Barclays Global Financial Services Conference

Company Participants

- Alan D. Schnitzer, Chairman and Chief Executive Officer

Other Participants

- Tracy Benguigui

Presentation

Tracy Benguigui {BIO 21808177 <GO>}

Hi, good morning. I'm Tracy Benguigui, Insurance Analyst at Barclays. This is day two of Barclays Global Financial Services Conference, and I'm pleased this morning to conduct a fireside chat with Alan Schnitzer, CEO and chairman of Travelers. Good morning, Alan.

Alan D. Schnitzer {BIO 3529437 <GO>}

Good morning, Tracy. Nice to be with you. Thanks for having me.

Tracy Benguigui {BIO 21808177 <GO>}

Likewise, just a few housekeeping items just want to remind folks who've done this a few times or if you're first time on board on the left side of your screen you have the opportunity to submit questions as well take a part of our audience response system, which is basically polling questions. With that out of the way Alan, may be you could kick off with some high-level thoughts on what you see for Travelers in this dynamic environment.

Alan D. Schnitzer {BIO 3529437 <GO>}

Yes, well again, good morning. Thank you for having me, and thanks everybody for joining us this morning.

It's nice to be here. And I'm sure your more pointed questions will get to all the issues that are on people's minds but maybe I will share three things just to set a backdrop here for the conversation.

First in terms of pandemic losses there's still plenty of uncertainty out there. But I think we've come a long way since March, in getting a clearer picture of what the pandemic and COVID means for the industry and for us.

At least for the second quarter pandemic losses have been modest for us, which is a reflection of how we approach risk and reward and manage that carefully. And as we shared we've been thoughtful in developing loss estimates and cautious in recognizing the benefits from those lines that have had lower levels of claim volume.

And I'll add that this morning in the UK we've got an opinion out on business interruption. With all the caveats so there is a long opinion, it's hot off the press the ink hasn't dried, we're still making our way through our assessment of it. I will say that at first blush, there's nothing in that opinion that causes us to think differently about our exposure to business interruption in any material way.

So again, I think this is going to play out over time still plenty of uncertainty. My guess is we'll get into that a little later, but I think there's a clear picture and path forward today than certainly 6 months ago.

Secondly, taking a step back, if you look at the three years or so pre-pandemic for Travelers. You can really see the success of strategic initiatives we announced back in 2017 in terms of growth rates and a lower expense ratio of productivity and efficiency. Notwithstanding the state of the economy over these last six months our top line has been resilient, I would say and with the firming market and that productivity and efficiency that we've generated in the organization over those several years, we feel very well positioned for an improving economy.

And then the last thing I would add just by way of backdrop Tracy is that thanks to a lot of committed and talented colleagues, we haven't missed a beat either operationally or in terms of staying on track on strategic initiatives. So unusual circumstances for sure, but despite the unusual circumstances, we feel really good about the strength of the franchise and we feel really good about where we're heading.

Questions And Answers

Q - Tracy Benguigui {BIO 21808177 <GO>}

(Question And Answer)

All right. I think your sentiment is a little bit similar to what we've heard in other sessions where it seems like most executives are cautious, but it doesn't look as ugly as the initial expectations, I think where we were sitting back in March. And with that maybe I could get a little bit more technical if you could describe for us this new earnings path in the COVID-19 world. And I think I'm just going to play out some of your comments earlier about I guess coming up with the loss estimates, how should we be thinking about the tailwinds on COVID-19 casualty claims and in your view are there limitations to book IBNR given what I heard from one of the big four orders that you need for book reserves both I guess the view that it's estimable as well as probable.

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

Okay. There's a lot in that question, let me get started and if I forget some of it and don't respond, let me know. And I would say your comment it was ugly back in March, I wouldn't say it was necessarily ugly, I would say there was a fair amount of uncertainty back in March and I think six months later some amount of that uncertainty is starting to be resolved.

