

Q3 2018 Earnings Call

Company Participants

- Abbe F. Goldstein, Senior Vice President-Investor Relations
- Alan D. Schnitzer, Chairman and Chief Executive Officer
- Daniel S. Frey, Chief Financial Officer & Executive Vice President
- Gregory C. Toczydlowski, Executive Vice President and President, Business Insurance
- Michael F. Klein, Executive Vice President & President, Personal Insurance, and Head of Enterprise Business Intelligence & Analytics
- Thomas M. Kunkel, Executive Vice President and President, Bond & Specialty Insurance
- William Herbert Heyman, Vice Chairman & Chief Investment Officer

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Jay A. Cohen, Analyst
- Jon Paul Newsome, Analyst
- Josh D. Shanker, Analyst
- Kai Pan, Analyst
- Larry Greenberg, Analyst
- Meyer Shields, Analyst
- Michael Zaremski, Analyst
- Ryan J. Tunis, Analyst
- Yaron Kinar, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to the Third Quarter Results Teleconference for Travelers.

We ask that you hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. As a reminder, this conference is being recorded on October 18, 2018.

At this time, I would like to turn your conference over to Ms. Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, you may begin.

Abbe F. Goldstein {BIO 16625704 <GO>}

Thank you. Good morning and welcome to Travelers' discussion of our third quarter 2018 results. Hopefully, all of you have seen our press release, financial supplement and webcast presentation released earlier this morning. All of these materials can be found on our website at www.travelers.com, under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our three Segment Presidents: Greg Toczydlowski of Business Insurance; Tom Kunkel, of Bond & Specialty Insurance; and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take your questions.

Before I turn the call over to Alan, I would like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance.

Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under the forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements.

Also, in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement, and other materials available in our Investors section on our website.

And now, I'd like to turn the call over to Alan Schnitzer.

Alan D. Schnitzer {BIO 3529437 <GO>}

Thank you, Abbe. Good morning, everyone and thank you for joining us today. By now, you've seen our numbers and we're pleased with the results. This morning, we reported third quarter net income of \$709 million or \$2.62 per diluted share, generating return on equity of 12.6%. Core income was \$687 million or \$2.54 per diluted share.

Our core return on equity of 12% was strong, particularly considering that while catastrophe and non-cat weather losses were significantly lower than last year's quarter. In the aggregate, they were nonetheless elevated relative to our expectations.

Our performance this quarter is the result of excellent underwriting execution across a diverse portfolio of businesses, a successful and consistent investment strategy, and the continuation of our strategy of returning excess capital to our shareholders.

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Notably, our results this quarter benefited from record high net earned premium and the sub-30% consolidated expense ratio, reflecting progress that we're making on our strategic agenda. About a year ago, we explained that our strategic plans were largely geared toward creating top-line opportunities and that improving productivity and efficiency was an important component of our strategy.

Each of our business segments has contributed on both counts. They've done so by successfully implementing technology workflow and product enhancements, and by making sure that we're delivering compelling value to our customers and distribution partners.

Before I get further into the results, I want to acknowledge the devastation caused by Hurricanes Florence and Michael. Our thoughts and prayers are with all those who have been impacted. Following events like these, our claim organization works hard to make sure that our customers see the value of the promise they bought from us and our agent and brokers see the value of the Travelers promise they sold.

Case in point, as of today, we've closed more than 90% of our homeowners claims arising out of Hurricane Florence and we're bringing the same level of urgency for our customers impacted by Hurricane Michael. We're thankful for the extraordinary effort by our claim professionals.

Turning to production, we were pleased with the success of our marketplace execution. Growth in each segment contributed to consolidated net written premium growth of 6%. In Domestic Business Insurance retentions remain historical highs, which is a reflection of the fact that we have a high-quality book of business and a significant percentage of it is meeting our return expectations.

Renewal premium change, including pure rate and exposure, is strong at around 5%, which is about 2 points higher than in the prior-year quarter and stable sequentially. Inside that, pure rate is up about 1 point quarter-over-quarter and down a little sequentially. And economic activity is contributing to a healthy level of exposure growth.

At this level, pricing is more or less offsetting loss trend. But, as you know, we don't manage the headline number. There's a continuum of price change with workers' comp at the low-end and commercial auto at the high-end. In between, there are accounts, products and geographies where we need more price and others where we don't, and we'll execute accordingly.

In terms of pricing and profitability, there are a number of factors that impact our returns beyond rate and loss trend. First, we actively manage all the available levers, such as risk selection, mix of business, claim and expense initiatives, volume, reinsurance and so on. Beyond that, there are few environmental factors at play.

A decade after the financial crisis, interest rates and, as a result, net investment income, are moving higher. As I mentioned, economic activity is generating exposure growth. And thanks to tax reform, we're benefiting from a level playing field and the lower tax rate. We

take all that into account in our pricing strategy to achieve our target returns. We follow the same approach across all of our businesses.

Turning to Bond & Specialty Insurance, net written premiums increased by 5%, with strong production in both our Management Liability and Surety businesses. In Personal Insurance, net written premiums increased by 6%, benefiting from continued successful execution in Agency Auto and PIF growth in Agency Homeowners. You'll hear more shortly from Greg, Tom and Michael about the segment results.

Before I pass the microphone, I'd like to share a few thoughts about some of the investments we've made and are making. We've grown our top-line year-to-date by over \$2 billion or 11% as compared to the same period in 2016. Over that same two-year period, we've managed G&A expenses to about flat. You've seen the impacts in our expense ratio.

In addition to a lot of hard work by the best field organization in the business, our ability to have done that has been enabled by significant investments and things like core technology and workflow. We've been making these investments over some time while delivering leading returns and we continue to invest thoughtfully and strategically.

