturally get tougher? And then switching to the other side of personal lines Homeowners' results on an underlying basis are deteriorating and it seems to also be industry-wide trend and pricing does seem to be moving a little north there. So, I know you guys are mostly a bundled product shop. Maybe you can talk to whether those two conflicting trends there and whether you feel that personal lines can start growing more for you guys going forward.

Michael Klein

Sure, Mike. Again, it's Michael Klein and I think certainly sort of two components there. I will start with the segment, right. We are really pleased with the positioning of the segment. We are

growing policies in the segment, growing premium in the segment and really had a terrific start to the year in terms of the total segment.

If you look at the pieces the Auto competitive environment certainly, we compete in that market every day. I think if you use competitor rate filings as a proxy for a level of competitiveness and you look at that data you see that rate filings in the industry the file rate for the industry is down period to period and continues to be lower increases in aggregate than the industry had filed for in the past. The aggregate, I think 12-month rolling rate increase for the industry now is below 2% so that could be a proxy for the competitive environment in Auto. We and maybe just an additional comment on the outlook while our outlook is for a higher combined ratio in the next nine months then the prior nine months it is still a target return. So to your point, we are seeking to grow in the Auto line. We are executing on marketing distribution and marketplace execution strategies to do that. And as I said the production results demonstrate improvements in new business, strong retention, moderating pricing that I think is all consistent with that view.

On the Home side again most of the deterioration in underlying from the first quarter of last year is explained by the treaty and so that's most of it. If you actually remove the treaty impact from the underlying combined ratio and compare that to history it is very consistent with our long-run average underlying combined ratio in Home.

That said there is some period to period volatility there. There is still some pressure in non-weather water loss activity, which we have talked about, which is part of why you see RPC rising and why we are focusing on improving RPC as we go forward. But again, I think we are very pleased with the performance of the Property portfolio and the path we are on.

And then conversely to the Auto outlook that I described the Property outlook again mostly just because of the quarterization of the outlook is for better results on an underlying basis in Property for the balance of the year, sort of going the other way from Auto and when you put those two together you get a better combined ratio outlook year on year.

Mike Zaremski

Got it. That's helpful and yeah, I did see the improved commentary in the outlook. One follow-up on Commercial pricing. Thanks for the insights on Commercial Auto and Property driving the pricing increases. But I was wondering on Workers' Comp pricing is that getting quarter over quarter more or less negative?

Greg Toczydlowski

Hey, Mike. This is Greg. We really aren't going to share Workers' Comp on an individual line in the pricing just because it is such a sensitive dynamic or how we compete in the marketplace. We have in the past have shared and it's pretty evident that there's been very good loss results in Workers' Comp and there has been reductions in the market. So if you look at our RPC at 6% clearly ex-Workers' Comp, we would be higher than that and we really aren't going to disclose the individual product lines going forward.

Mike Zaremski

Thank you.

Operator

Your next question comes from Larry Greenberg with Janney Montgomery. Your line is open.

Larry Greenberg

Good morning and thank you. For Michael again on Auto and if you answered it, I apologize but is written premium Auto pricing keeping up with lost trends?

Michael Klein

I don't know if I spoke specifically to written keeping up with loss trend but certainly, on an earned basis we continue to expand margins and on a written basis at five points of RPC, I would say we are continuing to expand margins on both basis. I didn't speak specifically to that but we feel good about the margin expansion. And again, the outlook is for Auto to produce target returns.

Larry Greenberg

Great, thanks. And then in Bond & Specialty, I know the PYD jumps around quite a bit there, but it was modest this quarter. Is there anything changing you know on that front?

Tom Kunkel

This is Tom, Larry. So, the nature of the PYD in Bond & Specialty is it can be a little lumpy. If you look at our Surety business over the years, you can see we've had some really good returns, and as our losses were continuing to come down, we, of course, tried to accurately account for that in our initial year loss picks so that the majority of the results would hopefully be shown in that first calendar year.

