Investor Conference

Company Participants

- Brian W. MacLean
- Gabriella Nawi
- Gregory C. Toczydlowski
- Jay S. Fishman
- Marc E. Schmittlein
- Vincent Armentano

Other Participants

- Amit Kumar
- Brian R. Meredith
- Ian J. Gutterman
- Jay H. Gelb
- Jeffrey Cho
- Josh Clayton Stirling
- Meyer Shields
- Vinay Misquith
- William Wilt

MANAGEMENT DISCUSSION SECTION

Gabriella Nawi {BIO 2211991 <GO>}

Good morning. I'm Gabriella Nawi, Head of Investor Relations, and I would very much like to welcome you to Travelers 2014 Investor Day. I am very pleased with the agenda we have for you today. We have presenters you don't ordinarily get to hear from speaking on important topics to our business that you don't ordinarily get to hear about.

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

Our presentations today include forward-looking statements. The company cautions investors that any forward-looking statements involve risks and uncertainty 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 the annex to the presentation materials as well as in our most recent 10-K and 10-Q 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 the annex to the presentation materials as well as our most recent earnings press release, both of which are available in the Investors section on our website.

Again, so we would like to welcome you. You have the agenda in front of you. We will have two presentations then a short break, then two more presenters followed by the Q&A period. So now it is very much my privilege to introduce our Chairman and CEO, Jay Fishman. I know after hearing him speak today you will walk away with a better understanding of who we are and how we run our business.

Jay Fishman.

Jay S. Fishman {BIO 14011069 <GO>}

Thank you, Gabby. Good morning, everyone. It is nice to have you all join us.

When Gabby told me that we were planning our Investor Day on a Friday in the unofficial part of summer, I said "Gabby, we've got to pray for rain because we will have one-on-one and no one will be there." I am always surprised in the world where you can sit at your computer and engage with us and listen that some of you to be here today. Thank you for making that effort. It would be a little bit lonely here talking to an empty room. It is nice to see so many folks here.

I am hopeful that the day will be productive. It is interesting, there is nothing more disappointing to us. We do this every other year really. Every other year we have done this and we visit with you four times a year and we get very granular.

Everybody wants to know what happened yesterday and what is going to happen tomorrow. Those are sort of the questions that we get. And we are happy to take any of those questions here today, no issue. But this is an opportunity for us to expose the company and what we believe differentiates us.

There is a tendency, I think, in the industry to perceive that every competitor is the same. We all operate in the same arena, the same dynamics, the same performance, the same outcomes, and if I can simply understand the overall dynamics of the segment, an industry, a business, I have got the game analyzed. We don't think anything could be further from the truth. So I'm going to share a few things with you this morning.

It would be disappointing to me – that doesn't mean it's going to be recorded this way. There is nothing more crushing after spending all the time and energy pulling this together to open up a report and someone says we learned nothing new. I hope that is not the case. If it is, you're not listening carefully enough. That's what I can tell you. We think we are going to give you an insight into who we are and why we do the things we do and as a consequence, why the results are different. Why the results are different. So this really will be in that arena.

This is a slide that I put up all the time internally, externally. It actually is the first slide of every earnings webcast that we do, and it is not gratuitous. It is not empty. It is actually very, very substantive. It originated from a group of the management convening after the St. Paul/Travelers merger in 2004 and challenging ourselves as to a very simple question. Why should someone buy our stock?

And of course, you get to the next question, because we're going to create value for them and then you end up in a serious discussion, given all the experiences that we have at Travelers, all the different companies, all the near-death experiences, all the successes, how is it that we believe that we could create value?

And we landed on this and it has been remarkably consistent. I can trace its original presentation actually to 2006, our meeting with analysts where we put this forth that our – and the word growth, interestingly enough, barely shows up in here.

We think about returns. We're a return-oriented company and we start off with a series of meaningful, differentiating competitive advantages. Constantly investing in pursuit of those and we're going to talk about a fair number of those today, actually.

That those competitive advantages should produce top-tier profitability and that just means amongst the best. I'm not promising it will be the best all the time; amongst the best. But it was clear to us as a GDP industry that if we were successful, one, in the generation of those competitive advantages; and, two, actually producing the earnings that we believe we could, that we would produce more capital than we would need to support our business.

That simply the growth opportunities would not keep pace. And then we would use the excess capital to send it back, to send it back. We think of our business as if it were a private equity organization. That the capital that we generate that we don't need, we send back to our owners. We send it back in dividends and in share repurchases.

As have been asked over time, "Gee, why don't you keep some?" And I would say, "But for what?" We certainly have the ability to invest in any internal opportunity that exists, make the investments that are required.

And our philosophy has been if there is ever a transaction to do, it will trade on its merits. That if the transaction makes sense, we will raise the right capital, and the right form of capital at the time to finance the transaction instead of sit on cash that might otherwise be put to work by our owners in more substantive ways just to invest to be more prudent.

And we were hopeful that by pursuing that strategy – hopeful of course then – that we would be able to create shareholder value by producing and we defined it as mid-teens return over time.

Less precise in that mid-teens; people say 15%, even 16% mid-teens, because 13% is the first teen and 19% is the last teen. You can over analyze this. What we are really talking about are superior returns for our industry, superior returns that I will share with you for a financial service company, and that, as a consequence, we would be able to create more value.

Now, we didn't know at the time if it would be successful. Anytime you lay out a strategy, no matter how thoughtful it is, you're hopeful it works. And we have been fortunate that, in many cases, the strategies that we have laid out have been quite successful. Not all of them; some have not been.

And the goal always is to have the thought – have the process be thoughtful. If the process is thoughtful, if it's analytical, if it's data-driven, if it's not anecdotal, if it's collaborative, if it comes from within the organization, it's a thoughtful conclusion.

We will end up seeing on all the decisions we make if they turn out to be good ones or not good ones, but you'll look back and you will say it was the right decision based upon the process and engagement and this was certainly, for us, the right decision.

So today, we're going to focus on that first box. We talk a lot about earnings every quarter. When we convene we answer questions all the time about our capital management strategy. There's nothing particularly new about that. I'm going to share some numbers with you about that, but nothing new as it relates to a change or focus. Inevitably someone will ask the question: at today's stock price, do you still believe in buying back shares? The answer is yes. There is no issue with respect to that.

The breakeven point between the dilution of book value per share and the increase in earnings per share accretion that comes from buying back shares still makes a lot of sense to us, so we will continue to engage in buying back shares. So that's a disposition of a question and really gets to the philosophy that we – by which we manage the company.

So, I'm going to cover three topics and then introduce our speakers. First, just to reinforce the issue, we're very much a return-focused company. This is an analysis of our return on equity going back to 2005. We picked that period because it is the first full year following the St. Paul/Travelers merger.

And I really put it up for a couple of reasons. First, I think it's useful to see the – I'll say sustainability. I'm never quite sure I fully understand the word, but the sustainability of the portion of return that comes from our investment portfolio. We're a $72 billion investment portfolio; $68 billion – these are round numbers – 68 billion in bonds.

But you can see, even in the first quarter of 2014, the investment portfolio created 8.8 points of return on equity. So these are sums, obviously. For the quarter, it was 17.8% with the bracket at the top. It was 9% coming from underwriting and it was 8.8% coming from the investment portfolio, of which 7.1 points come from the bond portfolio and 1.7 comes from the alternative portfolio.

So first thing, I think it is important that there is a sustainable level of return here that we start with. Now, obviously, as the bond portfolio continues to mature and at these lower interest rates, that return has dropped. You can see the red at bar as that has come down somewhat. But we are beginning to get to the point now where the reinvestment dynamic is not concluded, but it is certainly at the latter stage of bonds maturing and being reinvested at lower rates.

The other point I would make is the improvement that you see from 2011 up into 2013 in underwriting. 2011 very adversely affected by the storms in Joplin and in Tuscaloosa, and then late in 2011, Irene obviously affecting the underwriting performance. Weather in 2012 bad, but better, and 2013 better yet. Although, on a historical basis, it's still higher than one would have contemplated.

But the improvement driven by, one, the improvement in weather, and two, I think most importantly, I would have to do the arithmetic in my head to verify that, but from an improving rate, improving the rate across the portfolio. It doesn't mean every product, it doesn't mean every account, it doesn't mean every line, but it all does average out to a number. And the improvement in the underwriting performance in these last three years driven in large measure by improvement in price. So that is the starting point about returns.

Secondly, and I thought interesting, is to simply go back and compare our operating return on equity to our estimated cost of capital. And this is a simple enough analysis and really shows on other-than-two-year basis fairly consistent that we have consistently out earned our cost of capital by meaningful measures, including 2013 by 700 basis points. So, substantial margin builder on our cost of capital.

The only two years where we were not able to do that was in 2005. That was Rita, Katrina, and Wilma for those who don't remember that. And, of course, that was before we began the process of buying back our shares in the middle of 2006 and then again in 2011, the storms in Joplin and Tuscaloosa and Hurricane Irene, but other than that, consistent performance beyond our cost of capital.

Something that is going to become, I suspect, a topic of some interest, as the regulatory environment for lots of financial services continues to change, what are the returns that are available broadly in the financial services sector? So this simply – this next slide simply compares Travelers return with the average 2005 to 2013. And we are talking now about net income – net return on equity, because it is impossible to get operating return for the other segments. So we simply went to published reported return on equity.

You can see that in addition to outperforming the Property and Casualty segment in the S&P, substantial outperformance of all these other financial sectors now. A skeptic would say, yeah, but that included the financial crisis, and obviously, the impact of the losses in those years. So just for comparison's sake, this next slide does it for 2013 on its own.

Travelers at 14.6% of net return on equity. And you can see the other components, the Standard & Poor's Property and Casualty index as well as the other segments, had a good increase.

But investors are going to begin to contemplate in this new arena of regulation is – have the relative returns in the financial sector changed? I am not coming to any conclusions here. I am just sharing data with you, but I do think it is going to be an increasingly relevant question. We are particularly pleased with this, because we are largely an unlevered organization, reasonably low levels of leverage, relative to our capital or assets, and so returns are significant relative to the capital employed here.

Second, I – this is actually an old gift repackaged. We think of ourselves all the time as seeking opportunities to grow. Many of you in the audience here think about it in terms of commitment to capital. It is really the same point. And so I thought I would try at least to describe this in a way that perhaps resonates with the way that many of you think about it, which is that we are very thoughtful capital allocators. Now we start off with that the opportunity to earn a return, good or bad, is premised on competitive advantages or disadvantages. Less about the rate of the moment, the rate of the moment in that particular line or that segment or that account or in workers' comp in that state and more about the advantages that we bring relative to other competitors in the industry.

And that our decisions to grow or not grow, or in your parlance, commit capital or take capital out is driven by a strategic analysis of those competitive advantages and the projected returns that come from them.

Now, it doesn't mean we'll always be right, but it's not accidental if we – it may be accidental, but it's not intended to be accidental. A decision to commit capital to grow a business, to shrink a business is based upon a strategy of the projected returns.

I'm going to take you through that, but it's important concept because many observers in our business think it's all about whether rate is going up a point or down a point. But that's really not relevant, it is how do your competitive advantages position you to earn a return relative to everyone else.

And that we manage the business to where – it's more like a football pass to where the competitive advantages are going to be and what they are and manage our business and our commitment of capital around the development of those competitive advantages. We think of it all the time as volume being a result not a goal but many of you think about it in terms of commitment of capital, that's fine. I have no objection to that, so I am going to try and translate this a little bit into those terms that many of you seem to feel more comfortable.

The conventional wisdom in our business is that the only way to achieve organic growth is lower price and accept lower returns. Lower than you otherwise would have or lower than the competitors. And we've simply, particularly in the commercial side or you can argue that it's a tad different in the auto business now, but particularly in the Business Insurance side, we just fundamentally disagree with that and don't subscribe to it. And, therefore, don't pursue it as a strategy.

Our view is that growth and superior returns are driven by risk selection premised on competitive advantages that allow one to outselect or outprice competitors. You have to start with, can I do something better than someone else and that better can be product and I would - you are going to see some of that today about workers' compensation. It can be technology. You are going to hear some of that in small commercial, our Select Express platform and the opportunity that it presents or other attributes that can be processed.

Select Express is about getting business to agent's office quickly with efficiency that allows an agent to make a profit on the business. A challenge in that segment - the challenge is more about the agent profitability than it is the company profitability and it takes real expertise to overcome that hurdle in our business.

So the nature of that competitive advantage can be really quite broad. It can run all the way from a particular product - being in the oil and gas industry, for example, requires the expertise, having the product but having the expertise to be able to do control of wellhead risk all the way to the technology that you deploy.

But that's where the business begins and that outselecting is really what differentiates one company to another. And if you push an underwriter, what you will do - many of you perceive that what you will do is change their expectation of price. What you will actually do is change their expectation of risk. You will push them and they will take on the next - obviously, it's never this granular but in a philosophical perspective, you push them to expand their risk profile instinctively beyond which that which they would otherwise be comfortable with and that really is a big difference.

So with competitive advantages that we are investing in, how will that translate into ability to outselect and outprice and outperform in the future? Now, this really shows itself in the numbers, but I began to realize that it's easy to - take a look, this is our premium volume over the last eight years and it actually looks relatively flat. And of course as I began to - as we understand it and began to try and understand how you see our business, we began to pursue this as, sort of, the duck in a lake.

Everything looks quite calm from the water up and underneath the feet are paddling like crazy. And so there are stories underneath this that are relevant for the commitment of capital, the opportunity to pursue growth or not, you can't pursue both. But the stories are significant. So these are a series of - the three frames are each different but designed to demonstrate real growth in businesses underneath that summary line where we've made a decision to commit capital, your words, but the opportunity, the competitive advantage to outselect and outperform existed and we pursued that. So our Commercial Accounts business grows in the period of 2005 to 2013 from $2.3 billion to $3.2 billion, significant growth in that business over time.

Select Express driven by the introduction of the technology from 2008 to 2012 from $1.3 billion to $1.7 billion. Our Surety business reflecting real expertise 20% plus market share driven by expertise not pricing accommodation, driven by expertise from just under $700 million to $900 million.

And I put the two personal lines businesses here because each of them has a bit of a different story. Personal Automobile where the period before the broad-based acceptance of comparative raters in agents' office led to a different level of opportunity from $3.5 billion to $3.8 billion. The policies in-force from 2.2 million to almost 2.5 million and change.

Again significant growth there in units and in Homeowners we are I think the best national – I think the data supports this by the way; it is not just an internal observation – the best national homeowners writer in the business from 3.1 million to 3.8 million in policies in-force and $2.3 billion to $3.3 billion in the period of 2005 to 2011 so lots of individual stories, lots of individual opportunities, each one different.

Now we could slice this differently and we could say workers' compensation. We typically don't think of it that way because comp in small commercial is different from comp in middle market, which is different from comp in national accounts and comp in New York is different from comp in California. So it gets exceptionally granular. We get asked a lot about the lines.

The line questions we can answer but it really isn't how we think about the business. We think about opportunities on that much more granular basis. Now here is – the other side of that coin is where we either – we have made a conscious decision or in a couple of these cases not necessarily conscious.

But where we decided that the competitive – we didn't have – either we didn't have competitive advantages to produce acceptable returns or alternatively, the dynamics around a particular market segment were such you couldn't produce them. And these are all pretty good examples of one of those.

The Plus, the larger portion of Select, we've talked about this many times before. Smaller and regional companies perceive that segment as middle market and they don't bring the expertise we think that's required to produce a return. There is plenty of capacity in that market and so we concluded that the kinds of returns that we seek in that business were not with it and we would pull back.

Now it doesn't mean we're going to pull out of the business entirely because we are a very, very broad-based agent provider and there is a big gap between small commercial and middle market.

So there is a point at which their franchise is sold by being in that Plus segment even if the returns by themselves are not at a level that one would justify if you were only in that segment. So a significant reduction in commitment to the business but nonetheless the commitment to stay in it.

National accounts from 2005 to 2011 an example of areas where as – of the price. This is largely a fee-for-service casualty-based business. As you got – as the price for the product went down in those years from 2005 to 2011, larger accounts had the opportunity to convert from loss sensitive business to guaranteed cost and so that business shrank in response to the changing competitive environment.

