Investor Day

Company Participants

- Alan D. Schnitzer, Chairman and Chief Executive Officer
- Chris Hayes, Director of Transportation Services, Travelers Risk Control
- Gabriella Nawi, Senior Vice President- Investor Relations
- Gregory C. Toczydlowski, Executive Vice President And President, Business Insurance
- Jay S. Benet, Vice Chairman & Chief Financial Officer
- Michael F. Klein, Executive Vice President & President, Personal Insurance, and Head of Enterprise Business Intelligence & Analytics
- Thomas M. Kunkel, Executive VP, President-Bond & Financial Products

Other Participants

- Andrew Molloy, Analyst
- Brian Meredith, Analyst
- Charles Gregory Peters, Analyst
- Harry Fong, Analyst
- Jay A. Cohen, Analyst
- Jay Gelb, Analyst
- Josh D. Shanker, Analyst
- Kai Pan, Analyst
- Larry Greenberg, Analyst
- Meyer Shields, Analyst
- Ronald David Bobman, Analyst
- Ryan J. Tunis, Analyst
- Sarah E. DeWitt, Analyst
- Stephen Gregory Rigo, Analyst

MANAGEMENT DISCUSSION SECTION

Gabriella Nawi {BIO 2211991 <GO>}

Gabby Nawi, Head of Investor Relations, and I'd like to welcome you to Travelers' 2017 Investor Day. Thank you for joining us in the room as well as on the webcast. We have a great lineup for you today, including Alan Schnitzer, Chairman and CEO; Gregory Toczydlowski, President of Business Insurance; Tom Kunkel, President of Bond & Specialty Insurance; and Michael Klein, President of Personal Insurance.

Before we get started, I do have to do the obligatory legal disclosures. The materials we will use today can now be found on our website, www.travelers.com under the Investors section. And I'd like to draw your attention to the explanatory notes included in the appendix, in our presentation materials.

Our presentation today includes forward-looking statements, the company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described in our most recent 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.

In addition, we are recording this presentation on November 13th, 2017. For those of you who may be listening to the webcast audio or subsequently reading the transcript, our speakers are going to be referring to a slide presentation. We recommend that you listen to the audio or read the transcript together with the slide presentation for the best understanding of the information.

And now, it's my pleasure to present, Alan Schnitzer.

Alan D. Schnitzer {BIO 3529437 <GO>}

Thanks, Gabby. Thank you, Gabby. Good morning everybody, welcome. Nice to have you all here. Thanks for joining us. For those of you who are here in person, a special welcome to Claim University, unique in the sense of one and only, and we'll be offering tours of the facility in our forensics lab across the street at the end of the session today. So those of you who'd like to do that, I hope you'll take advantage of it.

So our goal this morning is to share with you the strategic initiatives that we have underway to enable us to continue to deliver shareholder value in a world that is obviously changing. And in a minute, I'm going to kick that off with a couple of comments about our competitive advantages, but before I do that, we're here assembled in a facility that's important to us, and it contributes to all of our competitive advantages in one way or another. So I'd like to kick this off by sharing a short video with you about Claim University, and our forensics labs. So if you could go ahead and roll that video.

[Video Presentation] (00:03:02-00:05:27)

So, I hope that gives you a sense of the power of the place, it contributes in so many ways, obviously to things like claims handling and risk mitigation, but we make sure that everything we do on the back-end of this process feeds back into the front-end of the process. So there's important learnings here that that contribute back into the underwriting and risk selection.

We do about 150,000 person hours of training in this facility. Thousands of people come through here physically every year and thousands more participate in the training that we do from here through, through virtual means. Again, unique, we think in the sense of one and only. So let me start here, this is a strategy you've heard us talk about for more than a decade, and it's stood the test of time. We continue to think that delivering leading return on equity over time is the way to create shareholder value, starts on the left with meaningful and sustainable competitive advantages, we leverage those to generate top tier earnings and capital substantially in excess of what we think we need to grow the place.

And we'll continue to right-size capital, so no change in our capital management strategy, our first objective always with our capital is to invest it back in the business, when we think we can do that, consistent with our objective of creating shareholder value, and you'll hear about many of those investments today. But to the extent that we've got excess capital that we think we can't deploy consistent with that objective, we're going to give it back to shareholders either through dividends or share repurchases.

And if we do all that, we should create shareholder value. Just a word about the mid-teens objective on the page. This isn't anything new, you've heard us say this for a few years now. But we developed that mid-teens objective back in 2006, when the 10-year Treasury was something like 5%. And in an environment with a 10-year at about 5%, mid-teens objective was the quantification of what we viewed back then as being the industry standard. Today, you've got a 10-year Treasury of something like 2.3%, and so we're not in that world of a 10-year at 5%, and so we think what's industry leading is something less than mid-teens, at least today.

And as we've said for a few years now, we would need interest rates to get back to a more normal level by historical standards in order for us to reach that mid-teens on a sustainable basis, but in any event wherever the treasuries are, it will be our objective to continue to deliver industry-leading returns over time.

So let me start the day here, setting the stage, we are a leading property casualty insurer. In 2016, we wrote $25 billion of net written premium that we manage and report through three business segments. Our largest is Business Insurance, with just under $14 billion. We've got a leading Bond & Specialty business just over $2 billion, and last year we wrote about $9 billion of Personal Insurance, and as you'll hear from Michael Klein, that business is nicely balanced between auto and home, which we think is an important advantage for us.

We're the leading carrier in the independent agency and broker channel, and we are about 30,000 employees strong. So all that gives you a sense of the strength and scale and size of the organization, what it really doesn't give you a sense of though is, what at the core has made us so successful over so many years and that is a deep expertise in understanding risk in the products and services that our customers need to manage that risk. That is really at the core what set us apart over the last decade or so. Around here, we put that expertise and risk in products and services, we put that on a pedestal. But in a world that's changing going forward, we actually don't think that's going to be enough anymore, so we're going to add two more pedestals, hold that thought, I'm going to come back to it.

This slide reflects our competitive advantages and the enablers that set us apart in understanding risk the way we do. We think these advantages are meaningful and hard to replicate. I'm going to share a couple of illustrations with you about each of them, but before I do that, just a couple of words about the enablers, because they're just as important.

Talent and expertise in this business really matter. Our top 500 people at Travelers have an average tenure at Travelers; at Travelers, not in the industry, but at Travelers of about 20 years. And that is a really extraordinarily talented and committed group of people. And as a consequence of that, we've got 30,000 people, among 30,000 people a culture of excellence and commitment to long-term success. And you can't overestimate the importance of culture in an industry where success and failure is determined by thousands of decisions that individuals make every day in trying to balance risk and reward. So that's a culture that's decades in the making, also not easy to replicate.

There's a lot of science in this business, so data and analytics are important, and they're becoming increasingly so. We've been a leader in data and analytics for a long time, and we continue to invest in it. But it's important as data and analytics are as tools, there's an important art to that as well. So there's really a virtuous relationship between the sophistication of the data and analytics and the talent that deploys it.

So if you have two groups of people with different levels of skill and different levels of experience with managing and applying data, and you gave them the exact two same datasets and the exact two problems, you'd come out with - well you'd come out with remarkably different outcomes. So we think the long track record that we have deploying data and analytics, embedding it in the business is really important.

Let me share a few data points with you about the competitive advantages. I won't try to cover everything on these slides, but the business starts with risk selection, underwriting and pricing. Again talent and experience are important and in that regard, we're well-positioned. We've got more than 4,600 underwriters, average tenure at Travelers of about 12 years.

Between the underwriters and the operations specialists that support them, we've got tremendous specialization and local presence in our field organization, that's also a significant advantage for us. Greg is going to talk a little bit about that, he'll explain why that's been important for us, but also he's going to talk importantly about some of the investments that we've been making over some years now to do that more effectively and more efficiently.

Those underwriters are supported by about 1,200 people that work in advanced analytics, and the important takeaway there is, those 1,200 people aren't sitting in Ivory tower. Those are 1,200 people that are embedded in the business as important business partners to the business leaders. So again, that's the culture, that's the art and science.

The fact that we've got those specialists, the fact that they were in the business, and the fact that we've got business leaders that for years have been working side-by-side with those analytics experts deploying that data, that's an advantage that that also matters.

So we're investing in artificial intelligence, we're investing in automation, we're excited about those things too, but the experience and judgment of these analytics experts is going to be critically important for the foreseeable future.

Extensive product breadth, and we do it well. We're the only commercial insurer with top five position in seven major lines, and a number one position in three. We've got deep underwriting specialization in more than 40 industries and our Personal Insurance business has excellent positioning in the IA channel.

Domestically, carrier of choice with independent agents and brokers. We've got active relationships with more than 100,000 producers, and more than 13,500 firms. Those producers are really important to us, and given the franchise value we bring to them and to our customers, we're important to them too. And so, that is really important for us in terms of the value it brings in underwriting, there's great risk selection that distribution does for us, hard to put in a model, hard to know exactly what that means, but when you've got that kind of relationship with those producers in those firms the risk selection they do for us is quite important.

Expertise and risk control is an important differentiator for us, that's good for our customers and good for us. We've got more than 700 risk control professionals, most of them engineers and industry specialists, and for more than a decade, we've been assembling our risk assessment database that we leverage not just for risk mitigation, but we funnel all of those learnings back into underwriting as well.

A busy slide on claim, but there really is a lot to talk about. More than 10,000 claim experts, including about 870 people highly-tenured and experts in managing high severity claims. 600 nurses, they make a difference for injured workers and for their employers, our customers and about 680 in staff counsel. So that's a large law firm in and of itself, again better outcome for our customers and better outcome for us.

After Katrina in 2005, we determined that neither we nor our customers were particularly well-served by relying on third party claims handlers after a big event. So we started developing what we think is unique again in the sense of one-and-only a unique catastrophe response capability. So through sophisticated training and through complex staffing models, we've got the capacity to handle something like 100,000 claims at one-time, from one event or multiple events.

It's – just to give you some context, if Irma had gone up the East Coast of Florida, we would have had the capacity to handle all of the Harvey claims, and all of the Irma claims, all with Travelers' employees. So we think that was an important contributor to the fact that we had more than 85% of our property claims closed within 30 days of each of those events.

Subrogation isn't something that we talk a lot about, but in 2016, we had something like $0.5 billion of subrogation recoveries. So that's a recovery rate that is substantially better than industry benchmarks. So in short, competitive advantages and enablers that matter for us, and they really serves the foundation for what sets us apart, and that is that expertise and risk in the products and services that our customers need.

So let me take just a minute and give you two examples of that. So construction is just one of many complex industries that we insure on a daily basis, and that demands underwriting excellence, hands-on expertise and a real in-depth knowledge of the issues affecting that industry. And we've got more than 700 people that provide exactly that to this full spectrum from small to large contractors. We look for the biggest challenges that our contractors face, and we endeavor to provide innovative and relevant solutions for them. So the availability of skilled labor is the number one concern for contractors, and our data shows that more than 50% of all work site accidents happen within the first year of employment.

So we've developed digital tools, online and in-person training and on-construction site consultation, we call it Travelers' Workforce Advantage, and that gives our contractor customers the solutions they need to make sure that they're selecting and on-boarding their employees the right way, and to make sure that they've got the data and information they need to determine whether they're doing enough to keep those employees safe.

Crane accidents is leading cause of construction site accidents, and among the most costly. Those of you who are here at Claim U (00:16:54) and do the tour, we'll see that we've got some cranes in various states of damage. We provide an industry-leading 40-hour crane safety course to our customers. We've been doing that and improving that for a decade now, and we train about 500 crane operators a year.

Our latest innovation relates to activities causing vibration on the worksite. Vibration is a leading cause of third-party property damage claims on a construction site including construction defect. Just this year we developed and launched a technology called ZoneCheck. And what that does is, that lets a contractor enter into a mobile device the type of activity they're doing, and the soil type, and that will overlay digitally on a map leveraging the GPS technology in the phone, zones of vibration damage, including by severity. So that gives a contractor really important data they need to manage the vibration and the potential damage that could cause on a worksite.

So our competitors' challenges in this business have been well-publicized over a pretty long period of time. We've been able to grow it also over long periods of time at pretty attractive returns. We are the number one writer of workers' comp in the U.S., with about $4 billion of net written premium, and we've been successful also in growing that over time.

In 2015, we put online the first predictive model for identifying chronic pain. We talked about this in 2015 when we rolled it out, that reduced the time it takes us to identify a circumstance of chronic pain, it used to take us six to nine months; now we can do it in something like 30 to 60 days with a pretty high degree of accuracy. And two days into this, the results are even better than we had expected.

So since we've deployed it in 2015, we've identified more than 30,000 injured workers for intervention. Among that population of 30,000, we've reduced opioid use by 30%, we've reduced surgeries by 25% and we've improved back to work rate by about 10%. So over a two-year period, that's improved loss costs by about $100 million for us.

So win-win-win, it's better for the injured worker. It's better for the injured workers' employer, who's our customer and it's a better outcome for us. And let me just tie this back to the claim advantages in those 600 nurses that I mentioned a few minutes ago. So you can have this model, and you can have the data, but if you don't have the infrastructure and the ability to intervene, and actually work with healthcare providers to make that data actionable, doesn't do much good for you. And it does require a significant infrastructure to do that. We are on our way to routing 100% of our workers' comp claims through this model.

So today, we're actually launching a brand new technology, it's a digital platform that allows injured workers to manage their own return to work efforts. We've been piloting this for two years, and just coincidentally today, we're rolling it out to about 180,000 injured workers. And it's way more than just a tool that puts information in the hands of those workers, we've completely integrated it into our workers' comp workflow, and we had to re-imagine our workers' comp workflow in order to do that.

