S&P Global
Market Intelligence

The Travelers Companies, Inc. NYSE:TRV

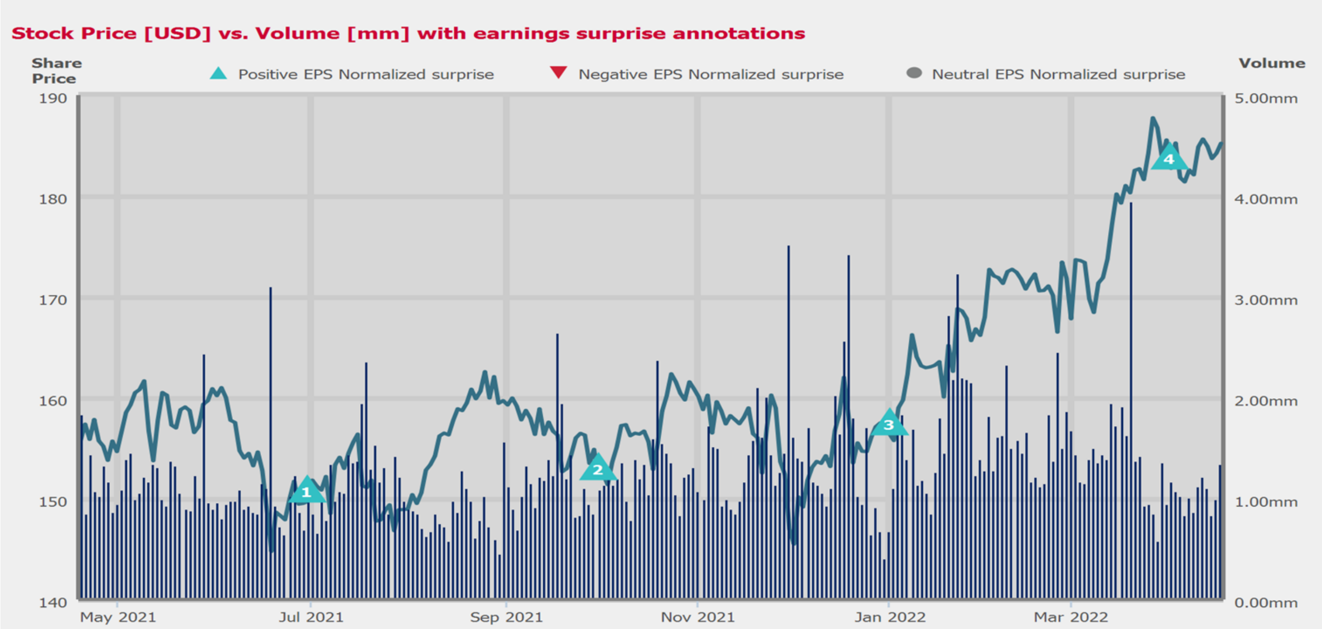
FQ1 2022 Earnings Call Transcripts

Tuesday, April 19, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.62	4.22	▲16.57	1.98	12.89	NA
Revenue (mm)	8028.81	8014.00	▼(0.18 %)	8181.74	33251.04	NA

Currency: USD
Consensus as of Apr-19-2022 2:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	2.38	3.45	▲1 44.96 %
FQ3 2021	1.93	2.60	▲2 34.72 %
FQ4 2021	3.81	5.20	▲3 36.48 %
FQ1 2022	3.62	4.22	▲4 16.57 %

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Abbe F. Goldstein
Senior Vice President of Investor Relations

Alan David Schnitzer
Chairman & CEO

Daniel Stephen Frey
Executive VP & CFO

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Executive VP & President of Business Insurance

Jeffrey Peter Klenk
Executive VP and President of Bond & Specialty Insurance

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the first quarter results teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on April 19, 2022.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to Travelers' discussion of our first quarter 2022 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our 3 segment Presidents, Greg Toczydlowski of Business Insurance; Jeff Klenk 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 questions.

Before I turn the call over, I'd like to draw your attention to the explanatory note included at the end of the webcast presentation. 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 forward-looking statements in our earnings press release, 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 earnings press release, financial supplement and other materials available in the Investors section on our website.

One more thing before I turn the call over to Alan, I'd like to direct your attention to our updated overview of Travelers' presentation that we posted on the Investors section of our website. There's a lot of terrific background and other content in this document. I would encourage you to take a look at it, whether you're familiar with Travelers or new to our story.

And with that, it's my pleasure to turn the call over to Alan Schnitzer.

Alan David Schnitzer
Chairman & CEO

Thank you, Abbe. Good morning, everyone. Thank you for joining us today. We're very pleased to report excellent results this morning. But before we dive into the quarter, I want to acknowledge the geopolitical crisis and humanitarian nightmare unfolding in Ukraine. Our thoughts and prayers are with those under attack, the millions of refugees seeking life's most basic necessities and the loved ones of those who have lost their lives.

Turning now to our results. We're off to a terrific start for the year with an excellent bottom line results, growth in all 3 segments, strong and improved profitability in our commercial business segments, progress addressing the environmental headwinds facing the personal insurance industry and another quarter of progress on a number of important strategic initiatives.

Core income for the quarter was $1 billion or $4.22 per diluted share, generating core return on equity of 15.5%. These results were driven by net earned premiums of $8 billion, up 9% over the prior year quarter and an excellent combined ratio of 91.3%. We're particularly pleased with the continued strong underlying results in our commercial businesses.

Looking at the 2 commercial segments together. The combined BI, BSI underlying combined ratio was 90.2% for the quarter, an improvement of nearly 2 points from the prior year quarter. Underwriting results in Personal Insurance were impacted by auto loss frequency returning to more normal levels as miles driven has increased as well as elevated severity in auto and property.

Against this challenging backdrop of environmental headwinds, PI results for the quarter were nonetheless solid, with a 95.3% all-in combined ratio.

Turning to investments. Our high-quality investment portfolio generated net investment income of $539 million after tax for the quarter, reflecting reliable results from our fixed income portfolio, and strong returns from our nonfixed income portfolio.

As you'll hear from Dan shortly, the recent rise in interest rates positively impacts our outlook for fixed income NII. Our excellent operating results, together with our solid balance sheet, enabled us to grow adjusted book value per share by 11% over the past year, and that's after making important investments in our business and returning excess capital to shareholders.

