Q1 2020 Earnings Call

Company Participants

- Abbe Goldstein, Senior Vice President of Investor Relations
- Alan D. Schnitzer, Chairman and Chief Executive Officer
- Dan Frey, Executive Vice President and Chief Financial Officer
- Gregory C. Toczydlowski, Executive Vice President and President, Business Insurance
- Michael F. Klein, Executive Vice President and President, Personal Insurance
- Thomas M. Kunkel, Executive Vice President and President, Bond & Specialty Insurance

Other Participants

- Brian Meredith
- Elyse Greenspan
- Jimmy Bhullar
- Michael Phillips
- Mike Zaremski
- Ron Bobman
- Ryan Tunis

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the First 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 April 21, 2020.

At this time, I will like to turn the conference over to Ms.Abbe Goldstein, Senior Vice President of Investor Relations. Please go ahead.

Abbe Goldstein {BIO 20602454 <GO>}

Thank you. Good morning, and welcome to Travelers' discussion of our first quarter 2020 results. Given the current circumstances, we hope you and your loved ones are safe and healthy. We released our press release, financial supplement and webcast presentation earlier this morning. All of those 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, 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 they will take questions -- then we will take your questions.

Before I turn the call over to Alan, I would 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 statements involve the 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 D. Schnitzer {BIO 3529437 <GO>}

Thank you, Abbe. Good morning, everyone, and thank you for joining us today. The events of the last few months have been challenging for all of us and our hearts go out to all those affected by the global crisis.

Before I get to the impacts of the pandemic on our business and comment on our first quarter results, I'd like to acknowledge some acts of courage. First, I want to express our appreciation for the thoughtful actions taken by our leaders and government at all levels to keep us safe and support the well-being of individuals and businesses. Their actions remind us that a society-wide pandemic requires a society-wide response.

We would also like to extend our deep gratitude to the courageous efforts of healthcare professionals and first responders, to their selfless commitment to protecting and saving lives. And for all the essential workers who are putting others first, as they continue to fill prescriptions, stock shelves, deliver goods and provide the other key services we all depend upon. Literally and figuratively, they are keeping the lights on and we're grateful.

In addition, I want to acknowledge and thank all of my 30,000 colleagues, many of whom are listening this morning for their exceptional response to this crisis. Employees across Travelers have stepped up in amazing ways to ensure that we can continue to deliver the risk management products and services that our customers need to live their lives and run their businesses, as well as the outstanding uninterrupted service that our customers and agent and broker partners have come to expect.

Thanks to the commitment and resourcefulness of Travelers' employees and the tremendous efforts of our technology and operations teams. We transitioned our workforce practically overnight to safely and effectively work from home. A few months ago, it would have been hard to envision that we would have more than 29,000 people simultaneously logging in remotely, and that we would be hosting more than 80,000 virtual meetings on a daily basis, but we are doing just that.

As we have discussed over the last few years, we've been making investments in talent and technology. And those investments are paying off in terms of our ability to keep our employees safe and take care of our customers and business partners.

As a company, we are also grateful to be in a position to support those impacted by COVID-19, including through customer billing relief, our Stay-at-Home Auto Premium Credit Program, our Distribution Support Plan accelerating the payment of more than $100 million of commissions for agents and brokers and a direct $5 million pledge to assist hard hit families and communities. This pandemic has created a tremendous amount of uncertainty for all of us. Nonetheless, let me turn to highlighting some of the potential impacts of COVID-19 and the macroeconomic environment on our business.

I'll start with the top line. As you've heard us say as a property and casualty insurer, we're a GDP-based business. We ensure the output of the economy. As a result, we and the industry will be impacted by lower premium levels as the economy contracts. How much and for how long will depend on the extent and duration of the negative economic impacts related to the pandemic.

We have always been very attentive to our expense base and we continue to be thoughtful in that regard. In the context of the current environment, we will make adjustments to our expenses where it makes sense. But we do not plan to make significant adjustments to our fixed expense base in response to short-term fluctuations in business volumes. Accordingly, as a consequence of pressure on the top line, we expect an increase in our expense ratio in the near-term. In terms of our investment portfolio, the economic follow-up from the pandemic will impact our net investment income. Dan will have more to say about that shortly.

Turning to loss costs, there will be COVID-19 related loss activity. But generally as exposures decline, there will, to one degree or another, be some corresponding decline in losses. What that will mean the terms of profitability will depend on the relationship between the decline in earned premium and the decline in losses. In other words, loss ratios could improve or deteriorate and that will vary by line. Short-term impacts could also be different than longer term impacts.

Turning to some of our key lines of business. In personal auto, in recent weeks, we've seen a meaningful drop-off in auto frequency. As a result, we announced our Stay-at-Home Auto Premium Credit Program, offering a premium credit to our customers for April and May. At the same time, there may be some offsetting impact in terms of auto severity. For example, severity could be impacted as lower levels of traffic results in collisions occurring at higher speeds.

Turning to our commercial businesses. In workers' compensation, while it varies by state, generally claims for injury or disease are compensable when the employee demonstrates that the injury or illness arose both out of and in the course of their employment. With respect to COVID-19, these claims will most likely be applicable in the case of healthcare workers and other first responders, which does not represent a significant part of our book of business.

Some states have taken steps to effectively expand the scope of workers' comp coverage by creating presumptions of compensability. Other states are considering doing the same. There are a few dynamics to this that argue for policymakers and regulators to take careful approach. First from a marketplace perspective, shifting the exposure to the workers' comp system will increase loss costs. That will be reflected in rate making, increasing the cost of workers' comp insurance going forward. Also, those states that have workers' compensation funds would presumably baer their proportionate share of the cost. In any event, we're watching this closely.