And so, just drawing a comparison to the other side of the page, so the Early Severity Predictor on the left side of this page, that is based on a predictive model that we developed that identifies for us those cases that are at higher propensity for severity. And then we see a case that's at a higher propensity for severity, we know that it needs more intervention in order to manage a claim cost. On the right side of the page at the other end of the spectrum, we've developed a predictive model to identify those cases that are at much lower risk for severity.

And so in those cases, we know we can effectively substitute digital self-service. So better experience for the workers, because they've got all the information in the palm of their hand, better outcome for us in terms of efficiency. So these types of innovations have enabled us not to just grow, but to outperform the industry and workers' comp by about 10 combined ratio points over the last decade.

So that brings us back full circle to this page. It starts with our meaningful and sustainable competitive advantages, and hopefully if we leverage those the right way, that results in leading return on equity over time. And in fact we've done that. So over many years, we've consistently outperformed the market in terms of return on equity. Hopefully, if we do that, that leads to creating shareholder value and we've done that as well.

So it's an industry that as you all know is exposed to everything from economic and weather cycles to economic and weather catastrophes. So just like with return on equity, we think the right way to think about shareholder returns is over time. That's exactly the way we manage the business, that's exactly the way we manage balancing risk and reward on both sides of the balance sheet, and that's the way we've performed overtime.

So those competitive advantages and that strategy have been incredibly successful for us, but the world is obviously changing. And broadly speaking, we see four forces of change that are impacting our business. So customer expectations are being shaped by their experiences in other industries. It would be an understatement to say that technology is on the move, and that is enabling us to re-imagine just about every aspect of our business. Data and analytics, similarly transforming and distribution is consolidating and alternative models of distribution are evolving. We are highly-focused on those forces of change.

There's nothing that's changed about our long-term financial strategy, but what has changed is the way we're thinking about our competitive advantages and what we need to do in terms of investment in innovation to make sure that we can continue to perform in light of those forces of change. We're relentlessly focused on that in terms of investment in innovation. So in broad strokes, our vision for the investment in innovation is to be the undeniable choice for the customer and an indispensable partner for our agents and brokers.

I said earlier that we put expertise in risk and products and services our customers' need on a pedestal around here. No change to that pedestal, but here we've added two new pedestals. One for the customer and one for our distribution partners. And how do we execute on that, there are three priorities across the organization that sit underneath that vision, each of our businesses and each of our organizations inside the company have their own investment in innovation objectives, but they all ladder up to these three priorities.

So extending our advantage in risk expertise, think things like artificial intelligence, leveraging third-party data, predictive modeling, the workers' comp and construction examples that I gave you are perfect examples of that. Leading expertise in risk will continue to be critical in this business, and we'll continue to invest and innovate in it.

Second, providing great experiences that's great experiences for our customers, and for our agents and brokers. We've invested in things like technology and workflow, we'll talk about that today, we've got to be faster, we've got to be easier, we've got to be more nimble, we've got to be more digital, we've got to be more mobile, we've got to be more personalized, and we've got to "more often." (00:24:28)

And finally, the third priority underneath that vision of improving productivity and efficiency. We need a more efficient cost structure. We need to be doing more with less, and that will provide us with all the benefits and all the flexibility that you'd imagine from enhanced operating leverage.

So we haven't talked a lot about it, but our focus on these priorities aren't new by any stretch. We've been investing in them for several years. We've delivered substantial capabilities, and we are in the early innings of starting to see the benefits of these things, which is why we wanted to schedule this Investor Day at this time.

Internally, we talk about the need to balance performing and transforming, the need to do both of those things. And in this in this day and age, given the forces of change and the pace of change, a company can't afford to do one or the other, a company has got to perform and transform. And to that end, we think we are benefiting and we'll continue to benefit from the fact that we're doing this work from a position of strength and without distraction.

Case in point, we've made the investments that we've made and we've delivered the capabilities that we've delivered inside of leading returns and with an improving expense ratio. So this year, our earned premium will be something like $1.8 billion, higher than it was in 2014. And over that same period of time, we've kept our OIE dollars about flat.

So in terms of what we hope to achieve with all of that, you've heard us say many times that we'll measure of success in terms of our ability to outperform in terms of return on equity over time. Nothing is changing about that, but part of a successful strategy for delivering leading returns is having a successful strategy for growing over time.

And so, the investments that we're making and the investments that you'll hear about today are designed in large part to position us to grow over time at leading returns. So you'll hear about some of those things today. So in a minute I'll ask Greg Toczydlowski to come up. Greg will talk about the investments that he's been making in Business Insurance and technology and workflow, those things will transform our Business Insurance business model, you'll hear about that.

Tom Kunkel will come up and talk about his efforts to extend his leadership position in the surety business to streamline his management liability platform and he'll talk a little bit about our cyber business. And then with our Quantum Home 2.0 product rolling out just next week actually, Michael Klein will come up, talk about his priorities in Personal Insurance, and he'll use the Quantum Home product to illustrate those priorities.

So with that, I'd like to invite up my friend and partner, Greg Toczydlowski.

Gregory C. Toczydlowski {BIO 16615940 <GO>}

Good morning. Well, we're excited to be here with you this morning. Our excitement stems from the fact that this is going to be across Business Insurance. The first time that we're going to be sharing with an external audience, the amount of investments we've been making across technology in our workflow. And I'm sure there's a school of thought somewhere in the realm of saying, well geez, Travelers can't be overly transparent as they'll be leaving breadcrumbs for our competition. But based on years of underwriting excellence defined as combined ratio performance, the competitive advantages that Alan talked about years of nurturing and investing in them, and we've been investing in this technology and workflow for some time now. We don't think our competition can pick up the breadcrumbs based on those three, and certainly land in that desired destination, where we think we're going to be.

So I'm going to walk you through those investments in that technology, before I do that, I want to share with you a little bit as a reminder of the profile of who Business Insurance is. So as you can see here, $13.9 billion within the Travelers portfolio ranging from just under $4 billion of workers' comp to just under $2 billion of property in addition to $1 billion of international business. So that gives you a profile of size and scale measured in the dimensions of billions across all the major product lines.

As we look at that size and scale of those product lines as a function of our marketplace, we put that in these slides showing our market share. So here, you can see that we range in share from our property at 4.7% low to a high of 7.8% in workers' compensation. And scale matters in our business, because scale gives us a volume of data that we're ultimately be able to find the patterns in that data and create information in it with great confidence and predictability, and that allows us to go into the marketplace with confidence, so that's the first part of scale.

Second part of that is that it gives us a preferred option for our distribution around how they compete with us. The third element is portfolio diversification, we believe ultimately of having the ability to be the only carrier shown on all five of these product lines that gives us a diversity of the portfolio overall. So as we try to execute in the marketplace with the focus of this scale, having a national presence, we also empower our local folks, some of them are here in the audience, where we give our folks the empowerment to be able to have the flexibility, to be able to transact and do the deal at a local level with great agility. So really trying to bring that combination of scale of a national carrier, but agility of the local player and really that's the combination that we look to bring to the marketplace every day.

So breadth and depth of product line, as we also look at our customer profile, we can see we have breadth and depth of that also from the small in the less complex business we use our select, our small commercial business down to the more complex national accounts. Our middle market business, we're going to spend a good chunk of time today talking about the investments we've been making there of a middle market solution of $7.4 billion.

This slide, there's a lot there's a lot of numbers on this, and I certainly want to break it down for you. You can see, it's broken down into three areas, these are our production statistics that we show so often on our quarterly results. You can see three areas, 2010, 2011 somewhat of a softer environment; 2012, 2013, 2014 defined based on the rate row that's highlighted a firmer environment; and then 2015 and 2016 based on rate you can see also a somewhat softer environment.

So strong new business levels throughout all of those market conditions and strong retention. And the most important dimension that we're certainly the most proud of is on that very last bullet a 94.8% combined ratio. So regardless of market conditions, we've been able to put up a sub-95% combined ratio. And as Alan said, having a respect in understanding of risk is so deep within our culture of really returning industry-leading returns regardless of market condition.

As we look at the results that we put up, those don't happen by accident, they happen based on continuing to invest in our competitive advantages. And we're going to continue doing that. We're no different from the rest of the components across Travelers where these competitive advantages really give us the ability to move into the marketplace with great confidence.

Alan referenced, the world is changing though, so the competitive advantages that we have are critical and we're going to continue to invest in them. But there's a bunch of external dynamics and in the middle of all of those is a very empowered consumer, the consumer that wants transparency that wants choice that wants to be empowered around quality gradations and that's really made us focus on continuing to invest in those competitive advantages but to also recognize that we want to be the undeniable choice for the customer and we want to be the indispensable partner for our partners, our brokers and our agents. So as Alan referenced, each of the businesses has somewhat different strategies inside the business. For business insurance we're focused on these three core capabilities in addition to the existing advantages that I walked you through.

Customer solutions, convenient processes, and low cost structure. So customer solutions defined as having a listening post (32:55) in the marketplace, having a very active ear and understanding what our customers are looking for, what their demands and needs are and ensuring that we're responding to them. Convenient processes, many of our customers' business owners are being framed around industries outside of the insurance industry, the Amazons of the world. We're frictionless, convenient processes as defining their experiences. So we feel we need to demonstrate the same within our industry and all doing that with a low cost structure being able to do more with leading returns.

We can do that based on a number of key investments we've been making. These investments we've been making for a number of years now and they range from developing highly strategic policy administration systems to ultimately bringing very intuitive digital service assets to our customer. And I'm going to walk you through some of these piece by piece, what these strategic investments really allow us to think about the workflow entirely differently, and make sure that we are focused on the customer solutions, those convenient processes all wrapped in a very efficient platform.

Let's talk a little bit about how we've gone to market in the past. In Business Insurance, we have 18 business units, great specialization underneath those 18 business units. Our partners and our customers have come to rely on that specialization from an underwriting point of view, from a product intimacy to a risk control point of view. So we bring those 18 business units to the marketplace every day with a great deal of industry specialization.

In addition to that, we go at the marketplace at a very local level. We pride ourselves on our partnerships with our agents and we have what we call a one-to-one-to-one relationship with our agent. One agent dealing with one local underwriter, dealing with one's underwriting support or account manager as we call the title in the marketplace. So that gives us the ability to be able to respond to that distribution based on whatever their specialized need is. If you put these two concepts together and you look at the combination of that specialization and that one-to-one-to-one relationship, we clearly can see that there's opportunities across our industry to be more efficient around that.

Let's take one business for example, Acme Inc. Let's say Acme Inc. (35:24) is a smaller to mid-sized construction business. And they may have a need for a workers' comp, a GL and auto and they may deal with one underwriter and one account manager for that. They may have a bulldozer that needs a schedule on it, so they may have an inland product on there, where a different underwriter maybe engaged in that. They may have a builder's risk need for that where there may be a separate underwriter and may be a management liability on top of that. That's the industry norm where that specialization of that one individual account can come with multi underwriters.

We believe that we can retain that specialization, keep that specialization and underwrite all of those individual components but with technology and workflow be able to do that with a much better experience for both that Acme Inc. (36:13) customer and the distributor in the middle of that. So these workflow investments that I'm going to walk you through happened through a number of technology suites that we've been working on for years now.

As I'm going to walk you through the individual pieces on these, but give us the ability to retain our specialization and local presence. We think that is so critical that through technology if we can route the business in a much more efficient and sophisticated manner or retain our specialization and local presence, we'll have a very unique and enviable position in the marketplace.

This picture, as simple as it is, has lots of sophisticated technology underneath it. And this basically is our picture around how we will go to market in a very contemporary fashion. And it starts at the top of the funnel, almost think of it as a digital funnel around how to fulfill business and actually how to actually create new business. And it will also be relevant for renewals also. But it starts with the data exchange between the agent and carrier. That's the top layer an automated exchange and I'm going to walk you through examples of what that looks like.

From there carriers will route that business based on where the specialization is. Many times today that's the relationship of the agent in the company for the agent to know where are they going to go for that next piece of business. But through routing technology, we're able to bring that transparency and specialization to that agent much faster. From there, we go through the underwriting process, so we're calling it right sizing the underwriting either through a flow or a low-touch or a complex model and then offering the customer the maximum solutions based on their needs.

This workflow wouldn't be in place if it wasn't for a number of years of technology and it all starts with the core fundamentals. We call it RQI, rate, quote issue system. RQI is basically a policy administration system. There is not many off the shelf policy administration systems in our insurance industry or the Business Insurance. Insurance industry is close to two points in the GDP of America, shows the lack of solutions of off the shelf because of all the customization and the difficult complexity of the products within this.

We've moved from over 25 RQIs to one handful, 5 RQIs over the last few years and that's truly important for us because now the products are able to interconnect together and we have much more strategic technology. We have one product left that we're implementing. All the other products have been implemented on this new RQI. And we measure that in terms of productivity for both our agent and our personnel.

And just to give you a sense, we look at keystrokes and screens. The amount of keystrokes are down 80%, as we move from our 25 to 5 RQIs and the amount of screens on average for our major product lines were over 60 screens, today were down to about 10. So really developing technology that's more efficient and the most important part, it's very modular, so we could add new products on top of that.

From a policy administration system, we then move into how do we route the business? How can we use virtual routing to make sure that that expertise that I talked to you about earlier is the point of sale of the individual that's handling that piece that requires their particular expertise. And so we've built virtual routing tools in the middle of that.