As we shared with you before, in terms of innovation, we have three clear priorities: to extent our lead in risk expertise; provide great experiences for our customers, agents and brokers; and improve productivity and efficiency. We're encouraged by the progress we're making.

As you've probably heard, we recently announced that we've teamed up with Amazon to launch an industry-first digital storefront. This initiative is designed to create new opportunities for us and our agents to attract and serve customers, and help them take a more proactive approach to home safety in an increasingly digital world. It's obviously very early days. But, over time, we're hopeful that this and similar initiatives will lead to new business opportunities, improve loss cost and provide us with valuable insights.

This past summer, we made a majority investment in Zensurance, a Toronto-based digital provider of online insurance solutions for small businesses. It's a natural fit with our Simply Business team, further adding to our digital capabilities and medium-term strategic positioning to serve the micro and small commercial customer.

We also recently announced an investment in Kittyhawk, the market leader in enterprise drone operations software, further enhancing our position as an industry leader in the use of drone technology.

In short, we believe the winners in our industry will be those with deep domain expertise, who can continue to deliver industry-leading results while innovating successfully on top of the foundation of excellence. Internally, we refer to it as our perform and transform mandate. From a position of strength, we believe that we have the talent, resources, expertise and focus to do just that.

For the past 66 quarters, this is the point in the call that we passed the microphone to Jay Bennett. Today I'm pleased to be passing the microphone to Dan Frey. But before I do that, a word about Jay. It's hard to overstate the impact that Jay has had on Travelers. He is a big talent and virtually every milestone in the modern life of this company bears his mark.

Having said that, this day was foreseeable and we're well prepared. And thankfully, we'll continue to benefit from Jay's experience and wisdom as he'll continue to serve on the senior leadership team as Vice Chairman.

One of Jay's biggest achievements is having developed a world-class bench of finance talent, including Dan Frey. Dan brings more than three decades of finance and accounting experience to the role. He served in a number of strategic financial management roles across Travelers over the past 15 years, most recently as the CFO of Personal Insurance. I couldn't be more pleased to have Dan as a partner. His deep technical expertise, strategic mindset and collaborative style make him the perfect fit to help lead Travelers into the future.

And with that, I'm please to turn the call over to Dan.

Daniel S. Frey {BIO 20727678 <GO>}

Thank you, Alan. Core income for the third quarter was \$687 million, up \$434 million from the prior-year quarter; and core ROE was 12%, up from 4.5%. The significant improvement in both measures from last year's third quarter resulted primarily from the lower level of weather-related losses and very strong net investment income.

Our third quarter results include \$264 million of pre-tax cat losses, a significant amount, although well below the \$700 million in the prior-year quarter, accounting for 6.9 points of improvement in the combined ratio. Prior year reserve development was slightly favorable and comparable quarter-over-quarter. The consolidated underlying combined ratio was 93%, which excludes the impacts of cats and PYD, remained steady, as a higher level of non-cat weather losses was mostly offset by the improvement in our expense ratio.

Our pre-tax underlying underwriting gain of \$448 million remained steady, as increases in Business Insurance and Bond & Specialty Insurance were largely offset by results in Personal Insurance. Pre-tax net investment income increased by \$58 million from the prior-year quarter to \$646 million, while after-tax NII increased by \$90 million to \$547 million. Both measures benefited from the more favorable interest rate environment, an increase in average invested assets resulting from continued growth in net written premiums, and favorable results in our non-fixed income portfolio. On an after-tax basis, NII also benefited from the lower U.S. corporate income tax rate.

As we had expected, after-tax fixed income NII increased by \$60 million, and we expect after-tax fixed income NII in the fourth quarter will increase by \$60 million to \$65 million, compared to the fourth quarter of 2017, as net written premiums continue to grow and reinvestment rates are expected to exceed existing rates on upcoming maturities.

Net favorable prior year reserve development of \$14 million pre-tax or \$10 million after-tax was comparable with the prior-year quarter. On a year-to-date basis, net favorable prior year reserve development was \$350 million.

Both Bond & Specialty Insurance and Personal Insurance experienced net favorable PYD this quarter. Business Insurance experienced net unfavorable PYD, driven by a \$225 million increase to asbestos reserves, along with a \$57 million increase to commercial auto reserves that resulted from elevated severity in recent accident years, partially offset by favorability in the workers' compensation line. Excluding the asbestos charge, Business Insurance had \$169 million of net favorable prior-year reserve development.

The asbestos reserve increase resulted from the completion of our annual asbestos review during the third quarter. The increase was driven by higher estimates of projected settlement and defense costs from mesothelioma claims compared to what we had previously expected.

As has been the case in previous years, while there was some slight improvement in several of our asbestos indicators, our expectation had been for more of an improvement. This phenomenon has continued to result in periodic reserve strengthening for us and for others in the industry.

The number of deaths from mesothelioma, which we believe is a leading indicator of future asbestos payments, has trended downwards somewhat during this decade. At the same time, the mix of mesothelioma deaths by age has shifted to older cohorts. That may be the result of medical advances over time successfully treating a variety of other deadly diseases, allowing more people who worked with asbestos when it was prevalent in the workplace prior to the late 1970s to live long enough to develop mesothelioma in their 70s and 80s. Ultimately, this high-risk cohort will become smaller over time. So we continue to expect that the current claim environment will improve as time goes on.

Bond & Specialty's net favorable prior-year reserve development of \$53 million pre-tax was driven by domestic management liability; while in Personal Insurance, the net favorable PYD of \$17 million pre-tax was driven by domestic personal auto.

Turning to capital management, operating cash flows for the quarter of \$1.7 billion were, again, very strong. All our capital ratios were at or better than target levels, and we ended the quarter with holding company liquidity of approximately \$1.4 billion.

