

## Q2 2014 Earnings Call

### Company Participants

- Alan D. Schnitzer
- Brian W. MacLean
- Gabriella Nawi
- Gregory C. Toczydlowski
- Jay S. Benet
- Jay S. Fishman

### Other Participants

- Amit Kumar
- Brian R. Meredith
- Jay A. Cohen
- Jay H. Gelb
- Josh Clayton Stirling
- Kai Pan
- Michael S. Nannizzi
- Paul Newsome
- Randy Binner
- Vinay Misquith

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Welcome to the Second Quarter Results Teleconference for Travelers. We ask that you hold all questions until the completion of formal remarks at which time you will be given instructions for the question-and-answer session. As a reminder this conference is being recorded on July 22, 2014. At this time, I would like to turn the conference over to Ms. Gabriella Nawi, Senior Vice President of Investor Relations. Ms. Nawi, you may begin.

### Gabriella Nawi {BIO 2211991 <GO>}

Thank you. Good morning and welcome to Travelers discussion of our second quarter 2014 results. Hopefully you have seen our press release, financial supplement and webcast presentation released earlier this morning. All of these materials can be found on our website at [www.travelers.com](http://www.travelers.com) under the Investor section.

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Speaking today will be Jay Fishman, Chairman and CEO; Jay Benet, Vice Chairman and Chief Financial Officer and Brian MacLean, President and Chief Operating Officer. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks and then we will take questions.

Other members of senior management are also available for the question-and-answer period including Alan Schnitzer, Vice Chairman and Chief Executive Officer, Business and International Insurance; and Doreen Spadorcia, Vice Chairman and Chief Executive Officer, Personal Insurance and Bond & Financial Products.

Before I turn it over to Jay, I would like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those projected in the forward-looking statements due to a variety of factors. These factors are described in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements. Also in our remarks or responses to questions, we may mention some non-GAAP financial measures; reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investor section on our website. And now Jay Fishman.

### **Jay S. Fishman** {BIO 14011069 <GO>}

Thank you, Gabby. Good morning, everyone and thank you for joining us today. We're quite pleased with the strong results we've posted this quarter particularly given the magnitude of our catastrophe and non-catastrophe weather losses.

Operating income was \$673 million or a \$1.93 per share. Operating return on equity was 11.4% and we continue to make great progress in lifting our returns largely in response to continuing very low interest rates and continuing volatile weather.

Who would have thought we'd be talking about a polar vortex in July and a 2.5% 10-year Treasury in 2014. As demonstrated on slide 4 of the webcast, comparing this quarter's earnings to last year is more than accounted for by the tax and legal settlement gains of a \$122 million recognized in last year's second quarter as well as the difference in catastrophe losses quarter to quarter. The short story for each of our business segments is good. In Personal Insurance, we are really pleased with the market place response and production trends from our new personal auto program Quantum 2.0.

While we need more talent, more time and data, the very early on loss indications are encouraging and consistent with our expectations. Our Financial, Professional and International Insurance segment produced record results with good results from both the Bond and Financial Products business and the international business. In Business Insurance, we continue to generate strong returns as underlying underwriting margins on an earned basis continued to expand and written rate gains in the quarter approximated loss trend.

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Because there was so much interest in our assessment of the rate environment in Business Insurance, we're going to spend a few minutes on that this morning before I turn it over to Jay.

At our recent Investor Day, we were struck by the fact that one analyst asked a question about rate, but started off by saying that he knew we didn't like talking about aggregate rate indicators. That's just not so but the critical caveats in discussing the headline rate are that, first, we do not manage rate in the aggregate. We manage it account by account or class by class and the actions that we take ultimately add up to a single number. This granularity is evidenced on slide 15 of the webcast which we've shared with you before. The slide is the distribution by rate gain of our commercial accounts business for the second quarter 2014 and Brian will talk more about this analysis later. Second, we believe that there can be an incorrect assessment of the competitive environment based upon the direction of the headline number.

Let me say again what I've said many times before. We are a return driven organization. We have talked with you before and have shared with you data which demonstrates that the success we are having in improving returns is based upon achieving rate gains on our poor performing business and maximizing retention on our best performing business. And we have also said before, if we are successful, the headline rate gain will inevitably decline over time.

There is a conventional reaction amongst many industry observers that this decline reflects, as many would put it, a more competitive environment. We just don't see it that way given our ability to continue to achieve strong levels of retention and increasing returns approaching our targets. If we have an account where we've been successful at increasing returns over time and that account has now reached an appropriate level of profitability, it would be unwise of us to attempt to continue to increase rate significantly on that account and risk the relationship with the agent and customer.

Consequently we just cautioned everyone from reacting to the decline in the headline number as an indication that the environment generally has become meaningfully and broadly more competitive.

At least for us, the environment has become more rate adequate and we are executing account by account and class by class accordingly. So, now, after three plus years of actions resulting in improved returns and profitability, the question is: where from here? We've been reluctant to use the phrase soft landing because we believe that the phrase is often mischaracterized to mean that somehow we have finished attempting to improve the performance of our portfolio.

Nothing can be further from the truth. We remain concerned that the weather volatility remains problematic, and we are not convinced that each of our catastrophe exposed property accounts is priced to reflect that volatility. In addition, not every line or every class of business is performing at the same level. For example we are not satisfied with the returns on our commercial auto book, particularly in Select and we will continue to analyze that portfolio and take the actions necessary to improve it.

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So we have more work to do. But there are lots of accounts that after years of successful rate and underwriting actions are now at return levels that are consistent with our return threshold and our expression of the soft landing relates to that portion of the book where we have achieved so much. We don't see anything in the marketplace that suggests that we are at a precipice or that the increased churning of accounts or significant across the board rate declines are imminent.

Of course, we could be wrong about this. We know we operate in a fragmented marketplace with lots of competition but we can only share with you our strategy. From our view, it's more of the same and as we shared with you at Investor Day, we're going to relentlessly leverage competitive advantages that should allow us to outselect and outprice our competition. We expect to produce earnings and capital substantially in excess of what we need to support our business and we will continue to return that excess capital to shareholders. In short, nothing new and no shift. We feel very well positioned to continue our mission of creating superior shareholder value and with that, let me turn it over to Jay.