And then lastly, our underwriting workstation, which I'm going to walk it through an example of what that looks like, take – took all our industry-leading tools continued to enhance them and integrated them into an underwriting workstation, so our underwriters could be as efficient as possible and could go from A to Z on a piece of business and have all the analytical support and underwriting tools that they need to fulfill that piece of business.

This is a before and after pics of the underwriting workstation. You could see industry leading tools, but not the most cohesive process for an underwriter to go throughout their day. Today, we have one underwriting workstation we continue to enhance the tools that are underneath that, including providing leading industry analytical tools to support that underwriter, as they make the decisions on the terms, the conditions, the cover and the pricing of course on an individual exposure.

Let's go through that workflow in a little bit slower and step by step. So, as I said, it starts off with the exchange of information between an agent and us. And so, as we look at our automated exchange of account information, we've built what we're calling a real-time data intake process. So, ultimately, we're going to be able to scrape from an agent right into their agency management system all the data that's needed to begin the underwriting process. So that's the red bar and let me red bar.

And let me step back and explain the black bar above that. Today, it's very standard in our industry that an agent will start off with an ACORD application. Many times typed right out of their AMS sent to the carrier either through a paper copy, fax or mostly through e-mail, the carrier then will print that out, type all that application information into their fulfillment process just riddled within efficiencies.

So we've built an intake process, where we can go directly into the agent's AMS system, that's going to be released in 2018. By the end of this year, we're going to have the ability to scrape ACORD applications, Excel, spreadsheets, think of an exposure with an automobile exposure that could have up to 5,000 vehicles on that the ability to go in and scrape that information rather than input it, not only efficient, but good from a data integrity point of view also.

Automated account assessment, so once we have the information and we are able to start the underwriting process, this is a critical step for us that we're really excited about. We're then we're calling this strategic triage. We're able to then take that information and based on some simple questions, I think the TIV, number of employees, the SIC Code, the industry class with that particular piece of business is and we're able to return that based on going to our database and understanding the patterns of customers that look like that, what type of cover they should have, what type of limits they should have, what type of products they should have. We're able to return an underwriter that underwriter that has the expertise for that individual piece of exposure and we're able to then route that next into the appropriate underwriting model.

So as we look at the output of that, this is the triage process that will be in pilot by the end of this year or all sold 2017 (43:24), quickly giving the agent a red, yellow, green appetite. We hear so much from our distribution that they are trying to be more efficient also as they continue to – their consolidation efforts to make sure that they are being responsive and agile for their customers.

So often they tell us a quick no is as appreciated as going down a quote path. So giving them the ability to see that appetite right out of the gates and then go further in understanding what the fulfillment needs are from there is going to be a critical and we believe game changer as we build that triage. From there, we're able to collect the information from the agent, route it based on the strategic triage and then we're going to spend time talking about the right sized underwriting model based on the complexity of that individual exposure at play.

So we have the flow business, which we're continuing to invest in, we call that our select business, where the user experience is critically important, the predictive analytics is critically important. And that's a big part of our franchise and we'll continue to be invest in that business, because we think it will be a big part of the future also.

Where we're going to spend a little more of our time is as talking about the low-touch segment. This is – think of the customer size $25,000 to $100,000 and that's a generalization premium. We'll look at proprietary models, where we'll look at the complexity of the account based on the variables of the account and actually determine in that triage modeling where to appropriately align that business.

But think $25,000 to $100,000 average premium, from there we're building four business centers and these business centers are developed, leaders are within them. We've got a pilot office going right now. And we're able to actually streamline the both the new business transaction and the renewal transaction through those business centers and make sure that we've got the right size speed and agility for that individual exposure at play.

Our agents have been extremely receptive of this and recognize as we talk to our agents, they themselves feel we hear this concept of a Pareto all the time with our distribution that basically 80% of their exposures is only driving 20% of their revenue. And so having an underwriting model that can segment that business from the flow straight through the low-touch where heavy third-party data utilization, quick speed recovery is really important in making sure that we've got fulfillment for that agent.

And what's critically important for this, in our pilots for our business center, over a third of our exposures, we've piloted in the business centers and we've had encouraging results around quoting and writing more. So that's 30% of those exposures that will free up the capacity of our local underwriters. For our local underwriters, as Alan said, to be more active in the marketplace, to be able to do more at leading returns. And so we're excited about the progress of this. We're going to have those four business centers up and running, first all four established with personnel right now and we're bringing business by business on and all of them will be functional by the first quarter of 2018.

So, if we can move the customer through that convenient and agile process from intake from triage, to the right-sized underwriting model, from there, it's really about making sure that we continue to fulfill the customers based on their needs. So we'll continue to be looking at emerging and new perils and risks that are in the marketplace, developing products around this new process, our risk control, we believe is leading edge, we're piloting virtual reality training for our engineers, looking at virtual inspections to full on-site inspections with very much the focus of loss prevention for our customers.

And then digital services, we've been spending a lot of time making sure that we've got holistic and intuitive digital assets out there for business owners that want to engage that way we believe we should have a My Travelers site and an e-service platform, giving them the ability to engage as deeply as they want digitally or through our very hands-on service model.

If you can see the one symbol here SB, Simply Business, we're very excited about bringing Simply Business in to the Travelers family. This is a business that is incredibly dynamic that's focused on leading edge technology and also a relentless focus on that customer experience. Jason Stockwood is the CEO of that business and I want to play a video as he joins the Travelers family and how he's thinking about the marketplace.

[Video Presentation] (48:17-51:10)

Jason said something very profound in there and he says a lot of things profound. He's a really talented individual as that whole group of employees is, but he talked about the race to the middle. The race to the middle, where all this new alternative capital with leading edge technologies coming from one end to the continuum and where the more established capital is on the other end. And we really love our position of being in that race, because our underwriting expertise are risk selection that demonstrated by that long-term 94.8% combined ratio, combined with the amount of technology and workflow changes that I just walked you through, that we've been working on for a number of years now, combined with having people like Jason to be provocative to continue to push and advocate on the edge of the customer in our new leading technology. We love the position of that overall portfolio.

So as I conclude up, these investments in this workflow is going to really have us be very active in the marketplace. We'll be quoting more, we'll be writing more lines per account. We're going to be doing that all in a very efficient platform.

I'll be up for questions after Michael and Tom, but right now, we're going to take a 15-minute break and we'll come back, let's say, at (52:31). Thank you.

[Break] (52:35-01:09:20)

Gabriella Nawi {BIO 2211991 <GO>}

Great. Well, thank you and welcome back. And now it is my pleasure to introduce Tom Kunkel to take us through Bond & Specialty Insurance.

Thomas M. Kunkel {BIO 16615934 <GO>}

Thank you, Gabby. Good morning, everyone. Thanks again for spending your day with us and learning more about the great things that are going on at Travelers. In this case, I'm going to talk to you a little bit about some of the things that are going on in Bond & Specialty Insurance.

So as you can see, we're about 9% to 10% of the overall written premium of the place. We are the largest writer of surety in the USA. And we're a very prominent writer of management liability, especially in the middle market management liability space. Overall in management liability, our market share approach is about 6%. We're considered to be specialty products by the marketplace. And so, our products do involve a lot of credit type underwriting or at least some type of financial analysis as we go through the process. And I should point out that we're known as the severity business as compared to a frequency business which definitely impacts the way we choose to manage and run the business.

So as you can see, we approach the marketplace through six specialized business units that are customized by the needs of the customer. Two of them are surety businesses and four of them are management liability businesses, much like Greg and Alan discussed, we have deep, deep product and industry expertise. We have many centers of excellence within each of these businesses. As you look at the pie-chart, you see the way the products have broken out. So it's worth noting that within each of those product categories, the products are specialized or tailored to the needs of customers in those individual business units. So again something Greg mentioned and very much of a strength for us in the marketplace.

As you look at the product group, you can see we're really quite well-diversified by product. And if you were to drill deeper whether it would be by business unit or by product, you would see that the deeper you go the more diversified the portfolio actually becomes. We've paid a very active attention to this. So whether it would be you by type of business, size of business, geographics of business, the products we write for them, we're very diversified. And we think that in the kind of business we're in that's a very important aspect for us, because that type of diversification has allowed us to have the consistency and stability of our results through some pretty variable and volatile economic times.

One last thing on that page before I go into top line. So you'll notice that at the top of the page it said construction services. So why would I have said construction services, is it a surety business? And the answer to that question is, yes it is a surety business different from the property, casualty, construction business that Alan took you more deeply into earlier. So it's a surety business, but we call it construction services, because we do a lot more for our clients than simply present them with the bond. There's a lot of value add that goes on here and actually we strive to make that true of all of our specialty businesses more to come on that.

So again taking a look at the top line, the net written premium, I know it's not readily observable from this graph, but there's actually a lot going on below the top line. So our approach to this business, we orient ourselves via risk and return in all cases. So generally speaking, where areas have adequate returns, we really do aspire to grow in those areas and where returns are less and attractive, we're okay with appropriate levels of shrinkage. So you have a constant ongoing remixing of the book.

Good example of that is, our management liability middle market businesses. Over the last three years, it's made a great deal of sense with our competitive advantages to focus on growing that business and we did. You look at the management liability publicly traded space and the returns have become less compelling. So in that business our approach has been to really maintain our portfolio, which we like quite a bit. But when it comes to new business to the extent we can get adequate pricing, we're little willing to actually step back a little bit on the new business piece of that.

It's worth pointing out that these are credit sensitive businesses. So if you don't handle it carefully, what is currently a severity business can easily turn into a frequency and severity business. And as you look at the years of the financial crisis and the great recession, you'll note that there is a drop off in top-line in the years following that has resulted from a very thoughtful approach to managing risk and return during that timeframe. So when you see the numbers from year-to-year that are flat, actually there's an underlying mix adjustment going on there, and you see that as recent years, we've begun to grow the business again. So summary, orient ourselves to maximize and optimize the bottom-line through how we're really working with the mix amongst the businesses in a very risk return oriented approach.

So here's a look at the track record of profitability for Bond & Specialty Insurance. And for this, we thought the best view for you to understand would be to give you the accident year view. So with the accident year view basically you have the most up-to-date look at the losses in each year and any reserve adjustment changes were brought to the year that the loss originated. So anyway you look at this, whether you're looking at the most recent one year, the three year, five year or 10 year average combined, the average combined ratio is between 81% and 82%. So again, we think it's directly attributable to the risk return approach to the business that we have. But we also think it's sustainable, because of the set of competitive advantages we currently have and the new ones that we're investing in.

So spending a minute on that. Competitive advantage is really the foundation of our strong results. And as Alan mentioned, they're unique, they're not easily replicated, and the combination of them is actually something special. So, to bring this to life a little bit by an example of how we think about this in our construction business. You all know contractors need surety bonds to go ahead and bid public works projects and they need them actually to bid some private projects. And so, some sureties that's really all they care about is positioning themselves to be the one that writes and provides the bond. And to that end, they might compete on price, they might compete on terms, but that's basically it.

Our approach to the business and our motto here is that we are in the business of helping our contractors succeed. So, that creates a totally different orientation on how we approach. And what we strive to do is make our resources and competitive advantages available to these contractors to actually help them improve their operations.

So, let me show you. The key is this mutually beneficial aspect to it and the attract, retain, improve approach really does wind up benefiting everyone. So, if you watch the chevrons, as they move across the page, the first blue chevron is the contractor out in the market with their agent. And they may need their first surety or they may be unhappy with their surety, they may want to change, but our people then are out in the market in 50 different domestic locations. And their job is to know what's going on in those businesses from a local standpoint and to know who's moving around in the market. And to the extent that someone is moving, there's a high probability, our people are going to know about it and have an eye on it.

Why would they be attracted to us? Well, it is those value-added services that I mentioned to you that I'm going to go into momentarily. And when you find a relationship where the contractor actually values those, right, it creates a real stickiness and a retention that has really worked for us over time. So as we work together to service the contractors' needs and as their operations improve, our risk management profile improves as well. So as their profit improves and they determine that they really value this type of support, the relationship deepens. And as the company grows stronger and the revenue grows, our written premium grows along with it. So the approach has a lot of synchrony to it, it's got a real win-win approach to us and it really is not new for us, we've been doing this for a long time. What's new are all the enhancements and continuing investments that we're actually making in these businesses. So we think this value-add approach is one that sets us apart.

And so, let's talk a little bit about what some of these are. So they're training sessions, so the training sessions largely involve contractual risk. So when you look at what contractors do, they have to spend a lot of time going out and finding projects to bid and secure. And when they secure those projects then they have to spend a lot of time putting that work in place, right. But a big exposure to them and by the way, part of what the bond guarantees is the contract itself and the wording in that contract, that can be a whole set of risk to them. So our training sessions really work with contractors to understand the various provisions, what they mean, what's acceptable, what's unacceptable and it's been very helpful for them I think.

We have a database of research topics that are very pertinent and relative, relevant to what the contractors are doing every day. It's available for them online or it's available to them through our surety underwriters. When they run into large and very complex contracts, we have a legal team of claim experts that believe me, they've seen everything and they're available to review those contracts, have discussions around them and determine really what the best way (01:21:13) those is. And then there's our database of contractor financial data and I'll go into this deeper in a second, but essentially what we do is, we take that financial data, we analyze it and we utilize it to help them understand their relative performance compared to their peers in the market.

We also use that to identify areas of performance risk. So more on how that works, I should step back a minute and tell you and I know a lot of you weren't here then, but some of you were that in 2009 at an Investor Day, we actually introduced you to our competitive financial benchmarking tool. So that was the first time we had really talked about it to you all and we've evolved it quite a bit since then, even at that point it had been around for a good five years. And so again we're kind of uniquely situated to provide this, and let me explain why.

