Q2 2015 Earnings Call

Company Participants

- Alan D. Schnitzer
- Brian W. MacLean
- Doreen Spadorcia
- Gabriella Nawi
- Jay S. Benet
- Jay Steven Fishman

Other Participants

- Brian Robert Meredith
- Charles J. Sebaski
- Jay Arman Cohen
- Jay H. Gelb
- Josh Clayton Stirling
- Kai Pan
- Larry Greenberg
- Michael Nannizzi
- Randy Binner
- Ryan J. Tunis

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to the Second Quarter Results Teleconference for Travelers. We ask that you hold all your 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 21, 2015.

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, Carlos. Good morning, and welcome to Travelers' discussion of our second quarter 2015 results. Hopefully, all of you have seen our press release, financial supplement, and webcast presentation release earlier this morning. All of these materials can be found on our website at www.travelers.com under the Investors section.

Speaking today will be Jay Fishman, Chairman and CEO; Jay Benet, Vice Chairman and Chief Financial Officer; Brian MacLean, President and Chief Operating Officer; Alan Schnitzer, Vice Chairman, Chief Executive Officer of Business and International Insurance; and Doreen Spadorcia, Vice Chairman, Chief Executive Officer of Claims, Personal Insurance and Bond & Specialty Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks and then we will take questions.

Before I turn it over to Jay, I'd 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 that are available in the Investors section on our website.

And now, Jay Fishman.

Jay Steven Fishman {BIO 1933251 <GO>}

Well, thank you, Gabby, and good morning, everyone, and thank you for joining us today. By now you've seen our second quarter results, and as you can see from the release it was another strong quarter contributing to a very strong first half of 2015.

We reported operating income of $806 million and an operating return on equity of 14.2%, bringing our year-to-date results to $1.6 billion in operating income and a 14.3% operating return on equity. We achieved these results through strong underwriting performance and solid investment performance, consistent with our expectations. Most importantly, our long-term average annual operating return on equity now stands at 13.4%, well in excess of our cost of capital. This quarter is another brick in the wall of exceptional long-term performance.

For all of the recent market commentary about the industry, our experience remains business as usual. At the point-of-sale where businesses actually conducted, that is one agent, one underwriter dealing with one account, things are very stable and just fine. In fact, the commercial insurance marketplace dynamics over the last six months have been remarkably consistent with what we believed would happen and have been far different from the historical conventional wisdom. We continue to believe that the amplitude of the cyclicality that our industry will deal with is much less than would have been the case historically, and you can trace that comment back to our Investor Day in May of 2007. And, of course, while things can change, so far so good.

Anticipating that some of you are going to ask us about our take on the recent consolidation in the primary P&C industry, let me make a few observations. No primary P&C insurer has come together over the past two decades through acquisition activity more than we have. We're very good at it, and while we haven't announced any mega transactions in a number of years, our shareholders should expect that we are aware of the possibilities and that we are expert at evaluating them. That evaluation comes down to determining the best way to create shareholder value. The return driven strategy that we've been executing for nearly a decade now has been highly successful in creating shareholder value. Our total return to shareholders over virtually whatever period you want to pick is at the top of the heap.

So when we evaluate M&A opportunities, which we do all the time, we evaluate them against that standard. As it relates to Chubb, when we considered the modest opportunity to improve the performance of an already high-performing company with some of the best people in the industry, the high degree of risk inherent in combining two successful but very different cultures and the significant impact on returns on equity from the combination of the premium we expected would be required as well as all of the required purchase accounting adjustments, the return just didn't measure up.

We have the luxury of a plan A that sets a very high bar, a strategy that comes from having highly differentiated competitive advantages and highly successful business franchises with industry-leading product breadth. Again, we believe that our total return to shareholders over the recent past as well as over the longer term speaks for itself, and we are confident in our ability to continue to deliver superior returns, but we do keep looking at M&A opportunities, and when we believe there is a transaction that contributes to creating shareholder value, we will make every effort to complete it.

Other than addressing the potential market implications of the transaction, which Brian will do, I hope this addresses your questions on the topic. We really don't expect to comment further on that recently announced transaction.

And with that, I'm going to turn the call over to Jay Benet.

Jay S. Benet {BIO 2456473 <GO>}

Thanks, Jay. As Jay said, we are very pleased with our second quarter results, operating income of $806 million, up 20% from the prior-year quarter and operating return on equity of 14.2%. Current quarter operating income was driven by a very strong consolidated combined ratio of 90.8%, which was 4.3 points better than the prior-year quarter due to strong underlying underwriting performance, continued net favorable prior-year reserve development and lower catastrophe losses, as well as the inclusion of a $32 million benefit from the favorable resolution of prior-year tax matters.

Operating income was also driven by solid net investment income consistent with our expectations, although lower than in the prior-year quarter. Brian, Alan, and Doreen will talk more about underwriting results in a little while, so let me say a few words about NII. As was the case in the first quarter, current quarter net investment income is being compared to a very strong quarter last year. Fixed income NII of $431 million after-tax is down $32 million from the prior-year quarter, principally due to what we have been saying for many years, securities that have higher book yields have runoff during the past 12 months and have been replaced with securities having lower yields due to the current interest rate environment.

Another contributing factor to lower fixed income NII was the modest reduction in average investments that resulted in part from the company's $579 million first quarter 2015 payment to settle the Asbestos Direct Action Litigation. Non-fixed income NII of $79 million after-tax was down $16 million from the prior-year quarter due to lower returns for energy-related private equity investments. These investments produce negative NII of $9 million after-tax this quarter, which was better than the negative NII of $21 million in the first quarter as compared to positive NII of $11 million after-tax in the prior-year quarter.