In Surety business from $896 million to $721 million from 2008 to 2013 very conscious decision, post Great Recession billing in post Great Recession to focus on credit exposure in that business. It was unclear to us what the credit environment would look like and so we positioned that business somewhat differently than we had in the previous four or five years. Again, the environment changed; we changed with it.

The attention to the last two here Homeowners and Personal Auto, two very different stories. In Homeowners you can see 3.8 million to 3.2 million policies in force; a very conscious decision to respond to changing weather patterns. Whether those patterns were short term, changing weather patterns were short or long, different issue. I will let other people debate that.

But we clearly saw more in wind and the risk/reward dynamic in Homeowners changed and so we changed our underwriting profile meaningfully simultaneously raising rates, part of the solution there also. That led to a reduction in units and a modest reduction in premiums, so a well-executed strategy there.

Personal Auto is a strategy that didn't work as we had hoped. We began in 2011 in response to the same circumstances, in response to changing weather patterns and changing interest rates, tried to raise prices in Personal Auto.

It worked fine in the renewal book as more and more of the business began to complete comparative raters. As a new business strategy it did not work, it was not sustainable. We reacted very quickly to that. Developed Quantum 2.0, Greg is going to speak about Quantum 2.0 and give you an update.

But a very fundamental change in marketplace required changing approach on our part with a product driven by significant expense savings. $140 million in expense savings and a 2 point reduction in commission fundamentally changed the profile of our personal auto product on comparative rater technology in agents' offices, and Greg will talk about that.

So I hope I have left you with at least the understanding that underneath that top line that looks flat are lots of individual stories, stories to perceiving opportunity and growing the business and perceiving of requirement to shrink the business because of various competitive factors or the absence of competitive advantages to compete in that segment. An important part of the way we think about it. It is the granular analysis that we do rolled up to an individual business line.

Lastly, we have committed to returning excess capital to shareholders. This is our capital that has been returned through the first quarter of 2014. In the highlight box, we are giving you an update. This is second quarter to date. We have repurchased an additional

$500 million, maybe $700 million worth of shares through the second quarter to date and continue to be committed to buying back shares. Easy question, easy answer.

At this point in time, we have actually repurchased 58% of the original outstanding shares and between repurchase of shares and dividends in the period of time, we have returned about what the market cap of the company was in the middle of 2006 when we started that program. I think we are perhaps $1 billion away from actually hitting the market cap, something like that. And so we've returned the market cap of the company, and at least as of last night, market cap of the company remained at $33 billion.

We have taken the opportunity to increase dividends per share at a compound growth rate of just over 10%, $1.05 per share through the first half, book value per share a 10.5% growth on an unadjusted basis, including the bond portfolio mark-to-market. $73 in 2006, the market March 31, 2014, book value per share mark that is and at just under 10% compound growth rate in unadjusted, excluding the bond portfolio and mark-to-market.

And that sort of takes us to our speakers. You are going to hear from three people today. Vinny Armentano is the Senior Vice President in our Business Insurance Claim area and works on workers' compensation claim handling.

This is, I think, really important for a bunch of reasons. First, it seems to be a line of business that many of you have a real interest in and, obviously, recent events in our industry do point out the differences in performance between those that perform well and those that don't.

Two, it's an area where differentiation is critical, critical to success and the investment in competitive advantages really matters. We go back in this business a very long way. Our business started with a national accounts business of handling large U.S. companies workers' comp claims on a fee-for-service basis, not substantial risk taking fee-for-service.

Their ability to determine their money, it is their money, because our national accounts business in this regard is still very big. They get very focused on who can produce the best outcomes. Best outcomes are, quality and management of medical cost, getting the injured worker back to work. Can I manage the injury cost effectively, as effectively as a medical insurer would, and do we have the programs in place to get the injured worker back to work?

Vinny is going to take you through what we are working on right now in contemplation of the possibility that the healthcare delivery market could be different under the Affordable Care Act than it has been in the past and what those changes might look like and how we would respond to it.

This is not new innovation. Our history of innovation in this business is significant and goes back a long way. 15, 20 years ago the development of TravComp as an initial workers' comp claim model. Two years ago we held an outing up at Claim University in Hartford, lots of you were at that event where we tried to give you real insight into the differentiation that exists and why that business is successful.

So, Vinny is going to take you through that. I think it is going to be interesting and it will give you a sense of how we contemplate the long-term nature of the business and how we respond to it. Let me – again, trying to stay in the long-term, let me just make two comments about workers' compensation.

First, we don't look at it this way, but all of you want to ask the question. So I will answer it. The profitability of our workers' compensation business across our entire enterprise is good and I am – it's good. The usual word is we are pleased with it. It's good.

The profitability of the workers' compensation business in our small commercial business, where we have been employing a strategy of taking all that expertise that we have in the national accounts business and pushing it down into the smallest of commercial business is really good.

And, obviously, we're not going to disclose numbers to you, although Vinny is going to speak a little bit to some of them. But that is a response to how is the workers' compensation business going.

Now, at the granular level, it is all about individual accounts, individual states. There is nothing homogenous about workers' compensation. It is, in many respects, the most granular business that we do. What are the applications of safety practices in an individual account, in their factory in their workplace? How much do they embrace the whole notion of safety?

It is all quite different. It trades on the expertise of 3,700 claim and risk professionals. And that's why we produce some of the best results in the industry and we are really pleased with it. So, Vinny is going to speak – is going to speak – the other interesting thing about comp and I should mention this too.

It is actually – at least my experience has been – it is the only line of business where the customer actually always perceives it as their money. It's so interesting in the large account arena everybody understands it is their money. There is no question about it. We are handling the claims for a fee, but if we mishandle it, if we spend more, if we don't get the employee back to work, we haven't done our job.

So we are very focused on how we perform because it is their money. But even at the smallest level it's fascinating to speak with issuants because we do understand that bad workers' comp experience produces higher premiums over time. Experience mods play a big role and they approach it differently than they do many lines of business where they sort of think of it as it's the insurance company's money.

In the guaranteed cost business, it obviously is our money, but we have an engaged insured. And finding those engaged insured and getting them to work together to produce better outcomes is a critical part of the success of the business.

We'll have Marc Schmittlein come up and speak about - Marc runs our small commercial business - and give you an update on our small commercial - I usually say business, but it's really business units because there are at least two or more.

There is Select Express, which is the smallest of our small commercial business. Marc will give you the statistics and take you through it. And then there is the segment that is larger than that which is - we refer to as Plus. Select Express trades on speed of execution in the agent's office and most importantly a service channel to provide the agent with the ability to offload the service requirements.

These are small accounts with modest commissions attached to them. The service requirements of managing them can eat the profit up quickly. 20 years ago we began the process of instituting service centers to offer that service to agents. I think about a third of our business at this point in Express is in the service center. So those smaller agents who can't afford to build their structure to do it rely on us, another critical competitive advantage.

There is a handful of people who can compete at this level in small commercial business in the U.S. If we are not the leader, we are certainly one of the leaders. We have been real pleased with that business and Marc will take you through that.

And then lastly, but not least, of course, is - we're going to have Greg Toczydlowski - that was a senior moment, sorry. We're going to have Greg Toczydlowski come up and talk about Quantum 2.0. We are very transparent about this.

The development of Quantum 1.0 was critical for our long-term sustainability in the auto business, as comparative raters in independent agents' office became more and more prevalent as the way business was done. The price of the product, which was always important, became even more so. And as a consequence, our strategy beginning in 2011 of trying to raise price to improve profitability was not sustainable.

We were shrinking our business, by round numbers, about 10% a year. Not because of the renewal book, but because of a falloff in new business and that, of course, would not be sustainable. I couldn't be more pleased with how the organization responded to that. We don't do everything perfectly; some things we don't do so perfectly. And while they - by the way, I am part owner of that strategy; I am not blaming anybody. I participated and we thought given the fact that the challenges that faced the industry were systemic, they were not unique to us; we believed that more carriers would embrace that same strategy. It did not happen.

It may be happening now, I am not for sure, but there is more lift of price, more pressure going on than there was even a year ago. It is possible that some of the loss trends that we were seeing were early - saw them earlier than other people. Not sure yet. There is still a lot of movement in that data. But the introduction of Quantum 2.0 has been, at least so far, from a marketing and marketplace acceptance perspective, a real success. And Greg will take you through that and give you an insight to it.

We will, of course, take any questions that anybody would like – strategic, competitively driven, of the moment of otherwise. But we couldn't be more pleased to have you with us today and hope you find it – if you learn nothing new, at least let it be interesting please, and we will do our best to do that.

So with that, let me introduce Vinny Armentano to come up and talk about our workers' compensation business. Thank you.

Vincent Armentano

Good morning, everyone. Thanks, Jay. I am pleased to be here to be able to share our workers' compensation story; how two decades of investments in workers' compensation has come together and brought some fantastic results to Travelers.

More importantly, though, the environment continues to change in workers' compensation, so we want to share with you a little bit about what we think those challenges coming to us will be and how we are prepared to deal with them. What you will hear is about Travelers Medical Advantage, and, no, we are not getting into the healthcare business. It is about how Travelers has recently invested to transform its medical capability to anticipate the future and make sure that we sustain our competitive advantage into the future.

Taking you back, in 1998 Travelers was a pioneer in workers' comp. We transformed the delivery of claims by segmenting our product. We matched the professionalism of our adjusters, the skill of our adjusters with the complexity on each claim. This compared to an industry that, for decades, basically treated all claims the same with the same level of expertise.

When we broke from that tradition, our specialists focused on compensability determinations, what claims should properly be in the work comp system; managing an injured worker back to work; resolving those major catastrophic claims; and for unique states, setting up a state specialty desk to deal with those unique jurisdictional issues. The other thing that was unique is we handled all of our claims across both national accounts and guaranteed customers with the same claim handling process and the same focus on outcomes.

TravComp was designed to lower the total cost of risk. When we implemented TravComp and compared our book of business on the old way we handled claims and then on the new way we handled claims, our internal results were 8% to 10% better. We saw an 8% to 10% reduction in losses on our own claims based on just changing how we manage those claims.

That made us feel that we had something special and our national account customers agreed. As Jay said, national account customers watch the money like it's their own because most of it is. With high deductibles, they will pay the first $100,000 to $500,000 on the claim out of their own pocket. So by lowering the cost of workers' compensation claims, those benefits went directly to our national account customers.

And over the years, this helped our national account customer base grow. And it allowed us not only to grow in size but we added expertise, skills, and further investments. As you can see here, we have a team of close to 4,000 folks in claim and risk control in Travelers dedicated to servicing only workers' compensation with those who handle the claims out in our field offices including 12,000 claim professionals and 500 nurse case managers. This is the largest assemblage of medical staff in any workers' compensation claim organization. Now these are supported by specialists in risk control, fraud, litigation, medical bill payments, business analytics and general product support.

So, as I mentioned, we had a strong market share in national accounts. We also had a strong market share in small and middle, but leveraged the expertise that we got with our national account customers in workers' comp to really build out our growth in the middle market and small businesses. And this is in line with the growth that Jay was mentioning in Commercial Accounts, Construction, and Select Express.

From those efforts across all of our markets, we're really pleased to announce that in 2013 Travelers captured the leading share of the workers' compensation marketplace. Here we show you our market share based on net written premiums. Over the last seven years – the premiums over the last seven years and, as you can see, in the last three we moved from number three to number one in market share.

Again, our goal was not just to be number one. We want to do it the right way. And we think we did it the right way by leveraging deep expertise, data analytics, and a strong execution focus to achieve this position.

Another way to think about size and scale is to look at our volume of losses under management. The red on the chart here aligns with the prior slide. The losses under management align with the premium that we gained from our business that is slightly north of $2 billion. Now, if we add in the claims we manage, now these are paid for by our customers under their deductible, you can see the volumes of claims under management almost doubled. This helps with our scale, allowing us to invest in additional expertise, and also grows the amount of data we have in workers' compensation.

The other thing we believe is workers' compensation is a local business and it really requires deep jurisdictional knowledge. As we grew, we didn't centralize our operations, but really used our scale to be as local as economically feasible. Workers' comp is administered differently by each state as a different program.

There's different benefits, administrative processes, and compensability determinations. They result in wide variations among the states in how they cover medical payments and wage replacement. So we handle our claims locally. This also allows us to have a volume of claims managed locally with those insights and collectively gives us a lot of valuable information about what's going on in that state.

We think our scale, local insight, and specialized expertise work together to bring superior outcomes. It's a combination of all those factors, not any one of those factors, that leads to what we think is a sustainable advantage.

The graph on the left is one that we shared with some of you previously. It shows Travelers and the industry's statutory combined ratio from 2007 to 2011. It shows a nine point advantage when you compare Travelers to the industry results over those same periods.

Now the chart on the right is that same combined ratio calculation updated for 2009 to 2013. As you can see, our workers' compensation combined ratio result grew from a nine point to a 13 point advantage over the market. This was at the same time we moved from the number three carrier to the number one carrier in market share in workers' compensation. Jim mentioned earlier we wanted to grow the right way and that's by maintaining our profitability.

Now the capabilities that we provide have also benefited our customers. As you can see, many of the measures here are the measures that our customers care about, and a lot of them involve managing medical inflation. Now most of our benefits benefit directly from these results in national accounts and through experience mods in some of our small and middle markets.

So let's hear some of our TravComp results which we think are industry-leading in these categories. Two-thirds of our customers' injured workers are back to work within 30 days, back to work so that they can service their clients. Medical savings show the results of our specialized medical payment group, really managing these claims to a lower payment amount from the charge amount. So during 2013 we reviewed almost 4 million medical bills. We - like everybody, we apply fee schedules to eliminate duplicate bills and apply network discounts.

We also do some unique things, one of which is the SMART program where we take these bills, apply a manual review team to actually get additional savings. And in 2013 that was ever $100 million. Overall, about $3.5 billion in medical charges enter and after extensive review we end up paying the appropriate amount, which is closer to about $1.4 billion. This saves $0.60 on the dollar of billed medical charges and we feel that is a leading result in the industry for our customers.

The key strategy to achieving these savings is to use volume-based discounts. Our network penetration is over 80% in both pharmaceutical networks and in physician networks. And it goes beyond medical. Our specialization of several experts seek out recoveries that return to our customers to offset their losses and we outperform industry averages by 20%. Again, all of these outcomes are valued by our customers and they benefit directly from those savings.

I've talked a lot about cost, but it is not all about cost. I am proud to share that in 2013 Travelers was awarded the Workers' Compensation Buyer's Choice award by Business Insurance. This voting is done by customers who feel that - they vote for the carrier they think who is the best in the work comp service and has the best work comp expertise. And we are humbled by getting that honor.

Putting it all together, over time our innovation in investments, medical capabilities, and our execution has led to superior results and across all markets in all areas, from combined ratio to market share, customer recognition, and customer results. The benefit of this is it supports continued investments and investments as we go into the future.

There is challenges out there that are ahead of us and we're looking to approach them as opportunities, and that's going to be in the healthcare arena. As a multi-line carrier, we have a benefit in our GL and auto lines that we can leverage our work comp medical capabilities across those lines to help us deal with the medical environment. And based on our strong understanding of medical and what we have built, it will give us a bouncing off board for continued investments in leading workers' comp practices in the future.

So I want to talk about some of those opportunities for a minute and then go into some of those investments that Travelers has made to deal with the future. So a key factor impacting our future is the healthcare environment.

Currently, the US spends about $3 trillion on healthcare. As we look out over the next few years, it's going to continue to grow; projected to reach 20% of GDP by 2021. The casualty spend is only 5% of total healthcare spend. This has led to a view by some that, since P&C is such a small part of the healthcare spend, many changes in the healthcare arena aren't material to P&C carriers. And while others think it is important, they feel that since P&C industry is so small we can't possibly make an impact on the healthcare spend.

At Travelers, we think because it is not - we are not the driver of healthcare and it is such a small piece of the spend, it is actually more important for us to manage this than less.

We collect a large amount of data in our managed care data base. The top three pies demonstrate the compound impact that medical inflation has had on our workers' compensation losses. Medical inflation historically makes up or inflates at 2 to 3 times that of normal inflation. The compound impact of that inflation has medical growing from less than half the total loss costs in workers' comp in 1989 to about 60% today and then the NCCI projects it will grow to about 70% of work comp loss costs by the end of the decade. This is supported by our own internal data.

