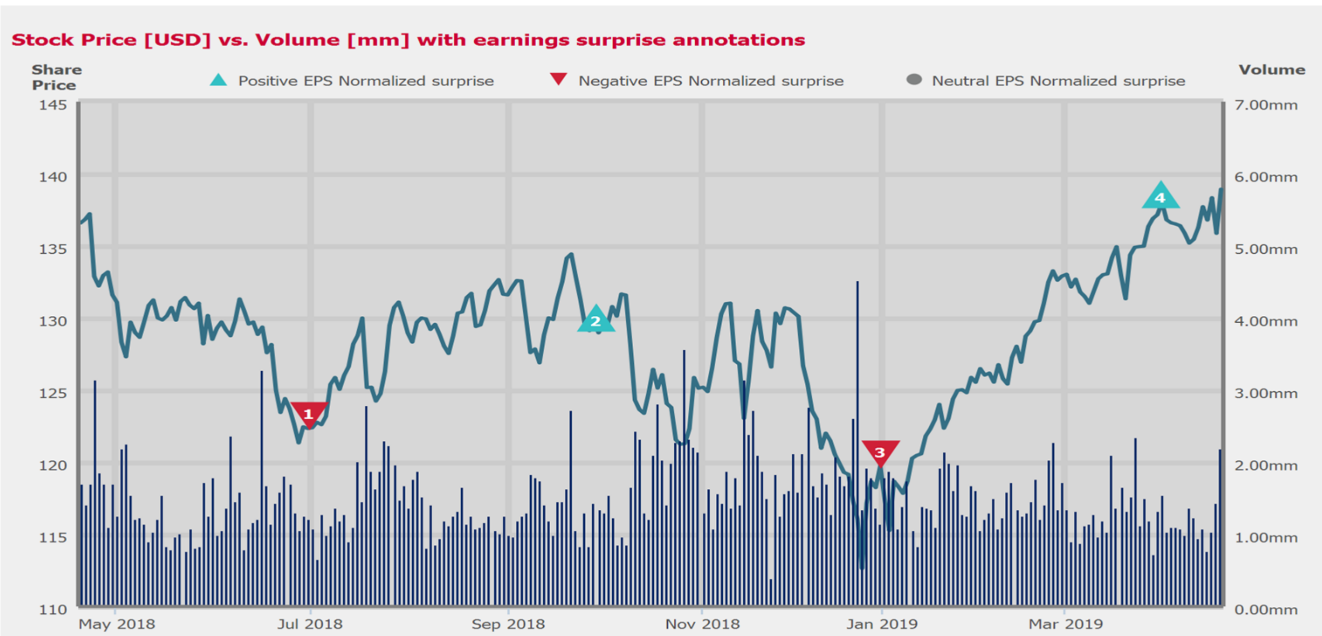
S&P Global
Market Intelligence

The Travelers Companies, Inc. NYSE:TRV
FQ1 2019 Earnings Call Transcripts
Thursday, April 18, 2019 1:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.73	2.83	▲3.66	2.41	11.06	11.79
Revenue (mm)	6943.43	6855.00	▼(1.27 %)	7033.10	28796.00	29558.84

Currency: USD
Consensus as of Apr-18-2019 1:40 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	2.39	1.81	▼1 (24.27 %)
FQ3 2018	2.26	2.54	▲2 12.39 %
FQ4 2018	2.18	2.13	▼3 (2.29 %)
FQ1 2019	2.73	2.83	▲4 3.66 %

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Executive VP & President of Business Insurance

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the First Quarter 2019 Results Teleconference For Travelers. [Operator Instructions] As a reminder, this conference is being recorded on April 18, 2019.

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 2019 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 travelers.com under the Investor 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; 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 questions.

Before I turn the call over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those 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 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 the Investor section on our website.

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

Alan David Schnitzer
Chairman & CEO

Thank you, Abbe. Good morning, everyone, and thank you for joining us today. Our 30,000 employees are engaged in executing on our focused strategic priorities and we're seeing the impacts. As we've explained in the past, our strategic efforts are geared towards creating attractive top line opportunities and improving productivity and efficiency. The strong results we delivered across all our business segments this quarter reflect progress on both fronts.

