Barclays Capital Global Financial Services Conference

Company Participants

- Jay Steven Fishman

Other Participants

- Jay H. Gelb

MANAGEMENT DISCUSSION SECTION

Jay H. Gelb {BIO 21247396 <GO>}

Good morning, everyone. I'm Jay Gelb from Barclays. I head up the U.S. insurance equity research effort here. It's our great pleasure to have with us this morning, Jay Fishman, who is Chairman and CEO of Travelers.

Travelers has become the fixture at the Barclays and before that, Lehman Financials conference. We thank Jay for his industry leadership, as he transitions to his role as Executive Chairman on December 1. Travelers is among the largest commercial and personal lines property casualty insurers in the U.S., with the superior track record of enhancing shareholder value. Jay has been CEO of Travelers since 2004. And since that time, Travelers has delivered a total return to shareholders, I find this to be pretty astounding, of 225% which is significantly above 119% for the S&P 500 Index. My guess is well in excess, even more so of many other financial companies. So, Jay, thank you for joining us today.

Jay Steven Fishman {BIO 1933251 <GO>}

That's great pleasure. It's always fun to be with you, Jay.

Q&A

Q - Jay H. Gelb {BIO 21247396 <GO>}

First of all, Jay, how are you feeling?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Well, thank you for asking. I'll spend 30 seconds for those who didn't see it, I announced – I don't know – a month or so ago that I'm dealing with ALS. It's a miserable disease for those who don't know about it. Having said that, I am remarkably fortunate. I am surrounded by a terrific family that's all in. And I got a support system with the company where people are just helping to keep me going in every way possible. So all things considered, I'm in a very lucky place, and I am doing just fine.

Q - Jay H. Gelb {BIO 21247396 <GO>}

I'm glad to hear that, and I wish you all the best.

A - Jay Steven Fishman {BIO 1933251 <GO>}

Thank you.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Could you describe the feedback you received from investors since the board decision to name Vice Chairman, Alan Schnitzer, as your successor?

A - Jay Steven Fishman {BIO 1933251 <GO>}

One of the things that I was concerned about as we dealt with this transition is I was so pleased and proud of how the board – how our board had responded to this situation i.e., my situation, my health. I had kept them up-to-date. They were informed all the times to what the specifics were. And I think this is useful, I mean I know it's not exactly your question, but I think it's useful, at least, I think it's useful.

I had said to the board that, I thought I was still capable of serving, I was interested in continuing. But that if any of them believe that I couldn't for any reason, all I had to do was say, it's time and I would be on my way. There would be no argument, no difference of opinion. I told them that would never happen because I'd be in front of them before they were in front of me, and that is exactly what we did. So in anticipation of what's going to happen, I said it's time to make this change.

Alan has been with us now for – I guess, close to 10 years and Alan has been in the business for as long as I was when I became CEO of the St. Paul in 2001. So he may not be quite as visible to the investment community as some of the other folks in the place, but he has been around; fabulous judgment, thoughtful leader, connects people to the place, an important part I think of our culture, and he was the very natural choice. There was no confusion about that anywhere, I think people who knew the dynamics internally. Brian is going to be – Brian MacLean, our President, is going to be 62 in November; Jay Benet is 62, I'm 62. So it was getting time and Alan is pretty natural choice.

Internally, it took 10 seconds to people who know him and who've worked with him said, oh yeah, that's our next leader and for sure. And I was particularly pleased because I thought about this relative to the board. There were three constituents that we had to make sure knew this was the right decision. It was our employees, our 30,000 employees. They shouldn't wake up one morning and say, who? Or even worse, we don't have someone internally, we have to go find someone; a great failure that would be I think on my part. So first was the employees, the second was our agents and brokers. And Alan has logged more miles than anyone needs to to earn respect and admiration of our distribution partners, a critical part of our success. They sell our product. They believe in us or they don't, and it's important that they believe in the CEO, and Alan had made that transition I think elegantly.

And those who have been around us in the last couple of years, we've made a very distinct effort to get Alan and Doreen Spadorcia as well, more in front of the investment community. If you go back and you listen to the earnings calls, you'll hear them speak more frequently than they had previously. This is next generation of leadership and it was our responsibility to make sure that the third constituency, the investors, were just as comfortable.

