Barclays Virtual Global Financial Services Conference

Company Participants

- Alan D. Schnitzer, Chairman and Chief Executive Officer

Other Participants

- Tracy Benguigui

Presentation

Tracy Benguigui {BIO 21808177 <GO>}

Good morning. I'm Tracy Benguigui, insurance analyst at Barclays, and I'm pleased to host our fireside session with Alan Schnitzer, CEO of Travelers. Apologies for a few minute delay. So why don't we just jump in? I believe that Alan has a few opening remarks and slides, and I'll just remind folks that we will be taking questions at the end of the session and you could look at the portal to submit those questions.

With that, I'll turn it over to Alan.

Alan D. Schnitzer {BIO 3529437 <GO>}

Yeah. Thanks, Tracy. Good morning, everybody. Thank you for making the time to tune in. Before we get going, I'm duty bound to share that to the extent we get to any forward-looking information, there are risks and uncertainties involved, and I'd encourage everyone to look at our SEC filings for factors that could cause those statements to be untrue. And with that out of the way, in my experience, questions often get pretty -- pointed pretty quickly. So I thought I would just take a minute or two at the front end and set the stage with a little bit of high level commentary, if that's okay, Tracy.

Andrea, maybe you could share the slides and just confirm that they are up. I'm not sure I can see them. I'm just going to -- I'm going to assume, Andrea, that the slides are up there. We have for a long time, going back to 2005 or 2006, identified leading return on equity as our north star, and this slide that hopefully you're all seeing is something we've shared for a long time. This really hasn't changed in a long time. But we did change the dialogue five or six years ago, and we made the point that any strategy to deliver leading return on equity requires a strategy to grow over time as well. And internally, we talk about the dual mandate to perform and transform. Perform we measure as through a return on equity lens, but transform is about making sure that we're developing the capabilities to make sure that we will continue to be successful for the next decade and that we are positioning ourselves to grow over time.

We've laid out the innovation strategy before, so I'm not going to take the time to do that now. I know, we're a little short on time. But what I would like to do is share the results of that and, hopefully, Andrea, we're onto the next slide here. But if you take a look at this, over the last five or so years, we've grown at about 4.5% compound annual growth rate, which is substantially faster than we grew earlier in the decade, and we outgrew GDP. There's been more in this industry for a long time that we ensure the output of the economy. And it's hard to outgrow GDP without something else giving. And we took that on and we challenged that. And in fact, we have over the last five or so years grown substantially faster than GDP.

Moving to the top-middle box, you can see we've done that a stable underlying combined ratio, and that to us is demonstrating the fact that we didn't grow either by underpricing the product and we didn't grow by taking on risk that we didn't understand. We grew by investing in franchise value. At the same time, as we were doing that, we identified improving productivity and efficiency as a strategic priority.

And you can see that from 2011 to 2015, we had an expense ratio that was right around, call it, 32 run rate. That wasn't bad. That was fine. But we knew that to be competitive and do the things we really wanted to do, we needed to improve that expense ratio. And so we got busy five or so years ago and we've improved that two points down to a runway of, call it, say, 30% at the moment. That's a two point increase, but that's a pretty substantial percentage improvement of that 32. And so we've done that by leveraging technology investments that we've made and we've done that by improving workflow.

The productivity and efficiency continues to be an important strategic priority for us. And that gives us -- the operating leverage we have from advances from here will give us some flexibility. But going to the bottom line, the upshot of what we've done in the top row is higher underlying underwriting income. We've taken that to a new level. And that used to be -- there will always be some volatility from period-to-period that's whether another factors. But say $1 billion to $2 billion, a substantial increase over this period.

Moving over to the next box. We don't talk a lot about cash flow. At least, externally, we don't talk a lot about cash flow from operations. But it's something we think about on the inside. And higher cash flow gives us the opportunity to make important investments to return capital to shareholders, but also to grow our investment portfolio. In 2011 to 2015, we had average invested assets of around $70 billion. We've grown that to about $80 billion. And so in an environment of what feels like chronically low interest rates, having more invested assets and more profit from underlying underwriting are two important levers.