So when you remember the fact that the vast majority of construction contractors are privately held companies, it's really very, very difficult for these contractors to get good benchmarking data in the marketplace. When you consider the fact that we've got a portfolio of 5,000 contractors all across the United States, there really is ample information available from virtually all segments of the marketplace, right. And because we manages data ourselves because we scrub this data ourselves, it's actually very, very clean, and there's a lot of integrity to it. So we anonymize the data, we aggregate the data, and we construct representative peer groups. And that's the key right, because we can look at a contractor in these representative peer groups, we build ourselves and they're contractors of the same type, they're contractors of the same size and they're contractors that are in generally the same type of marketplaces.

So these provide very valuable insights to contractors. I think in 2009 when we talked to you about it, we focused on some of the comparative insights from various balance sheet aspects, from various income statement insights. And those insights actually still remain pretty important to our contractors. So for example, they take this work via public bid, where it goes to low bidder. There's not a contractor out there that really doesn't want to know whether their overhead level is competitive, right. There's not a contractor out there that doesn't want to know if the gross profit margins they're putting in these bids are reasonable, if they're high, if they're low. So there's all kinds of very insightful information that can help them out, but we keep investing in these views and providing more and more.

So let me show you one of the newer views we have and let me make it real for you with an example. Say we're in a business strategy meeting with a contractor and that contractor (01:24:28) it in the upcoming fiscal year, they really think it's time for them to pursue growth, and they mean real growth, right. So we can actually provide some valuable insights to them, to help them inform that strategic decision. So the red dot, you see on the page is actually our contractor. And as you look at the vertical axis, that is the point change in the operating income ratio. As you look at the horizontal axis, that's growth in the contractors' project pipeline or as they - call it a construction - they actually call it backlog. So what is the project pipeline? It's the amount of work that a contractor has under contract that it is uncompleted, that they are going to put in place. So it becomes revenue, as they build the project. So think of it in this case as a surrogate for revenue.

So as you can see looking at this contractors performance, looking at the horizontal axis, they've grown just a little bit and looking at the point change in operating income that's improved a little bit, pretty stable, right. But how about others that have really pursued this growth strategy? So we can go in and we can select that representative peer group. And to this peer group, we can add those that really pursued growth, right. So, each of the blue dots here is an anonymous contractor who tried to do something very similar. As you can see by the blue dots, a lot of them achieved higher growth but actually most of them suffered lower operating margins.

So say this is a general contractor, where a really good operating profit margin might approach 5%, right. So you can look in the green box here and you can see that half of them that pursued moderate growth had some improvement in their operating profit margin, half of them actually suffered declines in operating profit margin. But take a look at the lower right-hand in the red box. These are the contractors that pursued the truly aggressive growth and they suffered significant drops in operating margin. Now remember, if you're saying a really good operating margin is around 5% right, when you look at the cuts they're taking for the growth, you'd have to say that it's really looking somewhat damaging.

Now maybe it happened because they cut their prices to take the work, maybe it was just too difficult for them to manage the larger pipeline of products, maybe they made some of it back on volume right. But this is certainly an insight that a contractor would find valuable when they're trying to ask in the current marketplace the way it is right now, would now be a good time to really pursue growing my business.

So these are the type of metrics, we've got a lot of others that we make available to them and we can kind of customize the views. So we're feeling like we're making a lot of progress there. But there was really one other area that we thought we could really bring to the table, and that led to our decision to acquire the Family Business Institute. So the Family Business Institute is a small, but very professional construction consulting firm. At the heart of what they do is they organized and facilitate non-competing CEO peer-to-peer mentor groups, right. And so these are all designed to help the contractor achieve top levels of performance. And so they get into these facilitated peer groups and they go through each other's business plans, they talk about what's working, they talk about what's not working, they talk about best practices and maybe most importantly they hold each other accountable, right.

But when a problem needs more attention, then the peer groups can give them, what's the next step. Well, we have Family Business Institute consultants available that are experts and can work with them on things like strategic planning, expense management, leadership development, problems with succession planning. So again, all designed to help the contractor achieve maximum performance and by the way, these are the type of things that tend to put us in the position of trusted business partner with the contractor.

So moving on from some of the examples in surety to some of the examples of what we're doing in our management liability businesses, you see that they're built on the same foundation of competitive advantages that the surety businesses are, right. And the red box is how we're continuing to invest in those, enhance them and provide new capabilities. So I'd like to talk to you about these two today. You'll note a lot of similarities with what Greg talked to you about.

So when you look at the business today, you have to remember that these are specialty lines. So the idea of a common ACORD application really just not very prominent at all, right. So companies tend to all have their own applications. They tend to be lengthy. When an underwriter is underwriting an account, the data that gets captured tends to be captured through manual input, right. So that makes it time consuming and expensive. And what data isn't keyed in does not really get captured as structured data, right. It just gets captured as unstructured data and it's kind of sitting in the systems in a big blob, right. So it makes it very expensive and difficult to utilize that unstructured data. As an example with some of our apps, we capture about 15% of the questions on the application as structured data that leaves the 85% as unstructured.

So what our R&D efforts have us doing is going through the structured and unstructured data applying our analytics and algorithms and really trying to determine which data points are predictive of loss or in some way associated or correlated with claims. So, once we get this down, this will allow us to streamline our application is a great deal and allow us to become even better underwriters. The next step then would be to digitize the intake of these applications. So think about the concept of skipping manual entry theoretically all together right, you're capturing it all in a digitized basis and it goes right into the structured format, makes it easier to get to, easier to use and much, much more useful.

Another opportunity is the fact that today there really are very few intelligent automated processes that help us screen or triage applications and submissions as they come in. So, sure there are expedited workflows out there that have to do with the size of the risk or the type of risk or the class of business. But, in general, the workflow even with those still stays somewhat manual, right. So, as a result when you're really trying to grow the top line, what you see is fewer efficiencies than you would hope. And your variable cost tends to go up on a consistent fashion with your top line increase in written premium.

So, hopefully the end result of our initiatives, the application of our analytics to the data, the enhanced workflows and the new technology will be to create a better differentiation between what we can call, flow business, and what we can call more complex business that needs a different type of handling. This will create internal efficiencies for us that will help the ease of doing business for our agents and for our customers and it will free up resources to pursue additional growth. And by the way when we pursue that right, hopefully you won't have that lockstep increase in variable cost that you would see before. So, all very much in line with what Alan described in his opening and very similar to the things that Greg talked about just with different product sets. So, we'll begin piloting these in 2018.

And so lastly but certainly not least I wanted to update you on our approach to the cyber insurance marketplace, and how we're positioned within that marketplace. As we've said to you before for nearly 20 years now, we've been ensuring cyber exposures of some – in some way shape or form, so the exposure, of course, has continued to evolve and so have we.

So, in 2016 as you can see here we were a top five carrier in the marketplace, but I think more importantly to us is the way we're thought of by the majority of agents and brokers. So, there was a survey conducted by National Underwriter Magazine and the National Association of Professional Insurance Agents, it appeared in PC360 magazine and it asked agents who their best cyber carrier was. Travelers came on top, I'm pleased to say and actually it's conducted every two years and we came up on top for each of the last two surveys. So, there is the quantitative position in the marketplace top five and there is a qualitative position, hopefully number one in their hearts right. So we actually feel pretty good about that.

So when I look at the growth profile, you see on this page, and the premium amounts, we know we could do more it would not be hard, but we actually feel like this is the right place for us, at this particular point in time as concerned cyber. And of course it really has to do with being very respectful and trying to be prudent around what are an evolving set of cyber exposures.

So as we construct our profile right, our portfolio, we pay close attention to industry, to risk profile, to size of company and the way the account underwrites. As you can see by looking at the pie chart we manage our limits very closely. The majority of our limits are under $1 million and the vast majority of them are under $5 million. So do we participate on large risks? Absolutely we participate in large risk. But you can't help but seeing, by looking at this portfolio that it really is primarily a middle market portfolio.

And just the last thing I think I would mention just to kind of give you an idea about the way we think about cyber. We actually are purchasing a quota share on this and we think it's just another useful tool in how we manage overall cyber risk profile. So all-in-all, with cyber being very respectful about the evolving risk profile, carefully assembled portfolio, like our position and feel like we're just in the right spot for the future.

So as I finish with cyber, I just wanted to say that, as with all of our Specialty businesses, we're planning to compete here on a value add basis as well. Thus, the recent announcement of our new strategic partnership with Symantec, probably all recognize the name, they're a global leader in cybersecurity. So, we of course always had the product and the indemnity. We always had the post-breach services. But this is a whole package of pre-breach risk management services that are available to our policyholders.

So these services include things like a cyber health check, a great library of training modules and an initial consultation with a cyber coach and they get to ask questions to the cyber coach like, well what type of data do I really need to be encrypting, what are the best practices that I should have for securing remote access, how do I protect myself against the latest cyber attacks, right. So we think this could be a real different maker for our customers. We think it could help them protect themselves, protect their customers, right and hopefully at the same time improve our underwriting portfolio risk profile. So, great new tool for us, investment partnership with Symantec.

So there you have it. We continue to approach the business by investing and being our agents, and our customers trust their partner and we want to do that by delivering industry leading capabilities and at the end of the day, we think this is going to be the key to sustaining these very consistent and stable returns we've had.

So thank you again for spending time with us. And now I'd like to introduce you to my good friend and colleague, Michael Klein. Michael is going to talk to you about Personal Insurance.

Michael F. Klein {BIO 19674145 <GO>}

Thanks, Tom. Good morning, everybody. I do want to start by saying it's a distinct pleasure to share the stage with Alan, and Brian, and Tom this morning, and actually a couple of particular comments about Tom. I think you saw from the presentation and his discussion of the barn and specialty business. What a great example of discipline and focus Tom is, and the way that he runs that business and focuses on partnership with customers and really win-win for us, for our agents and for our customers.

I also want to thank him for finally showing me the secret to not having to answer questions on the earnings call and that apparently is to write billions of dollars of premium and consistently put up a 70 or 80 combined ratio. So I will work on that and then hopefully that will give you all the opportunity to spend time asking questions about other things that you're interested in. But in all seriousness, I am looking forward to talking to you this morning about the Personal Insurance business, and what I'd like to do is spend a few minutes sharing some information about our profile, our position in the marketplace, and our performance.

And then I'll discuss our path forward and illustrate our investments in the business. As Alan described, I'm going to do that by using our Quantum Home 2.0 product as an example to illustrate those investments. So, for starters, let's talk about the profile of the business. Alan showed you this slice of pie earlier, Personal Insurance is a little over 33% of Travelers $25 billion in revenue and that $8.8 billion of premium includes our business in both the United States and Canada. About 90% of that actually comes from the United

States and that will actually be the focus of my comments for the remainder of the morning.

Alan also mentioned that one of the things that we're proud of and focused on in our Personal Insurance business is our balance portfolio. And no secret to all of you, we talk to you about it all the time, the importance of total account solutions. We usually talk about that in the context of how it benefits our shareholders, when we're talking to you, but it's important to note that our balanced portfolio and our total account solutions actually benefit our customers, our agents and us.

In terms of our customers, our customers get more attractive pricing, when they purchase a total account solution from us. And they also get the ease and the convenience of having all their policies packaged with one carrier. Our agents benefit from that ease and convenience as well, dealing with one market for their personal lines customers needs as opposed to multiple. And they also get better economics. They do get better commission when they package business with us. But importantly, they also get stronger retention, which makes their operations more efficient and effective.

And then when you think about Travelers and the benefits to Travelers, first of all that same retention benefit benefits us as well, right. The longer we keep the business, we get better loss ratio performance, we get better efficiency and it also provides us a diversification benefit in terms of our portfolio results over time. So in the end, the balanced portfolio really beneficial to everyone and it's a diversification benefit in our results and a differentiator in the marketplace.

Another place that we are differentiated in the marketplace is our position with independent agents. Now, I'm showing you here total U.S. market shares for Auto and Home, and you'll see that we're meaningful. We're a top 10 player in both Auto and Home and the dollars that you see here represent all of our business in the United States including our direct-to-consumer business and our agency business, right. We don't participate in the captive distribution market which is probably, roughly a third of the Personal Insurance market in the U.S. But our direct-to-consumer operations included in these numbers small, improving, importantly, very important to us, right.

One of the things that we get from our direct-to-consumer business is a lot of learning and a lot of information about how to better serve customers, and how to engage in the digital marketplace and you'll actually see some evidence of that a little bit later in the presentation.

But when you peel all that away and you look at our direct written premium through independent agents, we're actually very well-positioned. We are the number three writer of auto insurance through independent agents and the number one writer of home. We believe that that differentiates us in the marketplace and does help make us an indispensable partner for our agents and brokers.

So, if you put together our diversified balanced portfolio and you put together that with our position with distribution, those things combined with our other capabilities to drive outperformance in the marketplace. And this shows you while it's not 70% and 80% combined ratios like the ones Tom showed you earlier, the red line is below the blue line here, which this is golf net bowling, right. So, combined ratio, a lower combined ratio better and you'll see that Travelers has outperformed the personal insurance industry in nine years out of the last 10 years. And in fact, from the photograph at the bottom, you know, that we outperformed the industry by six combined ratio points over that 10-year period.

The one exception, 2011, you may remember that is the year of the tornadoes in Tuscaloosa and Joplin, which were significant for us as well as for the industry, but a little bit more significant for us. But again notwithstanding that, an outperformance of 6 points on the combined ratio relative to the personalized industry in the United States.