### **Jay S. Benet** {BIO 2456473 <GO>}

Thanks, Jay. Let me start by saying that we were very pleased with our results this quarter, particularly taking weather into account. Our investment results continue to be very solid, driven by private equity returns, as were our underlying underwriting results. Within underwriting, earned rate increases continue to exceed loss cost trends in each business segments although the benefit to earnings and to our loss ratio was partially offset by higher non-cat weather related losses this quarter versus the prior year quarter.

Underwriting also benefited from net favorable prior year reserve development of \$183 million pre-tax, down slightly from the prior year quarter and was negatively impacted by cat losses of \$436 million pre tax, up \$96 million from the prior year quarter.

We've provided two analyses in the webcast this quarter to help you better understand the relationship of operating income to both the prior year quarter and to analyst estimates. Jay already discussed the first analysis shown on page four of the webcast, which provides insight as to why operating income decreased from the prior year quarter.

The second analysis shown on page five of the webcast provides insight as to why operating income was less than the consensus estimate. The cat loss estimates contained within the consensus estimate were significantly lower than our actual cat losses. We hope this type of analysis is helpful to you.

Each of our business segments, once again, experienced net favorable prior year reserve development. In BI, net favorable development of \$25 million was driven by better than expected loss experience and general liability excess coverages for accident years 2008 through 2012 resulting from a more favorable legal and judicial environment than we had expected. This was partially offset by an \$87 million increase to our environmental reserves.

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Net favorable reserve development of \$146 million in FP&I primarily resulted from better than expected results and contract surety within Bond and Financial Products, while in PI, net favorable development of \$12 million was primarily driven by better than expected loss experience in Homeowners and Other for non-cat weather related losses in the 2013 accident year. Year-to-date on a combined stat basis for all of our U.S. subs only accident year 2004 and prior developed unfavorably by a very modest amount, \$73 million, due to the strengthening of environmental reserves. All other accident years, 2005 through 2013 developed favorably.

We've included an overview of our cat reinsurance coverage on page 22 of the webcast which has been structured in a way that is generally consistent with the prior year. Effective July 1, we renewed our gen cat treaty, keeping both the attachment point and the dollar amount of recovered losses the same as last year, recovered losses of up to \$400 million within the \$1.5 billion to \$2.25 billion layer. Also effective July 1, we renewed our Northeast get cat treaty with the same \$2.25 billion attachment point as last year but with an increased dollar amount of recovered losses up to \$850 million this year as compared to \$600 million last year.

Given the current reinsurance marketplace, both renewals were accomplished at lower rates online and with improved terms and conditions, including amending the loss occurrence definition so that all wind losses have a duration of 168 hours rather than 96 hours. A more complete description of our cat reinsurance coverage including a description of our two Longpoint Re III cat bonds, our gen cat aggregate excessive loss treaty that covers an accumulation of certain property losses arising from multiple occurrences, our earthquake coverage and our international coverage is included in our second quarter 10-Q which we filed earlier today as well as in our 10-K.

We continue to generate much more capital than is needed to support our businesses allowing us to return \$1.065 billion of excess capital to our shareholders this quarter. We paid dividends of \$190 million and repurchased \$875 million of our common shares under our publicly announced share repurchase program consistent with our ongoing capital management strategy.

Operating cash flows remain strong at a little over \$600 million and we ended the quarter with over \$1.8 billion of holding company liquidity. All of our capital ratios exceeded our target levels and we ended the quarter with a debt to total capital ratio of 21.3%, well within our target range.

Net unrealized investment gains rose to approximately \$3.1 billion pre-tax or \$2 billion after tax up from \$2 billion and \$1.3 billion respectively at the beginning of the year due to lower interest rates and book value per share of \$75.32 was 13% higher than a year ago and over 7% higher than at the beginning of the year. One final note, as you know, we're revising our business segments and related disclosures to reflect the management changes that were announced on June 10 and that became effective on July 1. Accordingly, we report third quarter results using the new segment structure.

We are currently in the process of restating our 2013 Form 10-K, our second quarter 2014 Form 10-Q and our financial supplements for the periods contained therein to reflect the new segment structure and we expect to make these restated documents available to you in early September. So with that, let me turn things over to Brian.

**Brian W. MacLean** {BIO 4679150 <GO>}

Thanks, Jay. In Business Insurance, second quarter operating income was \$409 million and the combined ratio was 99%. The underlying combined ratio, which excludes the impact of cats and prior year reserve development was 92.1% for the quarter, an improvement of a full percentage point year-over-year and 90.1% for the first half of 2014, an improvement of 2.5 points over the first half of 2013.

The point of improvement in the quarter was driven by about 2 points of earned rate in excess of loss trend, partially offset by about 1 point of non-cat weather losses. So, despite the significant impact of weather; solid profitability in the quarter.

Turning to production trends beginning on page 11, retention of 81% was strong and slightly higher than recent periods. New business volume of \$486 million was 8% higher quarter over quarter while renewal premium change was down somewhat from recent periods at about 6%.

The 6% included pure rate increases of about 4% which was about 1 point lower than last quarter. As has been the case for the last 13 quarters, all major lines of business had positive rate change, with the largest change this quarter coming in commercial auto. Not surprisingly, auto was the line of business with the lowest return and accordingly, the greatest rate need.

Loss trend for the segment continued to run at about 4%. So on an aggregate written basis, rate gains approximated our current view of loss trend. We believe the production results, both in the aggregate and by line of business are appropriate given our view of product returns, but as Jay mentioned in his comments, we don't manage the business at an aggregate or total line level. We execute account by account or class by class and this is demonstrated on slide 15 which displays the distribution of renewal rate changes for commercial accounts in the second quarter. As you can see from the slide, most accounts received a single digit rate increase. But there were numerous accounts that got a rate increase greater than 10% or got some level of rate decrease.

There are also some general trends in the portfolio. Recently, larger accounts have lower average rate changes and has been the case for several quarters, commercial auto accounts have higher average rate changes. And as always, individual account loss experience matters. But the real take away from this slide is that the aggregate is simply an average of thousands of individual account actions and accordingly success in this business is not about achieving a higher aggregate rate number, it's about doing the right things for the right account and generating an appropriate return over time.