While it was already over-funded, we made a discretionary contribution of \$200 million to our qualified pension plan before we filed our 2017 tax return in September, which provided a 35%, rather than a 21%, tax benefit, resulting in a \$28 million economic tax benefit in the third quarter.

Recent increases in interest rates, which had benefited our fixed income NII, have resulted in a modest net unrealized investment loss, impacting shareholders' equity. As of September 30, we had an unrealized investment loss of \$447 million after-tax.

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Remember, the changes in unrealized investment gains and losses do not impact how we manage our investment portfolio, nor our business. We generally hold fixed income investments to maturity, the quality of our fixed income portfolio remains very high, and changes in unrealized gains and losses have had little or no impact on our statutory surplus or regulatory capital requirements.

Adjusted book value per share, which excludes unrealized investment gains and losses, is now \$86.51, 4% higher than at the beginning of the year. We continue to generate excess capital and accordingly returned \$607 million of capital to our shareholders this quarter, comprising share repurchases of \$400 million and dividends of \$207 million. On a year-to-date basis, we have returned \$1.76 billion of capital to shareholders through dividends and share repurchases.

While it, obviously, did not impact our third quarter results, I'd like to provide some commentary regarding Hurricane Michael. While much of the media focus on this storm has been on the devastation of homes in Florida, and our thoughts are with all those impacted, it's worth noting that this was a multi-day event, impacting both personal lines and commercial lines in a number of states. In addition to Florida, the PCS footprint also includes Alabama, Georgia, Maryland, North Carolina, South Carolina and Virginia.

Given that it's just a week or so since the storm hit, we are still assessing our view of losses from the event. At this point, we expect the losses from this storm to be significant in terms of meeting the threshold for inclusion in the schedule of catastrophes in our quarterly SEC filings, but manageable relative to the fourth quarter overall and not something that would preclude us from resuming stock buybacks next week.

And with that, I'll turn the microphone over to Greg.

Gregory C. Toczydlowski {BIO 16615940 <GO>}

Thanks, Dan. Business Insurance produced segment income of \$410 million and a combined ratio of 100.6% for the quarter, both significantly better than the prior-year quarter, due primarily to a significantly lower level of catastrophes this year.

The unfavorable prior-year reserve development that Dan mentioned had 1.5 point impact on the combined ratio. The underlying combined ratio of 95.4% was 1 point better than the prior-year quarter as non-cat property fire losses, which were elevated in the prior year, returned to more normal levels.

Although the underlying loss ratio improved from the prior year, it was impacted by about 1 point from higher-than-expected non-cat weather. For perspective, the third quarter of 2018 included 18 PCS in equivalent events outside the U.S. that did not meet our cat threshold, while 2017 had only 6.

While losses from non-cat weather were unfavorable to our expectations, cat losses were favorable. And the aggregate of the cat and non-cat weather was generally in line with our expectations for the quarter. Our expense ratio improved by around 0.5 point as we

remain focused on managing expenses thoughtfully, while making ongoing strategic investments and prudently growing the business.

Turning to the top-line, net written premiums were strong for the quarter at \$3.6 billion, up 6% over the prior-year quarter, driven by strong production results. Regarding domestic production, we achieved strong renewal premium change of 5.1%, with renewal rate change of 1.8%, while retention was exceptional at 86%.

New business of \$467 million was up 7% from a year ago. Pure rate is up more than 1 point from the third quarter of 2017 and down a bit sequentially. But, as you know, we execute at a very granular level.

We continued to achieve renewal rate gains broadly across our Middle Market accounts, with auto, CMP, GL, property and umbrella, all having positive rate increases. Auto continues to be the line with the highest level of rate, consistent with our review of performance of the like.

We're pleased with these production results, and consistent with Alan's comments, we continue to execute our marketplace strategy to meet our return objectives with thoughtful balance towards retaining our best business, improving pricing where it's needed and pursuing attractive new business opportunities.

Turning to the individual businesses, in Select, renewal premium change and renewal rate were stable, while retention remained strong at 83%. New business was 5% over the prior-year quarter, as we continue to leverage our investments in technology and workflow initiatives.

In Middle Market, renewal premium change was 4.7%, with renewal rate change of 1.6%, while retention remained historically high at 87%. New business premiums of \$269 million were flat to the prior-year quarter in aggregate.

In our core Commercial Accounts business, where our business initiatives are most advanced, new business was up 5% as we continue to be more active in the market with increased coactivity.

In closing, Alan laid out our innovation agenda across the company. As we shared with you at last year's Investor Day, for Business Insurance, that means furthering our capabilities around customer solution, convenient processes, and competitive cost structure. Our strong marketplace execution, including the impact from the progress we've made on these strategic initiatives, have contributed to our ability to deliver nearly \$600 million of additional net written premium year-to-date in 2018, while keeping insurance G&A expenses generally flat.

With that, I'll turn it over to Tom to talk about Bond & Specialty Insurance.

Thomas M. Kunkel {BIO 16615934 <GO>}

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Thanks, Greg. Bond & Specialty delivered strong returns and growth across the business. Segment income of \$196 million was up \$60 million from the prior-year quarter, due primarily to a higher level of favorable prior-year development. The underlying combined ratio was an exceptional 78.3%.

Net written premiums for the quarter were up 5%, driven by broad growth across our businesses. These results reflect the impacts of strategic product, marketing and distribution initiatives to grow these profitable lines, including workflow enhancements to drive improved efficiency and productivity internally, as well as for our agents and brokers, advanced analytics leveraging our valuable proprietary and third-party data to refine our marketing and underwriting strategies, and improvements in value-add capabilities to further distinguish our product and service offerings in the marketplace.