As I mentioned, earnings continued to benefit from net favorable prior-year reserve development, which amounted to $207 million pre-tax this quarter, up $24 million from the prior-year quarter. In Business and International Insurance, net favorable development of $103 million pre-tax resulted from better than expected loss experience in several different product lines, including workers' comp for accident years 2006 and prior, GL for 2008 through 2013, Lloyds in Canada, and property in both CMP and the property product line for more recent accident years, partially offset by a $47 million after-tax or $72 million pre-tax increase to environmental reserves.

In Bond & Specialty Insurance, net favorable development of $40 million pre-tax resulted from better than expected loss experience in contract surety for 2010 through 2013. And in Personal Insurance, net favorable development of $64 million pre-tax resulted from better than expected loss experience in homeowners and other liability for 2011 through 2014 and for non-cat weather-related losses for 2014, as well as better than expected loss experience in auto liability for 2012 through 2014. On a combined stat basis for all of our U.S. subs, there were no accident years or product lines that had any meaningful unfavorable development this quarter or year-to-date.

Second quarter operating cash flows were also strong at $676 million, up $51 million from the prior-year quarter, while holding company liquidity ended the quarter at over $1.7 billion, and all of our capital ratios remained at or better than their target levels. Net unrealized investment gains were approximately $2.1 billion pre-tax or $1.4 billion after-tax, down from $3 billion and $2 million, respectively, at the beginning of the year due to the recent rise in interest rates, causing book value per share of $77.51 to grow by only 1% from the beginning of the year.

Importantly, adjusted book value per share of $73.09, which eliminates the impact of unrealized investment gains, grew by 3% during this time period. We continued to generate much more capital than we needed to support our business, and consistent with our ongoing capital management strategy, we returned almost $1 billion of excess capital to our shareholders this quarter through dividends of $194 million and common share repurchases of $801 million, bringing total capital returned to shareholders to almost $1.85 billion year-to-date.

Before turning the microphone over to Brian, there is one more topic I'd like to cover, our cat reinsurance coverage. As you may recall, effective January 1 of this year, we significantly increased the attachment point of our gen cat reinsurance by replacing our previous gen cat treaties, the $400 million cat aggregate excess of loss treaty, which expired as scheduled on December 31, and the $400 million gen cat treaty, which our reinsurers agreed to terminate early as of that date, with a new aggregate XOL treaty that provides coverage for both single events and accumulation of losses from multiple events, $1.5 billion of coverage, part of $2 billion excess of $3 billion after $100 million deductible per occurrence. By doing this, we retain the same broad peril and geographic coverage as the former gen cat and XOL treaties, while positioning the coverage layer to provide a significant buffer between earnings and capital.

During the second quarter, we reposition our Northeast-specific cat coverage, lowering its attachment point from about $2 billion while maintaining its maximum recovery. Our current combination of two Northeast cat bonds and the new Northeast gen cat reinsurance treaty attaches at $1.058 billion of covered losses and provides $1.4 billion of coverage through $3.1 million, the point at which the gen cat aggregate XOL treaty takes over. Taken collectively, we increased our potential reinsurance recoveries and repositioned the attachment points to more closely align with the risks in our business while spending essentially the same amount. A more complete description of our cat reinsurance coverage, including a description of new earthquake and international coverages, is included in our second quarter 10-Q, which we filed earlier today, as well as in our 2014 10-K.

So with that, now let me turn the mic over to Brian, who's going speak about underwriting results.

Brian W. MacLean {BIO 4679150 <GO>}

Thank you, Jay. Alan and Doreen will go over the segment details, but before they do I want to make a few comments about the macro environment. Echoing Jay's comments, we're certainly very pleased with our results, both in the quarter and for the first half of 2015. We're at a 90% combined ratio year-to-date, very strong retention, stable renewal price increases, and no major surprises in our loss trend. In fact, results like this are what we spend our careers hoping to achieve, and here we are. But importantly, we didn't get here by accident. We did it with relentless and consistent execution on our strategies and by investing in and developing a broad breadth of products and services and other meaningful, sustainable, competitive advantages in the markets we serve.

But while we feel great and want to talk about how well we're positioned, I suspect many of you are also interested in our thoughts on the impact that the ACE-Chubb transaction may have on the marketplace, so let me share a few thoughts on that. First, we already compete against these two companies, more so Chubb than ACE, given our business and geographic focus, and we don't anticipate a lot of difference in competing against them as a single entity. Any company that is large enough can disrupt the market if it's willing to accept meaningfully lower returns over time. But both ACE and Chubb were probably large enough to have done that before the transaction, so we don't see that risk being any different going forward.

Second, we have great long-term and trusted relationships with our important broker and agent partners, and we don't see that being disrupted. We remain a leading independent agency commercial insurer in our principal market, the United States, and in Personal lines we are the leading independent agency market in the homeowners business, and we don't generally compete in the high-end home product, which is Chubb's primary Personal lines focus.

Third, having completed a number of large-scale transactions ourselves, we know that there inevitably will be disruption and dislocation of people and business. This will likely create near- and medium-term opportunities, and it's possible we will benefit from these. Obviously, only time will tell what the long-term impact may be, but as I said before, we feel great about Travelers. We remain very pleased with how our business is performing and, more importantly, how well we are positioned for opportunities in this marketplace going forward.

Before I turn the call over to Alan, I'm sure that many of you have seen that recently we made some senior-level organizational changes, and I want to recognize a few of those folks on their new responsibility. Greg Toczydlowski, who has done a fabulous job managing our Personal Insurance business, is moving over to Business Insurance to oversee our small commercial operation as well as take on responsibilities for technology, operations, and business platform across all of Business Insurance.

Michael Klein, who had been managing our Middle Market Commercial business, will take Greg's spot in Personal. Michael has had a broad range of experiences in his 25-plus years with the company, and his management skills, knowledge of analytics, and our products make him perfectly suited to run the Personal business.