So those who have met him, the feedback has been terrific. And those who haven't, have said, we'd like to meet him. And so we're on our way and we're connecting, and Alan has been out making the rounds. What's most important and I - what we've done, Alan actually used the right word, I couldn't find the right words. I've always said, we weren't ensemble cast, that was his description. I was the conductor in the front in the fancy tuxedo getting all the applause, but everybody else behind me was playing the instruments, and they're really good musicians. I had the privilege of being in that position, but without that orchestra, we weren't going to be anything. That record that you described has less to do with me than to all people in the place, and it's just so important.

And what we do, we do institutionally. It's not a personal; it's not my strategy. We can talk about it. I'm sure you're going to ask, how do we do what we did, but it was never a personal. It wasn't a lightning bolt from the sky. It was a collective - waking up one morning with a genius thought, this is how we're going to do it, it wasn't that. It was a group of very smart, very thoughtful people, convening to say how do we make this a successful investment. And it is an institutional strategy that's embraced I think by the entire senior team and that's what's so important.

So I always thought investors should never - shouldn't expect a hard left turn at transition. That's a problem, if you're an investor then that event becomes a risk factor for you. We don't want it to be a risk factor, we want it to be a it's going real well factor. So I'm just impressed on anybody who's listened that what we do is institutional, not personal, and Alan and the team perfectly equipped to carry it on.

I know that was a long answer, but that's my rest of year (07:03), what I just shared with you and it's really important.

Q - Jay H. Gelb {BIO 21247396 <GO>}

I appreciate that, Jay. Actually I'll ask you to pull it back even a little further. You became CEO of Travelers in 2004 through its merger with St. Paul Companies, which you previously ran. And I'll say, you - but you as well as of course the executive team at Travelers have created significant shareholder value in the process. Can you give us some better understanding of what you view as the key drivers of that value creation and how it'll be sustainable for Travelers?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Sure. Well, first, I'll remind you that I actually first gotten involved in Travelers when I was part of the Citigroup. Citi and Travelers merged in 1990 - I'm sorry, again, I'm getting my own dates confused now. I became involved with Travelers when Primerica acquired Travelers then a public company in 1993, I became its CFO. So I was Travelers' CFO from 1993 to 1998 and then the merger with Citi in 1998, I became its CEO. So I've been in and around Travelers now for 17 years for a very, very long time.

And that experience before leaving for St. Paul left me with - first, I was blessed that I got to work with Bob Lipp who you know is a terrific mentor and a good friend. We instituted a set of metrics in the business. There were no numbers. When we first got there, there were no numbers, it was words. If you ask someone how's the business, what you got was words. There were never any numbers. That wasn't anything that I was accustomed to, Sandy had us closing the books every day.

At Travelers, they would close them once a quarter. If you were, maybe - maybe not the first quarter actually, we were too busy closing the year. And it was - so there was a disciplined process that we began. That process is still ongoing. The metrics, analytics that define us, the way that we go about the business, they had its origins from those earliest of days in 1993 when there were no numbers there.

Also learned deep respect through the dangers of our business. There's nothing like a large adverse reserve development to wake you up in the morning. That'll get your full attention. And what I learned from that in Travelers was that remarkable respect for how bad things can get and how hard it is to make it right when things go bad. It's really - it takes a long time. We lose all of your credibility. You no longer believe that we know what we're doing and it takes us forever to build that credibility back. So the notion of getting it wrong is very expensive in our business financially as well as institutional and credibility-wise. But we're on a path of - the old dynamic was, this is the property casualty business. It's all about the future. Analytics don't matter because we're making guesses. Well, that's nonsense and we just had a conviction that that was the case.

And then in 2004, after St. Paul and Travelers merged, a group of us got together and actually spent a day talking about one question on the wall. Why would someone buy our stock? That's where we started, why would someone buy our stock? And that got us into questions about, how do you create value and what are the risk factors associated with it, the volatility around that value, and where we ended up was we couldn't promise growth because I don't know how to do it all the time. We couldn't even promise growth in earnings all the time. Weather is so important in our business. I don't control that. But what we can be held accountable for are returns over time, superior returns over time, better than anybody else. That was our kind of our goal.