Turning to production in our Domestic Management Liability business, given the level of returns we are achieving, we continue to execute our strategy to retain a substantial percentage of our high-quality portfolio, while pursuing attractive new business. So, we are pleased that the retention came in at a very strong 89% for the quarter, with a renewal premium change of 3 points. New business was at a record level, up 12% from the prior-year quarter.

So, Bond & Specialty results were excellent, and we continue to feel great about our execution in the marketplace, our growth in returns and the opportunities that our strong market positions and competitive advantages present for the future.

And now, I'll turn it over to Michael to discuss Personal Insurance.

Michael F. Klein {BIO 19674145 <GO>}

Thanks, Tom, and good morning, everyone. In Personal Insurance, this quarter, we continued to deliver on our objectives of balancing growth and profitability in Auto and sustaining momentum in Homeowners.

Segment income of \$153 million increased \$76 million over the prior year, while our combined ratio of 97.2% improved 2.5 points. These improvements were primarily driven by lower catastrophe losses and a modest amount of favorable prior-year reserve development, partially offset by higher underlying loss experience, which I will discuss in more detail shortly.

Agency Auto delivered a strong quarter, with a combined ratio of 91.3%, down 14.7 points from the prior-year quarter. While the quarter benefited from 1.8 points in favorable reserve development, as well as 6.7 points from lower catastrophe losses, the main story is the continued improvement in underlying auto profitability.

The underlying combined ratio improved over 6 points to 92.6%, primarily as a result of the continued successful execution of our underwriting and pricing strategies, as well as frequency that was better than expected. Taking our year-to-date underlying combined ratio for Agency Auto of 94.8% and factoring in our normal expectation for a seasonally

higher fourth quarter combined ratio, we're on track to be within our targeted combined ratio range for the full-year, which is sooner than we originally expected.

In Agency Homeowners and Other, the third quarter combined ratio of 100.3% was impacted by a significant number of catastrophe and non-catastrophe events. Catastrophes, including the CA wildfire and Hurricane Florence, added 11 points to the combined ratio this quarter, a slight improvement relative to the third quarter of 2017. The high number of other PCS events that Greg mentioned, along with a variety of additional non-catastrophe weather events, accounted for roughly 6 points of the 10-point increase in the underlying combined ratio for the quarter. The remainder of the increase was largely attributable to non-weather loss activity, including elevated water and fire losses.

As we indicated last quarter, we're actively factoring this more recent loss experience into our granular pricing and our underwriting decisions. Renewal premium changes have increased year-over-year, and we expect an acceleration in Homeowners pricing in future quarters.

Turning to the top-line, Agency Auto premiums grew 6%, driven primarily by price increases, which continue to moderate consistent with our plans and in line with improving profitability. In addition, we're pleased with the modest improvements in retention and a 2% increase in new business, the first year-over-year increase since the first quarter of 2017. In Agency Homeowners and Other, we remain pleased with our momentum, delivering 6% growth in both net written premiums, as well as policies in-force, while achieving renewal premium change of 3.8%. All in for the segment, results continue to improve and we're pleased with our progress and our plans to generate profitable growth going forward.

As Alan mentioned, we're excited about our new relationship with Amazon along with the other strategic initiatives we have underway, including the ongoing rollout of Quantum Home 2.0, further expansion of our IntelliDrive auto telematics program, and continuing investments in digital capabilities that improve ease of doing business for our customers and agents while making us more efficient and effective.

Now, I'll turn the call back over to Abbe.

Abbe F. Goldstein {BIO 16625704 <GO>}

Thank you. We're ready to begin question-and-answers, Steve.

Q&A

Operator

And ladies and gentlemen, at this time, we will now conduct a question-and-answer session. Your first question today comes from the line of Kai Pan with Morgan Stanley. Please go ahead.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. First, best wishes for Jay for his retirements and congrats to Dan on the new position. My first question is on non-cat losses. You have elevated non-cat losses for several quarters now. And so, yet, in your outlook, you expect them to normalize in 2019. So, what give you confidence that recent experience will not be the new normal?

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

I guess, Kai, when we're - the outlook section in Business Insurance, that underlying margin, I think, as we reflect in those words, is a reflection of large losses returning to more normal levels by historical standards.

Q - Kai Pan {BIO 18669701 <GO>}

So, at what time - at what point, I'm wondering, those recent experience will factor in into your outlook or normalized non-cat losses?

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

Is that a PI comment?

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

Is that a PI question, Kai?

Q - Kai Pan {BIO 18669701 <GO>}

I think it's probably for both. If you can comment on both PI, as well as the BI?

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

Kai, if we're talking about weather, this is the insurance business and there's going to be volatility in weather. And we acknowledge that we've had a run of quarters where we've had some variability in both cat and non-cat weathers. But if you go back and take the longer view, looking at cats and non-cat weather together for the whole place, 2009 was better than we expected. We had a run from, I think, it was 2010 to 2012, that was worse than we expected. At the end of 2012, we were thinking, gee, is this a new normal, and then we went into a period of 2013 to 2015 that was favorable. 2016 was sort of spot on. And then, you got 2017. So, for 2018, that's been elevated.

And so, we're - our objective is to get it right. Missing it too high is no better than missing it too low. Our objective is to get it right and make sure that we're pricing our product over time for what we expect on an over time basis. And we think that we're effectively doing that.

In terms of - if this is a question about modeling and you're trying to figure out how to think about your model for next year, we give you all the help we can in outlook section of the 10-K and 10-Q. But thinking about this business on a longer term, we're taking all the

data we have into account. We're thinking about everything we know about the future, and making sure we're pricing our product for the long-term.