So the strategy that we laid out some years ago has been affected. We've executed it. This company is an execution machine. And from here, we think we've got more opportunity for this to continue to play out and very confident that we are very well-positioned as the economy reopens. We've got the talent, we've got the technology, we've got distribution relationships, and the overall franchise value for hopefully the story to continue to play out for years to come.

But Tracy, I know, we're short on time. I'll turn it back over to you to get into whatever you'd like to get into. I just thought this would be helpful to set the stage.

Questions And Answers

Q - Tracy Benguigui {BIO 21808177 <GO>}

(Question And Answer)

Thank you, Alan. I'll just remind folks that we have a survey button on the top right of the screen, and we actually have some audience responses, polling questions. The first one being pricing question, and we'll will revisit that responses a bit later. But maybe just to kick off to Alan, maybe you could just set the stage as well on what your pricing outlook looks like the rest of the year and into next year.

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

Yeah. So we don't give outlook on pricing, so I'm not going to respond to that quantitatively, but I will share a few thoughts on pricing. So a number of drivers in terms of rate, I mean, certainly on the commercial side and increasing on the personal lines as well. But on the commercial side, and we've talked a lot about this and you've heard a lot of others talk about it too, but social inflation, economic inflation, severity of weather, low interest rate environment, so all those things continue to be factors that, I think, are driving pricing higher. So I do expect that rate increases will be around for a while at levels that expand margins. Again, we're not going to quantify it, but we expect rates to be out there for a while at levels that expand margin.

Two other comments I'll make, because people get laser-focused on this pure rate number. And I think particularly in an environment of economic growth, it's really important to look at the overall price number, because there is margin improvement in exposure. And so looking at the headline, overall price is clearly as important as looking at the pure rate number. And then it's -- that headline rate number can also be deceiving. There's a lot of important texture underneath the way that's executed.

And on our last earnings call, we shared some of that texture in terms of what was happening in terms of rate bands. And you can go take a look at the transcript and our slides from that for a little bit more texture. And really important, as you're thinking about one company versus the next, having the data and the analytics and really importantly the know-how at the frontline underwriter level to execute really with precision. It's not just about getting more rate or less rate. It's about getting the right price on the risk combined with terms and conditions that's really important to managing execution and profitability.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. I mean, you did mention in a way pricing is one-dimensional. So if you want to pick on a non-rating variable like terms and conditions, what would you think is underappreciated that Travelers is putting a lot of work across the sustained rate adequacy?

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

Yeah. So terms and conditions, really important levers in managing risk and reward and managing margins. And there's really a lot to that conversation. So the way I think about it, Tracy, I start with program terms. And so for a property policy, that would include price, limits, deductibles, sub-limits, the casualty policy, you get price limits and attachment points. And I think about those as program terms, because those are the things that get negotiated on every single deal and you can move those pretty quickly. And while they are negotiated on a deal-by-deal basis, there are portfolio level applications of program terms. So for example, think higher deductibles applied systematically to tornado, hail exposed risks to address frequency and severity. So that would be sort of one element of terms and conditions I would think about.

The next one I would think about, and this may have been what you were thinking when you asked the question, our coverage terms. And often industry observers think about exclusions when you talk about coverage terms. So for example, early and throughout the pandemic, we thought about communicable disease exclusions applied again very surgically and where it made sense on some policies. But we've been doing that for years. So I think, wage and hour exclusions on EPL policies. I think short-term rental exclusions on homeowners policies. Not that we don't cover some of those risks, but you want to make sure that you're covering them deliberately and pricing for them. And so exclusions make sense.

But beyond those exclusions, and this is another thing, I think, that doesn't get quite enough fair time is the coverage grant. So you have a coverage grant that gets pulled back by exclusions, but that coverage grant really can't be overlooked. And that's important, because when a coverage grant -- when you have erosion of the coverage grant over time, that's very hard to correct once there's market momentum behind it. And so for example, we are careful to avoid less disciplined broker forms. And our discipline with the overall coverage grant was evident throughout the -- for example, the pandemic. And it was one of the reasons why very early in the pandemic last April of 2020, we were able to come out and pretty definitively state that we didn't expect business interruption to be a problem for us. And that was really all about the discipline of the coverage grant.