And you can actually see in our corporate records, you can see the origins of a slide that we've been using, starting in 2005 when we first got this notion of - we're going to earn a lot of money. We're going to rightsize our capital. We're going to return excess capital to shareholders, not tactically, but strategically, strategically so important for the purpose of producing superior returns over time.

And in those days, we would target mid-teens. I'm not sure I ever really wrestled with what a mid-teen was. So, so far we're somewhere in the neighborhood of 13.5% cumulatively since we instituted that strategy return on equity. Obviously, that's at a time with interest rates now much, much lower. We don't perseverate about whether we grow a little bit or we shrink a little bit, don't matter. Matters if we do things a lot, obviously, that gets our full attention, but it's been all about producing returns over time.

Since then we've now bought back – I did the arithmetic the other day – we're getting close to 60% of our shares originally outstanding when we started buying back shares in 2006. We've actually paid back. We bought back shares and I guess you have to add dividends. We've returned our market cap from the time we started that strategy, our market capital was 30 – round numbers $33 billion back then. We returned $33 billion and the company has a market cap today of $33 billion, $34 billion. So it's been a cash generator and we've returned that cash to the owners with strategically, not tactically.

The stock is high, the stock is low, if this is a strategy, not a tactic, it doesn't matter. And it's just worked, it took a while, imagine telling your board the growth doesn't matter. That was a hard conversation when we first raised it with them, but we got them to where it doesn't mean we're opposed to growth, we love to grow. We love to grow, but you grow by product introduction, you grow by service, you grow by people, you don't grow sort of the conventional wisdom, somehow we can lower our prices by 2% or 3% and therefore, grow.

It doesn't actually work that way at the point-of-sale, that's an illusion that outsiders have about our business, it's not the case. If someone wants to take subpar returns, meaningful subpar returns for a long period of time, they'll grow for a while, but those returns will deteriorate and will deteriorate quickly. And I think the U.S. industry anyway has largely embraced the notion in our business that returns matter and that's why I believe, one person (13:52), that the volatility of our cycle is just more narrow then most people think it is.

Q - Jay H. Gelb {BIO 21247396 <GO>}

That's a good segue into the pricing discussion Jay. The commercial insurance pricing cycle is now in the downward trend, but it seems that the amplitude of that cycle, the highs and lows have changed. How does Travelers business mix resulted in being impacted less than the rest of the commercial P&C industry?

A - Jay Steven Fishman {BIO 1933251 <GO>}

So there are segments of our business and many of them have different competitive dynamics. You get into that segment, reinsurance where there is no regulatory light, licenses barely matter, pricing is not a filed form. You can run your business without much systems or infrastructure, claim activity is low. You don't need much of a claim department, what do we have? 10,000, 11,000 people in claims, it's a competitive dynamic for us that works.

Large account business, E&S, reinsurance, those are the segments where capital can go quickly, and it can go to work. It can actually be put to work quickly, so you'll see property cat, you'll see large account property layered especially, segments where you don't even really need much of an infrastructure, you can lever off somebody else's underwriting. You can just take a slice of some exposure that someone has. Those are the segments that have attracted lots of capital and pricing is more challenging, but even in those segments – and there's a couple that we look in (15:36), we have a large account property business, and I would tell you that notwithstanding the fact that pricing is lower than it was, but the returns in that business, as we measure it, are still just fine. And so sort of it's how you operate it.

The primary U.S. agent-driven marketplace has real barriers to entry, infrastructure systems, people, claim departments, risk control. It's a big, it is a – I'm not even sure it can be done, again, I don't know if anybody can actually do it. There is a few who compete in that space, I'm pleased that they're all seem to be pretty smart, that's really good. And as a consequence to that, the cyclicality in that space has been far less I think than outsiders would have contemplated.

A lot of that is the data, we sit and we talk each month if someone wants to know, not you all of course, but any of us want to know, why do we project the returns on capital to be for the new business that we're writing in workers' comp this month, we can tell you. Now, think about that for a minute. That means that we've allocated capital to every account that we're writing and we do. And we project to have cash flows for every account and we discount it all back and we have a view.