So, I think what you've seen over time is an improved initial loss year pick, and maybe less headroom in some of those areas for that stuff to move up. All that said, in our Management Liability businesses there's been a little bit of that, too, as we look to recognize things in that initial year as best we can. So I think other than that, no other great underlying dynamics that would explain that.

Larry Greenberg

Great. Thank you.

Tom Kunkel

Thank you.

Operator

Your next question comes from Meyer Shields with KBW. Your line is open.

Meyer Shields

Thanks. Going back to the pricing dynamics within Business Insurance, is there a difference between what you're seeing and what we would call standard lines versus specialty?

Alan Schnitzer

Yeah, we're sort of looking--Greg, do you want to take that?

Greg Toczydlowski

Yeah, Meyer, are you referencing specialty as like the E&S?

Meyer Shields

Yes.

Greg Toczydlowski

Yeah, I mean, that depends so much on your product mix. I mean, we're predominantly in the E&S business much more from a property perspective. So, the answer would be yes for us given some of the catastrophic pressures we've seen on property over the last two years.

Meyer Shields

Okay, and then more broadly--I think this is mostly a question for Greg--we've seen in, at least for U.S. Treasury, the pretty significant decline in interest rates from mid-November. How long does it take before that's reflected in pricing?

Dan Frey

Meyer, it's Dan. So we'll consider that in pricing as we do a number of factors. It's one of a hundred things that go into the process of determining what's the right price. We've seen the 10-year treasury move up and down, but it's been sort of plus or minus three tenths, not more than two or three tenths per quarter over the last four or five quarters, so not a dramatic impact. It does eventually get baked into what do we think we need for price to generate the returns that we're trying to generate because clearly that's a component of return. But it hasn't had a dramatic impact at this point.

Alan Schnitzer

Yeah, also I'd add that we bifurcated a little bit. We think about the return on the float, and that we adjust periodically to reflect market rates, and then separately we think about the capital on the balance sheet that supports the risk, and that really reflects the overall portfolio return.

Meyer Shields

Okay, understood. Thanks so much.

Operator

Your next question comes from Josh Shanker with Deutsche Bank. Your line is open.

Josh Shanker

Yeah, good morning. Thank you for taking my question. I was reading outlook, as everyone else was, and I think it's not too different from what it said before. Despite the improvement you're getting on rates, it's really the cessation of large losses and non-cat weather that will drive margin improvement for the remainder of the year. Am I reading that correctly?

Alan Schnitzer

If you're looking at Business Insurance, yes, that's right. It's large losses returning to a more normal level.

Josh Shanker

And so, can we say with close approximation that pricing and loss cost trend are in harmony right now, I guess, is your view?

Alan Schnitzer

I would say that's about right on an earned basis. On a written basis, you know, we're probably doing a little bit better than that.

Josh Shanker

Okay, and just the same sort of reflections on the Homeowners' business, as well.

Michael Klein

Yeah, Josh, this is Michael. I would say on the Homeowners' business we're working to move RPC north. So, we're not quite there on a written basis yet, but we're close.

Josh Shanker

Okay, thank you very much.

Michael Klein

Thank you.

Operator

Your next question comes from Amit Kumar with Buckingham Research. Your line is open.

Amit Kumar

Thanks, and good morning. I guess two quick follow-up questions. The first question goes back to the discussion on expense ratio. In your 10-K letter you talked about the 40% of the business flowing through these business centers in BI, and I was curious if maybe you can talk about where does that sort of net out to? Is that an eventual improvement in expense ratio, or do the savings get reallocated somewhere else?