In management liability, there is potential for elevated frequency. For example, under public company D&O policies, we generally associate stock market volatility with a higher frequency of claims related to securities class actions. However, given the breadth of the market decline, causation maybe harder for plaintiffs to prove in those cases.

Also by way of example, under employment practices liability coverage, we expect additional claim activity related to the increase in furloughs and layoffs of employees. Surety loss activity for the industry and for us could be elevated depending on the duration of the economic shutdown and the depth and duration of stress in the economy. While projects have been impacted by shelter in-place orders, our sense is that the vast majority of projects have been permitted to proceed and contractors are currently still working. We believe that force majeure or other provisions included in many construction contracts would as a general matter provide relief to contractors for late completion due to COVID-19.

Surety loss experience will also be impacted by other factors. For example, the financial strength of the bonded firms, the types of bonds written and security arrangements. Our high-quality surety book was effectively stress tested in the 2008 financial crisis and performed well, and our underwriting approach has remained disciplined since that time.

I'll take a minute and comment on business interruption coverages under commercial property policies. Let me begin by saying that for every claim without exception, we start by looking at the facts of the claim and the terms of the policy to determine whether the claim is covered or not. That said, our commercial property insurance policies that include business interruption, including as a result of civil authority require losses to be caused by direct physical damage to property from a covered cause of loss. In addition, our standard policy form specifically excludes loss or damage caused by a resulting from a virus.

More broadly, the issue of retroactively expanding coverage beyond the original intent of a policy is important for the industry. So, let me make a few additional observations. Insurers don't collect premiums to cover losses that policies weren't written to cover. Requiring those losses to be covered retroactively on any broad scale would overwhelm the industry's claim staying ability for legitimate claims and fairly leading many individuals and businesses exposed.

To that point, the industry's financial strength is especially important in a time of increased natural catastrophes. The spring tornado season is already active, hurricane season is fast approaching, and wildfires represents an ongoing threat. On top of all of that, contract certainty is a core underpinning of the U.S. free market system and any effort to undermine that has the potential to set a dangerous precedent.

Finally, with respect to liability coverages, in the near-term as people shelter in place, we are seeing fewer commercial auto accidents and slip-and-fall type claims. In addition, we are seeing some movement by the plaintiffs' bar to settle claims faster. On the other hand, we expect that the plaintiffs' bar will seek to generate COVID-related litigation.

Let me take a minute to address a related and important policy issue. The Trial Bar is already actively soliciting plaintiffs for cases related to the pandemic. A number of lawsuits have already been filed, including related to the manufacturing and distribution of hand sanitizer and efforts to develop COVID-19 vaccine. Those aren't our insureds, so I don't have a view on the merits of those cases. But we should all be concerned that many frivolous lawsuits will be brought and will undermine the nation's recovery, including by delaying and adding expense to R&D related to the development and distribution of COVID-19 tests and therapeutics. Deterring employers from responsibly bringing employees back to work and retail businesses from responsibly opening to customers, and targeting highly vulnerable businesses like those in the healthcare and travel industries that can't afford the distraction or the expense.

On top of these specific concerns as I'm sure you're aware, the United States has the highest tort tax in the world. According to a recent study by the Institute for Legal Reform, tort costs amount to more than $3,300 per U.S. household and much more than that in some states. Americans shouldn't have to endure that and they can't afford to at the moment. In other words, our recovery from this crisis will benefit considerably from common sense tort reform as well as legal liability protection for our healthcare heroes, firms involved in recovery efforts and all businesses seeking to reopen.

I'll now turn to our first quarter results. This morning, we reported core income of $676 million and core return on equity of 11.5 %. As compared to the prior year, the results for the quarter were adversely impacted by a higher level of catastrophe losses and charges related to the pandemic, both of which Dan will address shortly. Our underlying underwriting income in the quarter was higher than in prior year, benefiting from record first quarter net earned premium of $7.2 billion and an underlying combined ratio which improved to 91.3%, despite $86 million of pre-tax COVID-19 related charges. Our high quality investment portfolio performed well, generating net investment income of $519 million after tax.

Turning to production. We executed successfully on our marketplace strategies and grew net written premium by 4% and more than $7.3 billion. Given the timing of the pandemic, the impact of COVID-19 on production generally wasn't significant for the quarter.

Net written premiums and business insurance increase 1%. Domestic renewal premium change was strong at 7.8% including renewal rate change of 6.2%. Renewal rate change was up again both sequentially and year-over-year, while retention remained very strong.

In Bond & Specialty Insurance, net return premiums increased by 13% with strong growth in both our management liability and surety businesses. Renewal premium change in our domestic management liability business was 7.5%, up more than 3 points over the prior year quarter. While retention remained historically high at 89%.

In personal insurance, net written premiums increased by 8% with Agency Homeowners up 18% and Agency Auto up 3%, with both lines benefiting from strong production. Across all three of our segments, we are pleased with our production results and we will continue to execute to meet our target returns. You'll hear more shortly from Greg, Tom and Michael about our segment results.

I'll close by saying that in this moment of uncertainty, our stakeholders can count on us to continue to operate consistent with our long-term financial strategy, as we have for many years and through other challenging periods of uncertainty. We have the talent, technology, risk management processes and procedures, and importantly, the financial strength to manage through these extraordinary times and to continue to deliver meaningful shareholder value over time.