Net income for the quarter of $796 million was up 19% over the prior year quarter, generating return on equity of 13.5%, the highest level in 2 years. Core income was $755 million, up 11% and core return on equity was 13%, also the highest level in 2 years.

The underwriting gain of $395 million pretax is up more than 50% over the prior year quarter, reflecting higher business volumes and a lower combined ratio.

Earned premiums were up 5% to a first quarter record of $6.9 billion with each of our business segments contributing. The combined ratio of 93.7% improved by nearly 2 points. The underlying combined ratio improved almost a point to 91.6% with strong results in each of our business segments. Notably, we achieved improvements in productivity and efficiency in each of the segments.

Our high-quality investment portfolio performed well, generating net investment income of $496 million after-tax. While slightly below the results in the prior year quarter due to lower private equity returns, net investment income benefited from higher fixed income return.

Our strong results this quarter contributed to growth in book value per share of 7% and growth in adjusted book value per share of 2% after returning $625 million of excess capital to shareholders consistent with our long-standing capital management strategy.

Turning to production, we remain very pleased with the execution of our marketplace strategies. During the quarter, we grew gross written premiums to a record $7.8 billion, an increase of 6%. Net written premiums, which reflect the impact of the new catastrophe reinsurance treaty we discussed with you last quarter, were $7.1 billion, up 3%. Our premium growth once again reflects high levels of retention and positive renewal premium change. That speaks to the high quality of the business we're putting on the books.

In Business Insurance, gross written premiums increased by 6%, as we achieved renewal premium change of 6%, including renewal rate change of more than 2%. For both rate and RPC, those were the highest levels in almost 5 years. As you might expect the price increases were led by the Commercial Auto and property lines, but with the exception of Workers' Comp, rate was up both year-over-year and sequentially in each of our product lines. That's the result of granular and deliberate execution to meet our return objectives. We'll continue to see great gains selectively and thoughtfully and in close coordination with our distribution partners. Importantly, we are encouraged that while we were improving margins, we maintained retention at historical highs and generated a higher level of new business.

In our consistently high-performing Bond & Specialty business, gross written premiums were up 4%, driven by historically high levels of both retention and new business in our domestic Management Liability business. Surety premium volume was at high levels in both the current and prior year quarters.

In Personal Insurance, which as you know is a great story, gross written premiums were up 6%, reflecting strong results in both our agency auto and Agency Homeowners businesses. You'll hear more shortly from Greg, Tom and Michael about our segment results.

Lastly, I'm pleased to report that as a reflection of confidence in our business, our Board of Directors has declared a 6.5% increase in our quarterly dividend to $0.82 per share, marking 15 consecutive years of dividend increases with a compound annual growth rate of more than 9% over that period.

To sum it up, our first quarter performance was a terrific start to the year. We generated strong results in terms of both profits and returns. On top of that, we had another quarter of excellent production. Our performance, competitive advantages and commitment to innovation position us to continue delivering industry-leading results over time.

And with that, I'll turn it over to Dan.

Daniel Stephen Frey
Executive VP & CFO

Thank you, Alan. Core income for the first quarter was $755 million, up 11% from $678 million in the prior year quarter. And core ROE was 13%, up from 11.9%. Earnings per share and core earnings per share were up 24% and 15%, respectively. These improvements resulted from lower catastrophe losses and higher underlying underwriting margins, partially offset by lower net favorable prior year reserve development and lower private equity returns.

Pretax underlying underwriting gain, which excludes the impacts of cats and PYD, increased by 16%, driven by improvements in all 3 segments. Underlying results benefited from higher business volumes and the consolidated underlying combined ratio of 91.6% improved by 0.8 point from the prior year quarter, driven by a lower expense ratio.

Successful execution of our productivity and efficiency initiatives resulted in improved operating leverage as insurance G&A expenses were nearly flat, while net earned premiums grew by 5%.

Our first quarter results include $193 million of pretax catastrophe losses, down significantly from $354 million in last year's first quarter. Net favorable prior year reserve development in the first quarter was $51 million pretax, down from $150 million in the prior year quarter.

In Personal Insurance, net favorable PYD of $69 million pretax resulted primarily from better-than-expected performance in auto. In Business Insurance, net unfavorable PYD of $21 million pretax compares to net favorable PYD of $66 million pretax in the prior year quarter. The change primarily resulted from the enactment of the Child Victims Act in New York during the first quarter. This legislation extends the statute of limitations for cases of child sexual abuse, creating potential exposure to claims in the general liability line that were previously time-barred.