The other takeaway from this slide is that the gap is widening. And I think that reflects the benefits of the investments that we've been making in this business. Turning to that back half of that period and looking at our premiums and our expense ratios over the last five years or so, you see the evidence of that.

At the beginning of this period, we still had our old Quantum Auto product and our old Home product in the marketplace, and what you see at the beginning of this period is the benefits starting to be accrued from the Quantum Auto 2.0 investment.

I'm happy to remind you that the expense takeouts that were engineered as part of that Quantum Auto 2.0 product are fully in place and realized over this period of time, but you'll also see that the expense ratio has continued to decline post the roll out and the full implementation of Quantum Auto 2.0. That's a direct result of our continued ability to grow premium in personal insurance, while holding expenses relatively flat. It continues to benefit from the lower commission structure in Auto, even though commission dollars being paid out are rising with volume, the ratio is continuing to drop.

Two other important items to note before I leave this slide. One, some of the cost benefits from Quantum Auto 2.0 were actually in unallocated loss adjustment expense. Those aren't actually shown on this slide, the red line does not include (01:45:12). And the second which is probably the most important is that we've achieved these results while continuing to invest in the business. Over this period of time, not only did we develop, launch and fully roll out Quantum Auto 2.0, but we've actually over this period of time built the new home product that I'm going to show you in a few minutes, and made a variety of other investments in the business.

Before I talk about investments in the business, I do want to step back and remind you of the conversation that we've been having over the last few quarters about our 2017 objectives and reiterate that we're on track and executing successfully. The left side of the slide demonstrates a view of our agency auto business, and shows you the RPC in the blue line, and the year-over-year PIF change in the red, and demonstrates our progress towards improving profitability and managing growth in Auto. And I'll remind you that as we said on the third quarter call, we are still on track to get the written rate we need by the end of this year to offset the adverse bodily injury loss experience in Auto that we saw in late 2016.

The second near term priority, which we set for ourselves because we knew we're going to be trying to moderate growth on the Auto side, and because we're a portfolio solutions provider is to ensure that as we took those actions we didn't damage our position in Home. And in fact that we built momentum in the Home business leading up to the launch of our new Quantum Home 2.0 product and you'll see from the chart on the right that not only have we maintained growth in our Home business over the last few quarters, we've actually accelerated it growing over around 5% in the most recent quarter.

So, now that we've talked about the profile, the position and the performance of the business, I'd like to shift and turn our focus towards investing for the future and by now the framework of this slide ought to be fairly familiar to you, and what I really like to just focus on is the middle part of the slide. Right. You heard from Greg, you heard from Tom who are focused on insuring businesses.

In Personal Insurance, our customers are consumers and so our strategic objectives vary slightly as a result of that. We describe our three strategic objectives as compelling offerings, streamline experiences and consumer engagement. And our goal is to invest in those three areas to enable us to continue to develop and to deliver compelling value in the marketplace.

We're making investments in a variety of capabilities across those three priority areas. As you can see from the pictures on the slide here Jay Benet's pontoon boat. No, it's not actually Jay Benet's pontoon boat. But investing in a variety of products, in a variety of services in claim in digital self-service capabilities, and the point of this slide is to reinforce with you that while for the remainder of the session, I'm going to talk to you about investments we're making that relate to our new Quantum Home 2.0 product. Those are not the only investments that we have been and continue to make in the Personal Insurance business.

So, Quantum Home 2.0 starting with the compelling offerings priority is a fitting example of compelling offerings, because it is our brand new product. That's also timely as Allan mentioned, we're rolling the pilot of the Quantum Home 2.0 product out in three states literally next week. Pre-launch meetings are already underway. We started conducting them about a week ago. And the initial feedback has been very positive. One of the tools that we've been using to introduce Quantum Home 2.0, it's hard to say Quantum Home 2.0, when you've been saying Quantum Auto four quarters in a row. Here's a brief video. So, let me show you the video that describes the new product.

[Video Presentation] (01:49:11- 01:50:10).

So hopefully, you can see from that video why we're excited about Quantum Home 2.0. And it's potential to continue to fuel our momentum as a balanced portfolio solution provider in the personal insurance marketplace. We've got the three states rolling out in pilot next week, another four states in the first part of next year and then we'll roll the product out across the country over the balance of 2018 and 2019 and we do believe that it will be a huge driver of our continued profitable growth in personal insurance.

I think the video describes the product well, but there is a number of behind the scenes aspects that I'd like to explain in a little bit more detail. The first is the flexible and user friendly approach that we're taking to the product. And I'd like to illustrate that by showing you actually two coverage summaries, one from Quantum Home 1, and the second from Quantum Home 2. Clearly, we didn't have a lot of focus on user friendly when we designed the coverage summary for Quantum Home 1.

For all I know, that could be a cable bill as opposed to a homeowner's coverage summary, and you probably need a glossary next to it to help you understand Coverage A, Coverage B, Coverage C, Coverage D. On the right-hand side, you see the Coverage summary that we develop for Quantum Home 2.0. You don't even need this, use the alphabet, right, to figure out what limits go with which coverages. It's visually appealing, it's user-friendly, you look at the picture, and you can see that you've got $250,000 of coverage for the dwelling, as an example. So much more visually appealing user-friendly and easy to understand.

The second and the video alludes to it a little bit, but the second key aspect of the new Quantum Home 2.0 product is its flexibility, it's very modular, that enables a number of things. One it actually helps agents and customers to customize the coverage to meet the customers' needs. Second because of its design, because of the levels the packages and the endorsements right, you can sort of think of it like option packages on a car. It makes it easy to do that customization and makes that process better for customers and agents.

And third, the modular design actually puts us in a better position to be in an apples-to-apples position when we're compared to other competitors' offerings in the marketplace. One of the drawbacks of Quantum Home One (01:53:18) is that it has a lot of coverage automatically bundled into it. And so in many cases, when we would be in a head-to-head competitive position on a comparative radar, for example, in home, we would have a lot of coverage embedded in our product that was not included in the offering from the competitor and we would show up lower on the comparative radar as a result.

One of the questions I get a lot about Quantum Home 2.0 is well you did a lot of expense change in Quantum Auto 2.0, are you doing the same thing in home? The answer to that question is no, because we've already achieved many of the expense improvements we needed to in the business. The lift, the improvement in close rate in Quantum Home is more likely actually to come from the fact that we're going to be in that better position from an apples-to-apples comparison. And so that should enhance our position and our ability to compete in situations where we're putting the competition on a comparative radar. So the way we describe that is the modular product is designed to improve conversion, the way you heard it in the video and the way we explain it to agencies, we're hoping to help them open more doors to close more sales.

So Quantum Home 2.0 is flexible and user friendly, that doesn't mean that it's simple and basic. In fact, it's much more sophisticated and advanced than the product that we have in market today. And let me illustrate that for you by talking about one rating variable which is called the territory factor. Probably self-explanatory, right, but what the territory factor does is, it's the rating variable that reflects where the house is, right. Today in Quantum 1, it works like the visual you see on the slide which is an unnamed square state in the Western United States.

And what you see in the green shading are zip codes. So today in Quantum 1, the lowest level of detail we can go to, to assign a territory factor is a zip code. Now reasonably granular depending upon where you are in this state, but a couple of things are pretty apparent, right. One, I said zip code, so they're defined by the U.S. Postal Service, right. And sometimes postal service changes zip codes and we've actually got expense associated with keeping the rate plan current as they make those changes. Two, they're not regular, right. They all vary in shape and size and three, they're not particularly granular.

So when Quantum Home 2.0, we built our own territory factories in our own territory grid and what we've done is, we've actually created 200 square meter grids across the entire United States, I think two, three city blocks depending upon how big a city block is where you live. And that actually gives us the flexibility to assign territory factors in that 200-square meter area that are different from the one next to it. Now, we don't necessarily expect that we will do that, which is actually illustrated on the slide here but we have that flexibility.

So in Quantum Home 2.0, we can group those grids together, we can ungroup them based on our proprietary data and our analytics, but it puts us in a better position to reflect the dynamics that go with where the house is located. Think population density, think tree density, think elevation changes, any other variety of factors that are determined based on where that house sits.

And territory factor is not the only way that we've increased the sophistication in the pricing of Quantum Home 2.0. We've got many additional variables and many additional elements inside our updated multivariate pricing model and our pricing algorithms. In fact, there are over 20 new rating variables in Quantum Home 2.0 that reflect not just geography, but payroll, customer and building. And that additional level of detail and granularity is enabled by much more third-party data, in fact, three times more third party data that we're gathering to underwrite and price Quantum Home 2.0 than we get today in Quantum 1. The end result of that is it puts us in a position to better match price to risk and enable profitable growth through enhanced segmentation.

Okay, so that sounds flexible and easy, but sophisticated and advanced, isn't that going to be complicated for agents and customers? What we thought about that. So in addition to rolling out a new product with Quantum Home 2.0, we're actually rolling out a new platform Think of it as like, one of those kind of RQIs that Greg talked about, right, about a rate quote issue system that allows the agents and the customers easy access to get a quote for Quantum Home 2.0.

Now, in advance of rolling out the new product, we've actually been testing the platform in market both directly with consumers and with agents and brokers and what we find is, the process is much more streamlined, think it's easier to get a Home quote than it was before and it's easier to bundle that home policy with auto or with specialty lines like umbrellas or personal articles floaters.

As we've tested the platform in the marketplace, we've seen encouraging results. In direct-to-consumer, we've seen increased quote complete rates for both auto and home as a result of using the new platform and we've seen increases in the number of rounded policies issued and the agent feedback that we've gotten on the agent platform has been consistent with that. Ultimately, the focus of the new platform is to make it easier to use and to drive continued account rounding and more total account solutions in the marketplace.

Now before I leave streamline experiences, I want to highlight one other type of an example of the types of investments we're making in this space. We've been making a lot of investment in digital self-service capabilities and digital capabilities that support policy holders from the purchase all the way through claim and one of the things that we're testing in the marketplace right now is a home-self inspection application. Our historical approach, you might describe as not particularly convenient, right. Doesn't everybody love setting aside a one to four-hour window on a Wednesday afternoon, when you can sit at home and wait for an inspector? No, not everybody. Okay. well, that's good because with the self-inspection app, you don't have to do that.

So before, you had to fit into the inspector's calendar, right the customer had to fit into the inspector's calendar. With the self inspection app, the agent or the customer can perform the inspection themselves and send us the pictures. As I mentioned, market test, it's currently underway. The early results are encouraging. It's been described as a much better experience by the agents and customers, who have used it. It's more efficient for us. We don't pay an inspector to go to the house, for example. We get the inspections back about 10 times as fast and the response rates have been strong and the feedback has been positive thus far. And that's just again one example of a growing suite of digital self-service tools that we're developing to support the Personal Insurance business.

So before I wrap up, then let me cover the third priority which is consumer engagement. We're working to increase engagement with consumers and convert them into customers. So in the case of homeowners, we reach consumers directly through social media and through partnerships and connections to websites like Zillow and Realtor.com and we help agents do the same thing via e-mail, social media and other digital tools.

Once we've reached the customer through those properties, they're then brought to something that we call Home Central and in this – what Home Central does is, it helps us to potentially reach them before they're even thinking about buying insurance. I've got one more video to show you that will illustrate how that works.

[Video Presentation] (02:01:29-02:04:05)

So a lot going on there, right. But a couple of notes to recap. So when we talk about Home Central, we talk about it as a digital mid-funnel engagement tool, right. It's supposed to find customers that are likely – consumers that are likely to become customers and draw them in. It clearly focuses on consumers before they're looking for insurance. And towards the end there, you saw how the same content is leveraged across channels, right.

I mentioned earlier that our direct-to-consumer business isn't very big from a volume standpoint, but it brings us great capability. Those tools that we've built into Home Central to help agents digitally connect with customers are a very important and very valuable tool. Ultimately, the goal is to convert consumers into customers, give them useful content relative to their situation. So you saw very quickly up there something we call a BuildFax Report. It's a home history report that has information, it's kind of like a car fax report, right. It's got information about what's happened to that house since it was built based on permit information et cetera. We've got renovation tips, a whole bunch of other useful hints for people who are renovating moving as you saw described.

Then we can – once we've met their information need about what they're looking for, we can educate them about insurance and connect them to an offer of insurance. Home Central is just one example of that type of mid-funnel engagement strategy. We've got a similar tool for auto called Travelers Garage and actually you saw a picture of a tool we've got in development in partnership with the small commercial gain called Small Business Exchange.

We launched Home Central in late summer in order to build momentum leading into the pilot of Quantum Home 2.0 and so far the results have been encouraging with both consumers and agents. Our Personal Insurance site traffic direct from consumers has more than doubled as a result of the rollout of Home Central and the agent response has been dramatic. Now, I will put a proviso on this that the agent responses over a smaller base. This ability for agents to take content like Home Central and connect it to a call to them is a new capability for us. And so in the case of the agents, we're talking hundreds or maybe thousands of data points as opposed to tens or hundreds of thousands in a broader website traffic, but still a pretty dramatic increase in the response from the agents that demonstrates that we're on the right track.

And at the end of the day, the net result is that we are expanding our reach and increasing our pipeline of potential customers, which is evidenced by the fact that we're already seeing increased quote volume as a result of the launch of Home Central. So I talked about our compelling offerings, our streamline experience, and our consumer – our customer engagement investments. I talked to you at the beginning about the fact that we're well-positioned in the marketplace, executing successfully and continuing to invest in the business across all three of these priority areas, and use Quantum Home 2.0 as an example of the investments that we're making, but I do want to remind you that we are investing across the business along these priorities. And those investments are all designed to help us to continue to deliver industry leading results and continue to position Travelers as the preferred provider of portfolio solutions in Personal Insurance. Thank you very much.