Marc Schmittlein, who for the last 12 years has led our Small Commercial business, will take on the role of coordinating our Cyber Insurance efforts across our business. We see cyber coverage as an important opportunity in the marketplace.

Scott Higgins will assume leadership of our Middle Market Commercial business, and Behram Dinshaw has been appointed Chief Operating Officer of Personal Insurance. We're thrilled that we have this depth of management talent and the collaborative culture in which great people can thrive. After all, in this industry, when we talk about competitive advantages, we start with talent and culture, and to succeed, you need both of them.

With that, let me turn it over to Alan to cover the Business Insurance and International segment.

Alan D. Schnitzer {BIO 3529437 <GO>}

Thank you, Brian, and good morning. We delivered another quarter of strong performance in Business and International Insurance with operating income of $543 million. Our underlying combined ratio was relatively consistent with the prior-year quarter at 93.1%, reflecting attractive and stable product returns. In terms of the top line, net written premiums decreased by a little over 1% from the prior-year quarter. This was driven by our International business where net written premiums were down 15%, primarily as a result of the adverse impact of foreign exchange. Domestic Business Insurance net written premiums were up about 1.5 points.

In terms of our domestic production results, as Jay said, we remain pleased with the stability of the market as evidenced by historically high retention and positive rate change. We've commented for some time now that as pricing has improved more of our portfolio is generating attractive returns, and our objective has been to retain more of that business. We've now posted a very strong 84% retention for two consecutive quarters. As you can see on slide nine, excluding the impact of our large account Property business, which I'll get back to in a minute, positive renewal rate change in Domestic BI was unchanged from the first quarter. Our ability to deliver these results comes from the excellent execution by our field organization of our very granular account-by-account and class-by-class strategies.

Turning to slide 10 in the webcast, in Select retention hit a six-year high while renewal premium change moderated only slightly. In Middle Market, we posted a very strong retention and steady sequential renewal premium change. Notably, within renewal premium change, renewal rate change has been remarkably steady over the past five months. In terms of retention, we're retaining around 90% of our best-performing business while achieving renewal rate gains in excess of loss trend on our worst-performing business.

New business in Middle Market was down year-over-year. While we like the marketplace stability, one consequence of a stable market is that submission flow is down somewhat. In other domestic Business Insurance, while renewal rate change turned negative this quarter, as you can see on slide 12 of the webcast, the decrease is driven by national property, our large account Property business. Excluding the impact of national property, renewal rate change in other domestic BI would've been a positive 1.9%. To put it in context, national property accounts for about 25% of the net written premium in other domestic BI, but only about 5% of the net written premium in the segment. Even with the rate change in national property, current pricing levels and returns in that business are attractive, and accordingly we have successfully driven retention to near record levels.

In our International business, retention continues to be strong and steady at 82% while renewal premium change of 1.5% was consistent with last quarter. New business is down over the prior-year quarter, primarily as a result of disciplined underwriting and a competitive environment in Lloyds, and the impact of foreign exchange rates.

To sum it up, we're pleased with the stability in the marketplace and the results we delivered in the quarter, and with the depth and breadth of our talent, particularly in the field, our deep analytical capabilities and our market-leading products and services, we're well-positioned to continue to deliver superior results.

And with that, let me turn it over to Doreen.

Doreen Spadorcia {BIO 4883600 <GO>}

Thank you, Alan, and good morning, everyone. Bond & Specialty Insurance had another strong quarter with exceptional financial returns. For the quarter, operating income was $151 million, a reduction from the second quarter of 2014, driven by a lower level of net favorable prior-year reserve development, partially offset by a favorable resolution of prior-year tax matters. Underlying underwriting results remain very strong and well within our target. As for top line, net written premiums were generally flat to 2014. Across our Management Liability businesses, retention and new business premiums ticked up modestly while renewal premium change was down slightly. So great results for this segment.

I'll now turn to Personal Insurance, where we also had another terrific quarter with strong underwriting results in both Agency Auto and Agency Homeowners & Other. For the segment, operating income for the quarter was $174 million, up significantly from the second quarter of 2014. Due primarily to lower cat and non-cat weather and higher net favorable prior-year reserve development. The underlying combined ratio improved by more than a point from the prior-year quarter, driven by favorable non-cat weather. We continue to feel great about the margins in this segment.

Looking at Agency Auto, we once again delivered strong top and bottom line results for the quarter and continue to be very pleased with the performance of this business. The 96.5% combined ratio for the quarter included 2.5 points of favorable prior-year reserve development, which was driven by better-than-expected severity in bodily injury. The underlying combined ratio of 96.9% continues to run in a range we are comfortable with given current market conditions. This result was up modestly from the prior-year quarter due to a variety of small items including non-cat weather, which although materially favorable for homeowners was slightly adverse year-over-year for Auto. Our loss trends remain consistent with recent quarters.

Production results also continued to be strong, driven by Quantum Auto 2.0, where we are now coming up on two years since the start of the rollout. New business premium was 37% higher than the second quarter of 2014, and we continued to grow policies in force, which increased more than 35,000 during the quarter. Net written premiums increased 7% from the prior-year quarter. So by all measures, great results for Auto for the quarter.

Turning to Agency Homeowners & Other, we once again delivered strong financial results with an underlying combined ratio of 77.5%, a four point improvement from the prior-year quarter, driven by relatively benign non-cat weather. Margins in this business remain well within our return expectations.

As for Agency Homeowners production, we're very pleased with the progress we're making. New business premiums were up 33% from the prior-year quarter and continue to trend favorably while retention remains strong. Policies in force have leveled off, and net written premiums are essentially flat from the prior-year. So the book has stabilized. As we said in prior quarters, this is an area of high focus for growth, and we're encouraged with the positive results we're seeing. So to sum up Personal Insurance, another great quarter.