Excluding the impact of the New York law change, Business Insurance would have reported net favorable prior year reserve development, workers' comp had net favorable reserve development, Commercial Auto was largely unchanged and commercial multi-peril had modest net unfavorable reserve development.

Pretax net investment income decreased by 3% from the prior year quarter to $582 million, as higher fixed income returns were more than offset by lower returns in our nonfixed income portfolio. Fixed income NII increased by $39 million pretax due to the higher average yield on invested assets and an increase in the amount of average invested assets.

Lower returns in the private equity portfolio reflected the market downturn in the fourth quarter of 2018, as these private equity results are generally reported to us and consequently by us on a quarter lag. As we discussed on our earnings call last quarter, we added a new catastrophe reinsurance treaty for 2019, providing coverage for PCS-designated events for which we incur $5 million or more in losses, above an aggregate retention of $1.3 billion. The cost of this new treaty is reflected in ceded premiums, and that is the primary reason that the growth rate in net written premiums is less than the growth rate in gross written premiums this quarter.

Because the ceded written premium is all recorded up front, this impact will not recur in the remaining quarters of the year. On an earned premium basis, the new reinsurance treaty will affect the results of all 4 quarters in 2019. Most loss recoveries from this treaty would likely benefit our net cat losses, which are excluded from underlying results.

Based on our assumed weather losses for the year, the treaty would have about 0.5 point adverse impact on the full year underlying combined ratio but a minimal impact on the full year total combined ratio. And we assume that any recoveries would likely only benefit the second half of the year. Of course, the effect on our underlying and total combined ratios for 2019 will be impacted by the level of PCS events we actually experience.

Turning to capital management. Operating cash flows for the quarter of $639 million 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 $1.9 billion. Holding company liquidity is temporarily elevated as we issued $500 million of 30-year debt at 4.1%, ahead of our upcoming $500 million debt maturity in June.

We took advantage of attractive market rates and issued the new debt in early March. So we're carrying an artificially high level of holding company liquidity exiting the first quarter that will naturally adjust itself before the end of the second quarter.

In terms of the unrealized gain, interest rates decreased during the first quarter. And as a result, we went from a net unrealized investment loss of $113 million after-tax at year-end to $1 billion after-tax unrealized gain as of March 31. Adjusted book value per share, which excludes net unrealized investment gains and losses was $89.09 at March 31, 2% higher than at year-end.

We returned $625 million of excess capital to our shareholders this quarter, comprising share repurchases of $421 million and dividends of $204 million. And as Alan noted, the board raised our quarterly dividend from $0.77 per share to $0.82 per share. So across all key measures, we remain pleased with our strong financial position.

And with that, I'll turn the microphone over to Greg for a discussion of Business Insurance.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Thanks, Dan. Business Insurance had a strong first quarter as reflected in our underwriting and production results. As you heard Alan say, both renewal rate change and renewal premium change were at the highest levels in almost 5 years. Significantly, we achieved that while maintaining a very strong retention level. And importantly, we also continue to invest in strategic initiatives to position us for the future.

Segment income for the quarter was $414 million, while the combined ratio was 98.1%. The underlying combined ratio of 95% improved by 0.5 point from the prior year quarter, even after the impact on earned premium from the new cat reinsurance treaty. The treaty increased the underlying combined ratio by 0.5 point, split about evenly between the loss ratio and expense ratio.

Let me break the underlying combined ratio down a bit further. The underlying loss ratio was 0.8 point higher than the prior year quarter, driven by about a point of elevated losses in our international business. I'll provide some additional comments on international in just a minute.

In addition, the change in the underlying loss ratio also included a little more than 0.5 point from lower non-cat weather losses, which was mostly offset by the impact of the new cat treaty as well as a little less than 0.5 point from higher Commercial Auto loss estimates consistent with the reestimates we reported in the fourth quarter of 2018.

Auto losses for the quarter were generally in line with our expectations. The underlying expense ratio was favorable to the prior year quarter by 1.3 points, about 0.5 of which was driven by continued growth in premium volumes while maintaining generally flat insurance G&A expense dollars. The other half of the improvement resulted from the benefit this quarter related to a state assessment.