A nice thing about terms and conditions, especially when they're tightening, is that they often -- it's often more enduring than the price component of a risk. And so in other words, the tightening of the terms and conditions generally last beyond the moderating of price.

And then the last thing that, I think, often gets overlooked when it comes to terms and conditions is a close cousin of risk selection. And sometimes, no matter what the price is, no matter what the terms and conditions are, you just can't get an adequate return on a product and -- or risk, and that's really when you need to just put up your hands and say, I'm sorry we can't write it. And an example of that is we stopped writing cyber policies for businesses that don't have multi-factor authentication. And so in the whole terms and conditions conversation, risk selection is over often overlooked, but it's key.

I think you're mute, Tracy.

FINAL

Bloomberg Transcript

Q - Tracy Benguigui {BIO 21808177 <GO>}

That was great insight. And I think also just circling back to your comment that it's just not all about rate. What do you think is the right trade-off at this point in the cycle, raising renewal retention with giving up some rate and the reverse, holding a line and squeezing more rate? Could we anticipate at this point of cycle further increases in your retention levels?

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

And so I tend -- we tend not to think about that as sort of a portfolio trade-off rate versus retention. Again I -- yeah, that's sort of a default to the headline number, which just isn't the way we executed really think about this business. As we've explained many times, we approach this business one account, one class of business at a time. And I can't stress enough the importance of thinking about this and certainly executing it in a very granular way. So our approach is to keep our best business, get rate where we need it and add attractive new business to the portfolio. And you make those decisions one account at a time. And at the end of the quarter, at the end of the year, you add up the results and either you have more or less whatever the metric is you're looking at.

And the fact that we really, at the moment, don't have that trade-off at all, I think, is evidence of that really granular execution. What I mean by that is we have a very high quality book of business. And so our retentions are near all-time highs. And that's true in both our business insurance segment and in our bond and specialty segment. And that really is a function of the fact that we like our high quality book of business, we like the risk and we want to keep it intact. So retentions near all-time high. But given some of the headwinds to returns that I mentioned a minute ago, we also need more rate. And so if you've looked at pricing in the last couple of quarters, that's also at an all-time high. So again, given that granular count-by-count, class-by-class execution dynamic, we've been able to maintain both the high retention and high price.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. And maybe we can get into some of your business lines. I'll start off with workers' comp. Are you further along understanding how their bureaus will be treating 2020 pandemic trends on 2022 loss cost filings? Our read is that COVID-19 will be treated as a catastrophe and excluded from underlying loss cost trends. But I guess, what is a little bit less clear is how these bureaus will be treating workers' comp frequency tailwind in 2020, which may be the real wild card.

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

Yeah. So this is a -- I mean, the NCCI, for example, is -- it provides the bureau service for many states, but it really is a state-by-state application of this process. And so it's, again, as always in this business, hard to generalize across all 50 states. In terms of direct COVID claims, I think you're right. We are seeing most states, excluding COVID losses from loss experience. But it's not true uniformly. For example, I think that's not true in New York, for example. And I do agree with you that the big unknown is the indirect side, the favorability from non-COVID workers' comp claims. And that remains to be seen. I think the important thing to keep in mind on that question though is that the job of the bureaus is to predict as best as possible what future loss costs are going to look like, and they actually do a pretty thoughtful job at that.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Great. And I guess, how are those conversations going so far in terms of pricing, putting all that together?

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

It's again hard to generalize 50 state conversations. It's a work in process. But I would say productive and constructive.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. And then I also noticed that in the second quarter, commercial auto grew at a faster clip sequentially, and I understand most of this is rail. But can you contextualize rate adequacy on the commercial auto side? Do you think there's still rate catch-up that's needed? Are you worried about some of the qualitative aspects like the quality of truckers on the road post-recession?