During the quarter, we returned $773 million of excess capital to our shareholders, including nearly $560 million of share repurchases. In light of our strong financial position and confidence in the outlook for our business, I'm pleased to share that our Board of Directors declared a 6% increase in our quarterly cash dividend to $0.93 per share, marking 18 consecutive years of dividend increases with a compound annual growth rate, 9%, over that period.

Turning to the top line. Thanks to excellent execution by our colleagues in the field and the strong franchise value we offer to our customers and distribution partners, we grew net written premiums by 11% this quarter to a record $8.4 billion. Each of our 3 segments made strong contributions.

In Business Insurance, renewal premium change was 9.1%, remaining near all-time highs. At the same time, retention of 87% was an all-time high. We have a very high-quality book of business and keeping it as a priority. Also as we've shared previously, strong retentions are a sign of a rational and stable pricing market. Underneath the headline numbers, execution at a segmented level is excellent, with higher retentions of our best business and more rate in those segments that need it. New business levels were also strong, up about 17% over the prior year quarter. All in, BI net written premiums grew 9%.

In Bond & Specialty Insurance, net written premiums increased by 22%, driven by strong production in both Management Liability and Surety. In Management Liability, renewal premium change was up 12% while retention remained high and new business was up 12%. In Surety, production was terrific with net written premiums up 29%.

Notwithstanding some severity pressure from the inflationary environment, we're pleased to see continued written margin expansion in both of our commercial businesses, which, of course, will earn in over time.

In Personal Insurance, net written premiums increased by 12%. Renewal premium change -- renewal premium change increased in both auto and homeowners as we execute to improve margins. As we expected, retention in new business growth moderated a little bit in response. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

Notwithstanding our terrific results and an economy that, in many respects, feels pretty good at the moment, there's a fair amount to pay attention to in terms of the macroeconomic outlook for the world in general and our industry in particular. There's a wide range of views on the outlook for economic growth and headline inflation is at a 40-year high.

Geopolitical risk is at a decade high as war rages in Eastern Europe, tensions rise elsewhere, and the world nationalizes reversing a trend of globalization. Between the plaintiffs' bar, regulatory uncertainty and weather severity, loss costs are as challenging as ever to predict. The global pandemic reminds us of the risk of unknown unknowns. And the one thing we know for sure is that the pace of technological change is accelerating. Travelers is built for this environment.

For starters, a culture of unmatched underwriting and investment discipline positions us for nearly any environment. That's been the foundation of our success through the 2008 financial crisis, the most severe natural and man-made catastrophes like 9/11 and Hurricane Katrina, a major inflection in liability loss cost trends, the pandemic and now the war in Ukraine.

Through all the twists and turns foreseeable and otherwise, we've consistently delivered industry-leading returns at industry low volatility. We didn't exactly predict any of those events, but managing our business for long-term success of carefully balancing risk and reward on both sides of the balance sheet positioned us to successfully manage through all of them.

In terms of the economic outlook, if the economy continues to grow, we'll benefit from higher insured exposures, as you've seen in our results over the past few quarters. If we head into a recession, we're very well positioned having made significant progress and improving productivity and efficiency in recent years.

In terms of higher inflation, there are several things to keep in mind. First, with respect to our fixed income portfolio, we would expect to benefit from higher net investment income as higher inflation is typically accompanied by higher interest rates. Second, on the underwriting side, we have a favorable business mix. Our domestic commercial GL and workers comp lines account for about 1/4 of our premiums, both have an audit mechanism for retroactive premium adjustment.

And as we discussed, higher exposures, particularly from wages and sales, contribute to improved margins. The short-tail personal insurance lines and commercial property account for almost half of our premiums. In short-tail lines, we can identify and price for the impact of inflation reasonably quickly, and the reserves on the balance sheet are significantly less exposed to changes in loss inflation.

Finally, we take into account the inflationary environment and the related uncertainties when we establish our loss picks and set our balance sheet reserves. When assessing inflation, we're generally cautious, especially during periods of elevated uncertainty. We're also well positioned in terms of geopolitical risk. We're primarily U.S.-based with more than 95% of our premiums coming from North America. And we have a focused international footprint with strong partnerships that provide us with the ability to place our customers' business all over the world.

Consequently, our business is, to a significant degree, insulated from the heightened geopolitical risk environment. With our leading franchise in the U.S., we have the pole position in the largest, most advanced and most stable economy in the world. Given the size of the U.S. economy, even a modest rate of growth, generates substantial growth in dollar terms and therefore, substantial growth opportunities for Travelers.

With our footprint, we have opportunities to continue growing through geographies, products, classes of business and distribution partners that we've known and understood for decades. And given our concentration as a primary insurer in Middle Market, there are meaningful barriers to entry. Importantly, within the largest insurance market in the world, our business also benefits from significant diversification. We offer 9 major lines of insurance to personal and commercial customers. Our portfolio is balanced across these lines of business and further diversified across regions by distribution partner by class and customer size.

In this business, the one constant is the loss costs are going to change. What's important is having the ability to quickly identify and react to the changes, and we do. We have an advantage in terms of the quantity and quality of our data and the sophistication of our analytics. We spent decades fostering a culture that knows how to balance the art and science of underwriting. We have a strong orientation towards risk-adjusted returns, and we have an incredibly tight feedback loop among our underwriting, claim and actuarial disciplines.

All of that contributed to our early recognition of social inflation, positioning us to respond early in terms of underwriting and claims handling strategies. We've been similarly forward leaning and developing underwriting and claims strategies to address weather severity. As we've discussed a few times, over the last 5 years, we've outperformed our market share in terms of cat losses.

Another thing that's crystal clear is the rapid pace of change in the world. While the current conditions require us to be laser focused on the here and now, and we are, the dramatic pace of change, together with our scale, industry leadership, deep domain expertise and talent advantage presents us with the opportunity to lead in transforming the way business is done. We have a well-defined innovation strategy and have demonstrated success over the past half dozen years or so in innovating with desired outcomes, growth, industry-leading returns and industry low volatility.

In short, we feel very well positioned for continued success no matter what environment comes our way. In the meantime, we're innovating on top of the foundation of excellence to transform our business to competitive advantages that are relevant, differentiating and difficult to replicate.

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

Daniel Stephen Frey
Executive VP & CFO

Thank you, Alan. Core income for the first quarter was $1.04 billion, up from $699 million in the prior year quarter, and core return on equity was 15.5%. The increase in core income resulted primarily from a lower level of catastrophe losses, partially offset by a lower level of favorable prior year reserve development and strong, but lower returns in our nonfixed income portfolio.