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

Dan Frey {BIO 20727678 <GO>}

Thank you, Alan.

Core income for the first quarter was $676 million, down from $755 million in the prior year quarter; and core ROE was 11.5%, down from 13%. The change in both measures from last year's first quarter resulted primarily from a higher level of catastrophe losses compared to a relatively quiet cat quarter last year. First quarter results also include the adverse impact of COVID-19, which I'll provide more color on in a moment.

Our first quarter results include $333 million of pre-tax cat losses, $140 million higher than last year's first quarter. This quarter's cats include $182 million from the March tornado activity in Nashville. PYD in the current quarter, for which I'll provide more detail shortly, was net favorable $27 million pre-tax. The underlying combined ratio of 91.3% which excludes the impacts of cats and PYD was strong and improved by 10.3 point from the prior year quarter.

Our pre-tax underlying underwriting gain of $594 million was 11% higher than in the prior year quarter, reflecting the volume benefit from higher levels of earned premium in all three business segments, lower levels of non-catastrophe weather losses, and an improved loss ratio in personal insurance auto. These benefits were partially offset by the current quarter impact of increases to loss ratios in the commercial businesses recognized during the second, third and fourth quarters of 2019, all of which we discussed in previous calls. And the impacts related to COVID-19, including first quarter loss estimates and increase in the provision for uncollectible receivables, and a reduction in our estimate of ultimate audit premiums receivable. The expense ratio of 30% reflects our ongoing focus on productivity and efficiency. The first quarter expense ratio includes nearly 0.5 point of elevated bad debt expense related to the impact of COVID-19.

After-tax net investment income increased by 5% from the prior year quarter to $519 million, driven by higher returns in our non-fixed income portfolio. Recorded results for our private equities, hedge funds and real estate partnerships are generally reported to us on a one quarter lag. So the impact of the disruption in global financial markets that occurred in the latter half of the first quarter will impact our second quarter results. While not perfectly correlated, our non-fixed income returns directionally follow the broader equity markets, which were down 15% to 30% during the first quarter.

To the extent the broader markets may recover in the second quarter and beyond, our portfolio would then see that benefit in future periods on a lagging basis. In the current environment providing an outlook on our expectations for fixed income results for the remainder of 2020 comes with more uncertainty than usual.

Having said that, as a result of the recent decline in short-term yields, we expect that fixed income NII will decrease by approximately $20 million after tax per quarter compared to the corresponding periods of 2019.

Turning to prior year reserve development, in personal insurance, both auto and property losses came in better-than-expected for multiple accident years. In business insurance, net favorable PYD was driven by better-than-expected loss experience in workers' comp and commercial property, largely offset by unfavorable results in commercial auto. Each of this quarter's movements are relatively small when compared to the reserve base.

Regarding reinsurance, as discussed during our fourth quarter results call, we did renew our property aggregate catastrophe XOL treaty for 2020, providing aggregate coverage of $280 million, part of $500 million of losses above an aggregate retention of $1.55 billion. Through March, we had accumulated $414 million of qualifying losses toward the aggregate retention.

Turning to capital management. Operating cash flows for the quarter of $628 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 $1.6 billion well above our target level. Investment yields increased modestly as credit spreads widened during the first quarter, and accordingly, our net unrealized investment gain decreased from $2.2 billion after-tax as of year-end to $1.8 billion after-tax at March 31st.

Adjusted book value per share which excludes unrealized investment gains and losses was $92.63 at quarter-end comparable to year-end and up 4% year-over-year. Adjusted book value per share included an adverse impact of $0.97 due to net unrealized losses from resulting from foreign currency translation as the dollar strengthened against most foreign currencies as a result of the COVID-19 crisis. We returned $681 million of capital to our shareholders this quarter, comprising share repurchases of $471 million and dividends of $210 million.

As noted in the press release, our board has authorized an increase in the quarterly dividend to $0.85 per share. We have increased dividends every year for the past 16 years. Dividend payments provide a reliable stream of income to the millions of individuals who own our shares is part of 401(k)s, other retirement accounts or as part of overall financial planning.

Given the current environment, we thought some additional commentary regarding our overall balance sheet strength and our liquidity position would be appropriate. As we've said for many years, we measure success over time. And as a result, our capital management and investment strategies are designed to withstand the periods of stress that will inevitably arise. To that end, we closed the first quarter with over $100 billion in total assets, including $77 billion investment portfolio.

As illustrated on Page 8 of the webcast presentation, our high-quality portfolio consists of 94% fixed income securities. And of those fixed maturity assets, 98% are investment grade. The fixed income portfolio provides a significant and reliable stream of income for us.

Page 9 of the presentation provides a view of our municipal bond investments. As you can see, that $31 billion portfolio consists of extremely high-quality holdings.

Page 10 of the webcast shows our non-municipal fixed income holdings in categories of particular interest given the economic impact of COVID-19. The aggregate of our high-yield holdings in these categories accounts for less than 1% of our fixed income portfolio. Importantly, where we do have holdings in any particular category of $400 million or more, those are investment-grade holdings of high-quality names as detailed in the notes to the right of the graph.

Page 11 of the webcast shows the makeup of our non-fixed income portfolio, which represents only 6% of our total investment portfolio. These investments are highly diversified with minimal exposure to those risk categories that are most vulnerable to the effects of COVID-19.