Q - Kai Pan {BIO 18669701 <GO>}

So, you don't think, sort of, like, is there a secular change in terms of weather pattern that could change your expectations?

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

Kai, I mean, I don't know whether you measure weather cycles by the year or by the decade or by the millennia. I mean, we know what's in our data and we can see that. And part of this isn't just weather, it's population migration into more wildfire and weather-prone areas. And so, we take all of that and all of history into account when we think about both our underwriting, our risk selection, geographically where we want to be, what kind of risks we want to write, terms and conditions, what our risk control people look for when they're going out looking at the property to underwrite it, and we take it into account in pricing. But I'm - we're very interested in the question you asked, which is why, off the top of my head, I knew what weather had done going back almost a decade, and we follow it very carefully and take all that into account when we're thinking about the future.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you very much for that. My second question on workers' compensation, some of your peers indicated there is a rising frequency trend in workers' comp claims. I just wonder, if you could discuss your experience, as well as, as the pricing is going down, will you be able to maintain the underlying margin in this line of business?

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

Yeah, Kai. So, we've obviously followed all the chatter in workers' comp with great interest and that's a business that we've historically been very good in and we've got big set of data and we like that business a lot.

But getting back to your question, let's - loss trend frequency and severity, those are selections, right, those are our management estimates based on actuarial analysis of history and a view of expected trends. And that is a view that goes into both pricing and reserving. So, you setup those expectations, and then you look at the data quarter-by-quarter as it comes in.

And there are always, always ups and downs in the data every single quarter in virtually every product line. And so, you look at those ups and downs and you take a step back and you say, okay, what do we think cause those things to go up and down, sometimes we know and sometimes we don't, and is that normal variability, normal volatility in that measure, or is there something more fundamental going on that we expect to persist into the future.

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So, particularly in a long tail line, you'd be pretty careful about making a dramatic change based on one quarter of data. So, I'll tell you, we're watching it very closely. We do see ups and downs in these measures from time-to-time. We haven't seen anything year-to-date that's caused us to move off our loss picks.

And Kai, back to your other question, you asked, given pricing, will we be able to maintain returns in the product. If pricing is going down and everything else is equal - I mean, pricing is for sure an input into returns, if pricing is going down and everything else is equal, then the margins in the product will go down, that's just arithmetic.

Pricing isn't the only factor. There is loss trend, as we just discussed; there's risk selection; there's claims handling; there's all the other leverage that go into the return of a product. But your question will the decline in rate cause the return to go down, if that's the only thing it changes, yes. But that's not the only lever that there is. We're not going to get into our forecast of margins on a product-by-product basis, though.

Q - Kai Pan {BIO 18669701 <GO>}

Great. And really appreciate all of the answers.

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

Thanks, Kai.

Operator

And your next question comes from the line of Ryan Tunis with Autonomous Research. Please go ahead.

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

Hey. Thanks. I just had a - I guess in Business Insurance, the \$160 million or so of total favorable development, I think that's excluding the commercial auto and excluding the asbestos. What's contributing to that? Is that basically entirely workers' comp, or are there other liability lines that are also showing some redundancy?

A - Daniel S. Frey {BIO 20727678 <GO>}

Hey, Ryan, it's Dan. So, one clarification, so the \$169 million was excluding asbestos only, so it is reduced by the commercial auto strengthening. Most of the driver of the remainder of the favorability in Business Insurance is coming from the workers' comp line. Although there is some favorability in other general liability once you exclude asbestos. But workers' comp, that's the big driver.

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

Great. And then I think probably for Michael, just on the home results, I think you said elevated water and fire, I think it was 4 or 5 points of loss ratio deterioration. Just trying to understand like exactly what's going on there, why that's a trend, why that's something

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you negate a price for, what's driving that, what could be driving that? Just trying to understand what the loss trend is in the non-cat.

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

Sure, Ryan. Thanks for the question. And I'll just clarify it. So, the 10-point deterioration in the quarter, again, roughly 6 points, roughly two-thirds of it is coming from non-cat weather, which includes PCS events that don't meet our threshold for a major cat, as well as the other weather that I talked about.

Your point about the other water losses and the fire, again, the remainder of the 10 points is largely due to those. That's not 4 or 5 points, it's a smaller number than that, call it roughly a third. And it's about 50/50 non-weather water and fire inside that.

I would say, the fire experience is very much sort of normal period-to-period volatility. I think the non-weather water is something we've been watching. I think you've heard others probably talk about non-weather water losses. We're digging into it. We haven't found a smoking gun underneath it. But we have seen a deterioration in that experience, and that is one of the underlying drivers that's causing us to raise price and expect an acceleration in homeowners RPC on a go-forward basis.

Tying back to Alan's comments earlier on non-cat weather and underlying results, again, you sort of look at - we look at all of that and are baking a portion of that into our outlook and into our underwriting and pricing strategies on a go-forward basis. So we are factoring in the elevated loss levels that we have been seeing recently into our pricing and underwriting decisions and our pricing and underwriting strategy, which is again why you see our outlook for pricing to be higher.

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

Thank you.

Operator

And your next question will come from the line of Brian Meredith with UBS. Please go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks. Couple of quick questions here. First, I'm just curious how your interest rates, does that have any impact on kind of how your pricing models are coming out at this point, any impact on it?

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

Well, I guess, a couple of things on that. One, it's certainly an input into our pricing model, there's no question about that. It's hard to isolate how any one factor is going to impact pricing, right? You start with the return on the product when the policy renews, and then

you put rate loss trend, interest rate assumptions, et cetera, into it, and you come up with a price. But – is that your question, Brian?

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah, yeah, exactly. I'm just wondering if some of the impact we're seeing maybe on your renewal rate has anything to do with just the higher interest rates going into your kind of calculation?