But getting back to your question the arc of the earnings path from here, I'd say there's broadly speaking three things to look at, one would be losses, two would be the top line and three would be investment income.

In the last two earnings calls, I've described the factors that we expect will impact COVID-19 losses and both favorable and unfavorable by the way, because there are unfavorable and favorable impacts. I haven't seen anything up to now that's caused me to think any differently about, about the factors that are going to drive losses positive or negative.

I have cautioned that it is important not to paint all insurance companies with the same brush, because not all of us are going to have the same experience with COVID losses and we've seen that in the reported results so far. In terms of the top line, we ensured the output of the economy. So as the economy contracts, there's going to be a lower level of insured exposures out there and that's going to impact everybody. As I said, our top line has been reasonably resilient and we've been pleased with that.

Also affirming market to one degree or another will offset at least some degree of that lower level of insured exposures. And then in terms of investment income, we manage our portfolio with an eye towards managing through periods of significant volatility. We know we didn't foresee a pandemic of course not this pandemic anyway, but we know that we're going to be tested from time to time and we manage our Investment portfolio accordingly. In our first quarter earnings call we put a lot of data out there on that and so that certainly gives us a lot of comfort.

Having said that the 10-year treasury, I think this morning was under 70 basis points. It's going to be lower for longer and that's going to affect fixed income NII. But I think that's to a significant degree one factor driving affirming market.

To your question about tail on COVID losses, yes there's going to be a tail on COVID-19 losses, it's going to go on and play out for some time. I would expect the plaintiff's to be opportunistic about it. So I think we will see that.

And then lastly, your point on IBNR there's nothing at all new about this probable and estimable standard. That's as far as I know always been the standard for booking liabilities. Nothing new at all about that and for insurance companies there is also nothing new about recording IBNR under uncertainty, of course different liabilities, different circumstances, different levels of uncertainty, but we factor that uncertainty into our IBNR estimates, which is why we say that we've been thoughtful about booking the losses and cautious about recognizing the benefits and that is to reflect that level of uncertainty.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay, great. Maybe just piggybacking off one of the comments you made earlier in the UK and that has to do with policy language. Just more broadly, let's try to tee up COVID-19 and changes in risk perception. And I'm wondering if Travelers will take advantage of this fluid environment holistically revamp policy language everywhere from exclusion to coverage of security and I'm not just talking about communicable disease but across all facets.

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

Yeah, well certainly communicable disease is front and center but just taking a step back and thinking about it holistically the way you ask the question, we are always evaluating policy language. And so coverages, terms and conditions exclusions things like that it's an ongoing process in light of change in circumstances and to a degree I think our discipline and doing that is why we're -- one reason why we are where we are in terms of having modest COVID losses so far but pertaining to your question, yes in light of these circumstances we will continue with that process.

I think the way to think about it is there's really two pieces to it there's the ensuring agreement so think coverage grants think exclusions and then there's program structure. So I think limits, supplements, deductibles, attachment points things like that.

When you have changing circumstances, certainly the program design is likely to change faster than the insuring agreement. And so we are seeing a pretty quick response in program design in a lot of coverages. But in terms of the insuring agreement any time, we're in a circumstance where we feel like we can't model the risk, we can't model the price or changing circumstances result in some ambiguity in the insuring agreement we will we will make changes and I think that's underway communicable diseases as I said is front and center, but I think we will look at all of those things.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And then I mean you made earlier comments about this, but where we stand today, how do you feel about the strength of exclusions, particularly with respect to communicable diseases.

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

It's a pretty broad question, and I always think it's a mistake to underwrite a claim without an insurance policy in front of me and the facts of the claim. So it's hard to answer that on a broad-based basis if you look at business interruption for example, and in the U.S. overwhelmingly the court decisions we've seen so far have cited with the industry and of course, we've got the virus exclusion that we continue to feel very strongly about. But it's hard to I think respond to that and without actually looking at a particular set of facts and circumstances.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay, great. Maybe it's a good time to turn to the -- our audience response system, which is our polling questions and to kick things off how hard of a pricing cycle are we in and what is your pricing momentum predictions over the next 12 months.