Our thoughful dent-to-capital mix has only $500 million of upcoming debt maturity in November of this year. After that, we have no debt maturing until 2026. Our cash and short-term investments provide us with substantial readily available liquidity and that's not counting our undrawn $1 billion credit facility or our capital -- or our capacity to issue additional commercial paper. We stress tested our cash flows and liquidity under a variety of scenarios considering this uncertain environment and we're confident that we are well positioned to continue to meet our obligations to our customers, our distribution partners and our employees and to continue to support our communities.

In terms of capital management, our strategy remains unchanged. Thinking about share buybacks in the current uncertain environment, it feels to us like holding on to a little more capital is preferable to holding on to a little less, similar to how we felt in 2008. Accordingly, we may buy back some shares in the coming quarters or we may choose to buy none until there's more clarity on the state of the economy.

Finally, let me take a minute to address outlook. Looking at premium volume for the remainder of the year, we expect to see more significant impacts in the economic contraction on written premium and earned premium. And because earned premium typically lags written premium, we'll continue to feel the effects on an earned basis beyond the end of the year. As Alan said, how much and for how long will depend on the extent and duration of the negative economic impacts related to the pandemic.

As you've seen in our 10-Q, we have not provided forward-looking information about pricing levels or underlying underwriting margins, given the increased level of uncertainty in the current environment. As an aside, over the past year or so, we have discussed with a number of our shareholders, whether there are other more constructive ways to provide our qualitative and directional views of the business going forward as compared to the form in which we have given it historically. Once the current uncertainty subsides, we will consider whether and how to share our perspectives going forward.

Let me sum up what you've heard across Alan's comments and mine to give you some texture as you think about our second quarter. We expect downward pressure on both written and earned premiums, and there will be downward pressure on net investment income. We expect both of these impacts to be pronounced in the second quarter. There will likely be an increase in the expense ratio due to the premium decline. We did not have clarity on the underlying combined ratio, due to uncertainty around variations in frequency and severity for each product line. And keep in mind that the second quarter is historically our highest cat quarter.

Now, I'll turn the call over to Greg for discussion of Business Insurance.

Gregory C. Toczydlowski {BIO 16615940 <GO>}

Thanks Dan.

I'll start by echoing Alan's statement expressing our deep appreciation for the efforts of the essential workers were trying to protect and support individuals and businesses during these trying times. I would also like to acknowledge and thank all my colleagues for their exceptional work. We couldn't be more pleased with the commitment and collaboration we have witnessed among our field organization and distribution partners to continue to deliver the exceptional support our business owner and customers that have come to expect.

While we have many examples, one that I'm proud to highlight is our risk control organization's ability to continue to support new business opportunities while not always being able to perform on-site assessments. Through the combination of third-party data and remote-enabled technology, we've increased our virtual risk assessments by more than 4.5 times from pre-COVID levels. These virtual capabilities have allowed us to continue to support our agents and brokers, while not compromising our risk selection.

On to results for the first quarter. Business Insurance produced segment income of $289 million and a combined ratio of 102.2%, both unfavorable to the prior year quarter primarily due to higher catastrophe losses and from the impact of COVID-19. The combined ratio included a 5 point impact from catastrophes, which was higher than we had seen for the quarter, driven particularly by tornado and hail losses from cat 16, which had a heavy mix of commercial losses for us in Nashville, Tennessee. The underlying combined ratio of 97.3% was 2.3 points higher than the prior year quarter, driven by approximately 2 points related to the coronavirus and related economic impacts. Of this amount, about 1.5 point affects the loss ratio and about 0.5 point affects the expense ratio.

Turning to the top line. Net written premiums were up 1% over the prior year quarter. This is a lower growth rate than what we've seen over the past few quarters with a couple of factors contributing. First, it is a lower level of new business which I'll touch on in a few moments when I discuss production. In addition, international written premiums were down 8%, driven by Lloyd's primarily as a result of continued profit improvement initiatives. Lastly, audit premium although still positive was lower as compared to last year. While we will always remain active in the marketplace, premium levels will be an outcome of disciplined underwriting and risk selection as we pursue appropriate financial returns across the portfolio.

Turning to domestic production. We achieved strong renewal premium change of 7.8%, including renewal rate change of 6.2%, while retention remained high at 84%. The renewal rate change of 6.2% was up more than a 1 point from the fourth quarter of 2019 and more than 4 points from the first quarter of 2019, notwithstanding the persistent downward pressure in workers' compensation pricing. As part of our efforts to achieve target returns, we continue to achieve higher rate levels broadly across our book as rate increases in all lines outside of workers' comp were meaningfully higher during the quarter as compared to both the fourth quarter and first quarters of last year.

In addition, we achieved positive rate at about three-fourth quarters of our middle market accounts this quarter, which was up from about two-thirds in the same quarter of last year. Importantly, we've achieved this progress while retention has remained strong. Our rate strategy is to continue to be thoughtful and execute on a local and granular manner. You may have noticed in our webcast presentation that RPC for prior quarters was adjusted down by as much a 1 point or 2 point, driven by the exposure component.

Reestimating our production statistics is normal course for us, as consumer activity and/or changes in economic factors and form our estimates of whole demand exposure change. So while our process was unchanged, the impact was more meaningful than normal this quarter given the significant economic effects of COVID-19 on our customers' operations.

As for the individual businesses, in select, renewal premium change was 5.8%, including renewal rate change of 1.6%, which was up 1 point from the first quarter of last year. Retention was relatively consistent at 81%, new business of $120 million was down 6% from the prior year driven primarily by lower workers' comp pricing. In middle market, renewal premium change was 7.5%, with renewal rate change of 6.6%, each measure up significantly from both the fourth quarter and first quarter last year, while retention remained high at 86%.