Underlying underwriting income was strong in both periods. Our first quarter results include $160 million of pretax cat losses, much lower than last year's record high first quarter of $835 million pretax. Our after-tax underlying underwriting gain of $580 million was consistent with the prior year quarter, reflecting higher levels of earned premium and an underlying combined ratio of 91.2%.

Improvements in the underlying combined ratio in both Business Insurance and Bond & Specialty were more than offset by an increase in the underlying combined ratio in Personal Insurance. Greg, Jeff and Michael will provide more detail on each segment's results in a few minutes.

The first quarter expense ratio improved in all 3 segments, with the consolidated expense ratio of 29%, nearly a full point below last year's 29.9%. We continue to make significant investments in strategic initiatives, while the combination of a strategic focus on expense discipline and strong top line growth, delivered a lower expense ratio.

As we indicated in our fourth quarter earnings call, there will inevitably be some variation in any given quarter. We're still planning for a full year expense ratio for 2022 of around 29.5%. And we're on a path towards a full year expense ratio of around 29% in the next year or 2.

Turning to prior year reserve development. We had total net favorable development of $153 million pretax in the first quarter. In Business Insurance, net favorable PYD of $113 million was driven by better-than-expected loss experience in workers' comp and also includes an environmental charge of $45 million.

In Bond & Specialty, net favorable PYD of $35 million was driven by better-than-expected results in the surety book. Personal Insurance experienced $5 million of net favorable PYD with modest activity in both auto and home. After-tax net investment income decreased by 9% from the prior year quarter to $539 million.

Returns in our nonfixed income portfolio were strong, but as expected, were less favorable than we experienced in last year's quarter. Fixed maturity NII was higher than in the prior year quarter, as the benefit of higher invested assets more than offset the impact of lower fixed income yields. With the recent increase in interest rates, we are raising our outlook for fixed income NII, including earnings from short-term securities to approximately $440 million after tax in the second quarter, growing to approximately $460 million in the third quarter and then to $480 million in the fourth quarter.

Remember, only about 9% of the portfolio turns over each year, so the higher new money rates will take a while to fully impact run rate NII. Recall that results for our private equities, hedge funds and real estate partnerships are generally reported to us on a 1-quarter lag. While not perfectly correlated, our non-fixed income returns directionally follow the broader equity markets, which were generally down during the first quarter.

Accordingly, we expect that to be reflected in our non-fixed income results next quarter. Regarding reinsurance, as discussed during our fourth quarter results call, we renewed our underlying Property Aggregate Catastrophe XOL Treaty for 2022 and providing aggregate coverage of $225 million, part of $500 million of losses above an aggregate retention of $2 billion.

Through March 31, a we've accumulated $175 million of qualifying losses toward the aggregate retention. Our effective tax rate for the first quarter benefited from the favorable completion of an income tax audit for 2017 and 2018, which resulted in the release of $47 million of tax accruals related to those years.

Turning to capital management. Operating cash flows for the quarter of $1.3 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 $1.5 billion. As interest rates increased and spreads widened during the quarter, we moved from a net unrealized investment gain of $2.4 billion after tax at year-end to a net unrealized investment loss of $1.4 billion after tax at March 31.

Remember, the changes in unrealized investment gains and losses do not impact how we manage our investment portfolio. 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 little or no impact on our statutory surplus or regulatory capital requirements. Adjusted book value per share, which excludes unrealized investment gains and losses, was $104.19 at quarter end, up 2% from year-end and up 11% from a year ago. We returned $773 million of capital to our shareholders this quarter, comprising share repurchases of $559 million and dividends of $214 million.

And as Alan mentioned earlier, our Board authorized a 6% increase in the quarterly dividend to $0.93 per share. Sticking with the topic of capital management, you're likely aware that Standard & Poor's has proposed changes to its capital adequacy model. Without final guidance and the actual proposed models from S&P, it would be premature to draw a conclusion as to the potential impact. What I can say is that, as always, we are most interested in our own view of the appropriate level of capital to ensure our financial resilience.

As we have consistently demonstrated, including with our excellent results in 2021 and the first quarter of 2022, our disciplined approach to risk selection, asset management, prudent reserving and thoughtful capital management come together to deliver profitable growth while ensuring that we have the financial strength to navigate even the most challenging of circumstances.

While we believe it's important to remain very well capitalized and continued growth in the business will require higher levels of capital going forward, we will not maintain a level of capital beyond what we consider to be appropriate simply to obtain a certain rating level.

Finally, as related to the hostilities in Ukraine, we don't have any direct exposure to Ukraine or the Russian Federation in our investment portfolio. And given the current scope of hostilities our insurance exposures in the impacted areas are not significant.

And with that, I'll turn the call over to Greg for a discussion of business insurance.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Thanks, Dan. Business Insurance is off to a terrific start in 2020 with an exceptionally strong first quarter. Segment income of $669 million was well over double the first quarter of 2021, driven by lower catastrophes and higher underlying underwriting income. The quarter's underlying combined ratio of 91.8% was almost 2 points better than the first quarter of 2021. The loss ratio improved by about 1 point, driven by higher earned pricing despite elevated severity, reflecting the inflationary environment.

The expense ratio also improved by about 1 point, resulting from the combination of the leverage from higher earned premiums and the benefits of our strategic focus on productivity and efficiency. Net written premiums increased 9% to an all-time quarterly high of $4.5 billion, benefiting from historically high renewal premium change and retention as well as an increase in new business.

All lines of business were up over the prior year quarter.

Turning to domestic production for the quarter. Renewal premium change of 9.1% included renewal rate change of 4.4% and at an all-time high for exposure growth of 4.9%, reflecting continued improvement in our customers' outlook for their businesses. Retention of 87% was also a record high. And finally, new business of $544 million was up 17% from the first quarter of last year, driven by our success with large accounts in Middle Market as well as our continued success with our innovative BOP 2.0 product in Select.

We're pleased with these production results and our superior execution in the marketplace. Given our high-quality book as well as several years of meaningful rate increases and improvements in terms and conditions, we're thrilled to have produced record retention levels. The rate gains we achieved in the quarter reflect deliberate execution given the significant improvements in profitability across the portfolio and through the benefit of higher exposures.