And with that, I'll turn the call back to Gabby.

Gabriella Nawi {BIO 2211991 <GO>}

Thank you. We'll now take questions, please. Before we start, can I remind you all to please limit yourself to one question and one follow up? Thank you, Carlos. Go ahead.

Q&A

Operator

Our first question comes from the line of Randy Binner with FBR Capital Markets. Please go ahead.

Q - Randy Binner {BIO 15145081 <GO>}

Hey, great. Thank you very much. So Travelers has followed kind of a moderation in price decreases we've seen across commercial lines, and so I was wondering if we could go a little more into detail and what you're seeing out there. What's causing that headline pricing number to moderate more as it approaches the zero level?

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

Randy, is Alan Schnitzer. I'll take that. You guys focus on the headline rate number a lot more than we do. We're looking at this on an account-by-account basis, and it will build up to whatever it builds up to. And at least in our performance, I think what you see is, as more of our businesses reaching rate adequacy, our objective is to keep that business, not to continue to necessarily get price on it. So it really is a function of more of that business going over four years of rate increases to rate adequate for us. And what you see in the headline number is just the aggregation of all those individual transactions.

Q - Randy Binner {BIO 15145081 <GO>}

But is there – I know we focus on that number. But it's important for us. Is there more – is there kind of more consistency or more rational behavior in the environment? Is there less? I mean, I know Travelers is a big company and there's a lot going on, I mean like property for instance. But is there kind of less bad behavior out there in the most recent quarter compared to maybe what we saw later last year?

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

Yeah, so, Randy, I didn't mean to suggest that the number's not important. I'm just suggesting we focus on it differently than you do because we're executing really on a very, very granular basis and we're looking at it one account at a time. But to get back to your other question, I think when we talk about the market among ourselves, and we talk to our field organizations, we would say that, by and large, it does appear to be a pretty rational marketplace, and it appears that there's a real return focus in the industry.

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

Yeah, this is Jay Fishman. I think that's absolutely right. And Brian spoke about it as well. It's - any one company if it's large enough and is willing to accept subpar returns over time, can affect the marketplace from a pricing perspective. That's not been the case. It's not been the case for a long time. And now why that is, I actually think a lot of it is data and analytics, and the fact that people actually understand their returns better than they did 10 years ago. No one would open knowingly say, well, I'm pricing this to produce subpar returns. I think that happened to some extent accidentally, not intentionally.

And so, I think the data is different in the business. It's been different for some time. I get asked all the time, are we pleased or not that other people seem to be getting good at it? I think it's great. I think the more people understand the cost of goods sold in our business and the risks associated with it, the more we look like a normal financial services business, and less of one that's operating in the dark. So I think that we may have led this, and I'm sure we did, but the fact is that you see it in virtually everyone's reporting, a greater reliance on analytics and return focus. And that's I think what's causing it. We're allowing it to happen perhaps is a better expression.

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

And, Randy, the other thing I'd point you to is that the rate at which insurance companies by and large are returning capital to shareholders, and if you look at that trend over a long period of time, I think you will see a lot more capital being returned. So to the extent capital can't be deployed at acceptable returns, I think you'll see a trend towards getting it back.

Q - Randy Binner {BIO 15145081 <GO>}

All right. Thank you very much.

A - Gabriella Nawi {BIO 2211991 <GO>}

Next question, please?

Operator

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

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you. The first question regarding to the pricing trend. Just wonder if the trend stabilized, will we see the margin also stabilizing at this level, or there could potentially be some margin pressure relatively to the loss cost trend side?

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

Yeah, Kai, it's Alan. Let me take that as well. And I guess it depends on how you look at it. So let's just say rates are 1 point or 1.5 points at the moment. We've said that loss trend is running at about 4 points. So if you're looking on a very narrow basis at the relationship of those two things, maybe you'd say that rate isn't covering loss trend. But there's obviously a lot more in margins. So you've got volume, mix, claims handling practices, underwriting initiatives, expenses, weather, all those things come through the margin every quarter and there's always going to be movements in those things. So I would say that where rate and loss trend are sort of too close to call where margins are going to drift over time, given the current relationship of those two things.

Q - Kai Pan {BIO 18669701 <GO>}

So non-cat weather benefits the quarter overall?

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

Non-cat weather in – well, weather overall in the quarter compared to the prior year was favorable if you take cats and small weather. Small weather was about the same year-over-year.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, great. Follow-up question...

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

You know what – Kai, I'm sorry about that. I was looking at the wrong number. There was a benefit in the quarter in small weather.

Q - Kai Pan {BIO 18669701 <GO>}

Great. A follow up question on management succession. Jay, you have been running the firm fabulous, well, like for the past 10 years, and you also like some management change recently show you have a deep bench there. I just wonder, at least, what's broader consideration about management succession planning?

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

Actually, thank you for asking the question. I'll actually answer it a little bit broader, just in case anybody really wants to but is uncomfortable, because it's a perfectly reasonable question given our announcement a year ago about my health status to ask about what's going on. So first, I observed that we've been, I would say, as open as anyone can be about my own personal health status, and more importantly, perhaps most importantly, I've kept my partners and the board of directors here completely apprised and knowledgeable as I've done along in that process. I'm very much on the job and fully engaged. And at least from my own perspective, there's no decline in my cognitive skill. Maybe others around here might disagree, but I don't feel that I'm struggling in that regard.

Now we've always taken succession planning seriously, whether it was five years ago when I was 57, if I did the math correctly, or now that I'm going to be 63 and dealing with a health issue, it's no different. We take it as seriously now as we did then. And there is absolutely a plan in place with certainty, I will tell you that, and for the moment, all good. And when we have more to say about succession, and given the fact that I'm going to be

63 and we will have more to say, we're going to say it. And until then, I'm on the job, and we're doing just fine.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thank you so much.