With medical at 70% of losses, it really requires us who wish to be successful in work comp to have a strong medical management capability. And I know while I am talking about workers' comp I also want to touch on general liability and auto, because while there is very little industry information on medical costs in those lines, Travelers has a large amount of medical data and we have learned something. The bottom of the slide shows that our medical data represents just about a third of our auto losses and just over a third of our general liability claim losses. While those coverages are different, the medical portion - causation, treatment and pricing - are the same.

So when I talk to agents they say, "Why are we spending so much time talking about healthcare?" It really starts with this data right here. If you add an amount of our losses across general liability, workers' compensation and auto, as a single loss cost driver, medical is the largest loss cost driver for our casualty lines. And as that we felt that medical demanded our attention as we managed our customer's losses across those lines.

Now we know the medical loss component in casualty is a little difficult to manage because we are a small part of the healthcare spend and it is becoming further complicated by a few things going on in our environment. One change you may have heard of, and it is getting a lot of attention, is the Affordable Care Act. This legislation is driving a number of changes. When passed, the Congressional Budget Office projected an additional 32 million Americans, or an additional 15% demand on the healthcare system, all to be added in a relatively short period of time.

Now even with some delays in the program, we are seeing a wide range of effects on hospital operations, including some merger activities, adjustment to overhead and the composition of their staffing. Employers are reevaluating their own benefit plans, use of part-time staff, and use of wellness programs, and all of those impact the environment that P&C carriers operate in. And the demand on physicians will be further exacerbated by the baby boomers. Over 10,000 folks a day will be turning 65 for the next 19 years. Now older folks consume more healthcare services on average, so as the population ages, it further impacts demand.

And the nature of the workforce will change, too. It is projected that the workforce that is over 55 years of age will grow by 20% in the next few years, from 21% to 25% of the workforce. The mix of claims will change, too, with over 50% of those claims in that age group involving more severe slips, trips and falls, so it calls for different risk mitigation techniques and different claim efforts. We thought this was a big problem for American businesses, so to validate it, we went out and Travelers commissioned a study of American business leaders across the country looking at different sized businesses in various industries across the country.

We wanted to understand what was on business leader's minds and what they were thinking. The results showed that medical cost inflation was business leaders' top concern and about one-third of them were not only concerned about it, but it was the number one area that they worried most about. And while they worried the most about medical costs, they also felt least prepared to deal with them. From our discussions, we heard that customers aren't looking for us to just pass medical inflation through to them, they are looking for solutions, solutions to help mitigate these costs.

And, again, it is not only about costs. It is about access to care, access to care for their injured workers. Lack of care may have a direct impact on business operation as they are not getting folks back to work, and this is a particular concern for small businesses who have fewer workers to start with and are less able to have someone fill in when somebody is out. So as we stand here today, we know that, while P&C is only 5% of the healthcare spend, medical makes up 50% of our customer's losses and is growing at a higher rate of inflation than other losses.

We have seen a number of major changes in the healthcare arena and it's driving some uncertainty around the cost and availability of healthcare. Now business leaders, it's the number one issue on their minds. They are worried about it and they know they have to prepare for it. And while this all shakes out, we have seen that much of the industry is waiting to see what happens. We have learned over the last two decades that workers' comp is a dynamic business and you can't relax. At Travelers, we've been planning for this date - or this issue for the last seven years. It started with some of the data I showed you earlier.

When we started a few years ago, we knew that the small percent of the healthcare's medical spend that was driven by our industry required us to do more as it became the leading loss cost driver for our customers.

So as we identified this as an issue we began investing to dramatically enhance our medical management capability. We wanted to grow our expertise in workers - in not only workers' comp, but general liability and auto/medical as well.

Leveraging our expertise in work comp, we have spent some time improving our GL and auto/medical workflows. We have invested in some new talent, adding registered nurses and experts in GL and auto in our field offices.

In workers' comp, we have added support for our medical team, adding chiropractors and pharmaceutical positions. And across all the lines, we have expanded our medical skills and our claim professionals, not only just our nurses.

We have expanded medical training and in just two weeks we will have the grand opening of our new medical lab at our Claim University. As we expanded our risk control focus, we focused more on wellness and behavioral risk control techniques to improve outcomes as well.

Now as we assembled all of those investments across the organization and looked at the breadth and capabilities that we built, we realized it came together and it was somewhat revolutionary. And so we titled it Travelers Medical Advantage because we really think it is an advantage in how we handle our customer's claims.

So it is not a new product, but it is transformational. We feel it is unique to Travelers and not easily replicated. So I would like to share with you just a few examples of some of our more recent innovations and how we're using them in the marketplace.

I talked a lot about volume of data. A lot of our investments start with information. We have over 0.25 billion lines of medical data in our managed care database. We also have invested in a business analytics department to mine that data and bring insights from it.

We think it provides an advantage, not only from the data, but the expertise that can analyze and focus on the execution from that data. On the left side, what we have here is an internal healthcare dashboard that we share with our management.

It provides a sophisticated set of metrics that is really tracking the impact of changes in the healthcare environment, both nationally and locally, and it is providing us real-time feedback on what is happening in the healthcare market. By speeding up that feedback loop, we can understand if, in this uncertain time, some things are happening that we are not expecting and that we can react to more quickly.

On the right, to address our customers concerns, we have just rolled out medical reports for our customers own use. These reports will help our customers prepare for managing their own medical losses and make sure they feel more prepared and less concerned about the medical trends.

This is one I am really excited to talk about with you today. With our scale we have a number of occupational clinics that treat a large number of our workers. Because of our volume, we were able to locate 30 of our registered nurses in those clinics.

Our nurses partner with the clinics to facilitate treatment for our injured workers, and over the last 12 months we have rolled out this patented Concierge Claim Nurse program. It is an innovative approach to an age-old problem of returning an injured worker to work.

So picture this. A worker gets hurt and goes to the local occupational clinic, comes in and is directed over to our nurse case manager for face-to-face consultation. Our nurse talks to the injured worker about their concerns, their injuries, answers any questions they may have about workers' compensation and what to expect next.

Following the medical exam, the nurse talks to the injured worker, facilitates any referrals for treatments, in some cases approving treatments right then, and helping answer questions from the injured worker and the physician about what to expect.

The injured worker leaves knowing that we care and they are on the road to recovery. Concierge Claim Nurse program is a win for the physician, the employee, and the employer. Doctors get more familiar with the work comp program and they are happy to see more of our patients.

Employees are more satisfied, seeing less of a need for outside help and assistance. Employers are happy to get their employees back to work 24% sooner. And after a full year of operation, the Concierge Claim Nurse programs have shown an overall reduction in loss cost on claims they managed.

We hope to get the volume of these claims up to about 5% of our clients as we leverage this more widely and roll out our virtual concierge process as well. I mentioned the increase in demand on physicians with the potential delay in getting doctor appointments for timely return to work. The other benefit of Nurse Concierge is to help build a relationship with physicians so that we have the needed physician capacity to deal with our injured workers so they can get timely appointments.

Shifting gears, let's talk about how we leverage work comp medical expertise in the third-party world. Here what we – it shows is how we have leveraged our knowledge in workers' compensation to deal with medical losses in GL and auto.

Plaintiffs' attorneys take medical charges and, if those are the damages, they will apply some multiplier to that and come up with a claim demand. So assuming it is $100,000 in medical their settlement demand would be about $300,000.

In the past, the demand package comes in; our claim professionals would begin to negotiate a settlement based on their experience and the claim facts. And we did a good job at it. But today our auto and GL teams are leveraging new technology to right-size the medical portion of the claim.

Today we digitize the demand package. We electronically review the medical bills to exclude unrelated charges and duplicate billing like we do on workers' comp. We apply additional edits to identify the usual and customary reimbursement schedule for treatments.

And we overlay jurisdictional tort laws to identify a reasonable amount to pay. Here the medical – if only reduced by 20% would be $80,000 and the demand package would be reduced to $240,000, and that is before we start serious negotiations.

We shared this with our agents and they have informed us that this is unique. We are the only carrier to implement this type of technology and the only carrier to have nurses in our field offices looking at medical causality and relatedness.

Another common area of focus is medical fraud. It is the largest single fraud activity in the United States, costing over $80 billion a year in losses. So to reduce medical costs we are also looking at reducing the amount of fraud in the system. So we have invested in both talent and analytical capabilities.

We have over 300 investigators of which 90% are deployed locally. We have developed the most sophisticated medical management programs in the industry and what I have here on the screen is an effort between our big data folks and our investigators.

We have partnered together to integrate link analysis software with enterprise geospatial capabilities to reveal hidden patterns, to reveal hotspots or suspicious groupings of claimants, attorneys, and medical providers to prioritize how we deploy our investigations.

Now we can't discuss medical without discussing pharmacy and drugs. In the past decade, the cost of prescription drugs has gone up 50% and drug abuse of prescription drugs has become in many respects, a larger issue than the use of illegal drugs.

According to the NCCI in 2011, prescription drugs now account for 14% of medical payments for the work comp industry. At Travelers, it is 10% of our medical payout. At 10%

versus 14% for the industry, our payout is 28% lower than the industry for pharmaceutical costs.

Another way to decrease losses and demand on doctors is simply to have less accidents. We are going beyond some traditional risk control methods. We are leveraging insights from employee wellness programs and the latest behavioral modifications as a way to mitigate injuries.

The bottom picture is from our recent pilot demonstration at the RIMS Insurance Industry in Denver. We have the injured worker put on a virtual reality mask and in a virtual setting they can make a number of choices and they see the consequences of those choices.

It virtually demonstrates the impact that their actions have on their safety and by doing so, we believe will impact in a safer set of behaviors. Another research pilot we are taking is to learn about the correlation between wellness and the impact on losses in the transportation industry.

In 2009, Travelers was the sole insurance sponsor for the Virginia Tech Transportation Institute and one effort was to incorporate employee health and wellness best practices. So this goes outside of some of our traditional research and why I wanted to share it.

It looked at the eating habits of truckers and how it contributes to their overall health and their reaction time as a driver. It discovered that an improved diet led to a safer driver. And so we also looked at the environment they live in and we are working to make healthy eating alternatives available for those truckers by giving them website locations and ways to get a better meal. And it's a good reminder that there is not one investment that drives our results, but it is across a variety of areas.

Over the years we have built a strong medical management foundation in TravComp. It was important when medical was 50% of losses and it will be a lot more important in the future when it is closer to 70% of losses. And it will be important to all lines of business as medical is 50% of our customers' losses in casualty and they continue to grow. Our agents are telling us that our medical capabilities in GL, auto, and work comp are a differentiator in the marketplace for Travelers and we agree.

So we have been sharing our capabilities and insights as a big part of our 2014 marketing platform. So far this year we have been out in front of 4,000, 4,500 of our agents to inform them of our capabilities and strategy around medical management. And we are working with them to identify prospects who would be interested in these capabilities.

We have not seen others make this sort of investment and, as our survey identified, businesses are worried about medical. We are bringing them solutions to help them deal with the uncertainty ahead of them and investing in new and creative ways to manage medical.

So over the years, Travelers has been in the forefront of innovation in work comp. We've stratified claims 16 years ago, along the way had numerous claim patents, models, and capabilities we feel are unmatched by anyone. We have made investments in deep expertise. And so while folks are talking about what they are doing to deal with today's changes, we have built our medical capabilities over the last seven years not for today, but what we see as the risks in the future and to better service our customers.

So thank you. Gabby?

Gabriella Nawi {BIO 2211991 <GO>}

Great! Thank you. We will take about a 10 minute break and then come back for the last two presentations and Q&A. Thank you.

[BREAK]

Great! Well, let's get on with the second half of the morning. It is very much my pleasure to introduce Mark Schmittlein, Executive Vice President of Select Accounts and Agribusiness. I would like to thank him for working on this today. It is always a pleasure doing these things with him. I always learn a lot and I am sure you will as well. Thank you.

Marc E. Schmittlein {BIO 16615938 <GO>}

Thank you and good morning. It's great to be here. I am always depressed, not because of Vinny's message, because I'm going to play off of his message, but he always puts me in a different category of old up there, 55 or over, or 65 or over, so I keep gaining on that.

I'm going to open up the presentation back a little bit with where Jay started because it's very pertinent to what I'm going to be going through today. We consistently invest in the development of competitive advantages, and Jay spoke about it. But that is the three examples that you'll see in the presentation today are we take a lot of thoughtful time. As he said, we make our strategic decisions around where we put capital based on creating or having existing competitive advantages like in workers' compensation.

What's most pertinent from a business perspective in the business that I run is we will grow where we believe we can outselect and outperform the competition. I am involved in a flow business, so some of the other businesses inside of BI, and we'll talk about that in just a second, are very much at the individual transaction level with an AE or an underwriter. Our - a big chunk of our portfolio comes through the technology. And so, we're very dependent on data and analytics to think that we're going to be in a competitive advantage to outselect and outperform.

Another example I'm going to give you today, which might not be the typical example that Jay mentioned, was when we don't have the proper returns - and we are a return-focused company - we will take action, disciplined action in order to reduce that. And so, one of the examples I'll walk you through will have that.

So, let's get started. Business Insurance, so Select Accounts is part of Business Insurance. It's $12.2 billion, so it's certainly a significant segment for the Travelers. But the pie chart to me not only is Select a major part or a big part of that, as well as Commercial accounts making up half the pie, more importantly to me is the other side of the pie.

I have spent over 20 years in the field and the advantage that I think we have, simply because we have 14 distinct businesses. All the product lines and the breadth that we bring into the marketplace; when I would walk inside of an agent or a broker, knowing that not only the business that I represented, but having 12, 13 other businesses that a number of those businesses would be doing fine and exceptional things for that agent or broker, meaning that we had a different step, a different advantage when we walked in that we have still today with that kind of product breadth.

And you can see in the chart or the survey here how that plays out. So this is a Goldman Sachs survey. It's a pricing survey, but one of the key questions that they do, and this is done every six months, are how do your top five commercial carriers fare? And you can see here in the red that Travelers over an extended period of time fares quite well. We think again we have a huge distinct advantage with our agency partners, and again some of that's going to play out in a couple of the themes that I have to talk about today.

So where does Select Accounts fit in to Business Insurance? Well, Jay talked about the two segments, but we are roughly 22% of the net written premium. But the big part of the slide here is that Jay gave a pretty interesting analogy with the duck I will come back to, but our net written premiums, which I know many of you focus on, have been flat for a relatively long period of time.

Underneath the flat, though, is really the story. You look at the duck on the pond, as Jay expressed, and the feet are moving fast while the duck appears to be motoring along on the pond. That's very, very true of our business. We have had significant business changes. All those were dealt with with a purpose, but we want to walk you through what those are and what the result has been.

So, let's talk for just a second about the two segments Jay referred to. First is Express; and you can think about Express as the segment that we have that is the very low end of small commercial. And what do I mean by that? This is business that is pretty benign. The risk exposure is low. We feel that this does not have to come through an underwriter but it needs efficiency, and it represents $1.7 billion of our $2.7 billion. It's a flow business, so it has 680,000 policies. The average account size is $3,000.

So if you think about that from an external perspective for us, which is the agent or broker, they are not receiving much commission on the transaction. So we average about 15 points of commission, so you are looking at an account here that is less than $500 in commission. So their challenges are like ours. How can you be quick, efficient, and move that business through so that you can improve on your cost structure.

Excuse me, let me go back there. Plus, on the other hand, is our business that actually does refer to an underwriter. Again, it is the upper end of small commercial. It is a part of a flow business. You can see here that we have $1 billion and it is very meaningful. It has 125,000 policies in-force. So again, if you compare that to the other businesses I had on the pie chart in BI, you would still see that this is one of the larger populations of policies in-force across BI and yet the average account size here is $13,000. So compared to Express, it's still larger, but from an agent or broker's perspective, it's still a small commercial account transaction.

Our regard for Plus is that the complexity associated – the risk complexity, the exposure, sales receipts, values on the property are large enough where we do want to have the underwriter take a look at it for the risk selection and pricing. Again, the context is still all a flow business.