Rate in workers' comp was a little more negative than we've seen over the past year, which is consistent with the strong profitability of the life. Having said that, overall renewal premium change in the workers' comp line was well in the positive territory, as exposure growth was at the highest level we've seen since 2006.

Given the headwinds and uncertainty in the current environment, we will continue to execute our granular pricing, careful management of deductibles, attachment points, limits, sublimits and exclusions to achieve profitable growth. As for the individual businesses, in Select, renewal premium change was a strong 9%, while retention of 83% ticked up 1 point sequentially and was up 4 points from the prior year quarter.

New business was up 16% from the prior year quarter, driven by the continued success of our BOP 2.0 product, as I mentioned earlier. With improved margins in this business, we're pleased with the higher retention levels and continued momentum in new business growth. In Middle Market, renewal premium change remained strong at 8.8%, while retention reached an all-time high of 89%.

New business was up 20% from the prior year quarter, driven predominantly by our success with large accounts, as I mentioned earlier.

To sum up, Business Insurance had a great start to the year. We continue to improve the profitability of the block while investing in capabilities to enhance our position as the undeniable choice for the customer and an indispensable partner for our agents and brokers.

With that, I'll turn the call over to Jeff.

Jeffrey Peter Klenk
Executive VP and President of Bond & Specialty Insurance

Thanks, Greg. Bond & Specialty started the year with a terrific quarter on both the top and bottom lines. Segment income was $217 million, up 58% from the prior year quarter, driven by higher underlying underwriting income, lower cat losses and a higher level of net favorable prior year reserve development.

The underlying combined ratio of 82.2% improved by 2 points from the prior year quarter, reflecting the benefit of earned pricing that exceeded loss cost trends. Also, the prior year quarter had about 1 point or so from some large cyber loss activity that didn't recur.

Turning to the top line. Net written premiums grew an outstanding 22% in the quarter with strong contributions from all our businesses.

In domestic Management Liability, renewal premium change remained in double digits and improved by a little more than 1 point from the fourth quarter. Retention remains strong, despite the impact of our ongoing strategy to nonrenewed cyber accounts that do not meet our minimum cybersecurity protocols, including multifactor authentication.

That change in our underwriting is having a meaningfully favorable impact on cyber claim frequency. We expect to complete the execution of this strategy across our renewal portfolio by the end of the second quarter.

Notably, domestic Management Liability new business increased 12% from the prior year quarter. We were also pleased with the strong production this quarter from our domestic surety and international businesses. So both top and bottom line results for Bond & Specialty were terrific this quarter, reflecting both excellent execution across our business and the value of our market-leading products and services to our customers and distribution partners.

And now I'll turn the call over to Michael.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Thanks, Jeff, and good morning, everyone. Personal Insurance began 2022 with solid profitability in the context of an ongoing challenging environment. First quarter segment income was $225 million, down $89 million from the prior year quarter, as lower underlying underwriting margins and lower favorable prior year reserve development were partially offset by lower catastrophes. The total combined ratio was 95.3% for the first quarter with an underlying combined ratio of 92.8%, which was 7.4 points higher than the prior year quarter.

This increase was driven by higher losses in both automobile and homeowners, which I will discuss in further detail in a moment. Partly offsetting this increase was a reduction in our underwriting expense ratio, which continues to reflect the benefit from higher earned premiums.

Net written premiums for the quarter were up 12% and included higher renewal premium changes in both automobile and homeowners. In Automobile, the first quarter combined ratio was 99.3%, an increase of 17.5 points compared to a prior year quarter that reflected low loss activity due to the pandemic. In the current year quarter, Automobile loss levels increased due to a combination of claim frequency returning to more normal levels and higher loss severity as vehicle and replacement and repair costs remained elevated.

During the first quarter, we increased rates in 23 states in response at an average rate of approximately 7%. Rate actions in additional states are scheduled to take effect in the coming months and quarters. As we indicated last quarter, although it will take time for these rate actions to earn into our results, we remain confident we're on track to address the near-term profit challenges.

In Homeowners & Other, the first quarter combined ratio improved by 8 points from the prior year quarter to 91.2%, primarily driven by 17 points of lower catastrophes. As Dan mentioned, the prior year quarter had elevated catastrophe losses from winter storms and freeze events. Results for last year's first quarter also included higher net favorable prior year reserve development. The underlying combined ratio of 86.9%, was 3 points higher than the prior year quarter, as we continued to see higher severity related to a combination of labor and material price increases.

We will continue to seek increased pricing and response. As a reminder, for Homeowners, we expect the upcoming second quarter to be the seasonally highest quarter for weather-related loss levels.

Turning to production. We were very pleased to deliver another strong quarter in both Automobile and Homeowners. For domestic Automobile, retention was strong, and as we expected, down slightly to 84% as renewal premium change increased by about 2 points from the prior quarter to 3.1%.

We expect renewal premium changes will continue to accelerate in each of the next 3 quarters and approach double digits by the end of the year. In domestic Homeowners and Other, retention was 84% and renewal premium change was 12.3%. The increase in RPC was primarily due to increased insured values in response to the inflationary environment. Before I wrap up, I'd like to take a minute to address the important issue of increasing motor vehicle fatalities.

More than 46,000 people lost their lives on U.S. roads in 2021, the highest total in more than 30 years, a grim reminder of the human cost of the increasing frequency and severity of auto accidents. Most research points to higher speeds and increased distraction as the most prominent drivers of the rise in fatalities. Recent data published by Mobile Telematics, the partner that helps power our IntelliDrive program, showed that phone-related distractions in February of this year increased to the highest level they have ever recorded.

Our own IntelliDrive data are aligned with this result. Further, the most recent addition of the Travelers risk index continues to show evidence of higher levels of distracted driving among those surveys. In light of these observations and given April as distracted driving awareness month, I wanted to highlight a couple of ways Travelers is working to make a difference. In partnership with the Travelers Institute, we continue to support our every Second Matters initiative, which empowers drivers, passengers, cyclists and pedestrians to speak up, set positive examples and play an active role in changing roadway behaviors to help prevent injuries and save lives.

Additionally, the inclusion of distraction as a rating variable in our IntelliDrive offering shows some promise in terms of changing behavior. We've seen a reduction in distracted driving events for drivers enrolled since introducing this variable. Of course, we all play a role in keeping our roads as safe as possible. These are just a couple of examples of how we're raising awareness and trying to make a difference.