Alan Schnitzer

Amit, thanks for that question. Productivity and efficiency is a strategic priority across the entire place in each of the businesses, in the claim organization, and virtually everything we do. And so, some of what Greg's achieving through the business centers contributes to that. It also contributes to other strategic objectives, specifically making sure that we're providing great experiences for the brokers that we're doing business with and the customers that we're serving. So, it all goes to that point. The savings--whatever productivity and efficiency we generate there, and frankly anywhere else, really for us is--we look at operating leverage or enhanced operating leverage as an opportunity. And as we said before, we'll take those dollars, and we'll reallocate them over time as we see fit. We can let it fall to the bottom line, and you'll see it in the expense ratio. We can reinvest it in strategic initiatives that we think are going to drive shareholder value. Or if we want to or need to, we can decide that we want to put it into pricing without compromising our return objectives. So, I know you've heard us say that a lot, but what's important to us about enhanced operating leverage is having that flexibility.

Amit Kumar

I think you answered that question. The only other question I had is maybe for Michael, switching gears to Personal Auto. I know you answered several questions on what we saw on the loss cost trend, but can you sort of opine where do you see the trajectory from here on frequency and severity? Thanks.

Michael Klein

Sure, Amit. It is Michael. The short answer is when we look at our sort of a long-term trend pick remains relatively consistent. And I would say talking about frequency and severity a little bit

separately, generally what we see on the severity side is quarter to quarter fluctuations that sort of bounce around our long-term expectation. So again, we see the severity and pressure that you see in industry statistics around parts and liability costs and those things but feel like our long-term assessment on severity reflects those.

On the frequency side, again, we talked about the first quarter underlying being driven by pricing earning in excess of trend, inclusive of both sort of our assumption and a better than expected result in the quarter. And we do see for a number of quarters in a row now, frequency coming in better than I think we or the industry had expected it. And it's something we're keeping an eye on and thinking about how to factor in.

Amit Kumar

And is that--with the historical--frequency at a historical low, does that trend line continue, or do you get the sense that probably this is as good as it gets? Thanks.

Michael Klein

I think--I think it's a great question. I think if you take a longer-term look at frequency in Auto, you see a bit of a secular decline. And that's the piece that we're trying to figure out is are we returning to sort of that long-term downward trend in frequency, or not? There's been a lot of commentary and discussion around, you know, in the market place and in other places, about what could be driving it. And one of the things people point to is safety features on vehicles. I think it is important to point out that a number of the features that folks like the Insurance Institute for Highway Safety point to as the ones that could have the most impact still have relatively low penetration in the fleet, right? Things like automatic emergency braking, less than 5% of the cars on the road have it. So again, I think the jury is still out on whether there is a shift in long-term frequency trend, but those are some of the things we're watching in addition to a miles driven employment and the other factors that we talked about.

Amit Kumar

Got it. Thanks for the answers, and good luck for the future.

Operator

Your next question comes from Yaron Kinar with Goldman Sachs. Your line is open.

Yaron Kinar

Good morning, everybody. My first question--I think Elyse took a stab at it--is in Business Insurance. Could you talk about the impact from the non-weather large losses this quarter, how it compared to the prior year?

Alan Schnitzer

Beyond the international? Is that what you're referring to, Yaron?

Yaron Kinar

Well, I think last year you just talked about large losses, non-weather losses, not necessarily referring to international.

Alan Schnitzer

Yeah, the large loss activity in domestic BI has been relatively flat I would say.

Yaron Kinar

Okay.

Greg Toczydlowski

I gave you, in my comments, Yaron, the non-cat weather was a little more than 0.5 point the good guy relative to the first quarter of 2018.

Yaron Kinar

Right, right. I think in 2018 you talked about roughly 60 basis points of non-cat weather and another 60 basis point or so of other large.

Alan Schnitzer

We're also slicing the bologna probably a little bit--we're headed toward slicing the bologna probably a little bit thinner than we'd like to, and I think most of the impact you're talking about was quarters two through four. And so my answer relatively flat was Q1 to Q1.

Yaron Kinar

Okay.

Alan Schnitzer

But if you go back and look at our commentary from last quarter I think you'll hear us say that the improvement was primarily going to be in quarters two through four.

Yaron Kinar

All right. Okay. That's helpful. And then, Greg, I think you had said that in addition to pricing you're also taking some terms and conditions actions in large property. Can you give maybe a few examples of where the terms and conditions are improving or how they are improving?