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

Yeah. So we're always going to see some fluctuations quarter-to-quarter and the dynamic in commercial auto in the second quarter. Rate has for a long time and, I think, will continue to be a big driver of the net written premium growth. But the story in the second quarter was actually endorsement activity. And going back to the comparison quarter a year ago, second quarter of 2020, we actually had a lot of commercial vehicles coming off the road early in the pandemic. And so there was a lot of endorsement activity that lowered the exposure. And what we saw in the second quarter of this year was what I would describe as a more normal level of exposure. But compared to the prior year, it looks like a lot of growth. So I think that was a big part of the growth in the second quarter of this year, although rate continues to be a big driver of premium growth in commercial auto.

It's a tough line of business. It's been tough for the industry for a long time. I still don't -- we're definitely doing better. We've been -- the rate increases have been compounding for a while now. So I think current returns in the outlook are improved, but still not where it needs to be. And we what expect is the economy improves to have some deterioration and driver experience levels. And we would anticipate that and put that into our pricing models. So yes, I agree.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Now, turning to personal auto, because everyone's talking about where's frequency and severity. Are regulators looking at 2019 as the base year, completely discounting 2020? And do you find that to be problematic, given rates were higher and severity was lower?

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

Yeah. I don't really think that's problematic. I mean, certainly -- it's certainly a dynamic. I don't think it's problematic in the sense that we maintain excellent relationships with our regulators. And anytime our rating plans are out of sync with our rate need as is the case now as you point out, as miles driven returns to pre-pandemic levels and severity rises, we -- our rating plans in some states are out of sync with our rate need. And so we sit down, and we have a conversation with the regulators. And clearly, 2020 was an abnormal year. And so that's often a discussion point with the regulators. We talk through that as we make the case for our rate need. But at the end of the day, I would describe it broadly as business as usual in the sense that that's what we do every day with our regulators. We're having conversations with them on a regular basis, explaining where we are and what we need. And at the end of the day or at least over time, we generally get to where we need to be.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Yeah. I guess, that brings me to the big question of how long it would take. I mean, intuitively, personal auto is six-month paper. So it should be easy to reprise. So just trying to understand where the regulators heads are at, so you don't go through a number of cycles where you're behind on accumulation of loss trend.

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

Yeah. I would say that's largely business as usual as well. There's nothing new there. It's the -- that's the same sort of lag in the environment that we've been navigating successfully for years. And as we think about where we are and where we need to be, we expect there to be some lag in the time it takes to get rate actions approved, implemented and earned in. So again, it's hard to generalize across all 50 states. But it's broadly business as usual. This is a different -- it's -- everyday is a different environment. This is a different environment than we had last year, for example. But it's the same in the sense that we're well-versed in sitting down with our regulators and moving the process along.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Great. Maybe just thinking about the economy reopening, how do you anticipate loss cost trends emerging? Do you anticipate pent-up litigation in the courts?

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

So generally speaking, just stepping back. There's clearly a correlation between economic activity and loss trend. And so just taking the auto line, for example, when you've got more congestion on the roads and you mentioned less experienced drivers, those sorts of things would contribute to higher levels of loss trend. And add to that, in the current environment, some increase in the expectation for labor and materials costs. So we are expecting, as the economy reopens generally in some lines, some incremental tick up in loss trend. So it's expected and we'll price for it. So there's often a focus on how loss trend is going to change. And the real question is, how is loss trend going to change relative to expectation? That's a really important question. How is it changing relative to reserving and pricing assumptions? And so as you point out, as the economy opens up, loss trend, we would just expect that and that would be in our assumptions.

In terms of pent-up litigation, I don't know how to answer that other than yes. I assume that's the case. The courts have been closed. They've been slow to reopen. As they reopen, I think, they're going to prioritize criminal cases over civil cases. So it will take some time to know exactly what's been happening underneath the fog for a while. But for that reason, as you and others have heard us say, we've been very cautious in reserving for that environment. So the underlying data that we've observed over the last year and year-and-a-half might cause us to think that things are improving a little bit. We haven't really recognized that, because we think that has more to do with the obscurity, the data than really what's going on underneath. So we've been pretty cautious in the way that we've been reserving for that, because we expect there will be some activities as the economy opens up.