New business of $283 million was down from the prior year quarter, which we attribute largely to our disciplined underwriting and pricing. We're very comfortable with our execution and we continue to invest in our strategic capabilities and are confident that we're well positioned to profitably grow over time.

To sum up, this is certainly an unprecedented market environment we're operating in. We believe our meaningful competitive advantages including our strong distribution relationships and our talent and expertise, position us well to navigate through these uncertain times and continue to serve our customers, and agent and broker partners.

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

Thomas M. Kunkel {BIO 16615934 <GO>}

Thanks Greg.

Echoing the earlier comments, I would be remiss if I did not take the opportunity to thank all of those including medical professionals, first responders, and all essential workers, who, more than anyone are making it possible for us to continue to serve our customers, agents and communities. A special thanks also to our agents and my Travelers' colleagues who've been unrelentingly dedicated throughout the pandemic quarantine.

Turning to the quarter, Bond & Specialty delivered another quarter of very strong returns and growth. Segment income was a $122 million, a decrease of $16 million from the prior year quarter. The combined and underlying combined ratios remained very strong. The underlying combined ratio of 85.7% increased 4.6 points from the prior year quarter. This increase was driven by the impact of higher loss estimates for management liability coverages, primarily the impact of COVID-19 and related economic conditions.

Turning to the top line. Net written premiums were up 13% for the quarter, reflecting growth across all our businesses. In our domestic management liability business, we're pleased that pricing again improved for the third consecutive quarter to a strong 7.5%, while retention remained at a historically high 89%. These production results demonstrate the strong execution of our strategy to improve margins, while maintaining strong retention of our high-quality portfolio. We will continue to pursue price increases, where warranted. Domestic management liability new business for the quarter increased 5% to $58 million.

Our domestic surety business posted very strong growth in the quarter, driven by a mix of larger bonded projects as well as a modest increase in construction activity. International also posted very strong growth and significantly improved pricing in the quarter driven by our UK management liability business.

So, Bond & Specialty results remained strong in the quarter. And while there is clearly the potential for elevated loss activity in certain Bond & Specialty lines and the depth and duration of the associated economic disruption are unknown, we continue to feel great about the disciplined risk management and underwriting integrity that shaped our portfolios, our ongoing strong field execution and our strategic investments in market-leading products and services. And we feel we are well positioned to navigate through this challenging environment and continue to deliver strong returns over time.

And now, I'll turn it over to Michael to discuss Personal Insurance.

Michael F. Klein {BIO 19674145 <GO>}

Thank you, Tom, and good morning, everyone.

Personal Insurance began 2020 with strong profitability and production. Segment income was $336 million, up 21% compared to the first quarter of 2019. Our combined ratio of 88.2% improved by approximately 2 points, driven by better underlying underwriting results, partially offset by lower net favorable prior year reserve development and higher catastrophe losses. On an underlying basis, the combined ratio was 84%, an improvement of 5 points compared to a strong prior year quarter with excellent results in both home and auto.

The net impact from COVID-19 on segment income was not significant in the quarter. Increases in the allowance for credit losses on premium receivables and higher loss estimates in Homeowners and Other, primarily from special event coverages for vetting, were offset by favorable impacts on auto loss experience that we began to see in the latter portion of March.

Turning to the top line. Net written premium grew 8%, driven by strong growth in domestic results, especially in homeowners. International net written premiums were down 5%, primarily as a result of continued auto profit improvement actions in Canada. Agency Automobile delivered another impressive quarter with a combined ratio of 89.4% consistent with the prior year quarter. Underlying results improved relative to the prior year quarter, while favorable net prior year reserve development was lower than last year.

The underlying combined ratio of 89.2% improved 2.9 points relative to the prior year quarter, continuing to reflect improvements in frequency levels. Roughly, half of the improvement reflects the continuation of the lower claim frequency levels we had already been observing, while the other half is associated with a decrease in miles driven as a result of COVID-19 and related economic conditions.

To add some texture to the impacts of COVID-19, data from our telematics program, which we call IntelliDrive indicates a fairly rapid decline in miles driven per day during the latter part of March, resulting in an average decrease of more than 40% in miles driven for the second half of the month. As a result, auto claim frequency dropped well below our expectations.

Based in part on that data and an expectation that favorable frequency trends will continue in the near-term, we recently announced the Travelers Stay-at-Home Auto Premium Credit Program. The program provides U.S. personal auto insurance customers with a 15% credit on April and May auto premiums. The premium credits to customers are estimated to total $140 million for the two months and are expected to be recorded as a reduction in premium in the second quarter.

The first quarter results in Agency Homeowners & Other were very strong as our combined ratio improved by 4 points from the prior year quarter to 84.2% despite higher catastrophes and net prior year reserve development that while favorable was lower than the prior year quarter. On an underlying basis, the combined ratio was 74.9%, an improvement of almost 8 points versus the prior year quarter, driven by lower non-catastrophe weather. The quarter benefited from unusually mild winter weather, leading especially to lower freeze related claims.

Turning to production. Agency Automobile net written premiums grew 3%, with 10% growth in new business, while retention remained strong at 84% and renewal premium change was 2.4%. Agency Homeowners & Other delivered a very strong quarter with net written premium growth of 18%. New business was up 30% from the prior year quarter. Retention remained strong at 86% and renewal premium change increased for the fifth consecutive quarter to 7.7%.