Now, that view will turn out to be wrong, losses will be higher, losses will be lower. But we have a view of what that pricing is and we have serious conversations about whether it's too low, it's too high, it's at the right level. Those conversations didn't exist 20 years ago nor even had the data. If you said to someone how much do you make in your business, they didn't know. We cannot tell you the return on a book of business for a month in a particular line in a segment, middle market workers' comp and we can even take it further. It begins to lose its statistical relevance, but we can tell you at Chicago.

Again, mix begins to get as you get smaller and smaller it loses its statistical relevance, but that's the level of analytics that exist. It allow us to price the business, I think, pretty thoughtfully.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Are you concerned that the pace of commercial price increases continued to slow?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Not really. And obviously, I can only speak for Travelers, not for anybody else. The way the business really works is at the point-of-sale. You've got a company underwriter and you've got an agent and they have an account, one account, they're not talking about a whole book, they're talking about one account. And maybe that account got a 7% price increase the year before and maybe you've got a 6% price increase, the year before, and now the underwriter and the agent are having a conversation. Gee, I'm concerned that if we try and push another price increase through, so far the account's really happy, the service has been great. What do you say we give it a breather this year? There's a dialog. There's a conversation about the account, about that account, its specifics.

The rate isn't determined by turning to a Bloomberg Terminal and picking off a rate of risk and applying it to the account. There's a human interaction around it, and we told our folks, once we began to get the returns back up into good levels again, it's fine to renew. If an account needs to be renewed flat, renew it flat. It's okay. If account needs three points, get three points. If an account has been unusually profitable and you got to give two points back, give two points back. It's every account on its own unique and unique to its circumstances.

So I would tell you that the way this has worked out, three years ago I'd have said, boy, if we can have it work out that way, that'd be perfect. That would just be perfect. That would be not like the expression, a soft landing, but that would be a soft landing, and that's what this feels like to us and unusual, maybe even unprecedented, I don't know, but a soft landing after a period of thoughtfully account-by-account moving pricing so that returns improve overall.

Q - Jay H. Gelb {BIO 21247396 <GO>}

That's helpful, Jay. Would a pickup in economic activity be an offsetting factor to some rate pressure?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Yeah. It's a good question. One of the things that – and it's obvious and I'll explain it, but it doesn't always show itself the way you'd like it to. We refer to it as exposure, so you have an account and if an account has 1,000 employees, you're collecting workers' comp premium on 1,000 employees. If they put 100 more to work, suddenly you're collecting premium on 1,100 employees, and then presumably if you're pricing it right, that increase in exposure translates into a higher level of profitability.

It can even look like rate, meaning, say you've a building. Building was insured for $1 million and now it's appraised and now we're insuring it for $1.2 million. Unless there's a total loss, that increase in premium comes right to the bottom line. Now you can't dismiss the total loss risk, of course, but across the spectrum of outcomes that increase in assessed value in our financials will look like a rate increase. And that's the reason why when people ask, well, Jay, what's your loss trend? What's your rate? Are you expanding margin or not? There's a point at which it's just, I can't – I don't know. It's way too close to call.

Our loss trend looks like 4% at least as of the second quarter. So people will say, well, if you're going to get 3.8% of rate, margins are compressed, not so quick. At 3.8% you got exposure changes, you've got – I don't know if they will. If you got 4 points of loss trend, and 0% of rate, yeah, margins will compress a little bit. I'd say, so what? So it'll compress a little bit. Again, it's not about earnings and earnings levels for us. It's about returns and how are we managing accounts over time.

Interesting phenomena about this particular time, and it's not unique to us, other companies, too. Retention, the numbers of accounts that you renew when they stay with you. I'm in the business now 20 years, I don't know, whatever it is. How many years? It's never been higher. It has never been higher. These are levels that I, 15 years ago, would've said never happened in a million years. It speaks to a remarkable level of stability in the marketplace.