The other thing to keep in mind, Tracy, when we think about an economy opening up and the consequences for loss trend is the consequences on exposure growth. And so a mitigant to rising loss trend, other than the fact that we do anticipate it and price for it, is that as you have higher levels of wages, for example, or higher levels of sales, overall economic activity, that would translate into exposure growth, which to some degree offsets to one degree or another, but offset that higher loss trend.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Yeah. You mentioned wage inflation. How do you think that's going to impact workers' comp loss trends?

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

Generally, wage inflation is a favorable thing for workers' comp loss trend. And that's because that -- the premium dollars will increase linearly with wage increases, but losses don't move up proportionately generally. And so higher levels of wages are generally good thing for workers' comp margin.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Good insight. Let's talk about catastrophes. So far, the quarter shaping up to be quite active. How is the Ida part one and part two looking for you? And I guess my follow-up to that is, did Northeast derivative impact of the storm surprise you? Or is that something you generally capture in your models?

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

Good question. Ida has been getting a lot of attention, as it should get a lot of attention. But a really important point I want to make is even putting Ida aside, this quarter, from both a cat and non-cat weather perspective, is shaping up, to use your words, to be quite active. So that shouldn't surprise anybody. What I would say in terms of the modeling, Tracy, is that, I think, the way to think about it is some models are considerably more developed than others. And so hurricane models on the continuum would be relatively more advanced than other models. And so the -- just to use your words, the part one of Ida was very well-modeled and an expected. Part two wasn't as much a hurricane as it was a flood. And the Northeast flooding, flooding is a peril generally, I would say is those models just aren't as advanced and developed. So did it surprise us? I wouldn't say it surprised us, but I would say the models just aren't as well developed.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And do you have a prediction of the industry level loss?

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

I just -- I don't spend any time at all predicting industry level losses. I just don't find any value in it. We spend a lot of time coming up with our own view. And I would say our own view is coming into focus, but not to a degree that we're prepared to share a number right now. But over time, it'll only be a few weeks probably before we have a much better handle on what the industry estimates will be, and we'll use that for our own post-mortem. But I just don't find a lot of value in speculating about industry losses.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And also in light of elevated catastrophe event, I guess, it's time we to touch on your reinsurance buying philosophy. I mean, it seems like you're comfortable to absorb what I call an earnings event, even though you have Ag cover. How did you get to this place? Do you need to hold on some more capital in light of your higher occurrence retentions? Or would it be more efficient to hold on to less capital and buy more reinsurance for volatility cover?

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

Yeah. I don't think it's quite as simple an equation as the question might imply. I mean, optimizing capital efficiency is an ongoing initiative for us. So our CFO, Dan Frey, focuses a lot on that. He and I talk about that a lot. And if there were an obvious or easy way to lower our cost of capital, of course, we would do that. Reinsurance isn't necessarily low-cost capital. You don't find a reinsurer that's willing to take your losses and not charge a margin for using their balance sheet. And we think our underwriting expertise, the fact that we have a relatively high degree of predictability in our loss activity certainly over time gives us the opportunity to take more risk gross. And the fact that we're not conveying a margin to somebody else to take that volatility we think gives us a competitive advantage.

The other thing that I -- is often overlooked in reinsurance buying strategy is when you've got a primary business, there's a lot of risk in building a book of business on the back of reinsurance capital. Because that reinsurance capital can come and go pretty easily every year. The reinsurers can make a decision to write it or not write it or raise the price or terms of conditions. And when you're a primary writer like we are, just given the relationship we have with our customers, our distribution partners, given the regulatory environment, you just can't come and go like that. And so to think that you're going to write a lot of insurance, a primary insurance on the back of reinsurance, and then hold a lower level of capital really leaves you exposed to changes in the reinsurance marketplace.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Great. Just maybe staying on the theme of capital management. I know, you had those slides upfront. But I'll just point out that many of your peers upsize their buyback programs with discrete time stamps, and Travelers does not have a time stamp in relation to your $5 billion authorization. Can you just share what factors you considering to make that determination? I mean, can you conceivably be at a point where your excess capital position won't result in acceleration of capital returns?