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

Thank you.

Operator

Our next question comes from the line of Michael Nannizzi with Goldman Sachs. Please go ahead.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thank you. I guess one question may be for both Jay Fishman and Jay Benet, on the capital generation, capital deployment side. I mean recently you've been deploying more cash than you've generated when we look at operating cash flows and the deduction for dividends and buybacks. Is that something that you expect to continue to do just given capital efficiency that you're generating? And when we think about potential M&A or capacity for M&A, or maybe a desire to do something, to bolt something on, does that pattern need to change to be able to create more of a base to start from? Thanks.

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

We're both going to answer that, because I think there are parts of it that are relevant to both of us. I just couldn't have imagined accumulating cash over the last 10 years hoping that there'd be an acquisition opportunity that would make that judgment with hindsight look thoughtful. You all would have been highly critical I suspect of that, and our returns would have been considerably lower. And one of the things I learned from working with Sandy (33:17) for as long as I did is that if a transaction makes sense, you get it financed, and that treating your shareholders' money like it's a bank account to just sit on is really not appropriate. So I think we've done exactly the right thing, and when there is a transaction that we want to do, we will do it. We will go ahead and we will do it. So I'll let Jay speak more to the capital and it's timing, but philosophically we've done exactly what we wanted to do.

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

And Jay said the key word, timing. In any quarter, our share repurchases are going to be based upon what our views of prior capital buildup has been. So just because in one quarter or series of quarters it's higher than what the earnings look like, is really not an indication of a fundamental change in philosophy. It's still being driven by the creation of operating income and therefore capital in excess of what's needed to support our business. We will look for opportunities to organically grow our business, which will require capital. There may be, as Jay said, some M&A activity that requires capital like we did in Brazil or with Dominion. But overall, it's a matter of finding those opportunities that provide the appropriate returns. And where we don't find those opportunities, we return the excess capital on a real-time basis to you.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. And then just a quick one for Doreen in Personal lines. Any frequency trend as a result of kind of employment or other environmental factors that you saw in 2Q or a departure from trends so far this year? And thank you, Jay and Jay, for those answers.

A - Doreen Spadorcia {BIO 4883600 <GO>}

We've obviously been paying very close attention to miles driven and unemployment, which we've heard others speak about. But I'll tell you at this point, our trend is 3%, which it has been historically. So we're not seeing anything out of the ordinary. There has been a little bit of non-cat weather, but that was just in Q1. But our trend remains consistent.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thank you so much.

Operator

Our next question...

A - Doreen Spadorcia {BIO 4883600 <GO>}

Oh, you know what, I'm sorry. I just wanted to correct – 3% is our trend overall. That includes frequency and severity. That's what I meant but Gabby wanted to make sure.

A - Gabriella Nawi {BIO 2211991 <GO>}

Yeah. Next question, please?

Operator

The next question comes from the line of Jay Gelb with Barclays. Please go ahead.

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

Thank you. My first question is just a follow up on the potential for industry consolidation. The last major deal, I believe, that Travelers had completed was the St. Paul merger around 12 years ago. And I just wanted to clarify that if there's a large deal that presents itself strategically and financially, Travelers feels the right deal to do that, the company would be willing to issue stock for that.

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

Yes, no question about it. I would observe by the way that Dominion was – for most people, that would be considered a not insignificant transaction on its own. But I grant you that the kind of mega transaction dates back to that one, yes. (36:56).

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

Okay. Thank you. And then with regard to the – I don't want to dig in too much on the commentary on Chubb but I just wanted to clarify, did Travelers get a chance to look at the Chubb deal before ACE announced the transaction?

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

I've said everything on the transaction I think that's appropriate for me to say.

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

Fair enough. And then finally, the third quarter annual asbestos review, it's probably in process. Any updates on that front?

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

No updates at this point. We do continually look at asbestos on a quarterly basis. We have the annual in-depth claim review that takes place, and we expect to complete that in the third quarter.

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

Okay. Thank you.

A - Gabriella Nawi {BIO 2211991 <GO>}

Next question, please?

Operator

Our next question comes from the line of Josh Stirling with Sanford Bernstein. Please go ahead.

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

Good morning, and thank you for taking the call. So I wanted to talk a little bit about not so much ACE and Chubb, about the company and so on and so forth per se, but just generally, as the market evolves, if there's going to be more concentration in the independent agency market, there's maybe some more competition that comes from people that have to drive growth to pay for the revenue synergies that they promised. How does that play out? You obviously have a bunch of claims capabilities and pricing capabilities and you're sort of number one or number two with most of your agents. But is there going to be sort of a strategic need to get larger to drive either greater market power or expense leverage or something like that? Or should we just imagine that this is – there's a lot of different companies and you're going to basically stick to your knitting, looking at one policy at a time, and sort of keep doing what you're doing?

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

Yeah, it's Jay Fishman. You answered the question at the end there. It's exactly right. We're going to keep doing what we're doing. There isn't anything that we expect will happen or contemplate will happen that would require any kind of change in our own strategy. Now having said that, there's lots of companies that are out there, not just new ones, but old ones too. And each of them operate every day and present their offerings to agents and their services and their people, and we compete against all of them, and we expect we're going to continue to compete against all of them, and I really don't anticipate any change.

The funny thing, as I reflect on it often, about taking a lower price to drive revenue synergies, is that the arithmetic doesn't really work. If you cut your rate, your premiums go down. You want to raise premiums, you've got to do a whole lot more new business at lower levels of profit just to get back to where you were. So the simple arithmetic of taking a lower rate on a large book in the hope of driving revenue synergies is often a fool's errand. Now it is a way some people can do it perhaps elegantly, but there haven't been too many of them. So I suspect that the market will continue to think about interest rates and weather and the cost of capital and all that it seems to be incorporating as it prices its product with an unknown cost of goods sold. I don't expect a lot of change. I could be dead wrong, but that's one person's view.