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

Oh, I don't think so. First of all, because of the duration of the assets, it's going to take a while for that to really ramp up and work its way in. And then, as the risk-free rate goes up, our cost of equity goes up, and that's also an input into our pricing model. So I wouldn't say that the increase in interest rates is a dampener on price.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. And just quickly on the Amazon and the, I guess, connected homes. I wonder if you could dive a little more into that, what do you think the kind of benefit you see from a loss trend perspective, or is there some kind of metrics you can give us that when you've got a connected home, loss experience is supposed to be 20%, 15%, 30% better?

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

Sure, Brian. It's Michael. Thanks for the question. And, again, I would say, it's a long game we're playing here and it's certainly something that we think will create opportunities for both us and our agents. We do believe that connected home devices should have a favorable impact on loss experience. It's very early days. We've not only been doing the work with Amazon, we've been conducting other experiments with other smart home device providers to try to quantify the benefits.

What I can tell you is that, we're filing to expand the discount for connected home devices in conjunction with this and the other work we've been doing, and moving that discount to about 5% as we roll the new Quantum Home product out across the country. So, that's probably the best number I can give you to put a point on it. But, again, it's early days, and it's – we're very much looking forward to the teaming up with Amazon and to some of the other experiments to gain insights into the impact of these devices on loss experience.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Very helpful. Appreciate it.

Operator

Your next question will come from the line of Paul Newsome with Sandler O'Neill. Please go ahead.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Hi, good morning. I was hoping you give us a little bit more thoughts on the ultimate trend for the expense levels - expense ratios in both Business Insurance and the personal lines business, and just how far you think you can push that number around?

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

Right. I think we're going to avoid the temptation to try to forecast the expense ratio. We give you all the outlook on margins in the outlook section that I think we want to give. And I - but there's a really important strategic point here, productivity and efficiency are very important initiatives around here, everybody is focused on it. But it's not necessarily for the purpose of just lowering the expense ratio. It's for the purpose of giving us flexibility from a financial perspective. We're trying to create flexibility to take that benefit and either let it fall to the bottom-line, we can reinvest it in important strategic initiatives, or we can make a decision to put into price about compromising a return threshold. So, while it's on everybody's mind here and it's a big focus for us, it's not just about managing in expense ratio.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Do you have a target or a goal in terms of the level of investments that you want to put in some of these sort of new insurtech-type businesses that you focus on this quarter?

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

Yeah. There's not a bogey that we would share from a just competitive sensitivity perspective. We certainly think about the opportunity and what it's worth when we invest in these things. But we've made a deliberate decision so far not to set up a fund or allocate a certain amount of dollars to an initiative like that. We may change our mind. But at least our perspective now is, you do something like that, and then you end up spending the money whether you find value in it or not.

The fact of the matter is, we generate a lot of excess capital. And our objective is to reinvest that money anytime we can when we think we can create shareholder value with it. So, having said that, we're very, very disciplined about every dollar we spend, and we put it up against a lot of metrics and measures to make sure we're getting that value out of it. But I wouldn't put a number or scope the opportunity.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Thanks for the call.

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

Thank you.

Operator

And your next question comes from the line of Amit Kumar with Buckingham Research. Please go ahead.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Two quick, I guess, follow-up questions. The first question goes back to Kai's question on workers' compensation. Would it be possible, maybe, just to talk a bit more about how should we be thinking about the pricing? Because if you look at some of the pricing surveys, comp pricing is still in the negative territory, but coming back. And what would be really helpful is, just broadly, if you exclude workers' comp, how will the pricing look like?

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

Well, on workers' comp, I don't know if you're looking for a forecast on pricing, where that's going. Obviously, we're not going to get down to forecasting the pricing in a line. I mean, that's not much more competitively sensitive than that. But what I will say about pricing in workers' comp, it's a reflection of a line of business that's been very profitable for us. So, there's nothing about the pricing dynamic so far that's a surprise to us.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. The other question is a follow-up on the Amazon relationship. I was a bit surprised that it wasn't somewhat of an exclusive relationship. And in the fine print, it shows that's in four or five states and it's initially targeting, I guess, 15,000 customers who will get the free Echo. Can you just talk about the trajectory? And did you try to be in exclusive relationship or not? I mean, just give some background on that.

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

Yeah. Sure, Amit. The 15,000 you reference is a specific target of devices for the State of California only, and that's just a unique feature of the way we set the arrangement up in that state.

To your point, just to give background for the rest of the group, the first four states - and this is really driven by regulatory filings and regulatory requirements. There was actually an endorsement to the policy that's required for us to be able to make the offer. And so, we're essentially linking the Echo Dot offer and the discounts on the connected devices with that filing as we make it and get it approved across the country.

So, the first four states are just the initial four states. We plan to extend it to additional states as we go forward. And, again, the 15,000 is just the number of devices specifically for California subject to the terms of the agreement with Amazon.

As respect your question about an exclusive, we're not going to comment, sort of, specifically about the details and the terms of the agreement beyond that. But again, I'd bring you back to, we're excited about this opportunity. We think it's a great opportunity for us. We're excited about the relationship with Amazon and we're excited about the opportunity it presents for our agents and brokers to promote the program and how - sell these home safety solutions to our customers.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks for that color. I will stop here. Thanks.

Operator

And your next question comes from the line of Yaron Kinar with Goldman Sachs. Please go ahead.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. First question, going back to the expense ratio, just seems like a real step function improvement this quarter. I know you've highlighted the expense management initiatives for a while and we've seen the earned premium growth as well. But I was just curious, if there was anything else specific this quarter that was driving this improvement, whether it was timing or other one-offs that helped the ratio here?