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So in this context, our fundamental approach is unchanged and the results continue to be encouraging. Simply put, we are retaining a very high percentage of our best performing accounts at relatively modest rate increases. While on our poorer performing business, we continue to get rate increases significantly above loss trend with lower retentions. We are comfortable moving away from business where returns remain well below target levels and as always, we actively look for new business opportunities with appropriate returns.

We continue to be very comfortable with how our organization is executing at the granular level and accordingly feel very good about the results. In the Financial, Professional and International segment, we had record operating income of \$254 million which was 65% higher than the prior year quarter.

The increase was driven by higher levels of favorable prior year reserve development, improved underlying underwriting margins, lower catastrophe losses and the inclusion of The Dominion.

The underlying combined ratio for the quarter was a very strong 89.2%, a slight improvement from the prior year. The improvement was due to the 2014 exit from a management liability excessive loss reinsurance treaty along with earned rate increases in excess of loss cost trend across the segment, largely offset by the impact of The Dominion.

Net written premium was up 38% in the quarter compared to the prior year due to the inclusion of Dominion. In the management liability business within Bond and Financial Products retention of 84% and new business of \$37 million were both consistent with recent periods and prior year, while renewal premium change of about 4% was down somewhat from recent periods.

In international, retention remained strong at 80% while renewal premium change improved to 3% and new business was up year-over-year due to the impact of Dominion. So overall, a great quarter for the segment.

In our Personal Insurance business, operating income of \$75 million for the quarter was down 47% compared to the second quarter of 2013 driven by lower net favorable prior year reserve development in Homeowners along with higher levels of catastrophe related losses in both auto and home. The underlying combined ratio for the quarter was 89.8%, a slight improvement over the second quarter of 2013 with lower underwriting expenses and rate increases in excess of loss trends largely offset by higher non-cat weather related losses.

Looking specifically at auto, on the production side, retention remains strong at 82%. Renewal premium change was about 6%. While new business volume of \$139 million was, once again, up significantly versus recent periods due to the roll out of Quantum Auto 2.0. We continue to be very pleased with the early results for Quantum Auto 2. The product is now live in 31 states and those states represent about 85% of our countrywide auto new business production. In the states where we've launched the product, we've seen quoted

policies increase more than 10% while the number of policies issued has more than doubled from pre-launch levels.

In addition, we continue to make progress on the expense initiatives announced a year ago that are fundamental to our ability to make our auto product more price competitive. To date, we've executed on initiatives responsible for about 75% of the \$140 million run rate savings target and we remain on track to achieve the full run rate saves by the end of the year in line with our original expectations.

Turning to auto profitability, the underlying combined ratio of 96.2% for the quarter was a slight improvement compared to the second quarter of 2013 with earned rate increases more than offsetting loss trend and the impact of higher mix of new business versus renewal business volumes.

Our current view of auto loss cost trend remains at about 4% with no significant change in the underlying texture from previous quarters.

Looking at Homeowners, production was strong in the quarter with renewal premium change of about 8%. While retention remains at 84%. New business volume of \$85 million was up from the prior year quarter and recent periods due in part to account rounding on our auto new business.

From a profitability perspective, the underlying combined ratio of 81.5% was in line with the second quarter of 2013 with earned rate increases in excess of loss trend and lower expenses offset by non-cat weather related losses. So overall, in Personal Insurance, we saw strong profitability and an improving production picture. With that, let me turn it back over to Gabby.

**Gabriella Nawi** {BIO 2211991 <GO>}

I'm sorry, there is an addition from Jay Benet.

**Jay S. Benet** {BIO 2456473 <GO>}

Thanks Gabby. Before we open for questions, I did want to mention one additional item. We'd be remiss if we did not say how pleased we were to have been recognized as A++ company by A.M. Best this May. So we just thought we would end with that and we'd be happy to take your questions now.

**Gabriella Nawi** {BIO 2211991 <GO>}

Kelly, we are ready for question and answer portion. May I ask that you all limit yourself to one question and one follow up, please. Thank you.

**Q&A**



## Operator

. And our first question comes from Brian Meredith with UBS. Please proceed with your question.

**Q - Brian R. Meredith** {BIO 3108204 <GO>}

Yes, thanks. A couple of quick questions here for you. First of all, Jay, just curious if I look at the Business Insurance and you kind of strip out the reserve releases and you kind of normalized for cat losses, I kind of come up with about a 12% underlying return on equity for the business. I guess my first question is, is that right? And is that about where you're kind of targeting given the current interest rate environment?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

I'll answer the second part of it. I'll let Jay Benet fuss with – as he does the math in his head. We've been saying for some time that our stated target of achieving mid teens return on equity over time was simply really not achievable in this interest rate environment. But we were going to keep it as a statement, as an aspirational goal but also because so much – so many of our systems and our culture are geared around it.

Having said that, we've chosen to avoid the notion of an artificial ceiling on what rate adequacy or return adequacy is on an individual line or in an individual business. Some of that is driven by competitive dynamics. What is the rest of the marketplace doing? Some of it is based upon capacity. So it feels – I mean obviously at a 2.5% 10-year treasury a 12% number feels pretty good but that doesn't mean that we're going to not take the actions on an account by account or class by class basis that would continue to lift it if it's possible.

So that's really our honest assessment of it. It feels pretty good to us. But maybe there's more. We're certainly going to try. But that, again, is a specific comment more than it is an aggregate rate number. So important that we always keep that in mind. We price individual accounts, we don't price the portfolio.

**Q - Brian R. Meredith** {BIO 3108204 <GO>}

But if you're pricing right now in line with trend, doesn't that kind of mean you're assuming that returns are adequate?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

I'm sorry, Brian. Try me again

**Q - Brian R. Meredith** {BIO 3108204 <GO>}

You said you're pricing your Business Insurance in line with loss trend, right?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

No, no, no. What Brian said was that our best accounts are getting modest loss trend. I believe, I'm trying to go back to his comments.

**Q - Brian R. Meredith** {BIO 3108204 <GO>}

Yeah.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

And that our poor performing accounts, whatever that means in that framework after three years of rate increases but they're always poor performing accounts. That the poor performing accounts are getting significantly more rate increase at lower retention.