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

That's helpful. That's helpful. If I could honestly ask a sort of similar question but at the other end of the spectrum, so six months or so ago, one of your big monoline competitors in the auto side got announced the deal to get into the homeowners insurance business. And, obviously, it's probably not material yet, maybe won't be for some time, but this is a big business for you guys, the source of margins and it's been a place you really invested, you build a franchise, but I'm wondering if there's some risk year here either from losing some of the value you have with agents from having the bundled offering and the market share that you do or I believe you guys distribute a lot with some other with at least one or two other direct insurance companies, and I'm wondering if there's a risk that you would lose some of the business if it becomes sort of popular to bring the homeowners business back in house.

A - Doreen Spadorcia {BIO 4883600 <GO>}

This is Doreen. I'll answer your question. You know, we've, as we've stated before, our business strategy is based on account business and overall service to consumers to the extent that certain company is acquired a homeowners capability. We think that that's probably a good thing for them if we were looking at it. It's smart, but it's a startup, it's very small. And I think you heard Brian or Jay's points in the beginning that we're the number one homeowners franchise with independent agents. We don't take that for granted. We're going to be very, very aggressive about maintaining that position, and so while I think it's an interesting twist to things, I think it more validates what our view is about the importance of the product to the customer.

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

I would add one other. This is Jay Fishman. I'd add one other point. We really like the homeowners business.

A - Doreen Spadorcia {BIO 4883600 <GO>}

Yeah.

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

We really do. We're not in it reluctantly, quite the contrary. The record that we've posted there is really remarkable. I think if you look over the past now even 11 years or 12 years, there was one year we had a combined ratio in the homeowners business in excess of 100% and that was actually 2011. It was Tuscaloosa and it was Joplin and it was Irene. Other than that, we've been subpar 100% every year, and I – so we're in it because we like it and we think we're real good at it. So it's okay. We'll keep going.

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

Okay. Thanks, guys. They're probably 10 years late so we'll check back in five.

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

It's okay. We were 10 years late on direct so we'll trade them.

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

That's fair. Thank you.

A - Gabriella Nawi {BIO 2211991 <GO>}

Next question, please?

Operator

Our next question comes from the line of Ryan Tunis with Credit Suisse. Please go ahead.

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

Hey. Thanks. Good morning. I guess my first question is just for Jay. I guess Travelers has probably had more experience than any other company, integrating large companies or large P&C companies over the last two decades. It's obviously a deal-specific question, but in what ways do you see it as easier or harder to integrate a large company today versus, say, 10 years ago either from a cost save standpoint, revenue synergy, any of that type of stuff?

Operator

Ladies and gentlemen, please continue to standby. The call will resume momentarily. Ladies and gentlemen, the call will begin momentarily, please continue to standby.

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

I'm sorry. I've got someone looking to see about paying our AT&T bill. I apologize to all of you. I have no idea what happened and I don't know where we lost you. I'll just go back to

30 seconds. These are hard to do. They're hard from the human side of the news. People get concerned about their own jobs, their families, their positions, all legitimate concerns and lots of really good talented people, and it's hard. The people side of this is a very, very hard thing to do, and that's kind of my experience. I never rely too much on revenue synergies. I used to worry a lot about revenue loss. Our goal was to keep it intact. If we thought if we could keep it intact, we were actually doing pretty good given some of the pressures that emerge from it. So synergies, I have absolutely no idea. But, yeah, it's hard. It's a tough job.

A - Gabriella Nawi {BIO 2211991 <GO>}

Next question, please?

Operator

Our next question comes from the line of Jay Cohen with Bank of America Merrill Lynch. Please go ahead.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Yeah, a couple of questions. First is, in the 10-Q, you give kind of an outlook for 2016 margins. I think that's the first time you did that in the business, kind of the underlying margins. And you're suggesting relative stability as you go into 2016. I guess to read into that, is it fair to assume you believe pricing will remain relatively stable through at least the first half of next year?

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

Yeah, Jay, it's Alan. So embedded in that outlook in 2016, we think there will be some improvements in the large losses and the weather. But in terms of pricing, I direct your attention to another part of that outlook where we do talk about renewal premium change. We don't get into the distinction between exposure and price. But we do give you a sense there of relative stability in renewal premium change.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

That's great. And then maybe a question for Jay Benet. You talk about potential M&A and that you mentioned that you could be - you would be able to finance it and not worry about excess capital and holding onto it. But what kind of leverage do you think you could deploy if it was a good, solid acquisition?

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

We operate at the holding company with a leverage target of somewhere in the 15% to 25% range relative to total capital. And we're running a little under 22% at this point in time. That's consistent with our ratings objective. It's consistent with the discussions we have with the rating agencies. If there was some transaction that caused it to go to the higher end of that target range, I would think the rating agencies would be very comfortable with it. I think that you could probably go a little higher if you had plans to bring it down over a period of time. There's some flexibility there, but that's the general characteristic of a leverage ratio that we think of.

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

I actually agree, and I think that you could – of course, Jay is smiling that I agree with him. I'm just going to make a little bit of a different point. I think you can take it somewhat above the limit, recognizing that you would not be in the share buyback position for some time. It would not make sense to be out issuing shares and then turn around very quickly and be buying back. It doesn't make a lot of sense. So redirection of cash flows gives you some leverage capacity as well.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Got it. Thanks for the answers.

Operator

Our next question comes from the line of Larry Greenberg with Janney. Please go ahead.