So the options are over 30%, 20% to 30, 10% to 20% or 5% to 10% it seems -- or the last one that no one picked was short-lived reversion to low single digits and I guess the most popular choice by a margin is the 20% to 10% range followed by 30% to 20%.

So, just wanted to get I guess your reaction action Alan on those polling results and if you could share your crystal ball on the direction of pricing.

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

Yeah, crystal ball is perpetually hazy. But the I think the answer to that question is there have been forces out there that have been driving, affirming market and all of those forces are out there and alive and well. And what we're seeing now, I think is broadly a response to the fact that in many lines, we've a rate in adequacy.

So for years we had crisis that lagged lost trends and so the industry lost ground. You've got social inflation out there, we've been talking about social inflation for a couple of years now, but if you're reading industry commentary and following the rhetoric, I think you see that there is a broader and wider acknowledgement and reaction to social inflation today than relative to a couple of years ago. And so, I think that's going to continue to drive pricing.

Whether volatility is on everyone's mind, I think certainly last quarter, this quarter, last couple of years, so I think there's some reaction to that reinsurance pricing feels like it's on the way up and we're a gross line underwriter. We're on a relative basis, under reliant on reinsurance. So I think less of an issue for us as a company, but I think an issue for the market and that will drive market pricing interest rates we talked about that lower for longer and on top of all of that we've got this pandemic that I think is introduced another level of uncertainty into the market psyche. So I guess my reaction is I'm not going to put a number on it. But I think this trend has got a way to run and I think it will improve margins.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Yeah, I guess what you're describing is perception of a loss driven -- lost cost driven hard market cycle versus what we've seen in prior cycles, which is actual replenishment of capital.

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

I do think it -- I don't think it's an issue of capital in the industry, I do think it's loss driven. But I also think for a variety of reasons, you've got a lot of markets that are just more disciplined about managing. Everybody has got better data and analytics. And so I just think there's a higher level of discipline around managing an insurance company and managing for an appropriate level of return.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And this I guess ties into the next audience response system question on a top line perspective, will a drop in insurable exposures from an economic shutdown outweigh hardening pricing for travelers, and the responses are either not likely equilibrium, likely with the overwhelming majority in the not likely count followed by equilibrium.

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

What's the not likely? I don't have it on my screen.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Oh, sure. Just basically the tug-of-war of pricing and I guess insurable exposures and it seems like I guess there's some skepticism out there if pricing could overcome the drop in insurable exposures from economic conditions.

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

Yes, so I guess my view on that is, I'm not going to make a prediction on whether one's going to be more significant than the other. You never like to see a weak economy, you never like to see lower exposures and to some degree that just feels like gravity to me, it's something that we all have to deal with.

But when you take a step back, the price per unit of risk is improving and so from that perspective margins are improving. I mentioned that we had a resilient top line and so I'll take a step back and I look at that feels okay where we are and it feels like we're well positioned for the economy as it improves and it will improve, in summary.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. And let's talk about cat so far with '13 mean the veins the quarter is shaping up to be active not just number-wise but dollar wise. Can you share some any early insights of your cat experience so far?

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

Yeah, so I think we've got a third hurricane of the season making landfall today which is relatively high number. We've had a very significant straight-line wind storm, this quarter a very, very active wildfire season in California and Oregon. So I without putting a number on it. These things are still evolving so I think it's too early to put a number on cat for the quarter we've got a couple of weeks left.

I do think it's reasonable to expect a above average cat quarter and I think going beyond that I would expect probably, I don't have the numbers in front of me, but it feels like probably an above average at least on a gross basis an above average non-cat whether quarter so very active from a weather perspective this quarter.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Maybe shifting gears now to talk about capital management, I mean all the years that I've met with Travelers even with your predecessors, I've always heard Traveler speak about being stewards of capital for shareholders. And as a steward of capital, how do you strike the balance between capital deployment through share buybacks versus alternative options such as M&A or assumption of more insurance risk.