Greg Toczydlowski

Sure. Yeah, coming off those two catastrophic years there's obviously been some dislocation in the marketplace and just an opportunity for more risk sharing. And that typically comes with terms and conditions. So, you can think about sub limits on flood and earthquake, deductible shifting from a fixed component to more of a percentage, certainly in the geographic exposed areas, but that's something we're constantly looking at. With all that said, we look at our National Property business on an account by account basis. So, that's a generalization, and we're, again, looking at each account and looking at the risk reward of those accounts. And if there's an opportune time to have some risk sharing like there is in the Property segment right now, then we go about and achieve that.

Yaron Kinar

Got it. Thank you very much.

Abbe Goldstein

Thank you.

Operator

Your next question comes from Jeff Schmitt with William Blair. Your line is open.

Jeff Schmitt

Hi. Good morning, everyone. Question about your umbrella book. Hearing in the market that there is an uptick in large losses there, mainly due to the litigation environment, higher jury awards, higher settlement amounts. Is that something you're seeing at all?

Alan Schnitzer

Let me--let's stay away from umbrella. Let me just respond to social inflation more broadly. As I--this is probably an oversimplification, but I think about social inflation broadly in three buckets. I think about legal decisions. I think about plaintiff activity. And I think about jury awards. From a legal decisions perspective, certainly at the federal level over the last couple years I'd say that's probably been on balance an improvement. If you look at jury awards, I would say a little bit more volatile, a little bit more unpredictable. And broadly speaking, when it comes to plaintiff activity, the plaintiff's bar, I would say we have seen a more aggressive plaintiff activity. Now that was certainly a big driver of the Commercial Auto charge that we took last quarter, for example. We think about the liability side of CMP, for example, but when you get into the larger end, when you get into umbrella, when you think about the large end of GL, when you think about Management Liability, those are, broadly speaking, coverages where there's already a lot of litigation. Generally, everybody is represented in those cases, and so those are--those have always been reasonably active in terms of litigation. It's really, at least so far, on the smaller end where we've seen more activity.

Jeff Schmitt

Yeah, and I guess I was curious, I mean it's been more acute, obviously, in Commercial Auto than other lines hearing that starting to tick up in umbrella. I guess is that spreading? I mean, it sounds like you're saying it's a little bit more broad-based already.

Alan Schnitzer

I mean, we're certainly seeing it. The phenomenon you're identifying could vary from company to company based on mix of business, too, right? The net lines you put out, the types of risk, I mean you've got to remember we are, we're a middle-market, Main Street business for the most part. I mean obviously we do have a National Accounts business and National Property business. We do write public company liability on the Management Liability side. But by and large when you think about Travelers, it's a Main Street middle-market business. So, it could be a mix difference for us relative to others.

Jeff Schmitt

Okay. And just one quick one on the Homeowners' book, looking at the underlying loss ratio up 100 basis points. Half that looks to be about related to the new CAT treaty, but this remainder 100 basis points after being up a lot last year, is this--is that pretty much all non-weather water losses that you're seeing, and can you speak to that more? Is that state-specific? Is this older homes? I mean, why is this popping up now for the industry?

Michael Klein

Sure, Jeff. Just starting with the premise of the question, I would say the treaty impacts a little more than you're estimating there, and therefore the other impacts are a little bit less in the underlying. But then underneath that, again, as I mentioned, we do continue to see some non-weather water loss pressure, and I would say consistent with what we talked about in the past, we've sort of sliced and diced that by geography, by type of home, by age of home. We've looked at, and we've seen commentary around first floor second floor, so we've looked at it by type of construction. And what we tend to see is these non-weather water losses are up sort of consistently across most of those dimensions. So, there's not a thing we point to, which is why our strategy to address it has been to seek to increase price. So that would be our view on the trend. But underlying in the quarter does reflect some continued pressure there. Again, we expected some continued pressure there and have built a pricing strategy to address it. So that's our take on it.