Higher new business levels again benefited from the successful roll out of our Quantum Home 2.0 product. Now available in 37 markets, Quantum Home 2.0 is granular pricing segmentation, customizable coverages and ease of quoting combined to form a solution that is both sophisticated and simple, and our increased quote volume and higher average premiums suggest it continues to hit the mark with both agents and customers.

Before I conclude, I'd like to highlight a few examples of how our investments and capabilities are paying dividends for us, our agents and our customers in this challenging environment. First, our digital claim capabilities are supporting our ability to respond to customers in their time of need, while keeping them and our employees safe. From the end of February to the first week in April, the use of virtual inspection and damage measurement for auto claims and the use of live video inspection for property interior claims more than doubled.

Second, the take-up rate in our auto telematics program, IntelliDrive, is on the rise, as consumers show increased interest in products that determine premiums based on driving behavior. And finally, the digital tools we've invested in to support our agents and brokers are in high demand. Their usage of our digital marketing campaigns, including a handful of new ones developed specifically in response to COVID-19 has increased more than 50%.

To recap, we're thankful in Personal Insurance to have had a great start to the year. We're also grateful for the support that essential workers, first responders and healthcare workers are providing to us and our communities in this challenging environment. In these unprecedented times, I'm particularly proud of the way our team has responded to our customers and distribution partners, while also taking care of themselves, their loved ones and one another. While there will be further challenges ahead, our team's efforts continue to position us well to meet the needs of those we're privileged to serve and to continue to grow profitably while investing in the business for the future.

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

Abbe Goldstein {BIO 20602454 <GO>}

Thanks Michael. We're ready to take questions now. Thank you.

Questions And Answers

Operator

(Question And Answer)

A - Abbe Goldstein {BIO 20602454 <GO>}

Thank you. (Operator Instructions). Your first question comes from the line of Michael Phillips with Morgan Stanley. Please go ahead.

Q - Michael Phillips {BIO 21023048 <GO>}

Thank you. Good morning, everybody. I think my first questions is probably for Greg. Look, we see it, if you ex out the COVID, your BI margin was relatively flat in the quarter. Your rates -- renewal rate was still up and accelerated. I guess given -- and we hear you what's happening clearly with exposures in the near-term. But I guess, how do you think about how the margin should play out in the near-term? I guess specifically I'm thinking what are your thoughts on continued ability to push for rate in the near-term on your commercial lines business?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Michael, so let me actually start. And if Greg has got anything to add, we will turn it over to him. So I think for all the reasons that simply all of this have expressed in one form or another, the outlook for margin is uncertain. And I agree with you. Margin for first quarter were actually quite good.

From a pricing perspective, I can tell you that we will continue to execute to meet our objectives. And on many lines, that means we will continue to get rate. Now there will be some conversation about what customers can tolerate in times like this. But I can tell you that customers may benefit as exposure declines lead to premium declines. But on those accounts where we need to improve returns we wouldn't expect premiums to decline as much as exposure will decline. So in that environment, that would lead to an improved price per unit, if you will. So we will continue to execute to meet our target returns. And obviously, we'll see what happens. But we're coming off a pretty good trend. And for all the reasons that are probably apparent, there are a lot of lines out there that continue to need margin improvement.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thanks. Thanks Alan. I guess let me -- my second question will be more specifically on your commercial auto book. And you did talk on -- there at the -- on personal auto, you see frequency down in the back half of March about 40% or so. How does that look for your commercial auto book? Any differences relatively kind of personal auto on frequency declines and how that looks?

A - Gregory C. Toczydlowski {BIO 16615940 <GO>}

Hey, Michael, this is Greg. Yeah, we're obviously watching and monitoring the trends, and it's really early in terms of watching the frequency on the commercial auto book. But Michael and my team and the group of actuaries are spending a lot of time at a geographic level, at a business unit level and calibrating where the frequency is. But it's just too early to really comment on what the frequency would look like for commercial auto at this point.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

But we would say Michael, that it's been downand I think I shared that in my prepared remarks, that it has been done with the exact relationship will be relative to personal auto that we'll have to see how it plays out.

A - Michael F. Klein {BIO 19674145 <GO>}

And Michael, this is Michael Klein, I just wanted to clarify the comment in my prepared remarks was actually about miles driven being down more than 40%, not a frequency number. Certainly, they're correlated, but I just wanted to clarify that the comments were about miles driven.

Q - Michael Phillips {BIO 21023048 <GO>}

Yeah, got it. Thank you. I appreciate that.

Operator

Your next question comes from the line of Mike Zaremski with Credit Suisse. Please go ahead.

Q - Mike Zaremski {BIO 20606248 <GO>}

Hey, good morning. In the prepared remarks, you talked about certain states for workers' comp instituting presumptions of compensability. Could you elaborate? Is this something that Travelers and the industry is accepting? Or is this could play-out similar to business irruption insurance or certain of these changes could kind of play out in the courts? And I just -- is this expected to negatively impact margins per comp in the near term? And then you -- I think, Alan, you alluded to pricing changing eventually to account for these changes? Any clarity would help. Thanks.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Yes. Sure. Good morning. Thanks for the question. So I would say broadly speaking the answer to your question is it's early and this is still developing. There are some number of states that have adopted some type of presumption. In many cases that applies to healthcare workers and first responders where who might have expected in any event that there would be compensability. In other states either they have or are talking about extending the scope of the essentially compensability to other workers. And so, in effect that would shift the burden of proof to who's got to prove the way the disease was contracted. In terms of exactly how it's going to play out, I think we'll have to see. In some states the business communities that are thinking about what that's going to do to their premiums are engaging in the debate along with other interested parties. But exactly how it's going to play out, I don't know. I mean if it were to move against us, we would expect that there would be an impact on margins in over the near term. And then obviously that will work its way into rate making over time.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Great. And lastly, in terms of the surety line, which you guys could provide some helpful color on, could you explain how the force majeure will help out? And is this the main line within the bond and surety segment that you expect to potentially be most impacted? Or are there -- or is it more the management liability side or both? Thanks.