**A - Brian W. MacLean** {BIO 4679150 <GO>}

So another way to say that, Brian, is this quarter the way the arithmetic worked out is rate that we got on the entire portfolio approximated the aggregate loss trend but that could be very different and we could be thrilled with the result or unhappy with the result, either direction depending on how we get there.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

And I think the other part of that that really is important is that we wouldn't contemplate that we can improve our profitability by getting meaningful rate increase on our best performing business. Our focus there is to do our best to offset trend and to maximize retention. Our improvement and profitability is going to come from identifying those segments that underperform and continuing to make real progress there. I recall in the last quarter, we actually put up a slide which showed the rate gain in our fifth segment in commercial accounts, I think. I can't remember if it was commercial or middle market, but compared the number of accounts and the rate gain to the previous year's quarter and the rate gain in that fifth bucket was 21%, I think, last year and 20% this year was the rate gain. That's where the improvement and profitability is going to come from. Not just from that fifth class but that's the example here. It's going to be identifying those segments that continue to underperform and continuing to drive them.

**Q - Brian R. Meredith** {BIO 3108204 <GO>}

Great. Thanks.

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

The other thing I would add before I'll address your first question is that we had this internal discussion about margin improvement and you have to look at it in terms what you're talking about. Are you talking about combined ratio or are you talking about dollars?

And when you talk about combined ratio, if you do the arithmetic, if you're covering loss trend - let's just make up some numbers, let's say you have a 60% loss ratio. Obviously premiums worth 100%, if you're covering loss trend that's 4% with rate increases, you're multiplying the denominator and the numerator by the same number and you come up with the same combined ratio at the end of it. 60% - I'm sorry, loss ratio, 60% in this case. What you lose track of in that are the dollars because you're applying a 4% increase to 100% and another 4% increase 60% of that. So you're actually increasing the dollars of margin and increasing profitability therefore even when you're covering loss trends. So I

just say that for all of you to keep in mind that you got to look at it as to what question are you really asking, is combined ratio changing or are dollars of margin changing?

Getting back to the first question about the overall returns, we do an analysis of our quarters, our year to dates, and if I look at the year to date operating return on equity, which was 14.6%. There is prior year development in there. Prior year development to us counts, because a lot of it relates to recent periods where we've seen trends different than what we had expected and they've been favorable. So, in any given period you can adjust for it, but if you look at the 14.6% and back out the amount of PYD and divide by average equity, you'll come up with something that looks like a proxy for an accident year, this year. So that's a way of looking at it, but as Jay said, we look at these returns over time and we try to manage as close as we can to that mid teens goal.

## Operator

Our next question comes from Paul Newsome with Sandler O'Neill. Please proceed with your question.

### Q - Paul Newsome {BIO 1541286 <GO>}

Good morning. I was hoping you could maybe revisit the topical issue of the connections between the reinsurance market and the primary market, particularly in the large account bases, just given the fact that we've seen a lot of rate decline out of reinsurance. And how should we think about that affecting your businesses as the competitive environment changes there quite a bit?

### A - Jay S. Fishman {BIO 14011069 <GO>}

Paul this is Jay Fishman. We think we'll all pitch in a little on that. First, I just observed that broadly speaking, we are really not a large account writer I suspect in the context of the question that you're asking. We are a small commercial and middle market account company. We do large accounts on a fee-for-service basis that are largely independent of the reinsurance decision. And we obviously do some national property business, we certainly do that for large accounts.

Anecdotally, although some evidence to this, I think, exists, the layered national property business and my recollection, again we did this last quarter. I think it's less than 5% of our premium business overall but the layered large account property business is a much more price sensitive, price driven marketplace. More challenging than it was before. Now there are returns in that segment that are awfully attractive and so you've got to balance out the notion of competitive dynamics within the overall returns, but nonetheless, we think you're seeing some of the changes in the new capital formation.

Whether it's reinsurance, by the way, or excess and surplus, bumping into that layered national property account business. And I would say on the primary side for us that's probably where the impact is most significant. I'm trying to see if anybody else here has a different view. We're really not, I mean our treaty reinsurance is, for a company of our size, relatively modest and so we've got either savings opportunities, they're nice, but they're not going to move the needle very much. Or we can change the way in which we

purchase. We can buy more for the same dollars or less for even fewer dollars, but on the margin, it doesn't change anything.

I've been asked a few times whether in this is an opportunity for us and I suspect that what people are thinking is, does the calculus behind primary exposure change? Would you be willing to do either different classes of business or more business particularly in catastrophe exposed areas and rely more on reinsurance to produce a net acceptable return.

So far the answer for us is no - that we worry a lot about the mismatch of business. We worry a lot about relying on reinsurance as a strategic solution rather than as a risk balancing factor, if you like. And the notion of expanding our liability base and relying on reinsurance contract to bail us out, where we're not quite sure if that refinance capacity really sticks, is it permanent, it is really there for the long haul, it's just not clear to us yet. So, for us, the answer is that the impact of all of this is not yet very much. It's - we spend not an insignificant amount of time talking about it and thinking about ways in which it could impact us. But so far, I think you're hard pressed other than in that layered national property business to find an area where it's really having an impact. I don't know, Brian, do you have any...?

**A - Brian W. MacLean** {BIO 4679150 <GO>}

I think .

**Q - Paul Newsome** {BIO 1541286 <GO>}

And then a second question.

**A - Brian W. MacLean** {BIO 4679150 <GO>}

6%.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

I'm corrected, it's 6% .

**Q - Paul Newsome** {BIO 1541286 <GO>}

Maybe another fundamental question here. You've obviously talked a lot about how focusing on that renewal rate number in commercial insurance is not necessarily the best measure of what your assessment of the competitive environment. What's the alternative for us to look at that would also illustrate...?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

That's actually a great question, and I think you asked it actually in exactly the right way. It's not that the number doesn't have arithmetic meaning. We acknowledge it does. But the tendency to perceive it as a competitive indicator, we just don't see that. We've always said and have for many years that retention is going to be the leading indicator of a changing competitive environment. And I'll go back to the last really difficult pricing

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environment that we had which was back into the 1990s. You'll see retention rates in middle market dropped down into the high 60%s, and that really defined what was going on. There was tremendous churn in the marketplace.