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

No, there's nothing unusual underneath it. There's no timing or sort of one-time thing that are artificially improving it. It's lot of hard work over a long period of time, enabled by years of investments in technology and workflow that's enabled it.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And just all came together this quarter, I guess?

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

I mean, you've seen an expense number that's been flat over a pretty long period of time. And you've seen an expense ratio that's been on a decline. So, I'm - I mean, its sub-30. It's a good number as we printed in a long time. But - this is a - as we see it, the continuation of a trend.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay, fair enough. And then, going back a second to non-cat weather specifically in BI, I noticed that you exited the - I think, the open market property in Lloyd's this quarter. Would that or should that have some positive impact on non-cat weather going forward you think?

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

Yeah, Yaron, this is Greg Toczydlowski. That's a real small portion of our overall Lloyd's book, and hence, it's a real small portion of our overall BI portfolio, so really wouldn't have a material impact on the loads of the business going forward.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And would you be willing to tell us what's the year-over-year change in non-cat weather was in BI?

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

Yeah. I don't think that's detail that we've given. We did tell you that non-cat weather in BI, I think what Greg said, was about 1 point relative to what we would have expected, right. Hopefully, that's useful color for you.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. I appreciate it.

Operator

Your next question will come from the line of Josh Shanker with Deutsche Bank. Please go ahead.

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

Yeah, thank you for taking my question, and good morning. Following-up on Yaron's question, I might have it wrong in my notes, but I think in 3Q 2017 you said you had 200 basis points to 250 basis points of man-made fire losses that were elevated in 3Q 2017. And now, we've 100 basis points of elevated non-cat weather. Maybe my numbers are wrong there. But if I strip those two items out, am I wrong to come to the conclusion that the underlying - true, true underlying loss ratio in BI has deteriorated over the last 12 months?

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

Well, I mean, it's certainly worse by - I don't know exactly what your math was. But I don't know, there's another 50 basis points or something like that that we would just consider the normal variability in the insurance business. But I wouldn't consider it a structural - I mean, the word deterioration suggest that systemic structural deterioration. We wouldn't say that. We'd say there's another 50 basis points of just variability. And this is the insurance business.

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

Well, if I go back to like a 3Q 2017 10-Q, the projection was that margins would improve, as I guess these items - I guess, are my numbers right? There were 200 basis points to 250 basis points of fire losses a year ago embedded in the numbers that's still correct?

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

That is correct.

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

Okay. And then, I think we've been through it in the past but I just want to walk through, you've got a very, very good quarter on alternative investments results. And in terms of when you record them, the limited partnerships and whatnot, are they on a lag, are they in real time? Can we just talk about how those are recorded and how we should think about that going forward?

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A - William Herbert Heyman {BIO 3429455 <GO>}

Sure. It's Bill Hyman. Actually, it's a mix. If a private equity fund sells a portfolio of company and distributes the proceeds within a quarter, that comes into NII for this quarter. If at the end of the quarter, those proceeds are still in the fund, that doesn't come into NII until we receive the financial statement from the fund.

So, if you carve our distributions, and this year they've been responsible for the minority of private equity fund NII. There is a lag in terms of written up values. I know people ask us, maybe you to try to project, but with 75 sponsors, 200 funds and 3,000 portfolio companies, we probably couldn't come up with something that was even meaningful to us, much less something we ventured a share. So, we probably can't offer much guidance on what the next quarter ought to look like.

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

Hey, Josh, let me just go back to your question on BI underlying, and there's a - it seems to imply in your question that you're looking at our outlook or explanation of prior periods, and thinking about that as a forecast for particular quarter. We are not giving the outlook information to try to give you guidance on any particular quarter. We are just trying to give as much help as we can on the general trends as best as management can see it and interpret it and what those trends are and how they're influencing margins over the forward year.

We identified the large losses last year because that was an outlier. And in this quarter, it just so happens that those return to a more normal level. But there are other factors that are going to impact this business from time to time. There's going to be non-cat weather, we had that this quarter, we told you that was about 1 point. There are base year changes, there are premium adjustments, there are all sorts of things that in any particular quarter could impact the results. So, I would just caution you in terms of the way you use that outlook in terms of an expectation that it's guidance.

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

So, I mean, just I want to get off one last question, but do you feel that you're about - margins are about stable on where they were in your mind a year ago, generally trying to adjust for all these items?

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

I don't think backwards. I think forwards. So we are where we are. We think there's an elevation of 100 basis points of non-cat weather. And we've given you in the outlook as best we can where we think it's going to go.

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

Well, good luck with the future. Thank you very much.

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

Bloomberg Transcript

Thanks, Josh.

Operator

Your next question comes from the line of Larry Greenberg with Janney Montgomery Scott. Please go ahead.

Q - Larry Greenberg {BIO 16478161 <GO>}

Hi. Thank you. And actually my questions have been answered. But just one other thought. And why not just use the PCS definition or allocation of catastrophe losses in your own cat definition which, I don't know, might not do anything for you guys internally, but probably just would help with communication with the investment community and probably doesn't eliminate the non-cat discussion completely, but probably reduces a bit? Any thoughts on that?

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

Yeah, it's certainly a topic that - yeah, sure. It's a topic that we certainly debate among ourselves all the time. We've created the convention that we had, I don't know, probably in 2002 or something like that, or maybe even before that. And the theory behind it was, there's going to be some level of weather losses that ought to be stable and relatively predictable, and then, you have things that are more severe that aren't.

And, obviously, particularly more recently, we've seen a lot more volatility in that, call it, working layer of weather. So I don't know if we'll do it, if we won't do it, but we appreciate the comment, and we have thought about it and continue to think about it from time-to-time.

Q - Larry Greenberg {BIO 16478161 <GO>}

Great. Thank you.