Now, I would like to Alan and Greg and Tom, as well as Brian MacLean and Jay Benet up and we're going to do Q&A. Thanks everybody.

Q&A

Operator

Before we get started, if I could just ask you to raise your hand and a mike will be delivered to you and in addition for the webcast purpose, if you can say who you are and your company name. Thank you. Okay. We have our first question here.

Q - Kai Pan {BIO 18669701 <GO>}

Kai Pan with Morgan Stanley Research. Thank you. First I have two questions. The first question on expense measurement. You have slide show that in the past few years you improved the expense ratio overall by points but my understanding mostly coming from the Personal Insurance. I just wonder what sort of opportunity in Business Insurance you can – is that more coming from (02:08:44) top line or you can actually reduce overall expense in that line?

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

Kai, thanks for the question and let me start with that. We anticipated that question. We do think and you can see from the initiatives that Greg talked about. There's substantial opportunity to improve both productivity and efficiency in Business Insurance through leveraging technology and workflow. And we think that it's pretty evident we talk about these expense initiatives.

When we think about the objective though, we think about having a more efficient cost structure doing more with less and giving us more flexibility. So from that increased productivity and efficiency, we can let it fall to the bottom line, we can use the dollars to invest in additional strategic initiatives or we can put it into pricing without compromising our return objectives.

So what we really think about it, is in terms of maintaining the most effective and efficient cost structure we can to give us flexibility.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. My second question then on the pricing and you said more bullish tone on P&C especially on the commercial side in pricing on the third quarter call and that have been echoed by a lot of other management as well. So can you give us some sort of like how do you position your underwriters right now and any data points since then and can you be effectively pushing through (02:10:08) on the pricing changes, you think (02:10:10) the industry would need?

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

Greg, do you want to take that?

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

Yes, certainly. Yeah, we're not going to give you any specific information that we're seeing because it's just so early still, Kai, in terms of that message but we've been very active in the marketplace. Even before the three storms hit, we were seeing some CPI pressure in the property, book of business, lumber prices were double digit increases in cement and various metal costs were running about two to three times the overall CPI level.

And so we obviously anticipate some demand surge with those three events and so we're very focused on our book of business which is a very attractive book of business and you could see that from the retention levels that I showed you, retention is an important component for us to retain that book of business, but also to improve margins and we've got that message out there to our local underwriters. And they're looking at every exposure at a very local level case by case and doing the right thing to improve those margins over time.

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

And Kai, I'll add to that, because I'm the one that keyed up the bullish message and I would say we feel as bullish about it now as we did on the earnings call when I made the commentary. We had some pressure going in terms of margins. We had the three events, which weren't insignificant and I think it will act as a trigger when that happened October was for the most part, October was put to bed. And so we've been working on November, December, I would say we're encouraged and this will phase in as we get to the end of the year and start looking at one once. But we're bullish now as we were when we made the comments.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. Jay Gelb from Barclays. The initial comment on the return on equity target, it's obviously reasonable that in a lower rate environment, return on equity would be lower or essentially spread above the 10-year yield. When you spoke about less than mid-teens ROE, are you still expecting double-digit going forward?

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

Yeah. So, we've always hesitated to talk about our particular return objective for any given period or short period of time for a couple of reasons. One, there's not much more that's competitively sensitive than our pricing strategy until we manage this business over time given everything as I said, you've got everything from economic and weather catastrophes to cycles, but we would hope to be in double digits. So, you could take – you can look at our returns and the weather has been extreme last couple of quarters. So, you could take out the weather you've seen and put in whatever you think would be reasonable from a plan perspective and sort of get to the right place.

Q - Jay Gelb {BIO 21247396 <GO>}

All right. That's what I thought. Thanks. And then on the merger and acquisition environment since the – after The Travelers' third quarter call, for example, it's hard for to announce a bolt-on deal for Aetna's Group Benefits business, it feels like there's still some momentum in the M&A environment and insurance, and just want to get your updated thoughts around that where, Travelers' might be interested either from a bolt-on perspective or also a larger transaction?

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

No. I say all the time, I realized this isn't totally satisfying answer, but we're always open for business. We think all of our shareholders should demand that we're aware of every potential opportunity that could be attractive to us in any geography that we might be interested in doing business. And so, we actively look at those things all the time and when we find deals that we think we can get down on attractive terms that either will improve our return profile, reduce volatility or give us important strategic capabilities, we'll try hard to get those deals done.

Q - Gabriella Nawi {BIO 2211991 <GO>}

So, two questions. One specific and one maybe more broad for Michael to start off with. You talked about the balance in your homeowners and auto split. In general, I think, when you're not talking about the high net worth homeowners, you'd expect sort of 2:1 auto to home. I don't know if that's an accurate perception but that's my beginning assumption. Should we expect that to be some sort of target in terms of balance or are you happier with the 50%-50% split?

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

We're actually much happier with the 50%-50% split and actually expect that with the rollout of Quantum Home 2.0 that the growth rate in auto and home will be relatively balanced as it was in the past.

Q - Gabriella Nawi {BIO 2211991 <GO>}

Okay. And then going – thank you. Going back to the ROE question. Obviously everyone is under pressure from low interest rate to get the benefit which may not be perfectly aligned in terms of lower loss cost inflation. So should we infer from your comments that the downside on the inflation – I'm sorry, the downside on the investment income is going to be a more powerful – predominantly more powerful headwind than any tailwind you'd get from lower loss cost inflation?

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

Not sure I understand the question. Try that again.

Q - Gabriella Nawi {BIO 2211991 <GO>}

Okay. Sorry, let me start again. So you talked about mid-teen's ROEs being harder to achieve because you're in a low interest rate environment which depresses that earnings stream, I think that's true but there's probably some relationship between that and lower loss cost inflation. So if I interpret your comments on the difficulty of achieving mid-teens ROEs. Now it sounds like that downside is a bigger problem than the benefit if you will with lower inflation?

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

I guess, I don't think of those two components any differently than I think of the hundred of components that go into generating the return on equity and it's really the mix of all of the drivers of results and capital that go into that. So I'm not sure that it's right to take those two specific components and have a face off at those two. I think you've got to look at everything that contributes to return on equity.

All right, Jay Benet, do you have a different...

A - Jay S. Benet {BIO 2456473 <GO>}

No. I'd agree with what Alan said. We and the industry and the economy in general has seen relatively low levels of overall inflation, that doesn't mean inflation has been particularly low in some of the things that actually drive our lost cost. So to the extent inflation we're to stay at that same level or increase a bit. I think that has to go into a pricing decision just like everything else that goes into the pricing decisions.

But I think in terms of the overall investment, our thesis as to what people are looking for in relation to returns when you start talking about a 10 year treasury that's in 2.35 to 2.4 range, it's a vastly different return environment when it comes to investing and the ability to create the kinds of fixed income returns that we had many years ago, of course, is exceptionally challenged in this environment and we certainly think we as well as the industry would benefit with higher levels of interest rates in general.

Q - Jay A. Cohen {BIO 1498813 <GO>}

Jay Cohen, BofA Merrill. I guess, first one for Greg, you talked about having these four service centers. The question is, what are you doing now? So that's question number one. I guess the second one is for Michael. You didn't talk too much about auto claims, but it feels as if that increase in severity that we saw last year was a bit of a (02:17:48), most companies are now talking about a better environment. So if you can talk about what you're seeing there?

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

Sure. Jay, on the first one. Well, we're calling them business centers. We've seen some of the marketplace move to more of a narrow function or service alone, so business center really is going to be much more of an underwriting in-service solution. So really offering everything together. In terms of what we do today, the agent – we have the small commercial franchise, I talked about the flow component of that where you have more straight through processing, where we have a plus side of that business, which it is more of a low touch transaction. It's not straight through processing, so we're really trying to remove the confusion of the lower end of the middle market business today with the plus and that lower end of the middle market business today is transacted by our local underwriters. So we really don't have those four centralized business centers and we believe a smaller less complex exposure was a lot of the technology we invested, we're able to bring that centralized fashion with keeping that expertise behind the curtain so to speak.

Q - Jay A. Cohen {BIO 1498813 <GO>}

Yeah, I am Jay. On your trend question, couple of things. I think first, as we said on the call, our viewer trend is remaining consistent at the levels we've been forecasting. I think actually just as opposed to (02:19:10) I would sort of describe their quarters commentary as mixed. I think you've seen some folks comment consistent with your point of maybe there's not as much there. I think I've seen others come at the other direction. And again well I saw fast track as just one data point and we talked about the fact that you got to take it with a grain of salt. From a severity standpoint there that data looks like it's still pretty consistent with a mid-single-digit kind of a severity trend. So, our current view is on trend in auto remains relatively unchanged.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi, Sarah DeWitt from JPMorgan. Just following up on the expenses, you talked a lot about improving efficiency, but at the same time reinvesting. And so how should we think about those two, should we think about that as a wash where you can probably continue to keep the dollar amount of operating expenses flat?

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

I guess the way we think about it Sara is, we endeavored to generate leading returns right and everything else sort of follows from that. So, it will depend and this will emerge over time and it doesn't quite have that close of a relationship as maybe you're implying. But again we think there will be productivity and efficiency coming out of this and we'll have a lot of flexibility in how we deploy that.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay. Great. And then my second question is just on tax. I wanted to get your thoughts on the potential benefit from tax reform. If it did happen given the House and the Senate bills, how do we think about the benefit to Travelers? Do we just think about your tax rate going at 20% or would there be any offsets?

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

It's really hard to know and maybe Jay Benet will have more insight into this. But you can look at the House bill, you can look at the Senate bill and they need to be reconciled. There's a lot of ground to cover I think between now and the time we get tax reform if we even get it. So, it's hard to comment on any specific proposal because we don't have one. I guess the overarching comment I would give you is hopefully if we get tax reform it'll be pro-growth and that would be a really good thing for us. So, anything that promotes economic activity, economic growth and to whatever extent it levels the playing field that would be a positive thing for us.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Hi there, Josh Shanker from Deutsche Bank. If I go back in time about two and a half years ago, there was an unprecedented spike in auto accident frequency and looking at a couple of the leaders, who had identified that spike Allstate and Progressive.

Ironically today, we're looking at a unprecedented decline in auto accident frequency. And if I normalize it over like a 10-quarter period, it looks like there was net - it looks like even auto accident frequency is down. We haven't seen that show up in Travelers' numbers, yet. When you think about all the changes you're making about getting ahead of the curve, a) is there a reason why the reporting on Travelers auto frequency would be different from others in the industry. And two, is it there? Are we seeing this - or are we going to see a unbeknownst or regards to the changes that you've made to address auto accident frequency spikes, are we going to get wonderful results just because everyone's certainly driving better?

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

Good questions. That if I had a crystal ball, I could probably answer. But no, I think - so a couple of things. First of all, we don't report actual period-to-period frequency changes, right. When we talk about frequency and when we talk about trend at Travelers, we talk about the long-term expected trend in the business. And so, one of the reasons you don't hear us talk about it is, because last year, we didn't talk about a our big spike and this year a big drop, because we're talking about essentially the line we're fitting to the data. And so, when we talk about trend that's just an important thing to recognize, as when we talk about trend, we're talking about long-term trend that we are estimating based on those data points, which do move around.

And that's probably the main explanation for why you don't hear us really talking about the changes one way or the other is, because we're fitting a longer-term expectation to those data points that are moving around. I mean, we see the same data points from an industry standpoint as everybody else does. I think we're certainly encouraged by the fact that deaths on highways in the United States are not up again this year after being up two years in a row. We see miles traveled still increasing, but not at as bigger rate. So we do see some of the moderation in the underlying data that you're describing, but it hasn't caused us to change our estimate in the long-term trend.

Q - Gabriella Nawi {BIO 2211991 <GO>}

And in the race to the middle, to what extent can third-party technology providers allow companies that aren't the travelers to keep pace with you guys? I think 10 years ago, you were the technology leader. Surprisingly, the market share and certainly business trends hasn't changed that dramatically. When is the point where just available option to the market if you don't build it in-house you're going to be left behind, when do we see that?

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

Well, I hope we're not going to be left behind. So I would hope the answer to that is never. But...

Q - Josh D. Shanker {BIO 5292022 <GO>}

(02:24:38)

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

Yeah. You said, what are you going to be left behind, I thought that was reference to us. There's no question technology is evolving at an unprecedented pace and it's getting – it's more readily available, it's cheaper. And as Jason Stockwood observed in his comments in the video, the technology isn't the hard part anymore. And so we will see new entrants into the marketplace. I think that the hard part is the deep domain expertise in what is a really complicated business. When you buy and sell risk for a living having 600 nurses that can manage the workers comp portfolio is important. So we think the winners in this business are going to be those that have deep domain expertise and the lack of distraction resources and capability to innovate successfully on top of that deep domain expertise.

Q - Charles Gregory Peters {BIO 4656608 <GO>}

Greg Peters, Raymond James. Just building on that last answer, there's been a lot of rhetoric in the marketplace around artificial intelligence. Maybe you could spend a minute and talk to us about some of the investments you're making there and how you might harvest some of the potential to drive further expense savings at Travelers?