It didn't happen overnight, but retention rates declined and that followed - that led, if you will, the overall rate dynamic. Now we haven't seen that yet. We haven't seen it on the way up, we haven't seen it - we're still on the way up although we're at slower rates. We just haven't seen a drop in retention and we've said for a long time that we think that that's the principal indicator. Now we also, to provide whatever anecdotal observation we can, we often have provided you with commentary about what we're hearing from the field. And you have to take that with a bit of a grain of salt because it doesn't mean it's right. But they are observations from people in the field, dealing with individual accounts every day. And our comments remain that there's nothing that we're hearing from our folks that would cause us to think that we're at a precipice or broadly a more meaningfully competitive environment. But I watch retention and that's what I look at and when I see a drop in that, that's when it's time to begin to understand what's going on in that local environment.

## Operator

Our next question comes from the line of Kai Pan with Morgan Stanley. Please proceed.

### Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you so much for taking my call. My question is regarding to the segmentation changes and management change recently. Could you comment a little bit more on that?

### A - Jay S. Fishman {BIO 14011069 <GO>}

I don't know that we have much more to say. We put out a press release. It's part of management's responsibility. Our responsibility here is to make sure that the younger talent in the organization gets additional exposure, exposure internally, exposure externally and position the company for continuity and just felt to us like a very ordinary and appropriate thing to do. The realignment was, to a great extent, driven by reporting relationships within those changes. So much more about people than about any particular realignment about the business.

### Q - Kai Pan {BIO 18669701 <GO>}

Great. Just follow on that - and, Jay, you've done a wonderful job for the company and the shareholders. Is this, the recent management changes, part of an evolution about how the board thinks about a succession plan?

### A - Jay S. Fishman {BIO 14011069 <GO>}

Well, I would never speak for the board. And so we think we have a responsibility to develop talent and present to the board as solid a management team as we're capable of doing. And we're going to be a management team that is going to step up to that responsibility and not side step it. The depth of the folks in this place around here never

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fails to amaze me. The talent that's here is just remarkable. And my job particularly is to make sure that those people get additional responsibility and additional exposure. And that when that time comes that it's very natural, there's nothing upsetting to the organization internally. There's nothing upsetting to the constituents externally. It's as it should be, and that's really my goal is that for when this - I'll be 62 in November. Brian, I think, he's going to be 62 later this year. Jay Benet he'll be 62 in August. So we all reckon we're not Methuselah here. We're mere mortals and our time will come and our job is to develop that next generation and present them and just have it not be a big deal.

**A - Gabriella Nawi** {BIO 2211991 <GO>}

Thank you. Next question, please.

## Operator

Our next question comes from Amit Kumar with Macquarie. Please proceed with your question.

**Q - Amit Kumar** {BIO 19777341 <GO>}

Thanks. And I'm not 62 yet. so I just want to get that out there.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

By the way, Bill Heyman is actually feeling left out. He's only . So for the record.

**Q - Amit Kumar** {BIO 19777341 <GO>}

That was good to know. Just two quick follow-up questions. The first is - I guess it was Brian's question, and you answered that. Jay, you said retentions - you haven't seen it on its way up. And I'm trying to sort of think about this - and you're right; we should focus on retentions and rate adequacy. If so many lines are at rate adequacy, shouldn't that eventually start translating into better retentions and eventual growth in premiums?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

Well, complicated question. I think that retention - something Chuck Clarke taught me many years ago, that the real emotional content behind retention is agent comfortable, market comfortable, customer comfortable. A terrific set of circumstances where everybody feels good and fair and equitable in the relationship and that will encourage accounts to stay where they are and that's a really good thing. It's good for the accounts by the way. We think tenure matters. We think it's an advantage, it's good for the agents. They can attend to things that they need to attend to and obviously it's good for the carriers that have the business.

So the retention dynamic is, I think, really a reflection of the level of comfort of all of the parties to the transaction and that's really good. That's a good thing. The dynamic of growth is a more challenging one. There's no green light that goes on that says, aha, now we're interested in growing. We're always interested in doing more business, always. And when we can bring on new accounts, and we have demonstrated this in slides in years

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gone by. Recognizing that there is a – the internal expression is a new business penalty, but recognizing that there's a new business penalty associated with it if we can see a pathway to bringing on new accounts and over time managing them to acceptable returns, we're going to go ahead and do that. There's nothing different about that this month than there was last month. And it's not as if we weren't booking new business a year ago when rates weren't as attractive as they are now. We were as aggressive as we could be and if anything, I would say that if we had any disappointment is that we weren't actually doing more notwithstanding our encouragement. The thing to recognize is that and again I've said this before. I apologize for saying that so many times. I don't want to sound as though we believe this because it's this quarter.

This is what we said. You're not going to grow your book by marginally changing your price attitude add the point of sale. First of all, we don't have a price list. We don't have a price list. It's an individual underwriter sitting down with an agent talking about an individual account. So it's not as if we can say lower prices by 3% or 4%. It just isn't that precise. And so the way you grow is bier and perceiving opportunity typically by risk selection. Either categories of risk, lines of business, geographies that you weren't in before that now for any number of reasons you perceive opportunity for us – Canada, terrific opportunity. Brazil, a terrific opportunity.

We showed at Investor Day we've grown our middle markets business and my recollection is like by 50% over eight or nine years from \$2.1 billion to \$3.2 billion in premiums. Now at the same time, our construction surety business has shrunk dramatically as a result of the environment we're in. And so you have to be – we're not one market, we're 50 markets, and you have to be nimble enough to see the opportunities where they are and pursue them aggressively, but also be cautious enough to understand the risk presented in a changing set of circumstances and dial it back.

So we've been growing in lines of business here significantly and either because circumstances change or we made mistakes in some markets and we did, we've shrunk others. So it's all net, but it is in that granular dynamic.

**Q - Amit Kumar** {BIO 19777341 <GO>}

All right. And I apologize for the fire alarm. Just very quickly, is there a portion of your book which can be potentially structured into a sidecar with an alternative capital provider? Thanks.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

I'm reluctant to give a quick answer on something that – we haven't really thought about it. We haven't spent time contemplating it. I actually thought where you were heading was a portfolio transfer transaction which we always think about. But I haven't thought about the side car dynamic and I'd be reluctant to answer on the fly.

**A - Gabriella Nawi** {BIO 2211991 <GO>}

Great. Next question, please.

## Operator

Our next comes from Michael Nannizzi with Goldman Sachs. Please proceed with your question.