I'm going to take you a step deeper. And we often refer to our business as complex to manage, and I think it is often misunderstood because at the bottom I also note that we also don't think this business is a commodity business. Why do I think that? Well, when you think about the complexity that we manage across, we have over 14 industry segments, so an industry segment would be restaurant, our building pack, our technology segment, creates 750 classes of business.

We operate four lines of business, so we have our CMP or BOP product, we have workers' compensation, Commercial Auto, and umbrella. When you couple that with the fact that we write in over 50 states, we create over 700 risk selection territories.

So the example I am going to give you to explain that complexity is think about a family-style restaurant on one side of town. So let's look at the restaurant industry. That is one class within restaurant. The family-style restaurant on that side of town is a family-style restaurant that seats 20, no alcohol served, no entertainment. They don't own the building, so it is contents only; pretty benign, pretty straightforward.

The restaurant on the other side of the town, again, a family-style restaurant, but seats 120 people. It does sell alcohol and it has karaoke three nights a week. Now, we are good. We aren't good enough to figure out whether it is bad or good karaoke but, again, it really represents the differential that on the surface could look very, very similar. Right? Two restaurants, family-style. It is our ability as a company to dig deep into the segmentation which is represented in the queue.

So our ability to dig deep in a state, so we go down to a state level, at that particular risk in that particular industry we think is a distinct competitive advantage and really does belie the fact that we don't consider this business a commodity.

Let's talk about competitive advantages, really a theme that you are hearing throughout the day. I won't walk through these in a whole lot of depth, but we do think that there are key competitive advantages to be successful in this space; first and foremost, scale and efficiency.

Scale: If you've got a big enough block of business, you are going to be able to create the data and analytics to run a flow business.

Efficiency: So if you are going to have 680,000 policies coming through, for instance, in Express, you have got to build the back room to handle the endorsements, the billing, the audit activity after the new business account has been written.

Technology platforms: Every company that gets up in front of you and talks about being in the small commercial space is going to talk about technology being table stakes. I agree. But who has the best technology? Who is willing to make the investments to continue to make it the best technology to differentiate it from my perspective.

And Service; so, as Jay spoke about, we have not only created service efficiencies for ourselves, but for our agents. In our operations staff we have put together a place that does over a third of the transactions direct with the customer at the back-end service for the agent. We have done that since 1998.

Data and analytics; again, overused term, but to have the data and analytics and make it actionable. Again, flow business, being able to create the data that I just spoke about. We have now invested heavily in dashboards, at first for the executive and management level to run our business. Now we can take that flow of business down to a state level, an underwriter and a salesperson in that state. So again, be able to make the data actionable is key for us.

Then last, but not least, before I get to talent, leading distribution. I will bring it up again because I didn't make the point. The point is that in small commercial we probably represent more of the agencies than any other business inside Business Insurance.

We have 10,000 agents that we deal with. They are not all created equal. They don't all perform equally, so investing in agency segmentation to weed out those that aren't performing at all or those that are unprofitable or where we can leverage more growth opportunity are all investments that we continue to make.

And I end with talent before I dive a little bit deeper because I don't think we talk enough about it. It's a platform that we create, not just in Select but across all of the BI's dynamic. The investments that we make – make it an attractive place to come and work and that leads to execution capability.

I am going to give a shout out here to my partner in crime, Greg Toczydlowski, because six years ago when we looked at our flow business we didn't have a product management bench.

To run a flow business, something that is very common inside of personal lines, I consulted with Greg and Greg was willing to actually give up talent to us and seven years later I think we are probably leading in the industry in terms of product management and commercial lines in what we do with the granularity of our data.

So before I leave this slide I would like to just talk for a second about how that discipline and competitive advantages have been built. You could look at the chevrons I've put up and say that's great, Marc, but anybody can come in the space and replicate that process. And I would say, sure, they can, but I think as a leader in the industry, we have been building that since 1996.

So I am not going to walk you through, don't worry, all those points on the slide, but 1996 was when Aetna and Travelers came together, two carriers that did small commercial, neither one with significant scale. By putting them together, to me, really started our journey. And the significant investments that we have made and the innovation that we've put in since then have enabled us to be an industry leader.

We were one of the first companies to come up with service centers back in 1998. IENet was our first foray into really decent technology and it happened to be web based at the time, which was really leading.

You fast-forward to the technology I'll talk about in just a second, so second-generation technology that we think was cutting edge at the time that we put it out with Express and allowing that model to roll out put us into the world of predictive modeling, multivariate rating, was able to expand distribution as a result of that technology, which then led to inside sales.

Inside sales and what does that mean? Well, we cover 40 states. We cover 10,000 agents, so think about that for a minute. Our outside sales reps cover about 30 agencies. Our inside sales reps now cover three times that amount. So to get the coverage and to get the communication, get the scale, it was a critical innovation and a critical area that we invested in.

And finally, we're now in the second generation of our predictive models, again, making the steps, making the investments to stay ahead of the game. So again, we think that this is actually a barrier to success for some of our competitors that we have had the tenacity to stay with it and the learning's that we've had and the willingness to invest over a long period of time.

So let's kind of switch gears here and start to talk about the examples. Today we are going to start with a growth example and this is where we actually created that competitive advantage back in 2006. So what was the setup for that advantage? And it's something that Jay talked about, it is our Express platform.

At the time, agencies were really challenged. There was nobody in the industry that was really making their life easy relative to rating, quoting and issuing business at the very small end of small, that $3,000 account that I spoke up. We, on the other hand, had strong retention and solid returns at that end of our space, but we lacked the streamlined rate quote and issuance platform as did the agency plans.

We were under-penetrated. We had great success in it, but we had quote volume that was actually stagnant over a couple year period of time. So we made the investments we needed to. We invested in our platform. We invested in sophisticated pricing and scale data and analytics that we could make actionable. We broadened our appetite so in 2006 we didn't go over that many industry segments; didn't have 750 classes of business.

We improved our execution pools by adding dashboards. Policy servicing, so when we entered into the Express world, we knew that the volume was going to kick-up. We knew that we had a good thing and we had to be able to actually service the policies in the backend and scale up for that in our operations division. It actually led to refining our business model.

So what did that model look like in 2006? And again, this was at the low end of small commercial. Pretty clunky, right? So the 83% of the business that came through that platform or lack of a platform had to come through an underwriter. Didn't matter whether it was a minimum premium $500 BOP or was a larger account. All of it had to refer before the agent could issue the policy or the account would be declined.

Only 17% of those transactions were able to be straight-through processed by the agent with agent authority. So where are we today in 2013? A huge paradigm shift, right, so just the opposite. 80% of our transactions today come through with agent authority straight to an issue, rate quote and issuing the policy or actually having the transaction denied, if you will, or declined in the technology.

Now, that's not always going to be the most optimum situation for the agency, but the reason I bring it up is because it is done in the technology. It's done with the speed and efficiency that if the agent had to enter the account, they want a quick yes or no.

And now only 20% of our volume refers into the underwriter before it can be declined or issued, and that 20% is handled within hours, if not within a 24-hour period of time. If I took you back to the prior page, that still occurred within a one to three-day period of time. Again, not efficient for the agent.

So what was the payout or what has the payoff been? It has been remarkable. Since 2006, new business quotes are up 80% through 2013 and our policies in-force since 2006 are up 40%. So again, an investment in a competitive advantage, one where we were actually able to grow as a result of that.

I'll switch gears to a line of business as a second example and the line of business is CMP. You could refer to it as BOP in the industry. Our CMP book is a very relevant part of our portfolio. It's over 50% of the volume.

Here in 2006, I have given you the split between our Plus book of business, the upper-end of CMP, and our Express book. And for relative terms, they are just about equal. I am not going to give you the answer, because it's pertinent to the next couple of slides in terms of where we've ended up and this goes back to Jay talking about disciplined execution when returns aren't where we would like them to be.

We have shrunk the Plus book of business to 32%, while growing the Express CMP to 68%. Both lines or both areas, Express and Plus, over time became challenged or had become challenged from a return standpoint for different reasons and I'm going to walk you through there. So the overall CMP piece as a percentage of our premium is also reduced, but again, a much more meaningful reduction in Plus.

So why did that occur? Well, if you go back to 2005, we actually built the Plus product. We launched it and we grew from 2006 through 2008. But as I put the number one up there, something interesting happened from a competitor dynamic.

And we can theorize; I actually think it is pretty accurate, but we launched our Express platform into the industry in 2006, which was very, very new with the straight-through processing. But the smaller players that compete with us on small commercial were not willing or not capable of making the capital outlay for that type of a technology platform and build, so it pushed them up, if you will, into the competitive arena of the upper end of small commercial. As Jay referred to, it could be their middle markets.

We saw that through our data and analytics and we have been very public with this group that we actually at that point in time took down our new business writings pretty significantly. The return on the renewal book of business was fine in 2008, but over a period of time external forces also impacted the entire portfolio, including the renewal book, some things that you are all too aware of.

The weather that we talk about and we just had an incident with weather that we all – that was pretty public in the industry at the end of May. It is here with us. It seems like it has kicked up in volatility and we have it certainly in our property book of business.

Then there was a cumulative effect of rate change not covering trend that actually goes back before the number two on the example, but it is that cumulative effect that led to our returns being challenged. It wasn't that there was significant rate reduction but the length of time in that reduction was not covering loss trends.

So by the time we got to 2011, coupled with the fact that interest rates were low, net investment income also being challenged, even in a shorter-term line like this, we took action, okay. So we learned from that execution that we needed to continue to shrink the overall portfolio. So again, here is an example of disciplined execution when the returns were not where they were expected to be or we wanted them to be.

Before I leave this slide, though, and it is a point that Jay made, we can look at this example and this is one line in the portfolio for Plus. We write workers' comp, we write automobile, we write umbrella. As a whole, coming into 2014, including CMP, we are encouraged. We have been improving the CMP line, and I will talk about that in just a second and where we are with the rate that we have been putting in the platform.

But also the other lines vary in terms of where they are from a return perspective and we feel like we are making progress in the industry with the rate that the industry has taken on the last two or three years. We probably feel better about the Plus segment today, CMP, work comp, auto, and umbrella than we have for quite some time, particularly in the area of new business. It's not robust, but pricing seems certainly to be in a more rational place.

Why is that important? It is important because I talked about the breadth upfront. Jay talked about it with the fact that we probably have more like two business units in one in small commercial. I think about it from Express being at the small end, Plus being really that gap between us and middle markets, and then getting into our middle markets accounts group.

Again, I think of that as being important because, if we didn't have it, the gap between our small end and Express we feel we have distinct competitive advantage in the middle markets would be significant. That would allow for competitors to come into the space and make it very, very difficult and tougher, certainly, on the Express end. And I would argue in the lower end in middle markets.

Now let's talk about the other end of CMP, our Express product, and what has happened there. Certainly we feel good about the growth that we have put into the product. You can see here that we have grown the product 21% because of the technology and the platform we spoke about in this particular line. But a couple other factors, including the ones that I talked about in Plus in terms of the weather, the investment yield, and the cumulative effect of rate not covering trend. The biggest thing that I can talk to you here about are learnings.

As a company, we are going to do things and we are going to learn from them. They don't always turn out the way you want them to turn out and you are a better company for it if you come back from those learnings and you put it into play in the marketplace. We built a product here in 2006 to go along with the platform. We put the first series of predictive models in place in 2006 when we launched CMP.

We added distribution because the platform enabled us to do that. We added classes of business I spoke to you before about, and we went into geographies that we had business but certainly not the scale that we were hoping to have. All of that created a healthy environment to learn from, and we have. And when we got to 2011, combined with the external factors of rate, weather, and interest rates, the book became challenged from a return perspective.

So as we put rate in, we changed some of the underwriting characteristics, we have moved to second generation - are moving to second-generation of predictive modeling. We've taken the book down starting in 2011 as well. That journey is not complete yet and I am going to walk you through the execution in terms of what our returns look like and the progress we are making, but again, two ends of the spectrum on CMP as a line. It is a very important line for us and we are making significant progress on the return part.

So the how; how did we do that disciplined execution I think is critical. And I think it's critical because, again, I lean on my field experience. If we had done it with a 2x4, if we had gone in and looked at the challenges of return in the line of CMP and just taken brute force with rate, we would have put our distribution force in a distinct disadvantage.

My guess was that they would have returned. And we get to where retention sits in the book today, and we will view that in the slide, I think that would have been much more difficult. But instead of that, we have an extreme amount of granularity in terms of how we put our pricing back into the marketplace.

We do that through something we call quintiling. It's not a – it's nothing significant in terms of how we put it together. It's taking our business and putting it in five distinct buckets, most profitable to least profitable, which you can see here on the colorful slide.

We do that through a series of segmentation factors, though, and the first one I have up there is propensity for loss. And it is an important one. So in this business, unlike middle markets, a lot of our accounts don't have a loss in a calendar year. Almost 80% of our accounts don't. So we are searching for those risk characteristics that are going to point us toward the likelihood that that account will have a loss.

Second would be the risk characteristics, the example of the restaurant that I gave you on the surface looking the same, but beneath that, quite different on the same class of business. Our accounts do have losses, so obviously the actual losses play in. And we drill that down to a state level. So not only do we look at a line like CMP on a national basis, but we also do that at a state basis.

And the reason that becomes important, you could have three classes or three segments, you could have restaurant, garage, and store performing in one state. Go to the neighboring state and they are not performing in that state, and so you can't make universal decisions based on just looking at the data at a national average.

And finally, last two are financial score. We actually do in our technology, look at the financial score through D&B real-time and industry segment. Obviously, the 14 segments I spoke about before are critically important in looking and managing the business.

So what are the results of us going into quintiling and the complexity, or if you will, the granularity? So in the fourth quarter of 2011 the important line here to look at would be the red line, this is our renewal price change, rate, and exposure. And here you can see that we had no real differentiation in the first three or even four quintiles. We didn't really get to raising price, if you will, or raising our RPC until the worst-performing quintile, quintile five.

Now you fast forward and there's been many, many iterations of this, but fast forward to 2014 in the first quarter. The line has significantly sloped in an upward direction to reflect the best-performing business getting the least amount of RPC and the worst-performing business getting the most.

Most importantly as well are those blue lines. The blue lines in total are higher than they were from a retention perspective back in 2011 because we are improving the portfolio. Retention we moved up four points because of that improvement in the portfolio in the first quarter and the loss ratio has improved five full points. So really, really feeling good about the progress that we are making, but we are not still at target returns. We are close and so we still have work to do on this line.

Now let's look at our third example and this one again is a growth example at a line level. Jay talked about it and Vinny actually stood up here and did a great job of talking about our advantages in workers' compensation, so I am not going to walk you through those details again. But we looked at workers' compensation for small business back in 2006.

We had competitive advantages that we knew at that time from a risk selection and enterprise expertise that Vinny spoke about and clearly from a claim handling standpoint across the greater BI enterprise. But on a guaranteed cost basis, we weren't taking advantage of it. We only had 15% of our book of business in comparison to CMP.

I think the reason that is, is because CMP is like the flagship property in small. It always has been. It stands on the street corner as that retail business and so we had put a great effort into working on our CMP book. But I think it cost us an opportunity, if you will, in walking by the advantages that we had back in 2006.

The line in 2006 had attractive returns, just like the returns that we have today, and we had a very, very favorable view across many of the key states that we wanted to get in and penetrate on a workers' comp basis. That state view is critical, so Jay mentioned that we work on workers' comp across all the businesses in BI, but we all get together and talk about each state because each state can change quickly. And we do that on a regular basis. So again, in 2006, felt good about the main states we were going into.

Quickly, how did that turn out with a focus on workers' compensation? Well, we have grown quotes 18% per year since 2006, and most importantly, we have grown policies in force 14% a year since 2006. So a great outcome, but I think most importantly is the great footnote on the bottom.

We have grown this line of business in small commercial while at the same time maintaining our aggregate returns above or at target levels. And again, I think going back to the slides on where we want to invest and the competitive advantages that is the best outcome we could possibly have.

So where has that left us? I'm going to take you back to the first slide where you talked about net written premiums being flat in Select Accounts over an extended period of time, but underneath that a lot of change has happened in the platform relative to mix of business.