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

Yeah. I'll just take the opportunity to point out we've got a very long, consistent and great record on capital management. So we started our stock buyback program in 2006. And since 2006, we've returned through share buybacks and dividends nearly $50 billion of capital to shareholders. So I think we've got a great and very clear track record in how we do it, and we've been very effective. And I think that's been a really important contributor to shareholder value.

For us, it's not about the fact that we're sitting on a bunch of excess capital at the moment. And we can say that in the next month or six months or a year, we're going to return it. For us, it's about the ongoing process of right sizing capital. And that's how much capital do we have versus how much do we need to run the business. And so how much do we have is generally a function of earnings. And how much we need is a function of other uses of capital and whether that's growth, organic or inorganic, and investment and some provision for uncertainty. So we are -- and we're also -- we're not market timing. We're not trading in our stock. We are really thinking about just right sizing the balance sheet. And that's an ongoing very deliberate process for us. I would add that in share buybacks going back to 2006, I think our -- the price per share at which we bought back the stock is under $70 a share, $66 or $67 or something. So it's been a great rate for us.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And I'll also do another compare and contrast to competitors. I mean, some of your peers have laid out explicit multi-year savings plans. What are some of the things you're doing on the expense side and how meaningful could that impact be to your expense ratio?

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

Yeah. So we've got a lot of competitors that are pulling out blueprints on the drawing board, talking about what they're going to do in terms of expense management. And I -- one of the reasons I opened up the conversation with that is to a large degree, we started that five years ago. And so we recognized the need to do that. We didn't pull the blueprints out. We just did it. And so we've substantially reduced our expense ratio. We've improved our operating leverage. And we've done it through leveraging technology, and whether that's digital tools for our employees, digital tools for our customers, artificial intelligence, robotic process automation, improving workflow. So taking high volume, low dollar-type policies and routing them through a centralized underwriting process center. So things like that.

So we've taken the ratio from a run-rate of about 32 to run-rate of about 30. We said that, for now, we're comfortable with around 30. And again, there's always going to be some volatility. That'll be a little bit more -- that would be a little bit higher, a little bit lower quarter-to-quarter. But this is a comfortable place for us. It doesn't mean that we're -- that productivity and efficiency is any less of a strategic priority for us. It just means we've got other alternative for what we do with those dollars. And so from here, as we generate incremental efficiency, we can make the decision to either let that fall to the bottom line or invest it in other strategic priorities if we think there's a return on.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. I'm just going to remind folks that you can submit questions on the portal or email it to me directly, and I could take those questions. I have plenty of fallback questions just to get us through. So I have actually some philosophical questions. I guess, from our see, what leading indicators we look at to evaluate tort liability? And conversely, could we get to a point where we could see tort reform, like capping judicial awards, similar to what we saw in the mid-mile side two decades ago? I mean, I heard like Philadelphia courts are intimated with volume of activity. And so that just maybe the more pragmatic path at some point.

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

Yeah. So just taking that in order of the assets. So in terms of leading indicators, I mean, we certainly have visibility into some metrics that outside observers wouldn't have access to. So we track things like attorney rep rates, the point in the claim in which attorneys are brought in and so on and so forth. So there's a lot of insight we have that you wouldn't have. But there are things that are visible from the outside. I would characterize them as very blunt instruments. So attorney marketing spend for example, trends in third-party litigation financing, legislative activities that are either helpful or unhelpful, so reviver statutes for example or tort reform bills, which we see in some states.