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

So we've been very consistent in our approach to capital management over a very long period of time and I don't think I would describe it as a balance. I think I would describe it as a prioritization. And so when we think about the capital that we generate our first objective is always to invest that back in the business when we think we can do that and create a return for shareholders.

So if we've got an opportunity to invest in growth whether that's organic or inorganic or an opportunity to invest in talent or technology or other capabilities we always want to do that. But as you said it we are stewards for somebody else's capital and so we are highly disciplined in making those assessments.

And so when we're confident we can do it and meet our return expectations we'll invest the capital but when we can't we're going to give that money back to the capital providers and so less of a balance more of a prioritization.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Maybe just then talk about a bit Travelers has suspended buyback activity and so there's more clarity on the state of the economy. Can you share what factors you're considering to make this determination?

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

Yes. Just to clarify we didn't announce that we were suspending. We announced that we would be taking the circumstances into account as we thought about it. And I'll unpack that too. When we think about the capital we're going to give back the foundation of that decision making really is the proposition that we want to be a strong AA rated company.

And so, we've got a view of the capital that we need to maintain that position and then we evaluate that against known requirements for capital and also the risk of unanticipated requirements for capital. And so when you're in a circumstance like we're in now, when we're in somewhere in the middle of a pandemic that's going to run for a while and we're still gaining clarity on that. When we're in hurricane season and wildfire season, when you have this level of uncertainty, you take a step back and you say at least we say, having a little bit more capital feels better than having a little bit less capital. And so, we haven't bought back any shares but we didn't say that we were spending buybacks, we said that as the rest of the year unfolds we may buy back some or none depending on how we feel in that assessment that I just described.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. And I guess just one clarification there, do you hold capital buffers for downturn protection above the AA rating objective that ultimately play into the amount of capital available to fund buybacks?

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

Sure. Yeah, and I think I described that when I said that we hold capital for unanticipated -- we hold capital back for unanticipated needs. So whether that's -- we don't know how the weather is going to turn out, we don't know what the wildfires are going to do for the rest of the quarter for the year. So I think we maintain that buffer by acknowledging that, we don't know all the requirements for capital. And so we definitely take that into account.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay, maybe shifting gears to low interest rate environment it's interesting because PnC insurers tend to take risk on the liability side versus the asset side however, investment income significantly in cliffs underlying underwriting income if you exclude cats and PYD.

So given where we are with interest rates at unprecedented levels, do you think we'll get to the point where underwriting income becomes a more meaningful contributor to earnings?

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

Well certainly on a relative basis, it should become a more meaningful contributor and if you're asking whether it's actually going to be higher than investment income, I don't know exactly that relationship. But so we're agnostic about where the return comes from, we're agnostic about whether the return comes from underwriting or investments. But we are intent on meeting our return objectives.

And so if we anticipate because of a lower interest rate environment that we're going to be getting less of the return from the investment side of that house, we do expect that we will make that up on the underwriting side of the house and so interest rates are a factor in our insurance pricing model. So yes, I would expect as the interest rate environment plays out we will -- that will result in underlying underwriting income being a relatively greater contributor to earnings.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. If you had to like put a number on it and say I don't know for every hundred bps drop in interest rates, how much would you have to make up on the points on a combined ratio to breakeven?

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

More math, than I want to do in my head on a live webcast. But it's on a historical basis, it's probably derivable from the financial supplement that we put out and maybe the answer is a little bit different going forward given the rate we've been achieving but that I don't have the numbers off the top of my head.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Fair enough. And how does low interest rates reshape your asset allocation and posture.