Before I turn the call back over to Abbe, I'd like to welcome the Trove team to Travelers. We were pleased to be able to acquire technology assets and hire a team of talented people from Trove earlier this year. We look forward to applying their expertise and capabilities to meet our customers where they are, give them what they need and serve them how they want.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thanks, Michael. And operator, we are ready to open up for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Alan, I guess just first high-level question for you, just about the cycle. It's obviously a different cycle just in terms of its longevity for a number of reasons. But we're pretty clearly at the tail end of that. And I think we're at the tail of end that at a time when there's pretty specific nuances that could possibly make somebody concerned that loss trends accelerate faster than they otherwise would at the tail end of a cycle.

Things you mentioned in your opening comments, demand surge, voluntary policy, demand, demographic shifts inflation, the list goes going on, and it seems to be added to on a daily basis. I guess, so -- the question we get, and I know you've heard this question before is, will those things that are kind of unique to the current situation make for pricing to kind of tick back up again, if you will?

And it's not, I guess, for your book of business is different. So maybe you can talk to -- are you concerned about that? Are you surprised by that? Any concerns at all that BI pricing is indeed continuing to decelerate the time when there's a lot of risk out there for loss trends?

Alan David Schnitzer
Chairman & CEO

Yes. Thanks for the question. And let me paint a picture for you. So the pricing environment, despite what you're focused on, which I suspect is the right number, the pricing environment is actually quite strong. And you see that in BI and BSI with overall pricing near record levels. Our earned and written continued debt -- our earned and written continues to exceed trends. Our margins on a written basis are expanding. When we look at the breadth of pricing gains, very good. The significant majority of our accounts continue to get positive rate.

And you look at retentions at near all-time high is that -- I mean, that tells you that the overall market is pretty stable and what we're doing is delivered, right? That's -- you look at that retention and that tells you what we're doing is deliberate. If we weren't able to achieve what we wanted to achieve, retention would be lower. You got to add to that the pretty good progress we've made over -- actually, at this point, many years of very, very strong pricing gains. So you've got improving margins. And so that's sort of where we are right now.

So having said that, as you point out, there are some clouds out there that we are very well aware of. I think the industry is very well aware of them. And as we price the marginal product, we're looking at what the expiring rate is, we're looking at what loss trend is, we're looking at what other factors that impact margins, and then we're putting a price on the product. And so we're not troubled by anything in this production environment that you see -- or the outlook, frankly.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Appreciate that. Maybe a little bit more drill down question for my second one, and possibly for Michael. On personal auto, a lot of attention obviously on severity for physical damage side. But medical inflation has been kind of one of the best performers in the CPI index and yet there's concerns that might tick up, but it hasn't yet. And I think BI liability is trending pretty high. Can you talk about that disconnect? And what you're seeing in your BI liability book?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Michael. Great question. I would say your assessment on medical inflation is right. I mean it's ticked up slightly, but from a low level. So something we pay attention to, but not a particular concern. It is interesting, we haven't spent a lot of time talking about bodily injury liability trend in PI, not because bodily injury liability trend isn't high, but because it's not really high in excess of our expectation. So we've got a relatively, I'll say, a high view of what bodily injury severity is.

I think our views on it are consistent across commercial and personal lines. But again, we haven't been talking about it because it's not the item that's been the surprise, right? The vehicle severity items have been the ones that had the unexpected inflection point in the middle part of last year and remain elevated.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Does that mean, Michael, that your BI liability is what we're seeing for the industry it's above 10%?

Michael Frederick Klein
Executive VP & President of Personal Insurance

I wouldn't put a specific number on it, maybe, Michael, but I would say we're in that neighborhood.

Operator

Your next question comes from the line of Ryan tennis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Question on Business Insurance margins. We improved year-over-year. I realized in the past couple of quarters, we've been benefiting from some favorable non-cat weather. And I guess also some frequency related items and things like commercial auto. Could you just give us -- paint us a picture of sort of like to what extent did those come back this quarter into the results that we saw?

Daniel Stephen Frey
Executive VP & CFO

Ryan, it's Dan. Yes, so not real big movements there. I think Greg gave you what's a pretty straightforward story to the quarter, about a point better in the loss ratio really tied to earned pricing being ahead of what we're seeing in the loss environment and about 1 point of improvement in the expense ratio. To your point, there are other things that will impact quarters differently and there's some variability from quarter-to-quarter. This quarter, the net of those things, when we compare to what we saw in the first quarter of a year ago, it was just about a wash.

Ryan James Tunis
Autonomous Research LLP

Got it. And then a follow-up on the Bond & Specialty side. Just trying to get a feel for how the reunderwriting of that cyber book, like what type of tailwind that could be for underwriting margins? Can you just give us an idea of maybe what percentage of the Management Liability book has a cyber component?

Jeffrey Peter Klenk
Executive VP and President of Bond & Specialty Insurance

Sure. Thanks for the question. This is Jeff Klenk. I think first and foremost, I'd remind you that we do have a significant reinsurance treaty on the book of business. And so that's something that's important to remember. We do feel really confident that the focus on the cybersecurity protocols is having an impact. Still early for us, right, because we started it effective in June, but we're seeing it on the frequency. And so more to come, but we definitely feel good about the results we're seeing so far.

Daniel Stephen Frey
Executive VP & CFO

Ryan, it's Dan. I'd just add, and I think you were getting to it in the tail end of your question. Cyber, it's not a huge percentage of the premium base within Bond & Specialty. So it's an important line of business that everybody is paying attention to. It's not a huge component of the book.

Operator

Your next question comes from the line of Greg Peters with Raymond James.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

I guess I would like to focus in on the expense ratio. And I know you've spent some time recently with investors talking about some initiatives. Dan, in your comments, and I don't want to put words in your mouth, but it seemed like you were suggesting that the full year expense ratio might move to around 29.5%.

And then a year out, maybe 29%. And assuming that I remember that correctly, I also noted in Jeff's comments that -- or excuse me, Michael's comments that the expense ratio benefited from higher earned premiums. So I guess I'm trying to bridge the gap between the expense ratio improvement that's coming from the higher than normal or typical premium volumes versus what the true underlying improvement in expenses, if that makes sense?