Q - Larry Greenberg {BIO 1712308 <GO>}

Hi. Good morning. Thank you. Just a little bit of clarity on the net non-cat weather comments, specifically in Personal lines. The year ago non-cat weather, if my memory serves me, was a bit worse than what you might characterize as normal. So recognizing that this quarter was better than a year ago, was it also better than what you would characterize as normal?

A - Doreen Spadorcia {BIO 4883600 <GO>}

I think for homeowners, it was. For auto, it was slightly negative.

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

So aggregate for the segment.

A - Doreen Spadorcia {BIO 4883600 <GO>}

Was net positive. But it was a little different by line.

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

Yeah.

Q - Larry Greenberg {BIO 1712308 <GO>}

Okay. Thanks. And then just to talk a little bit about the expense ratios, and I might be microscoping things a little bit too much here. But it looks like in business and Personal lines, the expense ratio has been trending a little bit higher this year. I know the year-ago first quarter had some unusual workers' comp stuff in it, so that was exaggerated, but adjusted for everything, it looks like expense ratios are marginally higher, and I guess I would have thought with Quantum and Personal lines and maybe the continued integration of Dominion on Business and International that expense ratios might be trending down at this point, so just wondering if there's any thoughts on that.

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

Well, Larry, this is Brian. It's really two different stories, but why doesn't Alan do the BI piece in that segment and Doreen can touch on Personal lines.

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

Sure. Larry, let me start with that. So in the quarter, expenses did tick up a little bit, and I would caution you that every quarter there's going to be things that sort of come and go in the expense line. This quarter, we had a little bit of expenses - I mean technology expenses running through, but I think what I would really point you to is the expense ratio for the first half of the year, if you're looking for what we would consider, broadly speaking, as sort of a reasonable run rate number, but again, I put a corridor around that because there's always going to be things that come and go.

A - Doreen Spadorcia {BIO 4883600 <GO>}

And I'll move to BI for a minute. So you know that we set out to take $140 million of expense out so that we could price Quantum 2.0 at a competitive level. And that was made up of separate pieces, so you don't - we won't see everything in the expense line. We had about one-third of that from ULAE, a one-third from commissions, and then the other one-third was our own operating expense. And I think what we're seeing with some of that not reducing, is that we had a higher level of growth in a good way than we had planned, so your acquisition expenses in terms of report ordering and inspections, all of that really are upfront costs, and we also are having such a good property year that we contributed to our contingent commission. So I think they're all explainable, and I will just say that the things that we've done have allowed us to compete from a new product perspective, so. Oh, and just to reiterate, I think we did a reconciliation for you at the end of - for the fourth quarter and we did achieve the $140 million in savings. It's just those other...

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

It shows up in the loss.

A - Doreen Spadorcia {BIO 4883600 <GO>}

Right.

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

In the loss ratio, not the expense ratio.

A - Doreen Spadorcia {BIO 4883600 <GO>}

A big part of it. And some was in property and some was in auto.

Q - Larry Greenberg {BIO 1712308 <GO>}

Okay, great. Thanks. Thank you.

Operator

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

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Yes. Thanks. So one question here. Looking at your underlying combined ratios in the business, insurance area, pretty profitable, loss cost pretty benign right now, rate activity is pretty consistent. I'm just curious, why aren't we seeing market share gains out of Travelers at this point? And what are you doing to potentially pickup some market share? I think this would be a perfect time to do that and maybe not so much with price but maybe with risk appetite as well.

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

I love that you - it's Jay Fishman. I'll turn it over to Alan in a second, but your last line there, I think, is right on. We just don't think that on the margin you can grow market share by trying to fine tune a modest reduction in price. We don't have a price lift. And it's individual underwriters with individual agents and individual accounts, and they bring with them every day a philosophy, a perspective, and you can't say to them, I want you to cut price by 1.5 points. They wouldn't understand 1.5 points from what. It wouldn't make sense. And so the notion of fine-tuning pricing to achieve market share gains is an illusion. It's just - we don't know how to do it. I'm not sure anybody else does either.

Now if someone is willing to accept materially lower returns, not only on new but on renewal, because it will bleed over, you begin getting exceptionally aggressive on new business, and what you'll find is that agents will get exceptionally anxious about their own renewal book. And so you can do that, but it will have a meaningful, really meaningful impact on profitability. So - and we've seen plenty of companies do that, grow revenues with meaningfully declining, meaningfully declining profitability. Not a, we don't think, a successful strategy. So we focus on product, we focus on people, we focus on technology. We focus on doing, making it easier to do business with agents as growing our market share. So if you look at our Middle Market business over the last - and I'm really going from memory here, over the last I think 10 years, Middle Market went from $2.2 billion in premium to $3.2 billion in premium. That's substantial growth in that segment as we did that.

Now we've had other segments that have shrunk, and they've shrunk to some extent intentionally. When we hit the financial crisis we took a very hard look at our Surety business and our Management Liability businesses. And we had some, because we didn't do everything perfect. I think about our attempt to raise rates in Quantum - pre-Quantum 2.0. So it's a very granular analysis, and I'll actually direct you to the Investor Day presentation that we did, I'm going to say two years ago, where we presented an analysis of individual lines of business and how they have grown, and others and how they have shrunk. So we're always interested in growing. We're just interested in growing in ways that are intelligent and actually create value over time. And we work at that relentlessly. I don't know if you want to chime in?

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

Not much to add. I guess I would point to things like moving Marc Schmittlein over to take on the cyber project. That's an example of something we see as a real potential opportunity. And when we find those opportunities, and we do spend a lot of time looking for them, we will make every effort to try to make hay out of it.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Right, but I guess maybe where I was trying to go with this, Jay, a little bit is, is at this point where we are in the cycle and where pricing and stuff an appropriate time to maybe dip down into the E&S markets, an area that maybe you're on the borderline standard E&S and try to get a little bit more risk appetite from that perspective, given where loss trend is right now?