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

If the question you're asking is do we change as a result of low interest rates, are we going to change our risk profile from an investment perspective to try to reach for yield, the answer is no that's -- we don't do that. We maintain a pretty consistent level of -- we take the risk on the liability side of the balance sheet and not the asset side of the balance sheet we don't take, certainly don't take any risk, but we think about risk adjusted returns. So we wouldn't change the asset allocation to reach for yield on the investment side. I guess as an answer to your question.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Maybe if I could have just ask a cultural question just because I know Traveler is still well. I'm wondering how does your legal upbringing, if you think about your background you were the Chief Legal Officer, you are a partner at a leading law firm. How does that shape your view of tort liability, policy, language terms and conditions et cetera?

Because if I compare -- I kind of compare and contrast you versus some of your peers they come from let's say the more traditional underwriting and actual background even though you have been exposed to that obviously through the years?

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

Yes. I guess, I would say that my background positions me to understand those issues and to engage with my colleagues that we talk about managing those issues. So I think I can be a contributor to it. But around Travelers and given our underwriting history, our expertise in that area is broad and deep and tenured.

So fortunately nobody is relying on me to come up with terms and conditions or to evaluate terms and conditions. But I do think it positions me to understand it and participate in it.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay now got it. And what about on the tort liability just given your background and you've been talking a lot about social inflation I guess how does that your upbringing shape your view there?

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

I'd give you the same answer. I mean, it's -- when we started -- we've been talking about social inflation for couple of years now and I certainly very vocally going back to the fourth quarter 2018, and I think my background and upbringing gave me the ability to really understand those issues when the claim organization, when the actuaries when the underwriters we started talking about this. Put me in a position to help connect dots and really understand what was going on and understand what it was we needed to do to respond to it. So, I think it positions me to certainly participate in that.

Q - Tracy Benguigui {BIO 21808177 <GO>}

And I guess I'm wondering just sticking on tort liability, I mean, do you think the current environment right now might be a little bit more benign if you think about a backlog of court cases that might contribute to a bump up of tort activity.

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

So, I think what you're asking is, is there some latent volume of cases out there we haven't seen because courts have been closed. And probably there's some of that and we may experience some bump in cases as courts start to open up and the economy starts to unclog but there's also forces going the other way.

So as the economy's been relatively shutdown and economic activities been low you don't have people for example walking into stores and tripping and falling. And so as a consequence of that there's going to be some degree of lower level of level of frequency from the lower level of economic activity and just people sheltering in place. So I don't know what the net of those two things is going to be.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And let's shift gears and talk about workers comp. I just want to get your view on the adequacy of rates there. It seems that the NCCI had a July 16 memorandum that next year's rates will not be adjusted to reflect COVID-19 and re-filling so far are actually appropriate in their view. I guess to paraphrase what NCCI is basically saying that the uncertainty surrounding the course of COVID-19 pandemic and the unavailability of data prevents determining a credible estimate of future losses and makes forecasting uncertain.

I guess -- but they have also mentioned that certain companies have the ability to make their own determination on rate increases. So I guess my question for you is on that backdrop how confident are you that workers comp is capturing some of the COVID-19 related losses and the rate adequacy of that line?

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

I don't think there is anything surprising in what we've heard of the NCCI on this. I think it's -- we all know workers' comp is a long tailed line and so it's not surprising that somebody would look at the experience we've had in 2020 and say that's not going to factor into 2021. And I think it in some cases it's going to be years before we know how -- what this experience we've had in 2020 means for the line and rate adequacy going forward. So there's nothing in that that surprises me. So what was you rest of your questions, Tracy?

Q - Tracy Benguigui {BIO 21808177 <GO>}

Oh, yeah. And I guess maybe shifting gears to -- I guess there's some thought out there that workers' comp might be bottoming in terms of rates, what's your picture going into

2021?