CMP was at 67%, as our lead line in 2006; it's now – and workers' comp was at 15%. Today in 2013 comp is now 29% and CMP has reduced to 56%. Again, the top line has been flat. We couldn't be more pleased with that mix of business change.

We are feeling much better about our CMP product. We feel like we are putting the rate into it to get it back to target returns, but when you think about weather and volatility and what we have had with weather volatility, and you think about rooftop and property, which is a big part of CMP, we like the balance that we see here.

The 29%, I am sure somebody may bring up and say, how do you feel about that going from 15% to 29%? We feel great. In relationship with the size of the book of CMP that we have, we still think there is room to grow CMP and grow it effectively. Or grow workers' comp, I apologize.

All right, so we've spent a lot of the presentation focused on line mix and focused on the technology platform, but I don't want to leave you with the view that in Select Accounts we are not focused on the future. It's a dynamic business and for those that stay pat and don't make the investments, I'd argue that you actually go backwards in small commercial.

So first and foremost, we have a relentless focus on assisting the agent in the small business buying and servicing process. And you have seen that through the Express platform, but I'm going to highlight a couple of areas that I think are important to understand. One would be prospecting.

So Prospecting for us now is at a granular level where we can actually go into a state, go into and visit an agency and talk to them about a mix of business, whether it be in our 14 industry segments or workers' comp. We can actually take that down to a business owner and their address - street address and the exposures that they have. This is important to us because we want to manage our mix of business inside each one of our key lines.

Number two, selling. And I haven't spoken to this group before about selling; our role in the selling process. Well, the agents are not only challenged from a cost standpoint on the servicing of small commercial, but in the last four years they have come to us and said, "Look, we would love you to sell on behalf of us. Selling in the Express arena, in particular, with averaging $500 in commission is something that we struggle with." And so over the last four years, we built a national sales center in one of our service centers. We sell on behalf of agencies with licensed reps.

To me, it's critical for two reasons. One, certainly it is giving the agent something they are looking for, for efficiency and cost. But number two, gives us a closer and better lens on the selling process direct with our customers, the business owner policy.

The next piece of that would be service. So when you couple that we are now looking and getting better and understanding more of the selling process on behalf of our agents. We've been servicing small customer since 1998.

We think we understand their needs better, or as well as anybody in terms of what they need from an audit process? What they need from an endorsement process? What they need from a billing process, which is one of the most - most calls that we get the most often are billing issues? That understanding between the selling process and the service process we think positions us well for any dynamics that change from customer behavior in the future.

Second-gen technology, so I'm going to skip over products just in the sake of time, but second-gen technology. So we came out with Express in 2006, since then we've actually come out with the second-generation of that. So we have now introduced CMP into the marketplace in 2013 and the beginning of 2014. We started with umbrella on second-gen and we will be moving to our second-gen workers' compensation platform in 2015, so covering our two major lines.

Why is that important? When we visit our agents in particular, the CSRs, our service reps who sell our product inside of agencies, their life is complicated. They literally sit and spin from carrier-to-carrier and putting that data inside those proprietary platforms like Express. If we can make that experience better and easier with a better outcome for them, we think we profit and we benefit from that.

Last, but not least, is Travelers' positioning and branding with prospects, customers, and the small business community at-large. We have come out with several new things. One is something we call onboarding, so actually this month we're coming out with a welcome kit that will be delivered with every new business policy that we have for small commercial.

Why is that important? Well, it really is a gateway. Not just a delivery letter or an email that brings them access to our company, but lands them in Travelers.com, our landing page, takes them to the services that we can offer them with value beyond the policy. We do this in conjunction with our agents, but we think it is going to be very unique to be able to do that. It also takes them to the site where we have virtual risk control. So Bob Brody is sitting here today and his risk control folks; I love them, but I can't afford to send them out on a $3,000 account. So we have brought that risk control experience to them from an industry perspective sitting right inside Travelers.com.

And finally, a partnership, Weather.com. So Greg Toczydlowski and the Personal Lines folks entered into a partnership with Weather.com, I guess about a year-and-a-half ago, Greg? We jumped on top of that and the reason why is because this gives our agents a great advantage in that they can now look at weather events that are coming and we can push to them through a ZIP Code process those customers that we have with them that are in the path of harm's way in advance of the storm.

Important for them; it gives them something beyond the policy they are selling to their customers, important for us because of preparing and mitigating that loss activity, and it really pays off for the small business owner.

I'm going to switch gears again on you and talk a little bit about stewardship. This is something that Jay and we do through the Travelers Institute. We think a lot about the small business community. Not so much from a business perspective, certainly selfishly we could do that, but simply from a stewardship perspective. We have gone out and done 13 small business symposiums across the country with Joan Woodward and her group simply to bring to light all the issues really since 2008 that confront small business creation and staying in business for small business owners. We do that through things like continuity planning, cyber risk, and regulatory relief. And we have partnerships with some of the Federal Reserve Banks in Dallas, Boston, and Pittsburgh, and a partnership with the New York Stock Exchange.

We all know, I think the employment numbers were reported today, that a majority of the employment is created through small business owners. And we want to fight the fight with them and we think we are taking that and doing that. We will continue to. A couple of the new things that are coming up are cyber and I think again regulatory relief just never goes away.

And we also have done creation in terms of partnerships. So Small Business Saturday is a partnership with American Express. We do that on behalf of our small business owners and our agents, because big box has certainly had an impact on retail establishments in particular. And we choose a Saturday to partner up with them, which has had a really positive impact over the last two years.

So I'm going to leave you on a slide kind of where we started. We feel this business is built on competitive advantages and we have done that over a period of time. But the advantages that we have with distribution certainly not limited to small commercial, but built around all the businesses inside BI give us a real leg up, especially in terms of some of the execution that I have taken you through today. And we think we are well-positioned for the future to continue to execute.

So with that, I'm going to turn the program over to Greg Toczydlowski.

Gregory C. Toczydlowski {BIO 16615940 <GO>}

Good morning. Thanks, Marc. Similar to Marc's presentation I'm going to do some of the same. I'm going to share how we manage the PI business, walk you through what some of our competitive advantages are and then leave you with an expectation of what you can expect from us in the future.

As we look at our competitive advantages the top two rows have a similar word in it, premier. Premier carrier across the independent agency channel and a premier property writer and automobile preferred writer.

We've spent a lot of time on our words and when we define premier we define premier as having industry-leading returns for our investors. And I think I walk you through the facts on that around both of those top two bullets.

As we bring those two flagship products out into the marketplace, we bring them out with an account solution. We think that's a critical competitive advantage in the marketplace right now. I'm going to walk you through how we are going to enhance that gap going forward.

Two enablers that we think are critical for our account solution is really bringing the advanced analytical process to those products and also combining with the very contemporary digital set of commerce around how we bring the services and fulfillment around both of those products to the marketplace.

And then overall, certainly not all of our relationships overlap between Personal Insurance and Business Insurance but many do. And so having that understanding, the intimacy of our independent agents and having that better partnership with those franchise agents really give us a competitive advantage as we bring those markets end products into the marketplace.

As we look at our overall product mix you can see if you add up the blue and green what we would define as our Multi-Peril business, our property and our OTL represents 53% of our overall product mix. That is unique.

When you look at the top-10 industries the closest carrier that has that ratio is 37%. And so 47% of our business being automobile and why that's critical is various pundits out there that right now that have been talking about the adoption of new technology from Google's automobile to the autonomous to semi-autonomous vehicles around some projection being so futuristic that the automobile's frequency may dissipate.

And we certainly don't believe that is the case because there would have to be adoption across the entire fleet of the automobiles in America. However, we do see the effectiveness of that technology and so we do believe there will be an impact on frequency over time.

We've spent a lot of time forecasting, understanding the offsetting items. As the fleet eventually moves into that adoption of that technology there will be offsetting items like the severity from the vehicle that don't have that technology that are a hit in that very expensive technology.

So as we look at our product mix we feel very comfortable and pleased with that 53% of our book of business that has a property orientation. As we shift and look at the customer mix within our business we define our customer mix based on this exhibit.

And on the y-axis that's the underwriting risk. So we think our target market is the upper half from an underwriting risk point of view. And the x-axis is the complexity of the balance sheet of the consumer household. And so we want to be in the marketplace on the upper half from a complexity point of view.

As we intersect those two variables that's really where our target market is. And as we define some of those metrics down below you can see 42% of our customers have more than one product. When we look at the best credit score ratings, meaning the lower risk business, 66% of our automobile business has an excellent insurance score and 72% for property.

Full coverage automobile meaning they have liability, comp and collision 75%. And then overall no loss experience where we would be giving that customer a loss free discount, very strong numbers at 72% for auto and 86% for property. So we believe based on that product mix and that customer mix we are very well-positioned to continue investing in this business.

If we look at two eras in the business and we will clear out the property story first, from 2004 to 2010 pretty strong industry results and again backing up that word premier. If you look at the blue bullet down low, a 14-point combined ratio advantage for us over this period of time over the industry, 85% relative to the industry of a 99%.

The industry at a 99% is a remarkable period of time. Over the last 25 years the industry has had 110 combined ratio in the property business over time. So this was an 11 point advantage for the industry relative to that long-term norm.

And as a matter of fact three of those periods 2004, 2006 and 2007 were below a 100 combined ratio and that only happened 5 out of the last 25 times for the industry. We have consistently produced an underwriting return in this business over time.

As we saw a shift in the environment from 2010, and Jay talked about that, it was more interior weather across the country, many times followed with hail and sometimes with tornado. We recognize that shift in pattern and obviously coming out of the economic crisis a much smaller set of net investment income underneath the product so that put more pressures on the underwriting returns.

So we had a strategy very similar to Business Insurance of improving margins on that business over time. And you can see three independent periods with close to double-digit rate increases over 2008 through 2011, excuse me, through 2013, really for that pursuit of making sure that we were putting up an adequate return in reflecting some of this volatile and adverse weather that we were facing.

We also looked at terms and conditions within the product increasing what we define as coinsurance or the deductible that we share with the customer. So we addressed not only the wind and hail deductible where it's relevant for that particular peril, we also tried to push the all-rating peril overall up in that marketplace also.

And then we tapped loss reporting. A phenomenon we saw coming out of the recession was that losses over a period of time elongated, sometimes beyond the year. And obviously the insurance product is available and our response is to when a loss happens that we can speedily get out there and indemnify that consumer before any additional damages happen.

So we did put the limitations on the contract to make sure that we are really being responsive and the consumer and the agent have an obligation of responding when that claim happens.

And then various underwriting guideline changes, from roof inspections to age-of-roof ratings. We have age-of-roof rating in 32 states. We're rolling it out in five additional states. And so really, again, back to risk selection and pricing segmentation and making sure that we know a roof that is 20 years old versus a two-year-old roof has a higher propensity of damage on one-inch hail. And so we're addressing that in our underwriting and our pricing.

As we look at the results of some of those actions, as we move forward to the 2011 to the 2013 period, you can see a remarkable enhancement in terms of our combined ratio. 77% in 2013, continued our gap relative to the industry, and $100 million gap relative to top-line premium. So we define that very much as a success as we operated in that disciplined manner.

As we switch gears to automobile, a little bit of a different story but similar from an industry point of view. Over a 25-period we clear out some of that data relative to property, the industry has produced 102% combined ratios.

You can see over this period of time a 97.4% and you can see our advantage of the 93% relative to that 97%. And so we saw a shift in the environment around 2008, when we looked at the underwriting profit in the industry for automobile, only 6 periods out of the 25 produced an underwriting return and 3 of these are on the slide, or 4 of these, 2004 to 2007.

We started seeing, not necessarily an uptick in frequency, but not as much good news decreases in frequency in 2008, 2009 going forward. That coupled with some of the weather phenomenon that we saw on the property side of the business gave us some volatility and pressures in the physical damage coverages.

We also saw some pressures in bodily injury. And then again, that coupled with lower net investments income, we went on that same pursuit of improving margins in this business as shown by the rate levels on the right-hand side of this exhibit.

Different than the property business, we felt it more on the production. And Jay alluded to the competitive nature of the comparative rater. And you can see while we've made improvements in our margin because we believe we needed to over that period of time, we felt it on the production side.

And you can see the $3.7 billion dropping to $3.3 billion and that was not a sustainable strategy over time. But again we are always going to be focused on making sure that we have a adequate return for our investors and then grow the business over a period of time.

So as we feel like we have a strong foundation at this point, a 98.9% at yearend 2013, first quarter of 2014 is one of our lower seasonality periods but we came out of the gates with a 93.3%. We believe the disciplined rate level that we're taking has been offset in some of those loss cost pressures.

And Jay talked about we spend more time on ourselves. We monitor our competition very aggressively. And when we look at our competition and we looked at a basket of six players across the country, when we look at their results for year-end 2013, five of those six had a combined ratio in the automobile line greater than 100% and when we looked at them in the first quarter of 2014 five of them had a combined ratio greater than 100% also.

So we believe we have taken the medicine that we've needed to do to address some of these loss pressures and we feel like we're positioned well as we roll out Quantum 2.0. Before I drop into Quantum 2, I want to spend a little bit of time on the external environment and we really have three constituents here, consumers, carriers and independent agents.

And the common theme across all three of them is this industry from an automobile perspective has become much more price-sensitive, as consumers have become more disciplined with their financials coming out of the economic crisis. As carriers have invested heavily in advertising a number of $6 billion in 2012, that's up from $5.1 billion in 2010 almost $1 billion uptick in a two-year period with the primary proposition on the message around price.

And then independent agents with the emergence of all these more sophisticated automobile programs, independent agents have adopted comparative raters so they could be more efficient in understanding how they can input information once and understand all the solutions. However, we've seen that tool drive towards a price dilution for consumers.

So as we look at the comparative rater utilization across our book of our business you can see the red bars are our proprietary quote system, where agents would go directly into our quote system without hitting a comparative rater and know based on our claim service, our product and our accounts solution, provide the business to us. As you can see there has been a shift on that dropping off and an uptick on the comparative raters over this period of time.

If we look at the percentages on the far right, 83% of our automobile quotes move through a comparative rater. And the key two dynamics on this slide is the inverse relationship between RPC, renewal premium change that we've made in automobile business, and how the new business has dropped off on that rate strategy that we've talked about.

So again, we feel terrific about the returns that we needed to address over this business, the production we have felt along the way. So as we were pursuing that rate strategy over the last two years we've had in development what we call Quantum 2.0. Quantum 2.0 really embraces the understanding of Quantum 1.0 and all the relationships of it, but most importantly, we reengineered our cost structure.

Jay talked about the $140 million. I thought I would give you a little bit of color underneath that. All $140 million there was value added OIE or ULET. That was value added to us, but we believe that the customer just wouldn't pay for that value. And so, we had to make the hard line in terms of where we were going to pull those expenses from. Many of the expenses came from people, consolidating business centers, similar to what Marc Schmittlein talked about in internal versus external servicing model. We pushed more to an internal servicing model utilizing telephony software and just becoming much more efficient. We took that $140 million and we deployed that into our pricing on Quantum 2.0.

In addition to the OIE and the ULET savings we asked our partners who are competing every day with various distribution outlets that have a lower cost structure from an acquisition point of view to come along with us as we dieted and exercised also. And so, we brought the Quantum 2.0 to two point lower base commission and then we continued to drive that into the marketplace.

In addition to the pricing and the commission we're very proud that we've brought new features into the marketplace along with that. We've built the product in a very modular basis and agents can continue to customize how they would like it at individual levels.

If you look at our appetite in terms of Quantum 2.0, you can see on this x-axis, we have not expanded our appetite, we've just become more competitive across our appetite. We think that's critically important. As we deploy some of those expense savings into the pricing, it gives us overall a lower price. Where this slide is a little misleading, you could almost put a high-low stock set of rows across Quantum 2.0, because based on the new segmentation we will have customers that will get a higher price than Quantum 2.0 than Quantum 1.0. But overall based on this new expense base, we will have generally a more competitive product in the marketplace.