People talk about a soft market. In the late 1990s, our retentions in middle market were in the high 60%s. I think, at the second quarter, we were in the mid-80%s is where we were and that's - I mean that is so different. It's not just different in numbers. It's different in the way business is conducted, and so it's - the environment has a remarkable level of stability to it.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Shifting to capital management since this is such an important input on the return outlook. Travelers has set a very high bar for the rest of the property casualty industry when it comes to capital management. Can you describe that approach to capital management, and how you believe this benefits shareholders?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Well, again, it gets back to how are we going to create value. So it's not tactical. It's a strategic part of how we create value. And there are other people who would say, look, if you had accumulated some cash perhaps there might have been an acquisition opportunity along the way. I spent a lot of years working for Sandy Weill. Sandy's view was, you never sit on cash. If a transaction makes sense, if it really makes sense for shareholders, you'll get it financed.

The notion that you have to keep money in the bank to do that implies somehow that there is a transaction that wouldn't otherwise pass muster but for the cash in the bank. I think that's a crazy thought, I really do. So we never were motivated to hang on to what we thought was excess capital. We wanted to be a AA-rated company. We aspire to be that. That was both the combination of capital in our operating companies as well as an earnings stability because as you know rating agencies, it's not just the capital, and we got there. We got to that AA level methodically.

And then our philosophy has been if we can't put that capital to work internally or externally, meaning if there were (25:07) an acquisition, we're going to give it back to you, and it's just been - it's that simple. We're just not going to - it really is that simple. There is some arithmetic we do. We know how much excess liquidity we need to carry at the holding company to maintain our ratings. We dividended up from the operating companies, and we go back to the market, we buy back shares. It's like complicated. It's just really a matter of not keeping what we perceive to be excess capital.

Now, there is - there is - that doesn't mean that if there is a storm that we don't have the capital to pay our claims. When we talk about excess capital, we talk about it relative to the risk volatility in our business. And we - I mean, just because there isn't - you don't have two one in hundreds in a week. You could have two one and two fifties in a month. I mean you could have two ones, two fifties in two days. So you always got to remember that that's the business that we're in and as a consequence capital really matters, we never want to put the company in a ratings position and a ratings challenge or a capital position challenge before ordinary course events. So we keep that much, people could argue, well, that's really excess, we don't think of it that way. It's relative to our business and more or less it goes back, pretty simple philosophy.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Let's turn to the M&A environment, which I'm sure you've been getting a lot of questions on. Property casualty insurance industry M&A is at the highest level in several decades including ACE's $28 billion announced acquisition of Chubb, I never thought I would have seen that one. How is Travelers approaching this changing industry dynamic?

A - Jay Steven Fishman {BIO 1933251 <GO>}

We sort of see it in two separate pieces. Generally, what's going on, I'd say, in Bermuda and I'll think that's a great shock to anybody. I remember sitting at an agent gathering, now 18 months ago and saying that, which is becoming apparent to me, that the competitive dynamics for those companies undersized, changing capital, that was good going to change, the Bermuda market is going to have real activity and no great shock I don't think to anybody and to be expected.

The ACE-Chubb transaction, I think, is different and I wouldn't put it into that same category. That was a moment, right. There was kind of an opportune moment where there was a succession, focus at Chubb, obviously we're dealing with an interim situation. Their CEO had been extended for a period of time and that, I would argue, created an unusual opportunity, an unusual set of circumstances to make that happen. I make that distinction between that and what's going on in Bermuda.

I do think as a matter of public policy, U.S. public policy, the fact that Chubb, venerable Chubb is now going to be a Swiss company, speaks I think elegantly to the dynamics of our own corporate tax rate. It's problem, it's problem to context of national policy, businesses that operate globally. Taxes are one costs like any other and when there is a meaningful advantage in one environment, you will see over time you will see capital and capital creation move that way. If you look to the back over the last, I think, 15 years, we counted 10, 12, maybe 15 Bermuda-based startups that ultimately became decent sized companies. We can't find one in the U.S., we can't find one, not one. And so it I'd say is a - it never considers that it was benefited enormously from the American dream, I think that's - maybe that's unfortunate, I think it's a public policy opportunity that should be addressed; it really should, it should be addressed.

Q - Jay H. Gelb {BIO 21247396 <GO>}

The major industry consolidation stories like ACE-Chubb changed the picture at all for Travelers?