### Q - Michael S. Nannizzi {BIO 15198493 <GO>}

Thank you. I had a question about Dominion, actually. If I remember right, that was a business when you guys bought it was operating around 100 combined. It looks like you've really turned that around very quickly. Just curious kind of where is that business running now? And maybe you can just talk a little bit about what actions you have taken in order to kind of get yourself to that place. Thanks.

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

Sure, Michael. It's Alan Schnitzer, I'll handle that. I guess I would say - I would caution you from thinking that we've turned it around that quickly. There's certainly a lot of integration work going on and we're still hard at work on that. So the improvement you're seeing, my guess is you're looking at the results and seeing the combined ratio relative to what we guided you to and attributing that to Dominion. That's actually not correct. It's mostly a reinsurance transaction and some large losses that were better than what we had in the 92%. So it's actually not coming from The Dominion.

### Q - Michael S. Nannizzi {BIO 15198493 <GO>}

I see.

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

But to get to your question, what are we doing. We're doing all the sorts of things you think that a company like us would be doing. We're working hard with Greg Toczydlowski in Personal Insurance and the whole Business Insurance team to bring all the knowhow and sophistication and data and analytics. Some scale and synergy advantage, but really just taking the knowhow we have resident here at Travelers and exporting it to that platform. And we feel very good about the opportunity as good as we did when we signed up the deal. But I can't tell you that it's all been reflected in this quarter.

### Q - Michael S. Nannizzi {BIO 15198493 <GO>}

I see. So the expense ratio benefit that we saw is primarily a result of the reinsurance transaction you mentioned, then?

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

No, no. The expense benefit you saw does primarily come from The Dominion but there is a more than offsetting loss ratio deterioration from The Dominion. So, on a net basis - well on an-in basis, loss and expense ratio that Dominion is actually hurting. But it is helping on the expense ratio pretty significantly. And it's a loss ratio piece we think that over time we'll be able to work through and bring to hurdle levels. Does that make sense?



**A - Gabriella Nawi** {BIO 2211991 <GO>}

Next question, please.

## Operator

Our next question comes from Jay Gelb with Barclays. Please proceed with your question.

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

Thanks very much. For those who have been covering the company and the industry for a long time, I think we all understand that spring storms tends to be a heavy seasonal cat quarter. I think it would be helpful for folks to get a perspective on what you would view a normalized annual cat load to be. If I look back over, say, the past dozen years, I think the average is between 4 and 5 combined ratio points. Is that a good starting point?

**A - Brian W. MacLean** {BIO 4679150 <GO>}

And Jay, just for clarification, you're talking about in the second quarter?

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

Correct. I'm talking about for, say, the full year. I think that gives a better perspective.

**A - Brian W. MacLean** {BIO 4679150 <GO>}

Yeah. We've got something in the proxy.

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

This is Jay Benet, Jay. Actually, if you go to the proxy, there's a discussion about results. And in it we do talk about what the expectation was for cats in the year versus where we ended up. And my recollection is, the number is about \$550 million after tax dollars - in dollars, yes. So we're just having somebody open up the proxy and make sure we're right about that.

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

Okay. Thank you. I can certainly take a look at that. And the next issue would be in terms of capital return. I'm wondering if we were to think about out years, could Travelers ultimately be in a position where dividends plus share buybacks could exceed annual operating earnings?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

Not permanently. It can obviously year-to-year and that's really a function of timing, but the only way that it could actually exceed earnings permanently would be if we liquidated the company. That's the only way to do it. So, not permanently. No.

**A - Brian W. MacLean** {BIO 4679150 <GO>}

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Jay, let me just jump back, this is Brian MacLean. You started with we all kind of know spring storms and volatility and clearly, we do. But when we look at our data of particularly what happened with spring weather over the course of the last - well really since 2008, it's dramatically higher than what you would have seen in the previous 20 years. To the extent of a 3X kind of number and in fact - and that's not even counting the 2011 off the charts number that we had. So we've always known that we would have near term, short term volatility in our cat numbers and everybody who follows the industry is used to looking at that, but particularly for the second quarter tornado/hail activity and how our product is used to deal with that, we really have done a lot of thinking about what's the long term move to and whether we see continuing volatility in that number. So that's...

**A - Jay S. Fishman** {BIO 14011069 <GO>}

A good example anecdotally actually of the magnitude of the volatility. It was not too long ago, we didn't think about catastrophe load in auto - in personal auto. We do now and that's just a function of experience. So we're reacting to the changing weather patterns kind of almost on a real time basis. It's hard to answer the question at this point of what a normal level is. That's why we've talked about it so much over the last few years as being a driver of not only rate but underwriting and terms and conditions. It's just proving to be a challenge.

**A - Gabriella Nawi** {BIO 2211991 <GO>}

Great. Next question, please.

**Operator**

Our next question comes from Vinay Misquith with Evercore. Please proceed with your question.

**Q - Vinay Misquith** {BIO 6989856 <GO>}

Hi, good morning. First question on the competitive environment. I think you've done a good job explaining that it's largely unchanged. Jay, you mentioned that you think that there is likely going to be a soft landing. Just curious, sort of looking at this cycle versus past, what's different? And what gives you greater confidence that there is going to be a softer landing this time around?

**A - Jay S. Fishman** {BIO 14011069 <GO>}

Vinay, and obviously just because it's my opinion doesn't mean it's so. I need to start off with that. It's just one person's point of view. We've been talking for years now about the fact that our view was that the magnitude of the cyclical in our business we thought would be lower than historical experience and it was driven by everything from much better data across the industry. I'll exclude myself but I think much better management in the industry than was in the case 20 years ago.

You look at capital deployment philosophies it's different than it was 20 years ago. I think Sarbanes Oxley and the attention of audit committees and boards to adequacy of reserves, to the level - the procedures and policies around reserve setting has made

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them much more accurate. It's not that people were abusing it before, it's that there is a whole different level of attention and focus on those initial picks, what's driving them, what are the factors, the transparency that exists throughout the governance committee, external auditors, internal auditors, boards, those are all things that will make the accounting and reserving process better. Never a guarantee. We're all talking about the future. But it will make it better and I think it has. And I think as a consequence of that, the feedback loop between claim performance and underwriters and pricing decisions is stunningly faster than it was 20 years ago.