As we look at the results for Quantum 2.0 we really focused on three high-level dynamics; agent adoption, achieving our desired competitive position, and achieving a mid-teens ROE over time. And if you look at some of these metrics, we feel like the first two we clearly have achieved and the third one is going to take time as loss experience builds. Our agents have enhanced their quote flow from 10% to 15%. Quantum 2.0 is now rolled out in 28 states, represents two-thirds of our overall new business. We have a large rollout going this weekend where we'll have approximately 90% of our new business rolled out by the end of the year.

Our close rate changed, meaning how many sales we had relative to quotes has picked up from 150% to 200%, and our overall new business is up from 165% to 230%. So we're very pleased with how it's been adopted, the desired results are being achieved. And loss experience, it's still early and obviously the earned premium isn't a credible data yet, but we've spent an inordinate amount of time watching the mix of business, understanding the short tail line from a frequency point of view so we can constantly project where we believe that ultimate loss ratio is going to be.

We've already tuned the product in approximately 12 states. As Marc talked about having that product management organization in the tools and the dashboard where we can clearly see what our expectations were from a mix point of view and what's coming in. We will constantly tune that product to make sure that it's going to give us that mid-teens ROE over time and continue driving this production growth.

As we shift back to homeowners, we're certainly not going to rest on our laurels in terms of that homeowner strength. We are going to continue to leverage our competitive advantages out in the marketplace and reinforce and invest more of them. The granular pricing segmentation, the risk selection and of course our industry-leading claims services.

Not only from a catastrophe response point of view, our overall speed drives dollars and our customer service is industry-leading. We hear that every day we are out in the marketplace from our independent agents.

We're continuing to enhance in that business also. Our multivariate capability that we use in our R&D organization to price our product, we're doing the same thing around how we report inspection in the marketplace.

For example, we're able to take at a very granular geospatial level a long lap, be able to look at a household, overlay historical weather period, and then figure out if we should have an outside inspection versus save the money of not having an inspection. So really industry-leading ability to really have that lens in terms of how we are expending money and making sure that we're getting value back for that.

And then, new business segmentation. There is similar patterns that we've seen on Quantum 2.0 from an automobile perspective that's relevant on the property side.

One example is the quote to effective date. We're rolling that out in the marketplace right now. But we know shoppers who shop early have a better loss experience than those that are more distressed, irresponsible in their shopping based on their current expiration dates. So examples like that we are able to continue to make the product more competitive and really leverage the understanding of the automobile and the property business together.

In terms of where are we going with that account solution? We think our competition is not necessarily insurance carriers anymore. We think our competition is Amazon. We think our competition is Zappos. We think our competition is Apple.

Consumers are ingrained in having a digital experience and a seamless integration. Just this week Apple had their Worldwide Development Conference and it wasn't about bringing out the latest new shiny gadget, it wasn't about an iPhone, an iPad. It was about how these products seamlessly integrate together. How one app can integrate with another app, how you could start work on one device and finish it on another device.

We think that's what consumers expect and we think we have all the foundational capabilities in auto and property to seamlessly integrate them together. There is a screenshot that this is a beta screenshot, it's not in the marketplace right now.

But in the fourth quarter we're going to bring out that seamless integration that as our agents or customers go out and do an automobile quote, based on some of the same information that's on that automobile quote, or new third-party data sources, we are going to be able to provide a property quote right next to that.

And so rather than going through a separate automobile fulfillment and property we're going to continue driving that seamless integration across both products. And we think that's a serious competitive advantage for us.

When we look at our best credit scores on the property business, we can – and that's to normalize the mix, when we look at our mono-line property business versus our account property business, meaning the property has an account, an automobile with it, we have a three-year longer policy life expectancy than that monoline property. And that's important because if you make the assumption that that monoline property has a garage and there is something in that garage that would define, be defined as a bundled product. So three years of having a single underwriter account solution advantage over having that bundled product. We think that's important and we are going to continue investing in that.

So as we bring the products together, the automobile and property, we are going to continue investing in technology for our independent agent. We just rolled out a new marketing sales tool kit, having a lot of fun with some license plates as we roll out Quantum 2.0, that one says quote me. And so really trying to merchandise this product out there with CSRs and make sure that they understand how to communicate it to their consumers in a easy and simple fashion to sell more.

Digital: We just rolled out, and right now in a pilot fashion, a friends and family program where we are testing a new mobile path. And basically through that mobile path you could submit a claim, do an inquiry on your policy and really understand your documentations and what they look like. We are getting great feedback from that pilot. We are going to be rolling that out into various app stores in late this summer. And so we are excited to continue investing with that digital.

Marc talked a little bit about the weather alert. And we will continue driving a digital on-boarding process recognizing that consumers are comparing us every day to how they do digital commerce.

And then analytics; we will continue to invest in not only in the tools and the talent and that and how we deploy them across not only our products but around our services and how we conduct business. As I walked you through that slide that showed where more of that upper half of the marketplace, it's very critical that we understand how to target customers. A broad marketing campaign will not be effective when we really have a targeted marketing strategy.

So we are spending quite a bit of time across our agency and our emerging direct-to-consumer channels around investing and making sure that our messages are out there and they are aligned with what our target customer looks like.

So with that, I'm going to bring Jay Fishman back up and he's going to facilitate us on some Q&A. Thank you.

Jay S. Fishman {BIO 14011069 <GO>}

We're really organized. Is it you, is it me, is it us? Greg, thank you. Thanks to all the presenters. Thanks. Good stuff. I'm going to close with just two quick slides. And it really will, I think it wraps up everything you have heard this morning and hopefully sets the stage for whatever questions you would like to ask.

We do perceive ourselves. I think the data supports it, as the premier independent agent company. Most important for agents' success and there is a tendency of observers in the industry to not really understand the significance or importance of the engagement with the agent. We get very account focused but it starts off with an agent and an underwriter and an account and that's where the business is actually done

There's no one better at that breadth of agent support than Travelers. It's the deep history of analytical skill. We don't run the business anecdotally. We run it by the data and by the facts. We are constantly sorting, resorting, slicing and dicing to understand on the most granular level the things we do well, the things that we should do better, where opportunities exist, where challenges exist that force us to engage in strategy to manage our various businesses and we do that very much monitoring as a result not a goal.

If we ask the underwriters to grow their business by 10% I have 100% certainty that they will. They will do so not by cutting price, which I think is largely how many of you view it, they will do it by broadening their risk selection and they will engage in accounts that absent that pressure they wouldn't.

So it's not a pricing dynamic, it's a risk selection dynamic. And you have to build a culture of risk-adjusted returns, allowing underwriters to use their judgment about what accounts will fit the profile that you seek and which ones won't. Pressure gets them off that. We don't do that. We don't do it in how we engage with them, we certainly don't do it in how we compensate or review them.

And lots of people will speak to that but at the end of the year if an underwriter's book has shrunk by 3% you can't turn around and say why did your book shrink by 3%? You have to go through the data and see what happened and understand why. And on the premise that the actions were the right ones you have got to say thank you and congratulations.

So the ability to actually take that philosophy and employ it at a very granular level to an underwriter in St. Louis is what makes it successful. We are very much, I love the St. Louis example where one of a handful of companies whether they be a very large national company with size and scale all attributes critical for competitive advantages and we apply it on a very local level.

There isn't much that's underwritten out of Hartford other than the Hartford field office. All the rest of it happens in Dallas and Houston and Los Angeles. It's all about local, local connection to the agent, local accounts, local understanding of the marketplace, the regulatory environment and the loss dynamics that that particular environment drives.

And then our return on capital, again, we laid this out in 2006. Didn't know if it would be successful but it really has been. And this is sort of the closing slide, which is how has the stock done? You will of course notice this looks at nine years through 2013, total returns to shareholders. This is December 31. My guess is if we ran this today maybe the order is a little bit different. I am not sure about that but it could be. But you can see where we sit compared to competitors in the industry, Standard & Poor's financials and a host of other companies.

Now these comparisons on a one-year, three-year, five-year basis are going to become odd because there are lots of companies that were meaningfully impacted in the financial crisis and have recovered somewhat but not nearly to where they were before. And so on a one-year, three-year, five-year basis increasingly you're going to see more of those companies at the top of these lists. We're running the place for the long-term. It's the only way we know how to do it.

We make the investments, do the underwriting, be thoughtful about how we deploy capital and drive returns and so far so good.

So with that I'm going to bring up our team to take on any questions. I know Brian you are anxiously awaiting, tell us what's happening with rate. Brian will give you some insight into that and we will take whatever the questions anybody would like and we'll go from there.

Gabriella Nawi {BIO 2211991 <GO>}

As a point of order could we ask you to please say your name and the company you are with before your questions. Thank you.

Brian W. MacLean {BIO 4679150 <GO>}

Okay, and as Jay just said, before we start I will just throw out a few, very few data points on what we have seen through April and May. First on the weather, our CAT losses after tax for April and May are approximately $150 million and then from a Business Insurance production side, just a few comments. And I'd preface it with reminding you that the second quarter is heavily influenced by June 30 effectives, so take April, May for what it's worth. From a rate increase perspective in the aggregate rate increases are down a little bit less than a point in the two months. Retention remains...

Jay S. Fishman {BIO 14011069 <GO>}

Compared to the first quarter.

Brian W. MacLean {BIO 4679150 <GO>}

Compared to the first quarter. Retention remains strong and relatively consistent with what we saw in the first quarter. And new business is up slightly or a little bit from what we had been experiencing.

I think a couple of important points, when we look at that and we look at the granular where we are getting it from, from an account and a class-of-business perspective, we actually think the move is very consistent with what we've been seeing. And by that I mean, that the rate retention dynamics that we are seeing, especially on a granular, level really reflect what we are seeing and what you would expect given the improvement in the product returns that we are getting across our business.

So we continue to feel great about the execution. That's the basic update on the two months and so with that, Jay.

Jay S. Fishman {BIO 14011069 <GO>}

We will open it up for questions.

Q&A

Q - Jeffrey Cho {BIO 16495426 <GO>}

Jeffrey Cho from MFS. I just had a question on the first line. When I look, maybe it's just the way the data is cut, but from homeowners and to auto, you improved your combined ratio it is 800 basis points. The industry improved 1,600 basis points and your PIF is down 15%. There's something odd there. And the same thing in auto, combined ratios improved 600 basis points but your PIF is down 18%. So you're not improving relative to the industry, you are actually getting worse. So can you just help me reconcile some of that?

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

Yeah Greg here. I mean really, every year you look at for our business you've got to really state mix adjust it. So we spend a lot of time, and that's why we look at it over a 10-year period of time. One or two or three years even depending on where the weather or the loss trend is at a state level can be somewhat misleading. So every time we look at our industry results we do it based on our state mix. I think those are straight-up numbers that you are looking at.

A - Gabriella Nawi {BIO 2211991 <GO>}

[Question inaudible]

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

I don't know what analysis he is doing. Let us look at the math separately. I'm not sure what --

Q - Jeffrey Cho {BIO 16495426 <GO>}

Just took from your slides, I guess. I mean just from your slides, I guess I'm just trying to, maybe from the state level basis you feel like you have improved? But then the combined ratios roll up to not improving relative to the industry?

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

Yeah, on automobile, and we talked a little bit about this, I think we saw some loss trends that are inside our numbers, 2011, 2012. I think if you look at what some of the recent reporting periods are and there's a lot of prior-year development, we look at ISO fast-track data, which is a consortium of all the industry results. And we can see loss trends being much higher than ours in the 2013 period. So it's very difficult when you look at calendar year. When we look at our best estimate to accident year, we believe we are absolutely improving the business.

Q - Gabriella Nawi {BIO 2211991 <GO>}

Mike Meacham, Goldman Sachs (2:13:55). I guess for Greg as well, can you talk about the learnings you have picked up from Quantum 2.0 as it relates to the direct-to-consumer initiative and maybe just generally give us an update on thought process around investment there, expectations for either a pickup in growth or improvement in profitability? Thanks.

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

Why don't I start, this is Jay Fishman. When we started our direct-to-consumer initiative five or six years ago now we came out and we said that we were optimistic that our customer through independent agents would not move out of the independent agent channel quickly. And we said that back in the record and you can see it that we thought that was sustainable.

But that we weren't willing to not make the investment in case we were wrong. We absolutely acknowledged that we may be wrong in that regard. So we've begun the process from nowhere of developing product, technology, infrastructure and it has been a long journey. And if you take a step back now, our assessment, at least today of the direct-to-consumer market broadly, I'm speaking now in the broad, not our business per se, is that there has been less movement in that upper left-hand quadrant that Greg spoke about, out of agent channels that are captive or independent into the direct-to-consumer channel, than one might contemplate.

And it is difficult until that change begins to occur, if it does it does, if it doesn't it doesn't, but until that change occurs it is going to be difficult for anyone to build a scale business in that upper left-hand quadrant in the direct-to-consumer business. There simply is not yet enough volume there to drive the business.

Now that is our sweet spot. That's where we do business every day. That's where our results come from. And so we started off with that. That, it was long-term and it remains long term. We will see how patterns change. We are not a non-standard company. We don't seek risk in that segment. We are an okay standard company, not great but okay, willing to take risk in that segment.

For the moment, that's where the volume has been. And so without Quantum 2.0 at a lower price point and a different structure we were not going to be able to develop the direct-to-consumer business in that lower segment, in that standard arena. Our price and our packaging is not competitive. And so the learning out of 1.0 was that we could do reasonably well, actually driving customers into that upper left but there weren't enough of them.

And that we weren't effective at driving outside of that box into the direct-to-consumer channel as our price and our structure was simply not competitive for them. So 2.0 is an important element in the evolution of that business strategy, seeing if, in fact, we have a viable lower-priced product where the underwriting results support the investment. So we are going to wait and see how the loss trend develops out of this before we go.

Now it is available, it's up online, Quantum 2.0 is out there but we are not spending substantial marketing dollars yet to drive activity. We are going to see how 2.0 does in the agency channel and then figure out where the best marketing dollar investment can be made to begin to drive behavior. So I think that's, so upper left, kind of think I've covered everything I wanted to. When you are looking at the graph, Mike, that's what I was thinking, we are actually comparing our results to other relatively small direct-to-consumer companies.

And you can come in on this without mentioning any names, we were at 150% combined ratio in the business. You can get it from the data. And without mentioning the name another one that you would be familiar with actually was running at 125% is my recollection. And that gap was much bigger several years ago. It is getting smaller. We are making real progress in understanding how to drive behavior and drive activity, how to meet the customer expectations and how to deliver the product. And now actually 2.0 is the next step in seeing how that goes.

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

I think that's fair. I mean it's a business of scale, but before we even drive scale our attention is then on a per-unit basis can we create value. And so Quantum 2.0 is going to be a critical element for us to say does that clearing price give us the ability to be able to take the marketing dollars that were very small right now but thoughtfully investing, amortize them over that customer that we get there and do we feel good about the value at a per-unit level.

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

And we still want to be an account writer. We are okay doing monoline auto and we are okay doing monoline home. But our whole strategy, Greg talked about the three-year difference in policy life expectancy, that's a big deal economically. We want to be a whole account writer. So we are going to watch 2.0, but we don't have an aspiration. We want again we want to write the whole thing. So our goal is to present a value proposition in the broadest way.

By the way, it's not – that's not lost on us that the automobile insurance business may be changing in very, very substantive ways, maybe. I'm not smart enough to really know or understand but I can envision a set of circumstances that are quite different. And the fact that we like that home business and that we are good at it is, I believe, over the next 10 years going to be an increasing competitive advantage, just one person's view.

Q - Gabriella Nawi {BIO 2211991 <GO>}

Just a real quick follow-up on that. I mean in terms of the upper left, do you think about direct as potentially being a prospecting agent for tomorrow's upper left consumer? And to the extent that maybe that group isn't populated with your demographic now, is there some risk that not attaching to that group could put you at a disadvantage as that group matures?

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

That's why we are working on it. That's why we are investing in what we have invested. That's why the technology is being developed. It's why our unit presence is as effective now as it is, by the way, and also that search dynamics around that. I also observed that the digital technical skills that Greg talked about for the customer, that isn't just a direct-to-consumer element, that's an all-customer element.

Whether or not the customer comes through an independent agent or through direct channel, they all expect to be able to access service and claim and other information directly. So, while it's easy to perceive that digital investment as direct only, it's not the case. That's going to become increasingly table stakes for success in the agent business as well.