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

We said last quarter and I would reiterate it again that based on everything we see in our data and based on the data that we see from rating bureaus, I would say that we're approaching a bottom where I don't know for exactly there it's coming sometime in 2021, but I think we're getting to a bottom and then sometime after that a transition.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. And maybe just sticking on workers' comp it's interesting if you go a number of years back when it was a less profitable business line, you guys still did really well and you actually had a growth spurt when others have minimized their position.

So maybe thinking more broadly outside workers' comp as the industry underwriting capacity is being squeezed are you willing to be a capital provider of last resort in a line like what you've done in workers' comp similar to maybe like a Berkshire in any pocket of business that others are shunning right now?

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

I wouldn't describe it as a provider of last resort that, that makes it sound like we would change our underwriting appetite to find some opportunity and that's not who we are. We are -- we've benefited over a very long period of time by having a very consistent risk appetite and I think that's important from a couple of perspectives. It's important in understanding the risk that you're taking on in being able to price it and write it profitably.

And I think it's also important from a relationship with our distribution partners, having a very consistent approach to risk is important. But one of the ways that served us well and I think this is response to your question is, we can maintain a consistent level of appetite and risks that we know well, and watch competitors come in and out of those lines.

And so if they want to get into a line and write it on a basis that we think is not profitable, we're perfectly can tend to sit back and let somebody write it on that basis and eventually that business will come back to the market and our consistent appetite will position us to write it at that point. And a perfect example of that we saw that I don't know a year or two ago in some property lines when there were few markets out there that were reducing line size or in some cases geographic concentration or making other decisions to exit business. And in those circumstances, we will find opportunities by being consistent. You got to be careful in those circumstances because often when somebody says the risk is for a good reason so you got to make sure that you don't pick it up without evaluating it carefully.

But I would say that we benefit from a consistent risk appetite we wouldn't change that to become as you said provider of last resort.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. I guess another large business line of yours is commercial auto with -- you'd be their number two commercial auto writer. And I'm just curious if commercial auto is becoming the enabling product of a commercial multi-peril package policy with the same client similar to what we've seen with workers' comp a number of years ago, when that was less profitable.

And then I guess the second part of my question is your views of rate adequacy for commercial auto?

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

Well, if by enabling do you mean is commercial auto a loss leader, I would say no, I mean certainly we want to sell more lines to a customer that's good for us and we think good for them too. And so we want to write multiple lines but we manage profitability at both on account and business unit level and at a line level. So we're always triangulating those two things, we would never write a line as a lost year.

Your second question is commercial auto paid adequate, commercial auto has been struggle for the industry for years now and we've all been getting a pretty good rate on it. I would say given the rate we've gotten on a written basis, the outlook today is certainly better than it has been over the past couple of years, but it's not where it needs to be and I would expect continued rate increases in commercial auto.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. I guess like we don't actually see a tie-in with personal auto side with lower miles driven do things all have any interplay for commercial auto and improving loss frequency.

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

You mean it's consequence of the pandemic?

Q - Tracy Benguigui {BIO 21808177 <GO>}

Yes.

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

Through miles driven. So to some degree, we do see fewer lower level of miles driven and a lower level of frequency in commercial auto, we don't see it to the same degree we see it in personal auto. And also in on the commercial side, there has been to one degree or another some offsetting increase in severity so you don't see the same degree of benefit in commercial you do on personal. And also I think this is a moment in time I mean the economy is going to improve, people are going to get back on the road we're going to see miles driven and frequency increase.

And so on most lines and particularly on the components of commercial auto that have longer tail like bodily injury, for example, it would be a mistake to assume anything other than a reversion to longer-term trends.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. So I guess before moving away from underwriting income just wanted to point out I don't think it's going to change your answer, but I think I goofed when I looked at the polling result for the recessionary impact so it's actually more optimism that we could make up for that shortfall. But just quickly turning to technology, we get a sense that consumer expectations include some type of Amazon-ification effect, can you recap Travelers' technology story and what are your plans for a simpler business?