A - Thomas M. Kunkel {BIO 16615934 <GO>}

So, thanks. Good morning. It's Tom. I would say that when you look at the surety lines, construction surety is about 2% of the revenue and commercial surety is about one-third of the revenue. So we're going to focus on that bigger piece of construction surety. You asked about force majeure. So we have force majeure clauses, government action clauses, suspension of work clauses. And as a generality as Alan pointed out in his comments, we think they're going to provide time relief in the event that contractors are delayed. That will be handled on a contract by contract basis. But, I think the important thing when you look at the construction surety line is that it's been termed in many-many and even most states to be an essential business. And as such it's our sense and again as Alan pointed out I think that the vast majority of contractors are still working. And so if that's the case, you would look at that construction surety business and you would say that's a healthy sign. And so I think when we consider the surety lines, the other thing is you're going to see just a big difference amongst different carriers. So it's going to depend on how they underwrote their book the last 3 to 5 years and the depth and duration of any slowdown. So I hope that answered your question.

Q - Mike Zaremski {BIO 20606248 <GO>}

That's helpful. Thank you so much.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Tom, I think you said 2% construction surety, I think you meant two-thirds.

A - Thomas M. Kunkel {BIO 16615934 <GO>}

I'm sorry. I did mean two-thirds. Yes.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

Operator

Our next question comes from the line of Ron Bobman with Capital Returns. Please go ahead.

Q - Ron Bobman

Hi. Thanks a lot. And I echo your comments for everyone's well-being. And I never thought I'd look so forward to driving to Windsor to revisit your claims facility at some point in time.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

We look forward to having you.

Q - Ron Bobman

Yeah. Thanks. I've two questions. In the premium credit area, sort of the relief that you're providing to auto -- personal auto customers. How are you handling agents commissions on the relief? It was my first question, and I've got an unrelated second question?

A - Michael F. Klein {BIO 19674145 <GO>}

Sure. The answer to the question on commissions, this is Michael, is there is no impact to base commissions from the premium relief. So the agent gets paid the full commission on the policy.

Q - Ron Bobman

Thanks. And my other question was, I made -- I took note of Alan, you're specifying the virus exclusion and I greatly appreciate that. I just wanted to ask in the very, very small segment Simply Business that I think some portion of their volume is written using Travelers paper. Does that virus exclusion have an explicit place there as well?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

We don't actually have a property product on the simply business platform. So that wouldn't come into play there.

Q - Ron Bobman

Perfect. Thank you.

Operator

Your next question comes from the line of Ryan Tunis with Auto Research. Please go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks. Good morning. First one just on business interruption for Alan. First I just wanted to confirm that there's not a substantial subset or any subset of your policies that don't have the virus exclusion?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

So Ryan, when you've got a portfolio the size of ours, we're certainly going to find a pocket here or there that doesn't have that specific exclusion, but I can tell you that subject to some legislative action that we think would be subject to a constitutional challenge. We really do not think we have a material exposure from business interruption.

Q - Ryan Tunis {BIO 16502263 <GO>}

And for property in the international book, there's no difference of wording issue there?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Yes. That's a really good question. There's definitely a difference of the way the wording and the product works outside the United States. I'm not a coverage expert and definitely not the right one to explain the nuances to you. But I can tell you if we get to the same conclusion outside the United States as we do inside the United States, we just do not think we've got a material exposure to business interruption.

Q - Ryan Tunis {BIO 16502263 <GO>}

Okay. And then my follow-up was just on the workers' comp and the discussion around, I guess, essential employees. You said, you don't have much exposure to the frontline workers or healthcare. I'm curious if you can maybe quantify that a bit. But then thinking about I guess other subsets that have been deemed essential that aren't necessarily healthcare, first responders. You start thinking about utility workers, food. Any help, I guess, you could give us there on the size of that book in the context of what you're writing?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

There's nothing we could really quantify for you. I can tell you as it relates to health care and first responders from a premium perspective it's a pretty small percentage of the workers' comp premiums that we have. Then once you start getting outside of that every state defines essential a little bit different and so it's we are -- we will definitely have exposure to essential workers. Then you get into questions of, okay, so what are the infection rates going to be? What are the healthcare costs, et cetera? But there's really nothing -- there's really no number we can give you on an aggregate basis I think that we have enough confidence to give you or that we think would be helpful.

Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. Thanks.

Operator

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

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thank you. Alan, I think you've talked about the business interruption pretty well, but just one other just quick clarification. Do you all provide a virus endorsement to customers at all? And if so, how what percentage of your policies would you provide that endorsement?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Yes. So this is across Travelers basis, there are a few number of policies that do have an affirmative virus grant and losses for that would be included in our results for this quarter. We would have contemplated that in the charge that we took.

Q - Brian Meredith {BIO 3108204 <GO>}

Excellent. Great. That's really helpful. And then second question, I'm just curious, do you all -- this is for Tom. Do you all participate at all in the energy surety market? And if so, what are your expectations there?