But yes, it's possible. And that's why we are doing it. It's possible that upper left goes. They haven't yet, and I don't mean absolutely. You will find upper left customers in our book. But there's not enough volume going on to build a scale business around it. That's where we are at the moment but that may change.

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

While we take the next one, digital comment, off our across all of our businesses. I mean Marc's business and across all the Business Insurance.

Q - Amit Kumar {BIO 19777341 <GO>}

Thanks. Amit Kumar, Macquarie. This question might be for Vinny. You talked about growth in compensation. Can you talk about California comp and may be SB 863? When it will be enacted? It was supposed to benefit the marketplace. As of now the comments coming out of the marketplace actually suggest that it would be a net negative. And I am wondering are you seeing that in your results and does that change your growth strategy? Thanks.

A - Vincent Armentano

Yes. So I think California has made some attempts to improve their system with SB 863. We've seen there the benefit increase is sort of the cost of the program materialize, as of yet we haven't seen the benefit portion of those changes materialize. A lot of them are being held up in the courts as they are being challenged.

So with that being said, we do look at each state differently. And so we look at what price we need in California and that's how we react. But it's not whether we like a market or don't like a market, we try to understand the underlying cost drivers and on the claims side try to deal with how do we best leverage those tools that we are given.

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

It would be interesting to talk to Marc too. I think the additional short answer is that we didn't assume that that restructuring would result in savings. Therefore, we largely did not lower our prices to take those savings into account. And to the extent that drove some lesser volume for a while, so be it. But we didn't, I may be wrong and we still may be wrong but we didn't contemplate that the benefit, the reduction in cost would actually emerge. So that's just a matter of how we view this.

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

Thank you, Jay Gelb from Barclays. I know you don't like us to focus on the rate of change in rate.

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

Okay.

[Laughter]

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

So with that said, given the pace that's occurring, slightly less than a point decline each quarter in Business Insurance pricing, it appears likely at some point the pricing could be neutral or even negative say in a year or so. Would you manage the business differently in that environment than you're doing currently?

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

Well, I don't know what a year will bring, so I really don't. And I am quite certain of this, the data and analytics that we have are not – I believe that we need all of that by the way, I really do, and I believe that we were first on the scene in that 20 years ago, but we're not unique in that sense anymore. Lots of people have a better understanding of profitability, returns, where they make money, where they don't and why. And if you listen to the conversation in the industry you will hear most people articulating some form of return expectation.

Now the interesting thing about this is that it actually happened in St. Louis. It's not as though – you don't have a pricelist. There is no pricelist. So we don't issue a pricelist with a

5% reduction or go out to underwriters and say cut the rate by five points. We don't do that. I don't even know if anybody does that anymore. But ultimately it's the information at the point of sale and it's the underwriter making the decision with the agent and with the customer.

Now it's possible that locally, and it's happening to us now, it happened to us a year ago, any one underwriter on any one account can get aggressive and decide that they want that account to move, that has happened. It's happening today, it happened a year ago, it happened two years ago. There is nothing new about that and you're always making those evaluations and responding to it. I think we would manage our business the same way, which is attempting to do everything we can do to continue to drive appropriate returns.

Now it's not – it's so important, it is not just at the rate level. We spent most of the time up here talking about cost, efficiency and productivity. We are driving to be able to outselect. The rate ultimately is a function of the competitive environment and you can only do so much. But that is not the only lever that exists. In fact it's the one that is least controllable in a sense. The one that is most controllable is the productivity in the claim department and the efficiency in the risk management organization. And importantly in comp how well we manage medical costs. So we focus a whole lot more on costs than we do on what's the rate environment going to be a year from now. We are driven to be the most productive, most efficient, lowest-cost provider. We don't always succeed but we are driven to do that. We keep moving in that direction.

So I wouldn't declare anything different if rates were – and again my perception is not yet that the competitive environment has changed. This is why Brian talked about the mood. Our assessment is that more companies are looking at individual account performance and concluding what accounts are reasonably priced and which ones aren't. And they are making better judgments about that than they would have 10 years ago. And I think that is one of the key differences. But yeah, I think we would try to do the exactly the same things.

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

Okay. And then my follow-up question is on the tailwind of reserve releases. If you exclude the asbestos environmental modest drag, the core reserve releases equate to about five points on the combined ratio, I think that was roughly the level it was in the first quarter. What's happening in your analysis in terms of actual claims versus the expected that allows that trend to continue and are we nearing the end of that reserve release cycle?

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

They are less and I don't know. What causes us to have favorable reserve development? Tell me the line, tell me the state, tell me the environment. Actual loss experience is less than we contemplated it would be. Not that we reserved it more than we thought it would be and we are pulling out profits later on, absolutely not the case. We make the best estimate we can all the time. Best estimate because that's the way we price our product.

We price it off of our costs. If we are missing the cost then we are missing the market. It's as bad as it gets.

So we make our absolute best estimate. In some cases frequency is less, in some cases severity is less, in some cases weather losses out of a storm turn out to be less. It's a myriad of things. And we give you insight into that in our quarterly earnings. We try and identify at least the lines and the policy years, particularly in the 10-Q, the MD&A, we give you as much insight as we think is appropriate to give.

But if you asked us today, we believe our reserves are best estimates because if we didn't believe it we would change it. And so, is it coming to an end? I have no idea. My presumption is, is that there won't be anymore because it's a best estimate but I believed that a year ago and I believed that a year ago and I believed it the year before that. It's just the way economic activity develops against whatever assumptions you make. I'm looking at our CFO, Jay Benet, are you okay with that? Good. He has laryngitis; otherwise he would be up here, too.

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

Great. Thank you. Josh Stirling with Sanford Bernstein in the back. So, Greg you mentioned Apple and Amazon, and Jay, I was guessing you were sort of alluding to challenges or opportunities in personal lines, probably from telematics. I am wondering if you guys can sort of weigh-in on two of those existential things, the growth at (2:29:56) possibility of the aggregation model as it has been in the U.K. coming to the United States, or just separately telematics, very curious to hear your thoughts sort of both on strategy and fundamentally are these opportunities for you, or are these just things that you are going to have to play defense and try to and leveraging your homeowner's capabilities and ultimately sort of hold the line with your account business?

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

I'll take the first one, telematics and then we will come back to the aggregators. Telematics, it's closer to the panacea of pricing really being inside that vehicle and understanding the behaviors of that individual consumer. So we, because of that, we have a product out in the marketplace right now in eight states. It's branded under the name TeleDrive. And so we've got a device that we can track the behaviors of the customer.

It's actually priced based on one of the true exposures, the amount of miles that they drive. And so we are deep into our R&D team of really just collecting the information, trying to understand how that GPS-type data we transmit back to us and what the correlation is with loss experience. So right now we don't believe the form and fashion that it's in today, a hard device that you plug into the vehicle will be there in three, four, or five years. We think the technology will change.

And so because we have it in eight states we're not going to roll it out. It's a little expensive, the device and the transmission of it. Ultimately, we believe it will come at your hip. It will come through the smartphone and through ultimately through some of the networks and the phone. So we are in it. We are going to continue understanding it.

Yes, adoption is the second piece of that. As much as you can build the science around it, if the adoption really doesn't happen with it, and that has been some of the challenges right now. Independent agents have been somewhat reluctant to sell the product just because it's another variable, a set of technology to get in the way from what I hear out in the marketplace between them and their consumer.

So the penetration has been relatively low in the independent agent channel, but we continue to work those eight states, market it and really try to understand the pattern s underneath it.

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

And when I have asked agents about it, which I have, the answer I get and of course it's speculative, I can't give any data to prove it, is that it's also very much for their customers a privacy issue, that they are just uncomfortable with it, that the magnitude of the savings are insufficient to overcome the privacy concerns. Now that may be a function of that upper-left customer, I don't know. It's possible.

The other interesting phenomena, talking about changing in the business, the insurance business trades on subsidies. One customer gets charged too much and another gets charged too little. The closer and closer you get to the exactly right price to the customer, the more challenging the insurance business is going to be, because you begin to trade more and more on the variance.

And if you are getting it right the variance in the future from what you had predicted, that gets more and more narrow, you're going to find the spread of pricing in the risk business changing. That's another thing that is very much on our mind. 30 years ago you talked about five classes, today you can talk about hundreds of classes.

So as those numbers become potentially more predictive, the whole dynamic of who pays what premium and where the subsidy is embedded begins to change, so it's an interesting phenomena. So we're there talking to the agents, happy to continue to do more of it, but as of yet no one is clamoring for it in the independent agent world. So that would be -

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

And aggregators and we probably could poll everyone and have 12 different definitions of what an aggregator is. But the simple definition that we think of is the comparative rater technology straight online without any brick-and-mortar support behind that. We see that in the U.K. it's over 40% market share; obviously growing pretty aggressively. We think there's some of them in the U.S., we get lots of calls to be on the panel.

We are really not on that pure definition that we just described. There's lots of hybrid models out there around that. Time will tell if they are going to be adopted or not. If it's such a great consumer experience, one of the big constraint or hurdles that we see is the amount of capital that it would take from an advertising point of view to let consumers know that amongst the sea of web pages, that they are out there. And the investment relative to that $6 billion that I put up on my slide, on the ad spend across Personal Insurance is a big hurdle to get over. So we will figure out if they can get over that hurdle, but it's something we monitor pretty aggressively.

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

The U.K. has a – interesting advantage of the population concentration. You cut it along the market and you get a disproportionate amount of eyeballs. And so there's an efficiency of advertising spend in the U.K. that is very difficult to replicate here.

Now that doesn't mean somebody won't overcome it, I can envision a circumstance where they could. So when I come back to, so what are we doing? We're competing in a comparative rater environment today. 2.0 is – it's just the only place that isn't is online. We're spread sheeted 83% of our quotes now compared to pick whatever number you like of competitors of the moment. So we understand that ease of access, agent use of access, low-cost, efficiency and quality service are the factors for success.

And whether that comparative rater platform ultimately morphs its way onto the public web – we won't be disenfranchised from that. We are already very much competing in that comparative rater environment. So it's already having its impact on us even though it's not necessarily easy to go online and do it.

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

That's helpful. Just one question on commercial lines. Broadly you guys adopted this data and analytics-driven way of managing 10 years or 15 years ago. There's always the cycle that sort of the first leader figures out a bunch of stuff, expands margin, takes share, gets ahead. Eventually the consultants lead to sort of the same ideas being used across the industry. As an outsider you see lots of consultants, you see lots of companies talking about data and analytics. Are you guys still expanding your lead, or are we sort of already midway through the cycle where you are going to see these sorts of ideas diffused across the industry?

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

So I'll take a shot at this. This is Brian MacLean. I think we continue to expand our lead. I think our efforts here go back 20 years, a little over 20 years now, of trying to change how we think of data and how we use it in the commercial business. I think what we are doing today is dramatically different than what we were doing five years ago. And that was dramatically different than what we were doing five years before that.

And we obviously don't know exactly what is going on within the competition but we get some insight into that through – we hire people from the competition, just like they hire our people. And we get feedback on capabilities, we deal with agents and we know what they think about the information we have about accounts.

We deal with reinsurers and all of that feedback tells us that we continue to lead there. We are not going to be complacent. I don't believe that, can another company be just as good? Yes. But I think we are still leading that charge.

And I think this isn't something where you can do it, you can buy it off-the-shelf, implement it and you have caught up. I mean there is also a culture of how you manage your business, how your people execute in the marketplace and I think, I don't know if it's unique, but I think we've got a pretty robust set of capabilities about how we utilize it.

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

Examples I can think of just in the last five years, way back when, we started off with, believe it or not, a branch didn't have a P&L statement, so if you went to Chicago you didn't know how Chicago was doing. That's where we started. We moved that process along to the point where not only do we have obviously P&L for Chicago. We've got a P&L for every underwriter in Chicago.

So you can actually sit and have a conversation with each individual about their book and their performance and their agents and their results and get very, very granular. When we embraced this notion of being return focused we realized we actually had to have the analytics to do it.

So step number one was allocating capital down to each individual account, in the individually underwritten businesses. Now five years ago people would say we have allocated capital to a business and it was like a big deal that they had finally managed to do that. We are so far past that now in terms of allocation of capital and analyzing results.

So in the next step now is to we used to look at expected returns in a given area and it was the portfolio, the whole book, new and renewal. So several years ago, we saw that's not enough information. So we can now tell you what expected returns are on a renewal book and what expected returns are in the new business for let's say worker's compensation in Chicago.

The challenge for us in this will become when the data begins to lose its significance, when we get so granular that you are talking about something that doesn't have insurance validity to it. But we are still going. We are very much on the march of still understanding how to outselect and that's - I used that word so much today, it's so important. We take it for granted that you will think that way. Outselecting is where the real business is and having the data and the insight and corporate culture to make those outselection choices is a big deal.

Q - William Wilt {BIO 5683199 <GO>}

Good morning. Bill Wilt from Assured Research. Commercial auto has become a problematic line of insurance for a lot of carriers. You all have a big position in the business. So I would be interested in your perspective on commercial auto, where it is today and its challenges going forward. Thank you.

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

So, you're right. It has been a challenging line. You can read anybody's filings on that front. I think we've talked about, and I'll tell you it continues through April and May that's auto is the line that is getting the largest rate increases, commercial auto, that we're seeing across our business.

So we think that is needed and we will continue to work it. But as Jay said, it is also about honing our selection capabilities. And similarly to how Jay positioned the comp discussion, auto is different business by business. In much of our business, commercial accounts, middle market, we are an account underwriter. And we write very little monoline business there. And so we'll have the entire account and auto will be a piece of that and we focus very much on account profitability. That is not to say that we love products within that account that are losing money dramatically, so we're working the auto profitability and issues one way in the middle market.

Marc could talk about small commercial where historically the auto has been more of a monoline purchased product. And the things that Marc been doing there and he could talk about the underwriting actions. And we've got Northland and some trucking and fleet business where we've got other strategies that are really focused on a lot of underwriting activity that we have been going through and implementing some of the medical stuff that Vinny has talked about. So it's a different story in each business but a line that has gotten a lot of attention.

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

I would add two things. First is that, and you are exactly right, that we are an account underwriter and it is not infrequent. And now I am speaking about individually underwritten accounts, where the auto line, the auto policy is sort of the last one dealt with. It's from the dollar perspective, it's not the lead. So you go through comp and you go through property and you go through general liability. And then you know sort of lastly auto goes. And so it's not that it's the least underwritten but it's probably, from a cultural perspective, the last one in an account arena to be focused on. So it will always suffer from that, I suspect.

Two, it's interesting the remarkable improvement in underwriting insight that we have done in personal auto have been slow to be adopted in the commercial side even in Select. And we are going to do more of that. We are going to take what Greg has learned, including going back to the insured's financial score, and bringing that over into the commercial space. We are not nearly, the industry is not nearly, and that's an important point, the industry is not nearly as good an underwriter in commercial space as it is in the personal space. And that's a gap that is just more of a challenge to overcome.

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

I don't think it is unfair to say, and Bill you can - invest in the middle market it probably is from an industry perspective the least underwritten line historically. And I think we and others are becoming more sophisticated and more intelligent and I think all of that will be helpful.

A - Marc E. Schmittlein {BIO 16615938 <GO>}

I think it's small. It's 12% of the book of business, so to Jay's point it is that third line, clearly where we right commercial auto with the rest of the lines in particular the BOP. There is a direct relationship between profitability and correlation, between two lines and improved retention. That really is our sweet spot. We have certainly in the last three years going off and looked at other things like more monoline auto and the Express where you've got one or two vehicles. And there are other competitors in that space, you'd probably do more leveraging off of a platform similar to Greg's.

So we've got some pretty critical learnings. Brian has mentioned that before, but we've got some of that. I would say just not at the level we needed to in terms of that monoline book of business. Again, pretty small portion of our overall auto. But I think to Jay's point, we're going to be leveraging a lot more of what Greg does with credit, et cetera, and going into that market in the future. And again we feel really good about our target business associated with the rest of the account.