Before I turn to the top line in production, I'll spend a minute more on what we're seeing in our international business. For a couple quarters in a row now, we've shared with you that we've experienced some elevated loss activity. These losses are predominantly property-driven and have come primarily from a small number of large losses and to a lesser degree higher attritional losses. We're pursuing meaningful rate increases to address what we believe to be industry-wide challenges. In addition, we're applying risk selection and risk control measures in response to the losses we're seeing and taking targeted actions to exit certain lines and accounts. These measures are well underway, and our production results in these market reflect the progress we're making in our efforts to improve profitability.

Now to the top line. Gross written premiums for the quarter were up 6% over the prior year, reflecting strong production results. We continue to be pleased with the impact that our strategic initiatives are having in creating opportunities for us to grow the top line profitably.

In terms of domestic production, we achieved strong renewal premium change of 6% in the quarter, including renewal rate change of 2.2%. The renewal rate change of 2.2% was up 0.6 point from both the prior year and the fourth quarter, with the Commercial Auto and property lines leading the way. Importantly, at the same time as we achieved these pricing increases, we maintained historically high retentions of 86%. In addition to what you see in RPC, we've also been improving terms and conditions, particularly in our large property business, which improves the risk profile of the book.

New business was a very healthy $564 million. We're pleased with our production results, which reflect our thoughtful balance towards retaining our best business, improving pricing where we need to in order to meet our return objectives and pursuing attractive new business opportunities.

As for the individual businesses, in Select, renewal premium change and renewal rate change, both remain consistent with the past several quarters, while retention remained strong at 83%. New business was strong and comparable to the prior year quarter. We're pleased with the returns in this business and the production results reflect our strategic execution.

In Middle Market, renewal premium change was 6% with renewal rate of 2.2%, up 0.7 point from the prior year and 0.6 point from the fourth quarter, while retention remained historically high at 87%. New business premiums of $336 million were up 4% from the prior year quarter. Building on the success from the business centers in Commercial Accounts, we begun to roll out the utilization of the same centers across several of our other Middle Market businesses.

As with Commercial Accounts, the goal is to be more active in the marketplace by creating additional capacity for our field underwriters to partner with our agents and brokers to create more solutions for our customers.

To sum up, a strong start of the year for Business Insurance, and we continue to feel great about our execution in the marketplace.

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

Thomas M. Kunkel
Executive VP and President of Bond & Specialty Insurance

Thanks, Greg. Bond & Specialty delivered another quarter of strong results. Segment income was $138 million and both the combined and underlying combined ratios were an excellent 81.1%.

Net written premiums for the quarter were up 2%, driven by continued growth in our domestic Management Liability business. Considering the high quality of our Management Liability portfolio, we are pleased that the domestic retention remained high at 89% with renewal premium change up 3.6%. New business continued at historically high levels and up 6% from the prior year quarter.

Surety premiums were strong in both the current and prior year quarters, and we remain well positioned to capitalize on potential increases in public infrastructure investments.

So Bond & Specialty results were strong. We feel great about our marketplace execution, competitive advantages and our ability to continue delivering leading returns and profitable growth.

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

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

Thank you, Tom, and good morning, everyone. Personal Insurance is off to a great start in 2019, with strong profitability and solid production. Segment income was $278 million, the highest quarterly total in a decade and an improvement of $149 million over the first quarter of 2018.

Our combined ratio of 90.1% improved 7.4 points, driven by lower catastrophes, improved underlying underwriting results and higher net favorable prior year reserve development. On an underlying basis, the combined ratio was 89.1%, an improvement of 1.4 points even after an 80 basis point impact from the new catastrophe reinsurance treaty.

Turning to the top line. Gross written premiums grew 6%, demonstrating continued momentum in the segment. Net written premiums were up 2% in the quarter, reflecting the impact of the new cat treaty. The impact is more pronounced in Agency Homeowners and other, where net written premiums grew 1% compared to gross written premium growth of 9%.