Daniel Stephen Frey
Executive VP & CFO

Yes, Greg, it's Dan. I'm not sure that I would try to break it into its pieces. We're managing to a total return. And within that, we're trying to manage to what we are comfortable with from an expense ratio perspective. So we made a lot of progress in improving the expense ratio from where we were 5 or 6 years ago. We're pretty -- we said when it got down to the 30 level a couple of years ago, we were pretty comfortable somewhere around 30. Coming out of last year, we signaled that we thought this year we would be around 29.5%. And all I was really trying to give you in my comments was that's still sort of what we're planning for, for this year. I don't know exactly where it's going to come up, but that's the neighborhood of where we would expect it to come up.

A little better than that in the first quarter of the year, that's partially due to the fact that premium volumes were a little stronger than we would have expected. It's also partially due to the fact that there's some timing from quarter-to-quarter in terms of what's going to come through expenses.

But we are managing the strategic investments we're making to move the business forward balanced with expense discipline to make sure that we're continuing to improve productivity and efficiency, also balanced with what our view is of where the top line is going. So we're looking at all those -- all 3 of those things together and saying, we were in the 32s a few years ago, we got down to 30. We told you this year, we think that will go down to about 29.5 and then the next step, it will be to go down to 29. But it's really balancing all those 3 things together.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Got it. Makes sense. The second question I have would be just around the commentary on investment income. And I guess with the upward movement in interest rates, just trying to understand just within the fixed income component of your portfolio, where the new money yields are relative to expiring, and I note that you did raise your investment income guidance for the balance of the year. So just trying to understand some of the moving pieces behind that.

Daniel Stephen Frey
Executive VP & CFO

Sure, Greg. It's a good question because this is the quarter in which we actually flip from new money rates being below what's embedded in the portfolio as has been the case for the past several years. By the time we exit the quarter, we're -- and you see that in the fact that the portfolio is now in an unrealized loss position as opposed to an unrealized gain position. But exiting the quarter, we think that new money yields are somewhere between 50 and 70 basis points higher than what's running off.

And so as the portfolio slowly turns over, that is contributing to our increased view compared to the outlook that we had provided at year-end in terms of what will happen to fixed income NII increasing now as we get to the latter part of 2022.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, a couple of times, you guys mentioned elevated severity in this inflationary environment. So just curious, within Business Insurance, you guys had been running at a 5% loss trend assumption. Where did you guys take that to this quarter?

Daniel Stephen Frey
Executive VP & CFO

So Elyse, it's Dan. I'll take that one, and I'll say that we're thinking about, especially in this environment with exposure near all-time highs, you've got to compare what we're doing on the total pricing side, including the piece of exposure that behaves like rate with what's happening in the overall loss environment. So as you heard in Greg's comments and in Alan's comments, we have reflected a higher level of severity tied to inflation in our view of what we're booking for losses in business insurance. That's largely tied to higher levels of inflation.

Higher levels of inflation also bring with it really an offsetting benefit as you think about what we'll earn in on a go-forward basis from higher exposures. So things like higher wages paid to the same workers so we're going to get a higher exposure and a higher premium on the same risk as opposed to increases in exposure related to things like more workers where we're collecting more premium, but there's more risk because you've got additional workers.

So our view of the loss environment is higher. Whether you put that in loss trend or whether you leave your loss trend unchanged and book a medium-term over-the-top severity on top mechanically, you're going to get to the same answer. If you believe that the inflationary impact is going to be somewhat persistent at least over the medium term, you put it in loss trend. That's reflected in the numbers that Greg talked about in terms of a point of margin expansion in the quarter and in the commentary that on a written basis with the production results we saw this quarter, we expect margins to continue to expand going forward.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. I don't want to -- I get that it impacts both sides of the equation. I mean it seems like it probably went up maybe to 5.5%, maybe even 6%. Do you want to -- can you provide the magnitude of the increase? Or do you rather just talk through the components of the positive and the negative aspects of exposure and loss trend?

Daniel Stephen Frey
Executive VP & CFO

I think, directionally, that's the way to think about it, Elyse. But keep in mind, as you said, there is both sides of the equation, and we're going to and are seeing the benefit on the exposure piece as well.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then Alan and Greg, both of you guys also talked right about strong retention, just showing the stability of the market, and you guys saw pretty good growth in all of your businesses. But sticking with BI, if we're talking about elevated loss trend pricing getting close to that loss trend, can you just help us think through why now seems like a good time to kind of show higher premium growth?

Alan David Schnitzer
Chairman & CEO

Yes. Elyse, just as a reminder, we've had this conversation over the years. We would go out and hold up a sign that says grow or shrink. We execute one account at a time. And when there's an account out there the pricing turns we want to put in the portfolio we do. And this quarter, Greg and his team did a fantastic job. And the result of that, again, the accounts we want -- the pricing turns we want resulted in that growth. So it's not -- there's no sort of overall coaching message other than go out and execute the next account. Greg, you want to...

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

I think that's exactly right. I think through this cycle, we've been -- had the benefit of have a high-quality book of business. So we haven't really had to remediate broadly from an underwriting point of view. It has been just funding for some of these perils that we've talked about. So we're very pleased with when we add up all the numbers and see the execution at a very granular level from our most profitable accounts to our least profitable what that retention slope looks like, and we're very comfortable with that.

Daniel Stephen Frey
Executive VP & CFO

And keep in mind, Elyse, we're talking about very strong margins at the time and saying, even at this level, we continue to expect that we're expanding margins. I mean these are some of the best underlying combined ratio that Business Insurance has seen in the last 14 or 15 years. So to have retention at all-time highs when margins are as strong as they are, feels great.

Operator

Your next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

A couple of questions on ROEs. So I think you had a 13% operating ROE last year. You have 3x investment leverage. So if you got another point of interest rates increases coming in through the portfolio, you get another 2 points of ROE. So you're essentially at the ROE target, I think, for the cycle with higher interest rates.

So with that in mind, would you kind of expect to take the foot off the rate and terms and conditions pedal to achieve greater growth? Or do you think there's more to do on the underwriting side?

Alan David Schnitzer
Chairman & CEO

I -- well, first of all, I think it's hard to talk with -- with such a broad brush. We've got -- I assume you're directing your comments to BI. It's a $16 billion book of business with lots of different products. So it's hard to paint with a broad brush. We will -- as you heard, this quarter, written margins continue to expand, that will earn in, and we continue to execute to meet -- to continue to improve margins. If we're going to try to be mid-teens over the cycle, that means at some point, ideally you get above it.

Having said that, we got a 10-year treasury that it's on the move, but it's still not near sort of historical norms. It's even at 2.8% or 2.9% by historical standards relatively low. So that does impact our earn rate and what we're trying to achieve.