Q - Meyer Shields {BIO 4281064 <GO>}

Hi. Meyer Shields, KBW. I want to go back to the personal auto space if I can. One specific question, Jay, in the middle of last year you talked about roughly 10% rate decreases overall. Obviously much more granular and much more varied by policy. Is that number still good? How are your competitors responding to Quantum 2.0?

And secondly maybe more broadly, playing off Brian's last comment that the market is smarter, if I can say that in commercial lines, how confident are you given that you've got a couple of huge, really smart personal auto companies that you can develop a competitive advantage there comparable to what you have in small commercial, or commercial overall?

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

You want to start?

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

Yeah, sure. We're certainly not seeing renewal premium changes at those levels right now. They are closer in to, for the first quarter, six and change level.

In terms of our competition...

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

Can we go back to that. There's such an important point there. So there's two elements, the 10% that we talked about was an average price decline. We gave you that scatter diagram that showed there were lots of premiums that were going to be higher, there were lots that were going to be lower. The interesting phenomenon is what is happening, at least so far, it's still a bit of early days, what's happening to average premium, right?

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

On Quantum 2.0?

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

Yeah.

[Indiscernible, cross-talk]

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

On the slide we showed a range of 0 to 6. So obviously when we talked about expense reductions in the lower base rate generally on Quantum 2.0 relative to Quantum 1.0, yes, how do you get a plus 6 in average premium? And really that's where we have become more competitive across our entire target market. Where our mix of business was so heavily weighted in, call it the super preferred market, now we've got a weight of business all the way down to the upper half of the standard business. So that comes with obviously...

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

Our average premium is higher. In other words...

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

Correct.

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

...the listed price, if you want to call it that, has come down from where it was but we weren't selling any of it the other way.

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

Right.

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

Now all of a sudden we've lowered it some and we are selling a fair amount of it and so that pushes the balance of average premium actually up. It's - it's sort of what we hoped for, but weren't sure.

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

Yep. In terms of what our competition is doing, I think it's a story across distribution outlets. I think you look at the direct players, they've got a combined ratio that is much more attractive than the captive and the independent industry agency players.

And so it really does vary across where we spend the thrust of our time is the comparative rater environment. And again, I talked to you a little bit about the basket of companies that we monitor pretty aggressively and we see combined ratios that look like, if that was our data we would be much more disciplined in our rate pursuit. Obviously, we don't manage those numbers and time will tell in terms of how they react to that.

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

In response to the question about competitive positioning, we're – we aspire to be what we aspire to be, which is the leading account writer for the independent agents with whom we engage. And we don't- we don't aspire nor could we succeed in becoming as big as the biggest agent companies or direct companies in the auto business. We are – it's just – it's not – the market isn't there. The business through independent agents just isn't there. Progressive is the largest company through the independent agents in auto. On a national basis, we are second. And I think Safeco is probably third or maybe...

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

For all product lines, yes.

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

And that's where we're going to compete. So our goal is that upper left hand quadrant through independent agents we can be the leading whole account writer.

Now to the extent that the buying pattern changes and again, to the extent that upper left hand quadrant begins to change the way it does business, we're going to have to be there. It's an absolute must and we are going to be. But we'll see if they raise their hand enough. And it has been interesting, I haven't done the data in a while, but I used to look back all the time at where our new business in personal lines comes from, which companies.

And what was interesting is, to some extent, I and lots of you have the perspective that we get it from other independent agent companies. That's just not the case. Most of our new business, when I last looked at it, came from either direct companies or captive companies that were moving into the world of the independent agent and they wanted that advice and choice.

So it's not the same across the whole spectrum of buyers. They seek different levels of advice in perspective. And you get the second home, you get the third car, you get the elements where these things begin to become significant. At least so far people have not been willing to say, I'll take on that responsibility myself in enough numbers to build a scalable business. Is that fair?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes.

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

Yes. Brian Meredith, UBS Securities. This is for Marc. I am just curious, Marc, could you talk about the potential for direct-to-consumer on the small commercial line side? Or is that just a non-starter for Travelers given your agency and your distributions?

A - Marc E. Schmittlein {BIO 16615938 <GO>}

Do you want to kick it off then I'll talk about the transaction?

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

Yeah. So first, and we occasionally get the question too, is it possible that comparative rating technology could emerge and select, both variations of the same questions. So there have been any number of attempts for people to do that.

The challenge has been that the products themselves are not nearly as comparable, the terms and conditions and coverages between one commercial carrier to another to make those comparisons easy to do. And the product is a little more complicated. You add worker's compensation; you add things to it that, at least so far, has complicated that decision. So we've come to the conclusion that we don't think so, but it doesn't mean it can't happen.

So we – our platform is we would be ready to go. If, in fact, it became apparent that small commercial buyers wanted to buy the product directly, or we had to compete in a comparative rating environment, our cost structure with respect to the latter question will get us there and the technology platform that Marc has built is movable. There is nothing that would keep that from being – we didn't have that in personal auto. We were way behind in that process. I'm not talking about the technology uniquely on the screens, but all of it, the service, the infrastructure, the claims, everything, we didn't have it.

So, we're ready to go. We are – I'd say that we're not going to lead in that regard. If need be we'll be a quick follower, but I think it's a challenging business in the following sense. I'm not being defensive about it because we think about it all the time. It's not just the customer and the price; there is a whole agent dynamic to it. If your business isn't successful at the agent's office you're not going to get it. It has to be quick. I mean, again, you've got a $3,000 account, a $450 commission and a high service burden. You get requests for certificates, new employees, new drivers, the amount of paperwork and transaction flow that sits behind these small commercial accounts is disproportionate to the premium that's generated by it.

And so, the ability to serve the agent efficiently and productively so that they can actually make money on the business is critical for success. It's not just the price of the agent and the customer; it's putting the agent in a position to be profitable. Now, can that happen outside of an agent's office? Maybe, but the hurdles are not insignificant. They are not, they are not insignificant. Someone would have to come along and be able to handle that service capacity directly. And we could do that, but it's a big deal to do, a really big deal to do, different for sure than the requirements behind service in personal auto, by a lot.

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

Great. And Brian, just want to...

A - Marc E. Schmittlein {BIO 16615938 <GO>}

I want to weigh in on it too, I mean, so part of the presentation I had was geared toward answering a little bit of the question is, I think we've put ourselves in a position the technology is one aspect, for sure, but how do we handle the front end of that transaction from selling through to servicing Jay mentioned? So we're staying close to the customer. I think the difference you have to think about with personal lines and the small business is think of those segments. You've got contractors, you've got professional offices. And so, even the proclivity from one end of that spectrum which it could go first, you think that spreads across all these industry segments.

So I think our ability to stay close to that whole grouping of customers which we have keep will keep us right in the door in terms of those changing behaviors. And it would be, as you say Jay, it would be the customer, that end consumer that makes that change, because otherwise right now our data tells us that they really want the trusted advisor, the agent in the box on it.

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

Well, the other piece, it's interesting too. You go back 10, 15 years there was a big effort back then to market small commercial cross-selling to banks. You can go back to - and we were one of them to try to sell it, to try and leverage the banking relationship into a direct-to-business sale. None of them were successful, none of them were successful. And you can speculate as to why that is. We think that the customer wanted advice. We think the customer wanted choice. They just didn't work and the biggest competitors in that small space, all of us tried it and spent a fair amount of money at it without success.

A - Marc E. Schmittlein {BIO 16615938 <GO>}

Jay, one more point, too. I'm sorry, Brian, I think it's important. The world of comparative raters for Greg, that's critical, and we see what's happening in personal lines. The same players that have done that in the comparative rating space and personal lines have not got traction, are not even going into it, Brian. What is going on, and we are helping in this venue, is that the agent needs help transferring data from their agency management platform, customer data into the various proprietary systems.

They don't want to do the keystrokes. That's where they really lose time, money and efficiency and we are working on solutions. And I think as we work as an industry on the commercial side towards that, that takes less pressure and allows the complexity to run through the product. So it's a different way to put the same issue for them, efficiency and speed but it is taking that data from where they can have it and not have it and keystroke it into our Express platform.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Thank you. Ian Gutterman, Balyasny. Jay, I'm curious how you think about the period of change we are going through in the insurance industry. Recent conversations with CEOs with several of your competitors, they said this is the greatest period of change they've seen in their careers. And admittedly that is more reinsurance, Lloyds-type focus for now and your position would seem to be more defensible. I guess I'm curious in two regards.

One is sort of near term. Are there opportunities or threats that you see from that? Right now that the simplest one might be buying cheaper reinsurance but maybe there are things beyond that.

And sort of in the mid to long term, how are you preparing for a different future where arguably maybe five or 10 years down the road you are originating auto, you are originating BOP to secure types of capital markets, or Worker's Comp becomes so predictable that hedge funds are happy taking it for the float and it gets underwritten 10 points, to a 10 point higher loss ratio today and you can't compete with the center balance sheet. So that's obviously a very big broad question, I am just curious how you are thinking about it?

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

We certainly have a lot of moving parts going on in the industry. I'm not sure it's uniquely this time. 20 years ago I spent, when I was in the banking business, we would spend hours 20 years ago talking about CAT risk and securitization CAT risk. It just took 20 years to actually make it happen. I do think that I do take comfort, and I hope not recklessly, we take comfort that the barriers to entry in the primary business are significant.

Thousands of claim people sifting infrastructure, the ability to get a policy out the door, all of the things that connect to local agents, local offices, local people. We are 30,000 people predominantly in the U.S. The barriers to entry to competing in Topeka for middle-market business are not insignificant. And I think we take comfort in that. But still we continue to develop competitive advantages that we think will enhance that, not weaken it.

I do think that you're going to see – I think there's two phenomena going on. And I'm no futurist, so I could be dead wrong on all this. There's obviously new sources of capital coming into the reinsurance space at least so far predominantly in the property side. And that's interesting. It will be, I think, much more game changing in the reinsurance sector if they really do embrace the casualty business and the long-term view that you have to have to be in that business successfully.

The property dynamic, people are sort of dipping their toe in, we'll see how it works, they will have a bad year, a good year, who knows? But casualty, you're talking about a long-term reinsurance relationship with a cedent and that's going to take a whole different explanation. It's not just are you here today, but are you going to be here five years from now because it matters.

And where does the creditworthiness come from and how do you view your own – how do you view that new entrant's risk profile? So I think one of the key things to watch here is going to be to the extent new capital that tries to get into the casualty the space and are they successful. If they are, I think it could change the reinsurance arena potentially permanently, it really could.

Now, how that affects the primary business, so they are going to be for us now on the fringe because of what we do. So we are already seeing the change in the layered national property business. It has become more price competitive but that is because the barriers to entry there are low. You can take 25 debts of 7.5, trade off somebody else's – trade off somebody else's underwriting and just be in the business.

I am thankful though, in hindsight that represents about a little less than 5% of our total premium in our business. So if that becomes problematic, so be it. It will become problematic. It's possible that you could see entry, it hasn't happened yet, but you could see it in the professional liability spaces, again, the layered programs. I'll take – ultimately the value in this is going to get your question greater opportunity, we are not going to go into the reinsurance business. We're not going to do that. Nor are we going to change our underwriting profile in any serious way because of the moment there is some reinsurance capacity.

To try and arbitrage that implies that the risk, the asset and the liability may match and they never do. We get in the business with agents and if we want to change that risk profile, it's painful. So we go in on the asset side it's with a long-term mentality to the extent the reinsurer on the right side is only on it for a potentially short-term because they don't like it, and we get stuck in a mismatch. And that is a very uncomfortable place to be. Actually I'm reading it from the patient side, right...

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Sure.

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

It's all liability, it's their asset, you understand?

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Yeah.

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

So we're not going to go out and try and find spaces to engage in and try and arbitrage it. The interesting thing is, and it gets to your last question, is I don't think there's a better underwriter – it's an opinion, everybody can disagree – I don't think there's a better underwriter in the business than Travelers. The ability to evaluate risk and price it and understand it, to the extent we want to put that underwriting skill to work, not capital now, that underwriting skill to work, behind someone else's capital in some way, that's a fascinating discussion to have.

Now you can get into the concept of renting the talent and what is that really worth but there is no one that does it any better than us, in my opinion. And that has real value to it. And so we are at least thinking about that, not ready to do anything or undertake any new strategies or anything else, but trying to stay aware enough of what is going on to evaluate our own competitive advantages and see if we can put them to work in some positive way. Not as a risk taker, not as a capital underwriter in the business.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

I know you said you are not a futurist but you obviously worked at a bank that went through a similar - a banking industry that went through a similar transformation of taking the risk off their balance sheet and handing it off to someone else. Do you think the insurance industry ends up there some day? Or because it's a liability where you're selling, not an asset, it is much harder?

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

Yeah, I - in a world where - so, my guess would be, the only thing I can think of that would push us there would be a change in the regulatory evaluation of capital.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it.

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

Right? So the capital tied up in the business had a different cost associated with it than it does today. We are not capital constrained at all. Quite the contrary, we've been returning capital like crazy.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Right.

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

And the only thing that might change the way we think about how to deploy that capital would be if the regulatory environment changed and dramatically changed the amount of capital that had to be held. And that's - you could say that's a possibility, I think unlikely, but a possibility.

So I'm not contemplating it yet but right now the industry has so much competition, all at attractive returns, I can't imagine why someone would choose - you can roll up the book of liabilities now. You can go to National Indemnity, Jude, I will give you a little commercial, you can go to National Indemnity and you can have a discussion about laying off a book of liabilities. The cost of that, the question is does the cost of that, there's either a cost of keeping it change in the future or does the cost of laying it off change, but right now I don't see it.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

All right. Thank you.

A - Gabriella Nawi {BIO 2211991 <GO>}

We will take one more question.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure, thanks. Vinay Misquith from Evercore. Travelers has done a great job of raising rates over the past few years and yet you've lost a little bit of PIF but the overall profitability has improved dramatically. The view was that as pricing moderates the retention should increase. We haven't yet seen that, so two questions for that. Number one is why haven't we seen a meaningful improvement in PIF as pricing moderates? Is the competitive environment worse now than it was before?

And two is, would Travelers be willing to keep pricing slightly higher maybe 2% or 3% since small commercial is less sensitive to rate increases than other large commercial businesses. Would you be willing to keep rates slightly higher so that your margins are maintained?

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

So first, in some of our lines of business retention has improved. And you say that hasn't been meaningful improvement, one of the challenges is that it really never went down. We started off in the low to mid-80s, which from a historical perspective – I was in business in the 1990s where retention in the middle market were in the high 60s. Not too many people living were old enough to remember that, but that's where they were.

So the fact that they started at 83% or 84% and went down to 79%, we never thought that went down. We were actually surprised, candidly, we were surprised that there wasn't more churn in the marketplace. And in some of our businesses 79 has become 80 or 81, but on a historical basis they are still, retentions are still at exceptionally high levels.

Now, just to answer your question, that is not unique for us. Most good carriers have experienced the same phenomena of very high levels historically of retention. As a consequence, the new business flow in the marketplace is simply not significant.

There is no new, new business. Our new is someone else's nonrenewal. And so the only way you're going to see a significant increase in the amount of PIF count is if the amount of new business flow changes and changes the opportunities, the quotes, the business in the marketplace changes. And as long as there are very high levels of retention, I wouldn't contemplate that there would be a strategy that one could employ other than the kind of competitive advantages I'm speaking about today to outselect that will over time produce increases in PIF count. It's not by charging 2% or 3% less, or by trying to charge 2% or 3% more. I am aware in Select, and you can look at our numbers, I don't think in Select the RPC ever went negative.

A - Marc E. Schmittlein {BIO 16615938 <GO>}

We looked at it.

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

If it did it barely – it never did.

So you are right, it is less sensitive to it and we have been engaging in thoughtful market pricing all along. If we hadn't been, the retention would not have been where it is. So yeah, I'm not sure how exactly how to answer the question, but I think we understand the price sensitivity in the various markets in which we operate and do our best subject to the competitive environment to optimize them.

A - Gabriella Nawi {BIO 2211991 <GO>}

Okay, well thank you all very much for coming today. I'd like to thank our presenters as well as the corporate event staff who did a beautiful job with this event as well as my colleague, Andrew Hersom from Investor Relations.

Thank you again for attending and we actually will have an informal lunch with management available for you to speak with. Thank you very much.