A - Thomas M. Kunkel {BIO 16615934 <GO>}

Well, in our commercial surety business, we do have a modest participation in the surety business. There you see lots of different parts of that market from upstream to midstream, the downstream, the service providers. We have some parts of that market that over the years we have liked better than others. However, I think our approach to the energy market has always been somewhat cautious and while we certainly do have a modest exposure there, we're not out weight in any way shape or form.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Thanks for the questions, Brian.

Operator

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

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Good morning Elyse.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Good morning. Hi yes. Can you hear me?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Yeah, we can now. Good morning.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Yeah, sorry. So if I take $86 million that you guys called out for COVID in the quarter and that's around 1.2 points on your combined ratio. And so, I guess my question is, that was for one month right or about one month for March. Is the right way to think about it? And I understand you guys don't want to go down the front of giving full guidance. Is the right way to think about it that we would make that -- take that for the full quarter and some kind of math of times 3 or some assumption of how long you think the COVID impact will last within the industry?

A - Dan Frey {BIO 20727678 <GO>}

Hey Elyse, it's Dan Frey. I'll try to take that. I think that would be very difficult to do for a couple of reasons. One is part of the charge as we explained in my commentary, relates to bad debt provision for billing relief and billing relief we expect to occur for a finite period of time that's going to be based on what we've already announced voluntarily and in some cases what states are asking us to do. But right now, that's pretty boxed. And so we think that we would have most of that inside what we've seen so far. So far, I'd say there could be more of that in the second quarter, but I certainly wouldn't take that number times 12. Unless of course, this becomes a prolonged and dep situation in which that situation has to continue on a go-forward basis. I think similarly some of the losses that we've talked about, as Tom just talked about we tried to make -- as Alan just talked about, sorry, we try to make an assessment of where we think we do have some potential exposure outside the U.S. and try to be fully responsive in that regard. So it would be I think too early tom one, to make a conclusion. And two, I would counsel, I think against that approach.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. And then my second question on, in the 10-Q, you guys had called out on some prior year adjustments within business insurance I believe for the fourth quarter of last year. Is it possible to quantify that and what lines that stem from? It seems like it was offset by other kind of development pushes and hold?

A - Dan Frey {BIO 20727678 <GO>}

I'm not sure what the question is, Elyse. Could you give me some help on specifically what you're talking about?

Q - Elyse Greenspan {BIO 17263315 <GO>}

I thought I saw a comment in the 10-Q in relation to business insurance where you guys had called out some adverse development for the later in the 2019 accident year. Was there any kind of true-ups or adverse development taken on some of the longer tail lines whether commercial auto or general liability related to accident year of 2019 within just business insurance?

A - Dan Frey {BIO 20727678 <GO>}

Yeah. So if it's in the commentary in the MD&A around the change in the underlying combined ratio in business insurance. We do have the impact of the changes in the liability lines that we reported in the second, third and fourth quarters of last year and disclosed in last year's quarter. Now when you look at those, they carry forward and have an impact on the first quarter of this year. It was not included in the first quarter of last year. So that's the delta we're trying to explain there.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

But Elyse, if you're -- you may be asking about prior year development I think that's what you said. But Elyse maybe we can take this offline. I think we're a little confused about the question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

Operator

And we have time for one more question coming from the line of Jimmy Bhullar with JP Morgan. Please go ahead.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi. Good morning. So I had a question first just on workers' comp again. Can you talk -- you mentioned your views on business interruption, just your views on the legality of claims in some cases. But can you talk about submission activity for the line? And how many claims you're seeing filed versus what you'd normally see file in a normal quarter, just to get an idea on how much litigation there could be in this line?

A - Dan Frey {BIO 20727678 <GO>}

When you say submission, you mean claim submissions? Is that what you're talking about?

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Yeah, whether or not --

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Yeah, broadly speaking, workers' compensation claim frequency would be down. I probably wouldn't want to quantify that because I'm not sure we'd want to say what we've seen in a couple of weeks is necessarily going to translate to what we're going to see for a full quarter. But across many of our lines of business we've seen frequency -- claim frequency down. I'm not sure that necessarily translates into litigation risk however, if that's the point that you're trying to make.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Sorry on business Interruption. I might have said workers' comp, but business interruption.

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Business interruption. I'm sorry. Yes. There's definitely been some claim activity, the -- and essentially everyone, where I'd say the vast majority of them, we declined it because we've got the exclusion or other provisions that apply. So I don't -- I actually don't even know what the precise number is. But the vast majority we declined the claim consistent with the policy terms.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

And then how does your reinsurance cost coverage work in the sense that if you are -- if you end up losing some cases in court on business interruption, is your reinsurance plan going to cover you regardless of whether you have losses or not? Or the language is such that your the primary losses or losses on the primary side will not be covered by reinsurance because those contracts have specific virus clauses as well?

A - Alan D. Schnitzer {BIO 3529437 <GO>}

Yeah. It's always a mistake. I think to give claim advice on either side of the insurance policy without specific facts and circumstances and looking at the policy language. But to be responsive to your question, I will say that follow-the-fortunes doctrine is alive and well and reflected in our reinsurance treaties, generally. That being said, if there is legislative action that essentially overturns contract certainty and we end up in constitutional challenges, et cetera, then we are in a new world and I'm not sure, what happens to reinsurance in that situation.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. Thank you.

Operator

And there are no further questions at this time. I will turn the call back over to Abbe for closing remarks.

A - Abbe Goldstein {BIO 20602454 <GO>}

Thank you very much for joining us this morning. And for those left in the queue and anyone else that has questions, of course as always, please feel free to follow-up with investor relations. Be well and thank you.

Operator

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