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

Thank you.

Operator

Your next question comes from the line of Meyer Shields with KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks. Two quick questions. First, I guess, last quarter you talked about pricing within Domestic BI including workers' compensation at 3.6 points and I was wondering whether you could give us an update for the third quarter.

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

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Yeah. We gave that last quarter, it was relevant. We hadn't intended to give it going forward. There's some competitive sensitivity to giving that on an ongoing basis. But having said that and having given to you last quarter, I don't think we would intend to give it going forward, but I'll tell you, that also take down a few tenths of a point.

But again, I'll point you back to the RPC of 5%, which if you think about that 5% in a historical context, that's a very strong number. And I'm not going to quantify it. But the RPC ex-workers' comp is even higher than that. So, hopefully a couple of hopeful data points.

Q - Meyer Shields {BIO 4281064 <GO>}

No. That is helpful. Second question, I was hoping you could dig a little bit into what observations drove the commercial auto reserve charge?

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

As we indicated, it was severity in recent accident years. And we could speculate on some, what the causal factors might be and whether that's inexperienced drivers or higher density on the roads given the - I mean, we can give you some factors that we could all read about.

I mean, the fact of the matter is, it's hard to isolate it to one or two things that we can pull out of our data and say that it's this. It's a line that's been challenged from a profitability perspective for a while. We've known about that, we've been pricing forward. We've gotten, I don't know, over couple of years cumulatively 20 points of rate or something like that.

So we're trying to get ahead of it. But it's hard to get to the causal factor. And if we can analogize to PI Auto, we've seen some fluctuations in frequency and severity there, and sometimes those are explainable and sometimes they're not. We can speculate about some things. But I wouldn't know exactly what to point to, to tell you what it is.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Great. Thanks so much.

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

Thank you.

Operator

Your next question will come from the line of Jay Cohen with Bank of America Merrill Lynch. Please go ahead.

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

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Yes, thank you. Most of my questions are answered as well. I guess, just on the Amazon relationship, I mean, this is such a massive platform. And I know what you're talking about now is relatively modest for Travelers. But was there any discussion around a broader product offering on their platform, was auto thought about at all as far as being on that platform as well?

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

Yeah, Jay. I think, again, I would stick with we're very excited about what we've done with Amazon and not get into speculating on what other opportunities might exist there. We're really focused on making the most of the relationship we've established here, again, for us, for our customers, and importantly - and I keep emphasizing this because I think it's gotten lost a little bit in the rhetoric, but importantly, creating opportunities for our agents and brokers to take advantage of it with their customers as well.

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

Yeah. Jay, we love the question and we are very enthusiastic about it. I think we're a little bit hesitant to give any further insight into the way we're thinking about it strategically beyond what we've said.

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

Certainly, it shows you guys are being first movers in this, so it is pretty exciting.

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

Thank you.

Operator

And your final question today comes from the line of Mike Zaremski with Credit Suisse. Please go ahead.

Q - Michael Zaremski {BIO 20606248 <GO>}

Hey, thanks for taking my question. I want to focus on personal auto for a minute. It feels like the year-to-date accident year combined ratio is kind of back where you want it to be. I don't know if you agree with that. I know you mentioned frequency was better than you expected. Maybe you could provide some color on whether it's kind of maybe back to its long-term negative trend and you're maybe being conservative.

And then, along the same lines, I don't get the sense you guys are going to start growing that line, or - but maybe I'm wrong, because you've been growing homeowners at a nice clip, but auto has kind of been in a maintenance mode.

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

Sure, Mike. Thanks for the question. I think, as we've been talking about, the auto strategy at the top level has shifted from reduce growth and manage profitability to balance

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growth and profitability. So we have shifted a bit in our mindset there. We are very pleased with the results year-to-date; and as I indicated, expect we'll be within our target combined ratio range for the year, which is ahead of schedule. Most of that is driven by the pricing and underwriting actions that we've taken, some of it is driven by better-than-expected frequency that we've seen.

I think for all the reasons that Alan just outlined in the commercial auto discussion, sort of, we're cautious about our outlook on frequency, but one of the drivers of the improvement has been, frequency has been a bit better than we expected for a little while now. And so, we're cautiously factoring that experience into our outlook.

And I would say, cautiously optimistic and, again, you can see our outlook for pricing and for our margins in the line in the outlook section as we spike it out there for you. But really pleased with where we are with auto and looking forward to taking it forward from here.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, great. And one last follow-up on the fixed investment income guidance for 2019 and the outlook. It seems like it's about a 5% increase in the run rate. I know there's a lot of moving parts here, but premiums are growing mid-single digits, interest rates have moved higher. So, just maybe, there's some moving parts are not appreciating, it seems like its conservative.

A - Daniel S. Frey {BIO 20727678 <GO>}

No, I think - it's Dan, if you think - I think if you look at the run rate that we're on and the fact that the interest rate environment should continue to improve modestly and we're modestly growing the level of premiums. I think that trajectory makes a pretty good amount of sense of fixed income portfolio. It's a fairly predictable number. We've been giving you that type of guidance for the last several quarters and I think we've been coming in pretty close to that guidance.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay.

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

Yeah. In the outlook section, I think, we give you the driving factors and we can take the - we can take it offline.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay. Thank you very much.

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

Glad to help you, Mike. Thank you.

Operator

And we have no further questions at this time. I would now like to turn the call back to the presenters for closing remarks.

A - Abbe F. Goldstein {BIO 16625704 <GO>}

Yeah. Thank you very much for joining us this morning, and Investor Relations is available if you have any follow-ups.

Operator

Thank you to everyone for attending today. Ladies and gentlemen, this will conclude today's call and you may now disconnect.

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