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

Yeah. Artificial intelligence, and maybe some of you guys can talk about some of the things that you're looking at. And we've got a technology center couple of miles from here, where we've got a bunch of people that are experimenting with things like artificial intelligence. And I'll give you an example. One where you can take a picture of the damaged fence and instantly, it'll tell you it's a split rail fence, this is the damage, this is – it'll go right to the source of exact – tell you exactly what the cost is to fix it. And I mean I would consider that to be a concept card type of thing. I don't know if it's something we will ever put into production what the ultimate value will bring, but in just about every aspect of our business, we're experimenting with things like artificial intelligence, machine learning, leveraging third party data, robotics and there's no lack of opportunity to do that.

This team we've been to Silicon Valley and Tel Aviv and other places around the world and there's just no shortage of smart people innovating with those sorts of things. And the key is to really look at those and figure out what's going to be important to this industry over the long-term. Which of those technologies do we need to make sure that we have and which ones can we pass on. And if we need it, is it something that we can build license or do we need to buy it? And that's really an interesting part of this business and will be for the next foreseeable future. But I don't know maybe some of you have specific examples of things going on your business?

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

I'll start off and I know Michael is inside that space also, I had on one of my slides artificial intelligence decision support, so we're just coming off a pilot with IBM's Watson and I think we're trying to understand what external – to Josh's question, there's external technology that's out there and you don't really understand how that can work in a production environment until you take a piece of your value chain and bring that to a partner like an IBM Watson and understand, are they great marketers, are they really substantial in the technology underneath that. And so, we're becoming more and more smarter with working with firms like that.

As Alan said, inside business insurance that triage that I talked to you about, we think that's a perfect environment to deploy some machine learning where you have real complicated rules and disparate data and you want to route information and you want it to become smarter every day. And so we have analysts inside the innovation center using open sourced artificial intelligence solutions trying to understand that and ultimately bring that into a production environment. So lot of different approaches around how we're looking at it.

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

Yeah. And I would just reinforce that. And say that Watson is just one example right. We're working with our own artificial intelligence experts building and training artificial intelligence agents on data inside our own organization today. We're working with you know people as big as IBM and Google and others. And then there are, as Alan mentioned right we've been to Silicon Valley, we've been to Tel Aviv, there are any number of small firms with very specific fit-for-purpose artificial intelligence tools that we've evaluated. And in some cases we're looking at those solutions and saying, those are good solutions that snap into our environment. In other cases, we're actually saying we think we can build a better one ourselves. So a lot of experimentation happening today some development and more to come is how I'll describe it.

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

Yeah. And I would say the results of the experimentation are really being shared across the place too. So there is a lot of coordination and collaboration. So one group is really learning from the other group. And I think it's moving us along at a pretty good pace.

Q - Charles Gregory Peters {BIO 4656608 <GO>}

Thanks for that answer from all of you. Just as a follow up, and I don't know if this is appropriate analogy but sort of the third rail of insurance is not to disrupt distribution. But with the direct-to-consumer direct-to-small business, it seems like there is some expense savings that can be harvested there. And no one's really talking much about that. So maybe you could use this opportunity, and I understand The Travelers is committed to independent agents, but maybe you could use this opportunity and tell us about some savings you can harvest there.

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

Yeah. So we are absolutely committed to independent agents and brokers and we think that's going to be alive and well and an opportunity for us to continue to be successful for the foreseeable future. And for us it's really not so much about the expense opportunity. For us, the consumer is going to decide how the consumer wants to transact. That's really going to dictate how this business moves and whether it's in personal insurance or whether it's in the small and small commercial, we're going to be there to meet the customer however they want to come to us and that's what we're planning for.

And we're very respectful of our distribution partners, but we've been very candid with them, that we will do everything we can to continue to be successful with them, to the extent we develop technology that we think is useful, we'll share it with them and try to make it a win-win and we've done that in personal insurance. And I think we've got a lot of credibility with them from that experience. A lot of what we learned in our PI Direct business has been developing digital capabilities that go beyond distribution and we have shared that with distribution. Same thing will be true in the small and small commercial, but we've also been candid with them that ultimately the consumer is going to decide how the consumer wants to transact, and we'll be there for him.

Q - Larry Greenberg {BIO 16478161 <GO>}

Larry Greenberg, from Janney. Just on Quantum Home 2.0. You've had an outstanding loss – historical loss ratio in Home. And it sounds like the new Quantum product will be more precisely priced product. You talked about not bundling certain aspects of the policy that might have shown up before. And I'm just curious if embedded in that pricing precision, there might be some deterioration in margins for perhaps not pricing for some elements of the risk that didn't exist?

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

Yeah. Good, good question, Larry. I would say a couple of things. First of all, one of the things that I wanted to make sure was clear around the new Quantum Home product is the amount of flexibility that it provides us. And so some of that precision is potential precision to the extent that our data and our experience dictates that we should put a finer point on it, so that would be one. But the other is, no we don't actually expect a deterioration in margin or to use that precision to erode margin in the product. In fact quite the contrary, one of the things we think we can do with the new product again more appropriately match price to risk, is we have an equal opportunity to identify the risks in the portfolio for which we're not charging enough, right. And today, there are situations like that where you don't have the levers you need to raise the price on that customer. And so, we've got the opportunity I think to find the best risks for which the market is charging too higher price and find the risks in our portfolio where with a couple of more levers we could charge more and either get that margin on that customer or send that customer into the marketplace where the market price isn't charging enough.

Q - Larry Greenberg {BIO 16478161 <GO>}

Thank you.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Thanks a lot. Ron Bobman, Capital Returns. I had a couple of business insurance questions. You and the specialty presentation talked a fair bit about sort of business processing, efficiencies, scraping information from the app et cetera. And is the value from that effort largely delivered through new business whereas I would think mostly renewal business, which is such a big percentage of the book and for the most part probably not a lot of change in renewal account from year-to-year. Am I thinking about that the right way as far as the economies, the production, it's really new business centric?

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

Mostly you're thinking about the right way. The primary leverage will be on new business, but renewals will absolutely get a benefit from that. Many times in this industry we will go back and re-underwrite the entire account of business just to make sure that nothing on the exposure has changed. So with the business centers, and with some modeling we're able to go in in the renewals and see what variable specifically has changed on that. So rather than go through and look at the entire account, we're able to pinpoint our underwriters at just the individual components of the exposure that's changed. So we think we're going to be much more agile for our distribution for the renewals that get processed through the business centers also. So there is a renewal benefit in addition to the new business.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Is the back book of data, the renewal book of data already populated in this same business processing system, not new system?

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

But the technology is the same. When I walk you through the RQI, as we've consolidated from 25 to 5, regardless of what are the businesses from select to all the way up to a $2 million account, that's all on the same technology. So the data and the analytics will be consistent across all exposures, so not unique technology in the business centers that will be leveraged what we have been investing in over years.

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

And historically speaking, the renewal process has not been a streamlined process.

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

Yeah.

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

It's not like you'll start with what you ended with at the last iteration. There's an enormous amount historically for us and the industry of processing on the renewal transaction. This will go a long way to making it a lot more streamlined.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Okay. My second question was, I think about your workers comp book, your leadership position. It's been a great performer, but the line of business is sort of no touristy (02:36:31) recognizes as fraught with peril and let people avoid it. And I'm wondering with the trouble in commercial auto now, whether that – are there are any similarities and does commercial auto represent an opportunity for you to seize given that the pains of the industry?

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

I mean, we're always looking at the patterns. We think that's one of the benefits of having those five major product lines that I walked you through with scale that we're able to – you'll find patterns in it and relate them across other lines. There isn't anything in the auto line that we're concerned about that's leaking into the workers' comp line at this point and our combined ratios are really attractive in the workers' comp line and as Alan showed you, 10-year combined ratio over a long-term and even on an absolute basis, we continue to love that business and we'll continue to invest in it.

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

Ron I'm not sure if that was responsive to your question or not, the auto line has been a tough line for us and the industry and that's going to get solved largely through price.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Ryan Tunis, Credit Suisse. I think I had a couple for Alan. I guess first just going back to the investment expense and want to make sure I'm thinking about this right. It sounds like there's been a lot of work done over the past couple of years. All things being equal, it sounds like that's probably elevated the expense ratio some. So, I would think all things being equal next – over the next couple of years, we should see the earning of that have a positive impact on the expense ratio. I wanted to make sure I'm thinking about that right first of all?

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

Ryan, we scratch our heads on that one all the time because we'll embark on projects and we'll think boy can't wait till this is over, because then the cost will diminish and the cost will in fact diminish on that project that you think about the forces of change, you think about the pace of change, you think about the need to innovate and a project will sunset and we'll think of a good idea to put on the end of that project. And so I don't think it works quite that way. The way we think about it is we will use our capital to invest in this business to the extent we think we can create value with it. And so we're always calibrating our investment with the returns that we want to achieve in the business.

So I wouldn't look at this and say while they've made a lot of investment for the last few years, they've delivered all these capabilities, they're done and the expense ratio is going to go down. We'll continue to invest and innovate in some things we think are going to be important over the – for the medium and longer term.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

That's helpful. And then I guess my follow up is just at these (02:39:10) Investor Days, it always strikes me the margin advantage, it sounds like Travelers has over competitors like in the workers' comp, a 10-point advantage. I guess looking out over a few years, if you're successful in these new things you're laying out the great – they're providing the great experiences for customers, brokers, improving efficiency. The one thing we haven't really seen is the pickup in market share of new business within I guess Business Insurance. Would – three, four years out, would you consider this more of a success if we saw a premium growth as a result of all of this or should we see this bear out more in the form of you continuing to strengthen the advantage you already have from a margin standpoint? Thanks.

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

So, virtually everything we talked to you about today across all these business segments is designed to put us in a position to grow over time. There's no question about that that's important to us, but that won't be the measure of success or failure. The measure of success is going to be can we can continue to deliver leading returns in this business over time. But it's clear that over time – any company needs to grow over time to be healthy and successful and so we need to as well and that's what these initiatives are all about. But ultimately, we will determine success or failure based on returns.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Again one for Tom, one as (02:40:38) well right?

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

Not bad (02:40:40).

Q - Ryan J. Tunis {BIO 16502263 <GO>}

When you talked about the cyber and the changes you've made, my question is are you changing the product at all as you learn more about the business?

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

Yeah. Great question. So there are evolutions that are taking place in coverage, in the marketplace, right? So, I think that the margins have been pretty good in the marketplace and brokers have been looking at how coverage can actually be expanded. And so there's a lot of dialogue around that. So you're seeing things like social engineering coverages being incorporated into the actual cyber form. You're seeing things like systems failure coverage be available, so you don't necessarily have to be suffering from a cyber attack. If you have a systems failure, there can be a supplement for that. So we are seeing the coverages actually evolve. And again that has a lot to do with the way we're approaching it, right? I think we're taking a very steady and prudent look at how these coverages are expanding, so we can understand them as we engage with them.

Q - Stephen Gregory Rigo {BIO 5676355 <GO>}

Steve Rigo, Clearbridge Investments. Just wanted to follow Ryan Tunis's question. It seems like a lot of the investment is focused on technology and then granularity in pricing. And so given the quantification of all these things on the business side, I mean, how much market share do you think you've left maybe on the table or how much do you think growth you could augment through this investment in more granular pricing, more customer flexibility? I'd understand the profitability is ultimate determination, but it seems like that there's a narrative here that there is a growth element that you're trying to succeed in through this segmentation and technology driven?

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

Yeah, there's no question, there's is a growth objective here. There's no question about that. And that customer experience leads to it, the – being better and extending our advantage and risk leads to it, productivity and efficiency all leads to it. But there are a lot of things that are beyond our control that will dictate whether we grow or not. It's going to be the economy. It's going to be the competitive marketplace. It's going to be – are the conditions such that we can grow consistent with our return objectives. Everything we're doing is designed to put us in the best position possible to grow. But given that there's so much that's just not within our control, it's impossible for me to say to you and it's going to be points x (02:43:08) on market share.

Q - Stephen Gregory Rigo {BIO 5676355 <GO>}

So obviously, no market share orientation in people's business lines compensation – business leaders' compensation?

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

We just – we don't wake up and go to sleep at night thinking about that and the problem in this business where you're trading in risk for a living as you tell – you tell an underwriter what you want from a market share perspective, you can get it, no problem. You can have the day after tomorrow if you want it. You just may not like how you get it. And so our – and this is a really important cultural point for us and this is developed here in our DNA over decades. It's a return oriented place and when you've got thousands and thousands of people across the company and around the world making individual decisions to buy and sell risk on a daily basis, making sure that everybody knows what's important is really important. And so, it's returns.

Having said that, over time you can't continue to deliver leading returns unless you're growing as a healthy organization. And so, again I'll come back and say it, everything we've described today is meant to put us in the best position possible to grow without compromising our return objectives.

Q - Stephen Gregory Rigo {BIO 5676355 <GO>}

Thanks. And then second, as technology and automation drive underwriting, I guess the first thing I thought of was like the (02:44:22) inspection in homeowners was fraud, right; taking pictures of somebody else's basement that's next door looks better. So even in auto with pictures, so how do you ensure to protect yourself against fraud or even just a creep in claims costs from that potential?

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

Sure. Great question and it's one of the first things we think about as well. So maybe not particularly clear from the picture that I showed you, but one of the steps in that process is the validation process that the pictures were being sent are actually pictures of that structure. And so we do validation of the information we're getting from the customer with third-party data sources to try to ensure time stamping, GPS coordinates from the phone when the picture was taken, et cetera and match that up against third-party data sources to verify that we're getting the accurate information.

Q - Andrew Molloy {BIO 17982236 <GO>}

Good morning. Andrew Malloy from Bank of America Merrill Lynch. Just a quick question to Jay and Alan, as leave the door open for M&A, how do we think about funding sources for any future potential deal flow? Would it be in similar fashion to Simply Business?