And then the last thing I'd say is, from here, the price change is going to increase in some lines of sub-businesses is going to go sideways in some and it's going to go down in other. So it's -- that's just a function of granular execution.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. That's helpful. And then my second question on returns. So -- I think the stock is currently at 1 6 book ex-AOCI, which I think would suggest that you need a roughly 16% ROE to breakeven on buybacks here. So with that, maybe you can talk a little bit about your preferred avenue of capital deployment at this time? Is it to really achieve more growth as margins are expanding? Or do you expect to do more buyback?

Alan David Schnitzer
Chairman & CEO

Let me start, Dan. So on the -- way we think about it -- and I think it's important to go through the whole chain here. We generate more capital than we need to -- that we can profitably deploy back into our business. And so when we have more capital than we need, we're going to get it back. And that is sort of a philosophical principle that we've operated under for a pretty long time.

And so we've got a couple of options on how we're going to get it back. And we know we've got certain segment of our shareholder population that's looking for a dividend yield, and we're going to make sure that we're paying is competitive. And then beyond that, we're going to buy our stock back. And we're not investing in our stock. We're not trying to time the market, we're trying to right size capital. And we've bought back plenty of stock at these levels over the years. And we started our stock buyback program in 2006, I think.

And the average price per share, which we bought back the stock, is about $70. So I really to think about it in that broader context, it's been -- it's been an exercise in capital management for us, but it's been a fantastic investment over the years. And I think when you look back at this moment in time, years from now, you're going to say the same thing.

Daniel Stephen Frey
Executive VP & CFO

Yes, I echo those exact same thoughts.

Operator

Our next question comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Just one question for me. It's a follow-up to Dan's comments about holding assets to maturity reminding us on a statutory perspective that unrealized losses on investments doesn't really matter for regulatory capital purposes. I just wanted to ask if the same is true on your internal economic capital model and how you think about capital allocation?

Daniel Stephen Frey
Executive VP & CFO

Yes, pretty much, Tracy. I mean we -- which is one of the reasons why when we talk about book value per share, we almost always talk about adjusted book value per share, the unrealized gain or loss position in the portfolio, we think of as we have duration in the portfolio, interest rates are going to move, we're going to have an unrealized gain or loss, it's not really driving the economics of how we think about the capital position of the company.

Operator

Our next question comes from the line of Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

I was hoping to start with a question for Michael. I understand that we're ramping up rate increases are they going to earn in going forward for personal auto. But I guess I was surprised with the level of new business growth and retention, and I'm wondering whether the strategy now is to write a fair amount of business as competitors dial down advertising and count on overall market rates rising and therefore, the ability to retain some of that business? In other words, are you writing business below target margins right now in auto with the expectation that they'll be fixed over time?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. Thanks, Meyer. It's Michael. I would say the strategy is to get the rate we need to improve the profitability. And the growth that you're seeing is a byproduct of how our rate shows up in the market relative to that of our competitors. And actually, when you look underneath it, on a state-by-state basis, you actually see quote volumes moving around based on industry rate level, I think more industry rate being taken in the state drives quotes into the market, you also see our close rate varying in one state versus another based on the rate level that we've taken and how that compares to our competitors.

So it's really less about looking for growth. On a tactical basis, it's really all about looking at the rate indications, recognizing that we need to make progress on pricing and filing the indications and the rate request with the states and getting them in as quickly as we can and the growth you're seeing is a byproduct.

I would say, to your point, retention dipped a bit from 85 to 84, again, relatively consistent with what we would have anticipated given the change in RPC. And while new business production, the dollars were up 4%, which is the same number they were up in the prior quarter in the fourth quarter of 2021. More of that 4% is now represented by price change than was in the prior. So there's some slight deceleration kind of in the underlying growth. And we anticipate as we continue to push for rate, we'll probably see some more of that.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. No, that makes sense. I guess, bigger picture question, so maybe for Alan. Unlike last quarter, there was no mention at least that I could catch the pandemic have impact on the underlying loss ratio. Is that a correct read? In other words, that particular component doesn't seem to be relevant anymore?

Alan David Schnitzer
Chairman & CEO

I would say, Meyer, I'm looking at Dan very small.

Daniel Stephen Frey
Executive VP & CFO

Yes. And it also gets, Meyer, sort more and more difficult. So in terms of did we have any sort of directly COVID-related charges that become a very -- it was never a big story for us in the first place, and it's certainly not a big story now. Then in terms of the underlying loss environment, other -- things that were indirectly impacted by COVID, I think it just gets sort of harder and harder to parse out what is a change in COVID and what is just the new normal in terms of whether it's people working from home or things like that. So I think your reading is right. There's not a big story in the quarter related to COVID.

Operator

Your next question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

A couple of questions. Can we speak to fourth quarter and first quarter? Obviously, there's a big change in the loss ratio underlying. Were there specific items? And if I read through the queue as quickly as I could, it didn't seem like you're calling out anything unusual there. And making the sequential comparison, is there anything that you want to point out between the 2 quarters? Or maybe -- we should think about?

Daniel Stephen Frey
Executive VP & CFO

Josh, are you talking about on a consolidated basis or one of the segments...

Joshua David Shanker
BofA Securities, Research Division

I'm sorry, Business Insurance, of course, yes Business Insurance.

Daniel Stephen Frey
Executive VP & CFO

Okay. So I think there is seasonality in different parts of the segments. Greg did call out in his fourth quarter comments, whether property losses, not related to cat, were a little better than our expectations. And I think we've had this conversation just before, we really don't think about that sort of sequential quarter-to-quarter reconciliation. There are different things that occur in different quarters. So I think the most apples-to-apples comparison in our view is Q1 versus Q1, and that's the way we did it.

Joshua David Shanker
BofA Securities, Research Division

That's fine. And then on workers' compensation, obviously, a big part of the favorable development in Business Insurance in the quarter. Can we talk about what you're seeing in the segments? Or shall I should say, the lines of business other than what was comp on prior year development and whatnot?

Daniel Stephen Frey
Executive VP & CFO

Sure. So in BI, for the quarter, we -- so again, the pieces I gave you $113 million in total for the quarter for BI. The largest piece being comp, that was $80 million to $85 million. I gave you the -- we had $45 million of a charge for environmental related to the older years. So that leaves you with the other things. So the general liability lines, a fair amount of favorability spread across many accident years, property, a modest amount of favorability spread across many accident years, CMP, net favorability from a number of accident years, and the international business showed some favorable development in PYD as well.