Jeff Schmitt

Okay, thank you.

Michael Klein

Thank you.

Operator

There are no further questions at this time. I will now turn the call back over to the presenters.

Abbe Goldstein

Great. Thanks, everyone, for joining us this morning. And as always, if you have any follow-up questions please get in touch directly with Investor Relations. And thanks, have a good day.

Operator

This concludes today's conference call. You may now disconnect.

Forward-Looking Statements and Non-GAAP Financial Measures:

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," "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates" and similar expressions are used to identify these forward-looking statements. Examples of our forward-looking statements include statements relating to our future financial condition and operating results, our share repurchase plans, potential margins, potential returns, the sufficiency of our reserves and our strategic initiatives.

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- catastrophe losses could materially and adversely affect the Company's results of operations, its financial position and/or liquidity, and could adversely impact the Company's ratings, the Company's ability to raise capital and the availability and cost of reinsurance;
- if actual claims exceed the Company's claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates, the Company's financial results could be materially and adversely affected;
- during or following a period of financial market disruption or an economic downturn, the Company's business could be materially and adversely affected;
- 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's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- the intense competition that the Company faces, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which it operates, could harm its ability to maintain or increase its business volumes and its profitability;
- disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape could adversely affect the Company;
- the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances;
- the effects of emerging claim and coverage issues on the Company's business are uncertain;
- the Company may not be able to collect all amounts due to it from reinsurers, reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all and we are exposed to credit risk related to our structured settlements;

- the Company is also exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that we have with third parties;
- within the United States, the Company's businesses are heavily regulated by the states in which it conducts business, including licensing, market conduct and financial supervision, and changes in regulation may reduce the Company's profitability and limit its growth;
- a downgrade in the Company's claims-paying and financial strength ratings could adversely impact the Company's business volumes, adversely impact the Company's ability to access the capital markets and increase the Company's borrowing costs;
- the inability of the Company's insurance subsidiaries to pay dividends to the Company's holding company in sufficient amounts would harm the Company's ability to meet its obligations, pay future shareholder dividends and/or make future share repurchases;
- the Company's efforts to develop new products, expand in targeted markets or improve business processes and workflows may not be successful and may create enhanced risks;
- the Company may be adversely affected if its pricing and capital models provide materially different indications than actual results;
- the Company's business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology, particularly as its business processes become more digital;
- if the Company experiences difficulties with technology, data and network security (including as a result of cyber attacks), outsourcing relationships or cloud-based technology, the Company's ability to conduct its business could be negatively impacted;
- the Company is also subject to a number of additional risks associated with its business outside the United States, such as foreign currency exchange fluctuations (including with respect to the valuation of the Company's foreign investments and interests in joint ventures) and restrictive regulations as well as the risks and uncertainties associated with the United Kingdom's withdrawal from the European Union;
- regulatory changes outside of the United States, including in Canada, the United Kingdom, the Republic of Ireland and the European Union, could adversely impact the Company's results of operations and limit its growth;
- 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 could reduce the Company's future profitability;
- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;
- the Company could be adversely affected if its controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;
- the Company's businesses may be adversely affected if it is unable to hire and retain qualified employees;
- intellectual property is important to the Company's business, and the Company may be unable to protect and
- enforce its own intellectual property or the Company may be subject to claims for infringing the intellectual property of others;
- changes in federal regulation could impose significant burdens on the Company and otherwise adversely
- impact the Company's results;
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For a more detailed discussion of these factors, see the information under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. Our forward-looking statements speak only as of the date of the earnings conference call or as of the date they are made, and we undertake no obligation to update those statements.

In this transcript, we may refer to some non-GAAP financial measures. For a reconciliation of these measures to the most comparable GAAP measures and a glossary of financial measures, we refer you to the press release and financial supplement that we have made available in connection with this transcript as well as our most recent periodic filings with the SEC. See the “For Investors” section at Travelers.com.