We actually are at the point now where we're booking weather dynamics virtually month to month. When I first started here, you were lucky if you had it in the quarter. That's the level of feedback that there was. So the delay in understanding loss trend, factoring it back into reserving and changing pricing was much more attenuated than it is today. It's crisp. And I listen to other companies and how they report. I don't think we're unique in that regard.

I think - I listen to other companies and I'm impressed by what I hear and the nature of controls and procedures and the thoughtfulness and I think as a consequence, the magnitude of - there'll always be some cyclicalities here. There's a cyclicalities in every business. But I said now coming close to probably eight or nine years ago, I thought the amplitude on the way up as well as the amplitude on the way down were going to be much more narrow.

I think that was true obviously on the way up. We'll now see how good I am on the way down. So that's what I think and we'll find out. I think the leadership in this industry has come to understand that attempting to grow market share by marginally changing price and actually creating shareholder value from it is impossible. I think about it all the time and I don't know how to do it and I'm not sure anybody else does. And so we've all learned within our own cultures and our own environment and our own strategies how to manage our businesses to create shareholder value. That's what we're supposed to do.

**Q - Vinay Misquith** {BIO 6989856 <GO>}

Sure. That's helpful. Thank you. Just as a quick follow-up on the Quantum 2.0, I think you said that the results were in line with expectations. Just a little bit more color on that. You've had six months in. So what are you seeing in terms of loss trend versus your expectations? Thanks.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

I'm going to turn it over to Greg in a second to talk about loss trend. But it'd be remiss if I didn't observe because I think he takes it for granted on this. We mentioned that the number of quoted policies is actually up 10%. That's one of the really wonderful surprises here. We thought going into this that we were being quoted everywhere because of the comparative rating process. And it was not our going in expectation that by putting in a different model that we would actually increase the number of quotes and so what's been - that 10% is a big number and what's impressive about that is the agent understanding and reaction of The Travelers' product of Quantum 2 as a legitimate competitive product and they're embracing it in their quoting process. So Greg will talk about loss trend. But

we've to some extent taken for granted internally the increase in quotes. But it's a substantive plus.

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

Absolutely. And I think that echoes how we feel about loss performance. We're very encouraged when we saw that increase in quote flow that Jay talked about. Obviously our focus then shifts right to the margin how we're feeling about the profitability of that business, given that we just launched our three largest states last month, we're not up on a one year anniversary, obviously we don't have a credible set of earned premium yet to really declare victory. But our focus is really looking at long term surrogates of profit. Right now, including the mix of business, short tail coverages like the frequency and physical damage coverages and all of those things that we're looking at, they're right within expectation. So we'll continue to aggressively measure the ultimate combined ratio. But all those proxies that we look at are within expectation. So we're feeling as good about the quote flow that Jay talked about that we are with the early loss indicators.

### **A - Gabriella Nawi** {BIO 2211991 <GO>}

Before we go to the next question, Jay Benet has a correction.

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

It's a comment more than a correction. We said we would give you the number from the proxy as it relates to the quote-unquote, normal cat losses. And what we're remembering was actually from two years ago. The proxy from 2013 had \$645 million as the after tax cost associated with cat. So we had \$550 million before and as I'm reflecting on that, the thing I'd want to share with you is really the fragility of these kinds of estimates because looking at the \$550 million going to \$650 million, it's not a reflection of increased exposure. It's really a reflection of trying to refine year-over-year what these cat estimates are and it's not all that long ago that, if you asked the same question, we would have said something like \$350 million after tax and thinking back to those times, I would say our exposure base was actually quite a lot larger than that. So this notion of normal...

### **A - Jay S. Fishman** {BIO 14011069 <GO>}

Larger coastally.

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

Yes.

### **A - Jay S. Fishman** {BIO 14011069 <GO>}

Probably less inland.

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

Yes.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

But 10 years we built more inland exposure and less coastal.

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

Yes, so while we're saying this is quote-unquote normal, I just want to highlight the fragility of the estimates.

**A - Gabriella Nawi** {BIO 2211991 <GO>}

Great. Next question, please.

## Operator

Our next question comes from Randy Binner with FBR Capital Markets. Please proceed with your question.

**Q - Randy Binner** {BIO 15145081 <GO>}

Hi. Thank you. I have a couple on reserves; it's in the commercial area. You commented that better legal environment led to kind of 2008 to 2012 releases. Can we infer, just kind of from a normal claim-closing pattern on general liability that anything you'd get 2008 and prior in that area is kind of – you would have seen it by now?

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

This is Jay Benet. I mean, when we're dealing with reserves by definition we're dealing with incomplete information. So we're looking at new information that's coming in every quarter and evaluating that with regard to whatever the assumptions have been. So I wouldn't look at any one of our reserves as being at finality. We're always looking at the flow of information and adjusting. There are times when you see something, you're not sure whether you're going to react in full or in part to it. So I think that's the best I can do to answer your question.

**Q - Randy Binner** {BIO 15145081 <GO>}

Okay. I mean I'm just trying to get a sense of – because there is some tail in GL, but it's not as long as, like, asbestos environmental. So I'm just trying to get a sense of if there really even is the potential for a lot more to come from 2008 and prior?

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

I mean, our reserves are always at best estimate. We don't really comment on whether they're going to change. We'll see what the data says going forward. But there's always new information coming out.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

I'd just make an observation. Asbestos and environmental is a general liability exposure. The difference there is that particularly in the asbestos arena, much of it came from the

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time when there were no policy aggregates - where there were per-occurrence, at least on a committed basis. I think we ended up with policy aggregate starting in the early 1980s. So that was - that pre-dated that. But liability is a policy that lasts forever. You can always have things pop, you just never know.

**A - Gabriella Nawi** {BIO 2211991 <GO>}

Next question, please.

**Operator**

Our next question comes from Jay Cohen with Bank of America Merrill Lynch. Please proceed with your question.

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

Thank you. I guess the question I had was on loss trend. You talk about a loss trend in Business Insurance of roughly around 4%. And I'm wondering: is that the number you price for, or is that what you are observing? Because seemingly, what you've been pricing for, for the past five years, you've seen something less than that given the reserve releases. So when you talk about that number, what exactly are you referring to?