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

So, first, Fred is encouraging me to say, I said Middle Market in the numbers I gave you. It's actually commercial accounts, so that $2.2 billion to $3.2 billion, so the record is correct in that regard. The notion of the E&S market as a separate distinguished risk pool is just something that we struggle with a little bit. We're always trying to push our risk appetite out. I think about what Marc Schmittlein did in Select as he broadened the account, broadened the profile of the business that we're trying to do. I think about what we also did in Commercial Accounts as we broadened out the programs and products there. E&S market, I'll let Alan speak to that more directly, but it's - we're always trying to push our risk profile comfortably, and when you don't push it comfortably you don't bring knowledge. You get bad results.

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

I agree. We will push ourselves on a risk profile, but we will be steadfast on the return focus. So whether it's E&S or anything else, we're certainly looking for the opportunities.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Thank you.

A - Gabriella Nawi {BIO 2211991 <GO>}

Great. And this will be our last question, please.

Operator

Our last question comes from the line of Charles Sebaski with BMO Capital Markets. Please go ahead.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Good morning. Thank you. First question is on the Personal business and the Quantum 2.0. Can you give us any additional color on how much of the book now has kind of filtered through from Quantum 2.0? And what effect that could have as it kind of expands through going forward?

A - Doreen Spadorcia {BIO 4883600 <GO>}

This is Doreen. And I'll tell you, there's certain things we don't normally disclose, but I will tell you, and we've said this in the past, that over 90% of our new business is now coming from Quantum 2.0. Since inception, we've now got a pretty big chunk of premium, and we've got enough earned premium that we think there's enough credibility for us to really look at the performance of the business. And I'll tell you that it's right within our expectations of how we thought it was going to perform.

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

And the only – the reason it's not 100% is because there are some states...

A - Doreen Spadorcia {BIO 4883600 <GO>}

Exactly.

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

...that simply don't allow Quantum 2.0 as a model – as a pricing model. So...

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Where would those be?

A - Doreen Spadorcia {BIO 4883600 <GO>}

Well, I'll tell you, we just rolled out California and Massachusetts. It's a new product, but it's not Quantum. And we've got a few other states, North Carolina; we have to build something separately for that. But even in California and Massachusetts, which we were happy to bring them a new product because they didn't even get Quantum 1.0, it's a light version in terms of what the regulators allow us.

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

And that's largely because of the inability to use credit...

A - Doreen Spadorcia {BIO 4883600 <GO>}

Credit, that's right.

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

...as an upfront underwriting evaluator and pricer in those states.

A - Doreen Spadorcia {BIO 4883600 <GO>}

Right.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Thank you. Sorry, I didn't mean to cut you off. One additional question. I guess final, on the M&A and the consolidation front, and how you guys think of opportunities for growth internationally relative to the U.S. If I look at your book and the market share, market share position leaders that you have in a lot and the recent transactions with Dominion or South America, do you feel that the book or your business is more conducive to international opportunities? And how do you weigh that on a longer-term perspective given the need for return profile and the other things you previously outlined?

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

Charles, it's Alan. Let me start with that, and then maybe Jay will follow up. We certainly applied the same standards outside the United States as we do inside the United States. So the question is always, is the transaction going to contribute to our ability to create shareholder value over time? So same lens for evaluating all of it. Given our profile in the United States, given market share, the franchises we have, that same analysis might apply differently outside the United States where there's just more GDP that we're not currently accessing. So we like the opportunity in Brazil long-term, we like the transaction in Canada with The Dominion, and we'll continue as we've been on this journey to export our competitive advantages from the U.S. to other markets.

We'll continue to build on a platform that's scalable, and as we find those opportunities, we'll again make every effort to complete those transactions but, so we're certainly out looking for them, and it's the exact same standard we would apply to a transaction in the U.S.

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

And I'd just add one comment because we'd take it for granted. Sometimes you will forget. We are not a Fortune 100 or 200 guaranteed cost casualty underwriter. We're not a liability writer broadly, general liability to what we would call global companies. So when we talk about outside the U.S., we're talking about local business. This is now Brazilian companies or Canadian companies. We're very focused on the local environment. So where the local environment has characteristics that would allow for another – either another competitor to come in and succeed or an acquisition opportunity where that local environment holds promise, we're ambitious for that. No issue at all. But it is a very local evaluation, not an evaluation of kind of the global insurance market.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Does your product portfolio, and how you analyze the business within the U.S. lend itself to being able to do that internationally in the same way? I mean, do you get the same access to information and underwriting ability? Are there differences that have, I guess, held you back from expanding more broadly or rapidly internationally?

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

There are certainly differences between marketplaces, but we think our fundamental approach to the business being disciplined about returns, being strong underwriters, all those cultural attributes do translate. And we think that given the sophistication we have in this marketplace, there's opportunities for us to deploy that sophistication in other less sophisticated markets and make a difference but there are definitely differences market to market. I wouldn't say that necessarily holds us back, but it is one of the things that we assess and evaluate.

But I would also observe that there are differences in the states – in the United States. Doreen just talked about our Quantum product and how we've got to tailor that to different markets in the U.S., and we really take that same skill set of assessing our competitive advantages and figuring out how to deploy them in markets around the world. So that's what we've done in our existing footprint, and that's what we'll continue to do, whether it's in that footprint or in new geographies.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Thank you very much for the answers.

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

Thank you.

A - Gabriella Nawi {BIO 2211991 <GO>}

Very good. This concludes our call for today. Thank you very much for joining us, and we apologize for the disruption. We apologize for those we didn't get to in the queue and we are available in Investor Relations to take your calls for the rest of the day. Thank you, and have a good day.

Operator

Ladies and gentlemen, that does conclude the call for today. We thank you for your participation, and ask you to please disconnect your lines.