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

Okay. So there's a lot in that question, we could have spent the whole time talking about our technology story in our innovation agenda. But let me just spend -- let me spend a minute on it. So in short in 2017, we actually did this earlier internally, but in 2017 externally we announced really three innovation priorities that would relate to our technology investments.

So first we want to expand our lead in risk expertise. We've built a business over many decades and in really being a -- really being an expert in risk and the products and services our customers need, but extending that risk and investing is a priority for us. So that's investing in artificial intelligence, and data and analytics, and risk segmentation and products and things like that.

And so that's one prong. The second prong to your Amazon-ification comment is creating best-in-class experiences for customers, agents and brokers and employees really all of our stakeholders. And the third prong has been productivity and efficiency.

And so we've been investing in those things and I guess to take a step back really I think to a larger degree that's about digitizing the entire value chain. And so really with those three ends in mind. And so we've been at that for a few years. And if you take a step back and look at what we accomplished from 2017 when we announced that through the first quarter of this year when the pandemic struck we actually achieved a higher rate of growth than we had in previous years and we made very significant improvements in our expense ratio.

And so that's sort of the technology story if there's one thing I think Investors might be missing about us it's the fact that we announced those objectives, we delivered on those objectives and we got the results we were hoping for and so that's been a great story. The waters have been a little bit muddy by the pandemic but we'll get beyond this and it's one reason why we feel so well positioned for travelers as we make our way through the pandemic and then post pandemic.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. Maybe then switching gears to ESG, it's my understanding for travelers but it's not just to feel-good thing for you, you actually think it's good for shareholders. Can you elaborate?

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

Yes, I think it's pretty simple, taking care of all of our stakeholders is a predicate to financial success. (Technical Difficulty) our employees or for that matter the environment.

When you run a business with an overtime objective and that is our stated objective to deliver industry-leading return on equity over time. When you have an over time perspective on what you're trying to achieve, you can't assume you can do that unless you bring all of your stakeholders along with you. And so it's not nice to have, it's not headline or a bumper sticker, it's got to be part of your strategy to succeed financially.

The flip side of that coin is, you can't take care of your stakeholders unless you do succeed financially. And so again when you run a business for the long term, the fallacy is that those two things are in conflict, I don't think they're in conflict at all I think they're perfectly synergistic. And for anybody who hasn't seen it, I would encourage you to take a look at sustainability at Travelers.com which is our sustainability website. We spent over a year putting that together and trying to be responsive to the interest in sustainability. And it lays out in some detail both our thesis on that as well as our approach to achieving it.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. I guess on the topic of ESG, I always assumed that one of the low hanging fruit is on the underwriting posture on coal I never -- it's pretty easy in a way to address that I guess how are you thinking about it an underwriting exposure outside of coal?

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

Yes, we don't write a lot of coal related business, I mean it's certainly not zero, but we don't write a lot of it.

We do -- it's -- at the moment the economy is to some degree reliant on coal so, we can't completely abandon it or you want to cook your food or have air conditioning we just -- we're not in a position to abandon it today.

But, when you think where we do have exposure it's for example on surety bonds that ensure that the environment will be restored to pre-mining levels. And so in a sense where we're making sure through the products and services that we offer, that the environment is taken care of.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. Just reminding folks to submit questions. And with that I guess I could ask you a big picture question, looking into 2021 Alan, do you have any bold predictions either for Travelers or the world that you'd want to share your pearls of wisdom with us?

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

Yeah. That's a big question. These have been such a difficult six months and really uncertain times and I've -- I'm an optimist and I've got great confidence in our ability whether it's a pandemic or making progress on ratio equality, whether it's getting through an election in tumultuous times this isn't a political comment. I've got great confidence in people generally in America -- in the American people to get through it. And so I'm an optimist.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Excellent. I think with that, we're out of time. So Alan, thank you so much for a very great discussion this morning. We'll talk again soon. Thank you.

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

Thanks.