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

Our actuaries, our finance folks, our business folks are always looking at what they think frequency and severity is going to be and building in various assumptions. They take into account what recent trends have been. There's always the question of, gee, if you've seen - I will make up an example, if you have seen recent inflation running at 1% or whatever, what does that mean going forward? Is it going to continue at 1% or is it going to get better, is it going to get worse. So at a very granular level, we're making assumptions every day in pricing and reserving as to what the future has in store based on current events and past trends.

And when you look at the kind of environment that we're faced with today, looking at very tame inflation but some of the factors at work as to creating uncertainty as to what those inflation rates are going to be going forward, you have to take that into account and ultimately that along with every other assumption comes down to a series of numbers for frequency and severity. And things have been running pretty moderately, but when we say there is a 4% trend factor and if you go back in time, I think you're absolutely right in saying well maybe it was actually a little less severe than we had expected. So we had favorable development. But going forward you have to make a determination as to whether that's going to continue or whether the world is going to change.

**A - Brian W. MacLean** {BIO 4679150 <GO>}

Right so specifically, Jay, when we say this quarter 4% loss trend, we're talking about both what we're seeing as trend in the current year and what we're pricing for and obviously, that's an aggregate number so it's all over the place by different lines. As we have prior year development, we're looking at why we had that development and does that change our outlook of what the current year should be. So an example of one which usually

wouldn't would be if we had favorable development on prior year cats, we'd probably say that doesn't unless they were dramatic, wouldn't fundamentally change our view of cats this year. There are other things that you could obviously say would change it. So for the base year it does move, but it's...

**A - Jay S. Fishman** {BIO 14011069 <GO>}

Yeah, and the most volatile part of it is non-cat weather. Our loss trend numbers make an assumption about non-cat weather and that's obviously at least I think the most unpredictable part of that loss trend dynamic. And it's one of the reasons why you're hearing us relentlessly talk about offset by favorable and non-cat weather or offset by adverse non-cat weather. It's just - who knows.

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

Yeah, and on that topic, you had talked about non-cat whether relative to a year ago being worse. Can you speak to non-cat weather relative to a normal second quarter? Was this worse than you might have expected normally, instead of just compared to last year versus a normal expectation?

**A - Brian W. MacLean** {BIO 4679150 <GO>}

So, I'll take that and it's a little different BI to PI. So in Personal Insurance, we would say this quarter the non-cat weather was about normal. It was a couple points worse than last year, which was abnormally low.

In BI, this quarter non-cat weather was a little bit high. So about 1 point unfavorable to both last year which was kind of normal and what we would have expected this year. And the difference there is especially when you get into tornado/hail, the impacts in the commercial business can be really random and volatile. Personal lines, you have a storm and it hits the neighborhood and we can kind of see the claims. In Business Insurance, you can hit our risk or not hit our risk and it could dramatically change the numbers. So that's a perspective relative to kind of normal. PI about normal this quarter, BI a little bit worse than normal.

**A - Gabriella Nawi** {BIO 2211991 <GO>}

Great. And this will be our last and final question.

**Operator**

And our last question comes from Josh Stirling with Bernstein. Please proceed with your question.

**Q - Josh Clayton Stirling** {BIO 17463087 <GO>}

You guys are kind for fitting me in. So we talked a lot about reserves. I was wondering if you could give us some color. I know it's a best estimate, but there's a range of different approaches across the industry. Some companies consistently target something like zero favorable development target; some consistently target a much larger number. You guys,

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just from observation, seem to be sort of in the middle of the range. But as everybody is thinking about earnings over the next few years, pricing is slowing; you know, I think you're guiding - in your outlook section, you talk about how underwriting margins on the underlying basis seem to be slowing and stabilizing. I'm wondering what we should be expecting. You guys truly would like to be sort of a normal level of favorable development, when you think about sort of what's your real philosophy, really, and through the cycle ought to look like would be really helpful for us.

**A - Jay S. Fishman** {BIO 14011069 <GO>}

Looking at each other, Jay and I are. My own view is that our goal is to get it right. If we could pick the right number and first of all, that's our responsibility. Our obligation is to record best estimates and that's what we do. We attempt to record best estimate. And the accounting rules are critical, they're a really big deal. But it's also how you price and how you think about the returns in your business and where you perceive risk versus reward. So the importance of making it our best estimate is just critical. And we'd struggle to figure out how to manage the business if we were recording something other than that because we price to that loss ratio, we price to that trend. We price to that yield curve, it's just critical for us.

So I'm sure Jay and I would say this, but I look at him - would give you the same answer which is our expectation sitting here today is that - there won't be any development. We think we've got it right. It doesn't mean that we don't have issues that we're watching and aware of that you all ask us often about emerging trends in claims and where we keep track of all that. But our goal is to get it right. And so the notion of a question about a normal level of reserve development just doesn't resonate with us. We don't think of it that way. We don't think there say normal level of reserve development.

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

And I fully agree with that. It's always about a best estimate, it's always about getting it right. And I just echo what Jay says.

**Q - Josh Clayton Stirling** {BIO 17463087 <GO>}

That's fine. Thank you. Again, I guess I just asked the question and if this quarter seemed to slow a little bit, the composition was - I think you talked about there are some good guys and bad guys. FP&I was obviously good news, and then there was some environmental. Is there anything we can infer from sort of the lower BI favorable development and the lower personal lines favorable development that we should look at as sort of a forward-leading indicator? Or is the process still the same? And should we just sort of look back over the average and make our own conclusions?

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

We try to give you as much information as we can with regard to what the drivers of favorable development are. So in the case of PI, you think about the first quarter, a lot of it dealt with weather related losses both cat and non-cat and we had some additional non-cat weather related losses that turned out to be more favorable. In Business Insurance you just mentioned the level of favorable development was 25. But that was after the

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environmental. So, I think if you just look at the numbers, you've got a story line that over the last many years has provided insight as to what are the drivers of it and we'll see just how those drivers or others manifest themselves moving forward. But I don't think there's more that we have to offer as it relates to that. We try to be pretty transparent - very transparent on it.

## **A - Gabriella Nawi** {BIO 2211991 <GO>}

Very good. That will conclude our call for today. Thank you very much for joining us and as always, Andrew Hersom and I in Investor Relations will be available for any follow up questions. Thank you.

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