None of those things were sort of individually significant, which is why I didn't call them in my comments, but we saw favorable development in those lines as well.

Joshua David Shanker
BofA Securities, Research Division

So it's fair to say universally favorable across all lines, the takeaway I would come with?

Daniel Stephen Frey
Executive VP & CFO

Yes. The one line I didn't mention was auto and not because it was a huge outlier, but I don't think that the net result of auto is much more than a wash within Business Insurance.

Operator

Your next question comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had was just a follow-up on cyber. And I was just interested in if you could provide any commentary on the kind of war exclusions you have. And I know this is a real big business for you, but I'd just be interested in that. And any claims experience you're seeing so far from the Russian-Ukraine conflict, if at all?

Jeffrey Peter Klenk
Executive VP and President of Bond & Specialty Insurance

Thanks, Alex. This is Jeff Klenk. Relative to the second part of your question, no active experience relative to the current situation. And there has been, obviously, a little more dialogue on this topic recently. Relative to our offering, we're comfortable with the cyber offerings exclusionary language. Have no immediate plans to change it. As always, we'll continue to monitor our policy language in the context of evolving risks. But thanks for the question. .

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And maybe just one more follow-up on frequency. I think Josh and Ryan both asked about this a little bit. But any way you can quantify at all for us just any frequency benefits to still remain for workers' comp and GL specifically and BI?

Just thinking through, I guess, that there's sort of a wash when you look at the items year-over-year comparison wise. But when we think about it relative to pre-pandemic and appreciate may or may not actually revert to those levels. But I'm just trying to gauge if there's still a benefit there we should be considering?

Daniel Stephen Frey
Executive VP & CFO

Yes, pretty -- to the degree that there's any, Alex, I think it's pretty small. The other thing that we've used to describe reserving in the uncertainty of the sort of COVID environment and core closure environment is that we've tried to remain cautious. And so I think we have tried to remain cautious. So even though -- some of the data might still be indicating some modest benefits from frequency, we're making sure that we're booking losses to allow for what might come through either later or on the severity side. So not really a big benefit coming through the quarter.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Alex, I'd just add on the workers' comp comment, obviously, as the economy starts opening up again, we would start to see some of the frequency normalization, which we have seen in the workers' comp line, but certainly add expectations, nothing above that. So like what we were expecting.

Operator

Your next question comes from the line of David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I just had a question on Business Insurance and the commentary around written rate being above loss trend and really just trying to drill down and thinking about just how much exposure is acting like rate. And so if I just compare the 4.4% renewal rate change in Business Insurance with the loss trend of, call it, 5% to 6%, it implies that to expand margin, you would need around 1 point to 1.5 points of the exposure change that's acting as rate. I'm just wondering, is this the right way to think about it roughly just like 1 point of the 5 points of exposure change acting as rate?

Daniel Stephen Frey
Executive VP & CFO

David, it's Dan. I think, mathematically, if you just took a point in that equation, that would get you to somewhere around breakeven, and we're telling you that we think on a written basis, margins are still expanding. It is difficult, and I appreciate what everybody is trying to do. It's difficult to have a rule of thumb for how much exposure behaves like rate because as I said in the answer to an earlier question, the things that are driving exposure can vary from period to period, whether it's inflation driven or units of risk driven, the lines of business mix changes from quarter-to-quarter and that impacts it.

But I think the short answer, I would say is when we're looking at the level of exposure that we wrote in the first quarter, I think more than 1 point of that, we think of as behaving like rate, but I really wouldn't try to put much finer point on it than that.

Alan David Schnitzer
Chairman & CEO

The other thing I'll just add, David, is loss trend for this purpose, it is really a very blunt instrument. And that sort of one number aggregating loss trend across that we look at it at a very granular level. So we just don't approach it at the sort of macro unit level that you do, which is I think why we're all sort of looking at each other wondering how to respond to that. And I get -- just trying to get to some measure of cost of goods sold. It's just a blood instrument, and it's hard to do.

And the other thing I'll say is loss trend frequency changes in long-term view of frequency and severity, that's just a mechanic for booking losses and there are other mechanics for booking losses. And so it's just -- it's really the only thing impacting a quarter. So I just caution you against the -- looking at something that seems very simple and thinking that's the answer.

Operator

We currently have time for one final question. Your final question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes Alan, I want to chat a little bit about Business Insurance a little more broadly speaking here. As we look at GDP in the U.S., as you guys look back, how closely correlated is exposure growth and RPC relative to GDP in the U.S.? Is there a lag effect? And then maybe take that also on loss trend? And what impact you typically see economic growth or deceleration having on loss trend?

Alan David Schnitzer
Chairman & CEO

It's a really good point, a really good question. We do see exposure growth having a reasonably high, not one to one, but a reasonably high degree of correlation with GDP. So I do think you're on something there. Again, it's within a range and there's some lag to it. But -- and that's also sort of an overtime measure. I don't think you can look at GDP today this week, this month, this quarter and say that's what exposure is going to be. You do need to look at it sort of overtime as you generally get there. .

When you talk about the impact of economic activity and losses, that's also going to vary by line, and it's hard to paint with a broad brush. I do think probably just making an observation at a macro level, there is a correlation between an economy heating up and loss trend going up. I think there are several lines that would contribute to that. But what you do need to remember, again, to the first point is that as an economy heats up, you do get exposure growth that to one degree or another or offset that higher level of loss trend.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then my second question, just quickly here. You've talked a lot about the severity side on BI and inflation. I'm just curious, what are you seeing as the court system opens up in the U.S.? Are you seeing kind of a return to the old social inflation environment we were seeing back in 2018, '19?

Alan David Schnitzer
Chairman & CEO

I will tell you, we absolutely expect that. I don't think the court system is opening up yet. I mean it's opening up and unwinding very slowly, and I think it's going to play out over a while. It's just -- you think by now that it would be open and running at pre-pandemic levels, and it's just not. But our full expectation, Brian, is consistent with your comment, we would expect to see that pre-pandemic environment in terms of social inflation.

Operator

Ms. Goldstein, now I'll turn the call back over to you now for closing remarks.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you all very much for joining us. We appreciate your time. And as always, if there's any follow-up, please feel free to reach out to Investor Relations, and have a good day. Thank you.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.