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

It'll depended on the size of the deal, but it's never been a philosophy of ours that we're going to hoard cash to make sure we can fund a transaction. We've always assumed that when there is a transaction that makes sense we'll find the way to finance it. And we've got tremendous balance sheet and tremendous flexibility that comes from having the balance sheet that we have.

A - Jay S. Benet {BIO 2456473 <GO>}

I wouldn't say anything otherwise.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you for the follow-up. And first follow up is on the sort of opioid crisis. I just wonder how that impacts your business?

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

Which crisis, Kai?

Q - Kai Pan {BIO 18669701 <GO>}

The opioid.

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

Oh, yeah.

Q - Kai Pan {BIO 18669701 <GO>}

And how did that impact your from both your product liability reserve to how do you manage your workers' compensation claims?

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

Yeah, it's one of the reasons that we were so interested in talking to you again about that Early Severity Predictor two years after we've rolled it out, because the opioid crisis, I mean, first and foremost, it's just a humanitarian crisis, right? I mean, the human toll and (02:46:38) cost of that is really staggering. It's an issue for all the people that are becoming addicted, it's an issue for their employers that are our customers.

And so as we looked back, we rolled out that Early Severity Predictor in 2015, but we have been working on it years before that, because we could see in our own data the prescriptions coming through and we knew what the cost was for us. And so we've – that was a big driver behind developing that predictive model. And you saw among the 30,000 people that we've put in this group for increased intervention. We've reduced the opioid usage by 30%, which is pretty significant and return to work by 10%. So we feel like we're doing our part to combat that issue and again, it's great for those injured workers, it's great for their employers and it's good for us too.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Then a follow-up for Michael is, on the Quantum Home 2.0, any lessons learned from Quantum Auto 2.0 that could help you with the rollout?

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

I would say broadly yes, right, we always learn when we roll out our products. I think one of the things we've been very – and maybe it's less a lesson learned more a compare and contrast. So one of the things that's true about Quantum Home 2.0 relative to Quantum Auto 2.0 and why the rollout period is as protracted as it is, is there are a lot more differences in the home product and the home exposure from one state to another than in auto, not that states don't have different experience in auto. But the weather is so much more of a significant impact on the home line for example.

So, I would say, again, whether it's a learning from Quantum Auto 2.0 or just a focus appropriate to a different product, the segmentation and the analysis of the pricing based on the state-by-state payroll mix is something that's really critically important to success in Quantum Home 2.0, right? Do we have the right loads for wind and hail on the Eastern Plains of Colorado, for example. I mean that's a really important thing, right?

And so, I think, something I think we did well in Quantum Auto that we will apply to Quantum Home is very detailed and granular post monitoring. And just watching the experience that we get state-by-state and making sure that with the results we're getting in terms of where we're converting the types of business that we're writing aligned with the question about margins earlier, is looking like we thought it would. I think again the state-by-state differences make that a bit more of a challenge in home, which is part of the reason that you see a pretty extended state-by-state rollout schedule right, piloting next week, not another set of states for until the second quarter of next year to give us time to incorporate those learnings and learn from Quantum Home 2.0 as we rollout the rest of (02:49:32) Quantum Home.

Q - Gabriella Nawi {BIO 2211991 <GO>}

Thank you. Excuse me. (02:49:40) with Goldman Sachs. This question is probably for Greg and Tom. Both of you talked about training of the customer, or the insured or coaching of the customer. Can you maybe talk about utilization rates? How many of your customers actually do choose to pick up on that offer that Travelers has? And what do you see in terms of loss ratios or the loss experienced of those customers that have chosen to utilize this training? And maybe, can you also talk a little bit about – do you price for that? Do you offer some pricing break or maybe alternatively do you charge more for those who do not utilize the training sessions?

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

Sure. Maybe, I'll start off, Tom. Yeah, we're early in the journey right now of really that more lines per account, at a customer level, well, we see huge opportunity for that. One of the valuable insights we get as our distribution partners are taking their data and giving it to us and we're able to have a lens on that data around how many products are their customers buying across the whole fragmented industry, and we can see there's lines per account and the business that we really have a high appetite, and can be seven, eight, nine lines per account. And so where our position is today is shorter than that as the whole marketplace is. When I put up that slide on the five major lines, we were the only one on it, meaning that the market has to be fragmented; there isn't the same carrier across all five, we're one of the best in offering that account solution.

And if we see, our gap is relatively high. We think there's a great opportunity in your terminology to train the customer to let the customer know that there is opportunities to have more convenient solutions. Today, your question on the pricing, we always look at our pricing at an account level, and then we look at all the individual lines and ensuring that they stand on their own.

So sure, we look at the individual account and we make sure that we've got a good market and a technical price underneath that. So from that point of view, we do have flexibility from pricing, but we don't have any discounts that, like Michael, you'd expect on the consumer side when you add more products.

And in our business similar to the consumer, the more lines that a customer does buy, there's an absolute correlation with retention on that, and ultimate profitability. So we think that we've got to continue incenting the customer, and that's really what this investment thesis was all about, making it easier to have more access to the Travelers' products.

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

And are you also asking for example, when I said that we're training 500 crane operators a year, what's our experience with those that take the training versus those that don't, do we price for that?

Q - Gabriella Nawi {BIO 2211991 <GO>}

Yes, precisely.

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

Yeah. So I mean that's complicated, because we've got extraordinary training tools in every line of business across every product line. So we're training crane operators, we're giving them tools to measure vibration, you could - Tom will tell you about training he does for his surety customers, tools we've got available for a management liability customer. So that it's just a really hard question to answer across $25 billion of premium, you'd sort have to break it down business-by-business.

But I will tell you that, the utilization is pretty high, otherwise we wouldn't do it. If our customers weren't willing to pay us for the investment we make in it, we'd stop doing it, and we're constantly evaluating that return on the investment we're making in those tools.

And so, we've got a pretty good lens on whether they find value in it. And if there's no franchise value, we're creating by providing it, we'll stop providing it.

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

And just to add a specific piece on to what Alan and Greg just covered. So you can tell, that a lot of these projects, the pricing is – the cost is built into the pricing, but on certain of the things I've talked about today, like the Family Business Institute, right, those peer-to-peer CEO-mentored groups, there is a fee for that, right. And for the individual consulting, there certainly is a fee for that.

And with semantic (02:54:02), the services I discussed with you today are free, but then they do have the opportunity to purchase additionally discounted services as they move on. And we look at lot of different things, when we price these risks, right. And to the extent, these tie-in to the risk view of a customer, there could be some connectivity with various discounts.

Q - Harry Fong {BIO 1536841 <GO>}

Harry Fong from MKM Partners. Alan, you and your team have highlighted a number of initiatives that is going to or aimed at keeping Travelers at the top of the P&C industry, and arguably Travelers has been among the best companies over the past decade. However, yeah, I've attended a lot of these meetings over the years, and every insurance company claims to have initiatives underway that keeps them at the top of the game, and that it's hard to replicate. But my experience is that the insurance industry, when they mean, it's hard to replicate they have an advantage for about two weeks. Can you and your business leaders highlight the one or two items that can push Travelers beyond the top-quintile of the industry, already?

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

Harry, that's a tough one to address, and I'll invite all three of them to comment on that, but it's – I don't think that's something you answer with the one or two or three things. I think that's a question you answer with the entire breadth of everything we bring to the marketplace every day.

So know that's why I took the time to take you through the competitive advantages that I did, and I don't know if it's the 680 staff counsel or if it's the 600 nurses that are there to implement the Early Severity Chronic Pain Predictor or if it's what Tom can do for a surety provider, and what we do to make sure that we continue to be industry-leading for a surety contractors, it's going to be different than what we do for one of our middle market private non-profit businesses buying a management liability product.

So it's the full breadth of what we bring to this marketplace that we think is what creates the franchise value. And we've got a track record of over a decade of having outperformed, and I think we've got a pretty good track record of identifying those things that are important, and we've got a pretty good track record of executing on those things, and we remain confident that we'll continue to operate at the leading edge. But I think it'd be hard for any of us to say, Harry, it's this one thing or that one thing. I think, it's the full suite of everything we bring to the marketplace that comes together, that makes this a special franchise.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. So, Meyer Shields, KBW. Michael, is there a tenure impact in Quantum Homeowners 2.0 (sic) [Quantum Home 2.0] (02:57:00)?

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

I think, there's a new business effect whether you call it tenure which - one of the things we talk about in terms of auto and reason we talk about it in terms of tenure is because it tends to linger over a few renewals. But I think (02:57:17) there's a new business effect in any product, you know less about the business you're writing brand new today than an account that you've had for a year or two or three or four.

I would say a couple of things about Quantum Home 2.0 though to put that in perspective for you. One, the growth in the lift from Quantum Home 2.0, we expect it to be moderate. We've already, as I've mentioned earlier seen momentum in home rolling into the pilot. And I think, the staged roll out and the design of the product, and the fact that it doesn't have a significant reduction in costs associated with the price that we're offering in the marketplace will all sort of be moderating effects on both the growth we see as a result, as well as any impact from an increase in new business. So home's not immune to it, but I think, it's probably a little less meaningful.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And should we look for a Quantum 2.0 BAP or a Quantum 2.0 surety bond?

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

I think all of our products are constantly in evolution.

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

Absolutely. We're continually investing and upgrading our product set. And to that extent, we actually have a lot of things in the work, whether it will be called Quantum or not, different story.

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

We are going through an effort right now to modernize our CMP or BAP (02:58:50) product also in addition to a lot of the other products, so constantly in evolution.

A - Gabriella Nawi {BIO 2211991 <GO>}

And this will be our last question.

Q - Brian Meredith {BIO 3108204 <GO>}

Thanks. Hi, Brian Meredith, UBS. Just Chris, could you give us an update on how your IntelliDrive, (02:59:06) is that contributing to any of the growth here, how is it rolling out?

A - Chris Hayes {BIO 16383469 <GO>}

Sure. Thanks, Brian. So we do have a usage-based product, we call it IntelliDrive, it's actually a phone-based app that tracks driving behavior, we've got it currently rolled out in two states in pilot right now. It's in Minnesota and Nevada as we speak. We rolled it out in those two states earlier that year, and it replaced our program that we had in – I think, eight states across the country that was based on a plug-in device.

We're rolling out six additional states this month, and testing a few different dimensions of the way the program works from discounts to surcharges and sales approaches and things. So we'll be in eight states by the end of this year and then the plan is to continue to roll it out across the country based on the results of those pilots.

Early results are encouraging, the take-up rate by customers is about consistent with what we had anticipated, it was actually a little slow in the initial roll out, but we've made some tweaks even in those two states and seen increased take up rate as a result. I'm actually testing the app, as we speak, and I'm a pretty good accelerator, I don't drive at the right time of a day. My hard breaking's not bad, my speed needs a little bit of work. But it's...

Q - Brian Meredith {BIO 3108204 <GO>}

You need to can drive faster, right?

A - Chris Hayes {BIO 16383469 <GO>}

Yeah, right, I need to drive faster. But so far so good. And again, more states to come.

Q - Brian Meredith {BIO 3108204 <GO>}

And then, I guess my second question, can you talk a little bit about the competitive dynamics right now in the personal lines area, and not only just auto, but what's going on in homeowners, obviously one of the major agency auto writers has made a big push into bundled product. How do you think that's impacting the market?

And then, if I think of your you know 2.0 in the homeowner side, some of things, are these things to kind of have a leading edge here, are these things you need to have in order to be a competitor in this marketplace you're going forward?

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

Sure. Great question, and I'd say a couple of things. First, as I mentioned, the initial feedback from our agents and brokers on the product and the product design and the way we're executing it and the platform has been very positive. From my perspective in the independent agency space and based on what we see and hear from our agents and brokers, we have been and remain an important partner for them in home. And in fact many of them would describe us as their go-to market, and we expect that the Quantum Home investment will help to position us to remain so.

As with respect to the product itself, I would say it's a combination of elements. From a coverage standpoint, the coverages that we've added and the ability to tailor coverage puts the product from a coverage perspective ahead of probably many and probably most of the folks we compete with, and on par with virtually anybody in the marketplace from a coverage standpoint.

The one coverage if you talk to agents or brokers about our Quantum Home 2.0 product that they would say they would love for us to add is something called guaranteed replacement cost. We actually do have additional replacement cost capability that goes up to a 150% of the coverage amount. We actually think that's plenty and can handle most situations.

But if you were to pull agents and ask them, if there were gaps in our coverage that would likely be one they would mention to you. But I would say, from a substance standpoint, we've got all the product in the coverage that we need and the product is also responsive to a number of sort of emerging technologies including water shut-off valve type devices as an example.

From a pricing standpoint, I would say that we are distinguished from the marketplace. There are a lot of competitors who would give you a list of some similar variables to the ones that I described, but we're actually not aware of anybody in the marketplace that has as many variables as we've got underneath the pricing in Quantum Home 2.0 particularly in the independent agent space. And we are also not aware of any one that's got as many interactions between those variables, which is a key component of the pricing segmentation and the products. We feel really good about the advancements in sophistication and the need to multivariate pricing model.

Q - Brian Meredith {BIO 3108204 <GO>}

Thank you.

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

Thank you all for coming out. It's good to have you and for those of you who made it in person, thank you very much for making the trip up to Connecticut.

Operator

Thank you. That concludes our formal presentation. Thank you for all those on the webcast who joined us. Now, just in terms of...

[Abrupt End]