You open up the newspaper, and you get a sense of social attitudes that are reflected in jury word. So I think there are indicators out there that an outside observer can look at. But again two things, one, it's a very blunt instrument; and two, to understand the consequence of it, you'd really need to understand the significance of that relative to an insurance company's expectations, because you can look at something and say, gee, we would expect tort inflation to be higher, but the question is, is it going to be higher or lower? It's -- what is it relative to what we're reflecting in our assumptions for price can reserve?

In terms of the real policy question, where we go tort reform? I've been very vocal about the tort tax. And there are studies out there that say that our tort system costs American families across the country $3,000 per family per year. And I think everybody ought to be up in arms about that. There should be an uproar over that. And in states like New York, I think that's close to $6,000. And I bet that's higher, because these numbers are from a study that's a few years old at this point. So I think it's a shame that we don't have more aggressive tort reform, but I think we've got a plaintiffs bar that's very well organized, very well funded that, I think, has been has been successful. And just looking at the way the political winds are blowing, as much as, I think, it's a great idea, I wouldn't expect tort reform to happen at the Federal level, although we are having some success in some states. And so I --- it really is a battle that has moved to the state level where, I think, there's an opportunity to make a difference.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Great. I've gotten a few audience questions. How comfortable are you with pricing dynamics in commercial auto? What refrains you from having a more aggressive stance in this space?

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

I'm comfortable that it's moving in the right direction, for sure. What stops us from being more aggressive? I guess, two things, one is we're in the business of working with our distribution partners to take care of our customers. And so it's in our interest to have an orderly market and to make sure that we're providing solutions at fair prices. And so moving at a pace that isn't shocking to the market is better than moving at a pace that is shocking. But also, the important thing about -- important thing to remember about commercial auto is generally written for us as part of an overall solution. And so we're writing the commercial auto with the liability, with the workers' comp, with the property. And so we could -- and we do manage profitability both by line and by account. We don't tolerate loss-leader type products, but we are measuring account profitability and obviously the market doesn't have visibility into that, but that dynamic explains, I think, why we're not more aggressive.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. And this question actually reminds me the last time we were in price firming cycle, let's call it, 2011 or so on. Basically, you had so many competitors, take a step back in workers' comp, and that was an area that you grew a little bit more aggressively. You could kind of say that the industry thought of that as a loss leader. So I guess, what makes commercial auto a little bit different?

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

I'm sorry. I'm not sure I understand the question. Different than what, workers' comp?

Q - Tracy Benguigui {BIO 21808177 <GO>}

Yeah. I guess, there was a view out there that workers' comp was a loss leader, and you took a more aggressive stance at that time. But it sounds like, just based on your response, a little bit more conservative on the growth path for commercial auto.

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

Yeah. I'm not sure we ever -- I mean, I think I can say definitively we never looked at workers' comp as a loss leader. It's always -- I mean, we've been a market leader there. It's been a great product for us. We have outperformed the market over time by pretty substantial market and that's benefit of scale, data, resources. So I'm not sure I understand the question exactly, but I'm not sure I agree with the underlying premise that we thought about workers' comp as a loss leader.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Got it. We only have about one more minute left. I guess, my last question is just touching in on your E&S capabilities. I know, you are learning a lot from your investment in Fidelis. You also have in-house capabilities like Northfield, Lloyd's, etcetera. Just how satisfied are you in your penetration in specialty lines market?

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

Yes. And beyond Northland, Northfield and Lloyd's, we have more flexibility than, I think, people appreciate in our admitted products to provide solutions. So when business moves from an admitted market to a non-admitted market, it's not generally -- it's often not because we couldn't provide the solution. It's because we choose not to -- we reject the risk and reward proposition of that business. So we've got more flexibility than, I think, people appreciate. Having said that, I do think to a degree, we are underway E&S. And we've got all the tools in our toolbox to be successful. There's nothing we fill compelled to do. There's no pinch in the back. But it could be an opportunity for us someday for sure. And we evaluate that and we think about that regularly.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Got it. I think we're got -- we're out of time. This conversation went by really quickly. I really appreciate our discussion today. Thank you, Alan.

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

Always nice to see you, Tracy. Thank you very much, and thanks everybody for--

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. Bye.