A - Jay Steven Fishman {BIO 1933251 <GO>}

I wish I knew. We certainly talk about it a lot. I have a deep respect for both of those companies. They both do what they do very, very well. Lord knows there were challenges in putting two complex organizations together. We've done it a few times and I think know some of the issues that they'll face. But we don't under estimate their competitive significance in any way at all.

Now, having said that, Chubb was a terrific company before, ACE was a terrific company before. We got one instead of two, I don't know exactly what that means, but it will be interesting to watch.

Q - Jay H. Gelb {BIO 21247396 <GO>}

I think you said previously this doesn't change Travelers' view in terms of its own M&A?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Oh. Yeah. No, no. Look, I said publicly and I was very – I pick my words very carefully that we intentionally, obviously, that we made the decision – we didn't see how we could create value for our shareholders at the value that we thought Chubb was going to go for. We didn't think we could. It doesn't mean we didn't tumble the numbers, it doesn't mean that we didn't pay a lot of attention to it, none of those things. And it certainly doesn't mean is now that you won't know that our succession issue was set in certain, that didn't affect our valuation in any way at all.

I think we've got something really special at The Travelers in the property and causality space. That doesn't mean we can't push boundaries and borders and the rest. Alan took us to Brazil, it's been terrific, the environment there is challenging, that investment still work (31:22), we keep pushing out we're going to try to find those opportunities where we can do more, putting our shareholders' capital to work at solid returns. But we don't feel, so I'd love to be in India some day, certainly – that's a 20-year vision. But we don't feel that we're in a poor competitive position one bit because of ACE-Chubb, not one bit. And it doesn't – or a more challenged competitive position. And it certainly doesn't change our view that, gee, we have to do something; we don't have to do anything. I mean don't get me wrong, we will look at everything.

If you all hear rumors that we're looking at something, it's probably pretty good that we are. We should. You would expect us to. We learn, we learn what other companies do well, what they don't do well. And sometimes you get surprised and sometimes you find things that you didn't know. But we don't have to do anything, but we're going to keep working and look at everything.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Thanks for providing that message. Let's switch to the audience response system. Our folks in the audience have a controller in front of them. It gives you an opportunity to key on the questions. The first question is, if you don't currently own the shares of Travelers or are underweight, what would cause you to change your minds, and we can start the clock here.

A - Jay Steven Fishman {BIO 1933251 <GO>}

And we could have at 6:00 a good dinner at the Four Seasons if that'll get it changed.

Q - Jay H. Gelb {BIO 21247396 <GO>}

That's right. We used to have the Jeopardy! theme play during this. I don't want to stop. Okay. Should have the responses coming up right now. And the major response comes from lower valuation. That's a high class problem.

A - Jay Steven Fishman {BIO 1933251 <GO>}

Yeah.

Q - Jay H. Gelb {BIO 21247396 <GO>}

And...

A - Jay Steven Fishman {BIO 1933251 <GO>}

Let's see, we're $10 lower than we were six weeks ago. I guess that wasn't enough for you?

Q - Jay H. Gelb {BIO 21247396 <GO>}

That's right, that's right. And so that's 47%, one-third saying, tighter property casualty insurance market. I wouldn't say much of it is probably there (33:25). Let's go to the next question.

Travelers operating return on equity is 14.3% in the first half of 2015 and 13.4% since the beginning of 2005. My return on equity expectation for Travelers over the next several years is? You can start the clock here. Thank you. Couple of seconds winding down. All right, the big response is 12% to 14%, 52% of responses saying that and then around one-third saying between 10% and 12%.

A - Jay Steven Fishman {BIO 1933251 <GO>}

So you can take our numbers. This actually is pretty easy to do for us. Our proxy statement gives you from the past year what we budgeted for catastrophes. We have an adjustment in our comp systems. You can actually get the budget for cat side of our proxy. We disclosed to you reserve development, so one easy way to do this is to take the numbers, take out the reserve development, replace the actual cats with the budgeted cats, which open the proxy and you'll get a return. And at least right now, it'll be 11%, 12%. That's sort of accident year normal cat return on equity. I think the interesting question really is what happens to interest rates over the next several years, to use your question. That to me is an interesting one because there could be a somewhat counterintuitive response.

If rates go up, my expectation is that we're going to have to raise prices. Why? We think of ourselves as return of a benchmark yield, and if that benchmark yield goes up, why shouldn't an investor's return go up. And so the notion that says rates will rise and we'll cut price is like crazy. Now, maybe that happens in a competitive environment, who knows, but it certainly isn't the way we would think about it going into it.

Relative 11%, 12%, relative to 10 year cost of money at 2.1%, 2.2% feels pretty good. But if for some reason that 10 year became covering 5 years, then 11%, 12% doesn't feel so good anymore. So that's – I mean that's a simple way we think about it, so that's going to be the interesting thing to watch, what happens to rates.

Q - Jay H. Gelb {BIO 21247396 <GO>}

That 11%, 12% sort of core ROE, Jay, that's to achieve management targets for compensation, when you talk about the proxies, correct?

A - Jay Steven Fishman {BIO 1933251 <GO>}

Yeah. What we actually do is for our – because we got two segments of compensation. There's an annual cash program and then there are performance shares. The performance shares, that's based upon three-year cycle returns. What we do in those performance shares is we take out the actual cost of cats, and we put back in the budgeted number. So that if the wind doesn't blow, there isn't an unusual windfall to the management, and if the wind does blow, it's not going to penalize you forever because we're trying to price the product over a long time.

So we absorb that normalized cost of catastrophes. And we've been very diligent about analyzing it and raising it. If you actually look at it over 10 years, I think, you'll be surprised, I know you'll be surprised, at the extent to which that budgeted number has gone up each year as weather pattern seem to change.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Next question please. Which factor is the most important in your view in analyzing Travelers' premium growth trends? Please start the clock. There has been renewal rate change, exposure growth, retention, or new business which we've actually talked about all those today.

Almost half by a wide margin, saying, renewal rate change.

A - Jay Steven Fishman {BIO 1933251 <GO>}

Yeah. I think that's right, but retention is the canary in the coal mine for us; it really is. We watch that with, I would argue, greater attention than we do at the month-to-month changes and renewal rate. If that number begins to move and move a lot, I'm not talking about a point or two or three over time, but if that number begins to change, that will tell you the marketplace is changing far quicker than a change with more (38:16) substantive view, I think than renewal rate change.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Okay. I think we have one more. Should Travelers allocate excess capital more towards bolt-on acquisitions or share repurchase and dividends? You can start the clock.

A - Jay Steven Fishman {BIO 1933251 <GO>}

It'd be sweet if you got 50-50 on this, right.

Q - Jay H. Gelb {BIO 21247396 <GO>}

All right. And the responses from the audience show...

A - Jay Steven Fishman {BIO 1933251 <GO>}

All right. Here you go, we're all about cash flow, okay.

Q - Jay H. Gelb {BIO 21247396 <GO>}

People got the message, about half say, more share repurchase and dividends, 29% say more bolt-on acquisitions, still higher than I would have thought.

A - Jay Steven Fishman {BIO 1933251 <GO>}

Yeah, me too. But what's good – look, there's a moment here where you're all very bullish about acquisitions, like there's something in the air at the moment that says, yeah, go buy, go buy. You turn the clock back three years, four years, and the same people who are saying that were saying, are you nuts, are you crazy? So all these things are in two different cycles and if you're responsible for managing the business all of it, you got to keep looking at these things over time.

It's so important, this is I know – when someone says it's accretive to earnings next year. I don't – so what, does that – is that the measure that create shareholder value? Is that or is it – what does it do to your company and its franchise and its returns and its cash flow dynamics and its position with its distribution force over time? That's what I think, – we think, that's what matters. And whether it's accretive a couple of cents or dilutive a couple of cents, that matter beans. Talk to us a few a years later and then we can tell you whether it worked out satisfactory or not and the measures are not going to be in a couple of cents per share in the first year.

Q - Jay H. Gelb {BIO 21247396 <GO>}

It's fair. Well, Jay, let's leave it there. Please join me in thanking Jay Fishman from Travelers.

A - Jay Steven Fishman {BIO 1933251 <GO>}

Thank you.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Well done. Thank you.