Agency Automobile delivered an impressive quarter with a combined ratio of 89.4%, 5.4 points better than the prior year quarter and the best result in more than 10 years. The quarter benefited from higher net favorable prior year reserve development and very strong underlying results. The underlying combined ratio of 92.1% improved 4.2 points relative to the prior year quarter due primarily to earned pricing exceeding loss trend, including the benefit from continued improvements and observed frequency levels.

Just as a brief reminder, the first quarter underlying auto combined ratio is typically the lowest of the year.

We're also very pleased with our first quarter results in Agency Homeowners and other, where our combined ratio improved by more than 10 points from the prior year quarter to 88.2%, driven by lower catastrophes.

On an underlying basis, the combined ratio was a solid 82.6%. The increase of 2.4 points versus the prior year quarter primarily reflects the impact of the new cat treaty.

Turning to quarterly production. Agency Automobile retention remained solid at 84% with renewal premium change of 5.1% and a 7% increase in new business from the prior year quarter. We're encouraged by these production results as we work to grow the line at returns that continue to meet our objectives.

Agency Homeowners and other delivered strong production results as well, with retention at 85%, renewal premium change up over 0.5 from the fourth quarter and increased momentum in new business, driven primarily by the successful rollout of Quantum Home 2.0.

Our Quantum Home 2.0 product is now available in 25 states versus 3 states at this time last year. We're on track to launch the product in most of the remaining states by year-end, including enhancements like our expanded smart home discount and home sharing endorsement, both of which we've introduced since the initial launch.

To date, the product is performing well both in terms of marketplace reception by agency and customers and in terms of production and profitability.

To recap, we're pleased to be off to a great start to the year in Personal Insurance and are well positioned to grow profitably, while continuing to invest in the business.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thanks, Michael, and thank you. Operator, we're ready to begin Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Jay Gelb with Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

In domestic Business Insurance renewal -- the renewal rate change. So it was good to see that, that rate change accelerated in the first quarter and you mentioned that was largely due to Commercial Auto and property with an offset from workers' compensation. We've seen in the past how that's gone up comparatively 1 quarter versus the prior quarter and then has shifted down over time. Do you think this has momentum to stay at this level or potentially increase? Or do you think this might be more of a onetime boost?

Alan David Schnitzer
Chairman & CEO

Yes, Jay, it's Alan. If you go back and think about when we started talking about rate most recently beginning of 2017, and we said then we were starting to push for rate. And if you plot out the line for either rate or rate and RPC, you'll see an upward sloping line and that's been very deliberate on our part. I shared in my prepared remarks that we intend to continue to push for renewal rate change and just in terms of managing the returns. Now we are getting some help from exposure and that counts too, both in terms of the component of exposure, behaves like rate and the expense leverage we get from it. And if you see in the outlook section of the 10-Q that we filed, you'll see that we've -- we're calling for higher RPC there as well. I mean, that's a single number. There's a lot of texture underneath. We're forecasting essentially 9 months out, so who knows, but we're going to continue to push in this direction.

Jay H. Gelb
Barclays Bank PLC, Research Division

All right. Great. Higher RPCs. And then separate question on Small Commercial. We've seen a number of potential competitors looking to move into Small Commercial on a direct basis like Berkshire Hathaway and Progressive. What's your perspective on how much that business could shift to the direct channel given that Travelers primary presence on that is clearly an independent agent?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Jay, this is Greg. Small Commercial marketplace has always been a competitive section of the marketplace, and we obviously are monitoring, assessing all the competitors that enter that space. And we make the assumption that some of them are going to be successful, and we accordingly manage to that way. And in terms of channel preference, we're not seeing any material shift of channel preference right now. We believe we've got a model that's very effective, and we're investing to make it as frictionless as possible. So wherever the consumer ultimately goes in the future, we think we're going to be positioned very well.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. Including direct?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Correct.

Operator

Your next question comes from Mike Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I'll take a shot at this one. First, on the PYD. Any chance you can give the dollar impact on the New York law change?

Daniel Stephen Frey
Executive VP & CFO

Mike, it's Dan. I think we're going to not be real specific on that given that it's an issue that we expect to be involved in legislation over a particular coverage matter. We did try to give you at least direction of magnitude. Early in the press release, I think we talk about the year-over-year change in PYD, which on a pretax basis was pretty close to $100 million being primarily attributable to the Child Victims Act. And in our minds, that means more than half. But I think to get much tighter than that, would be more detail than we want to give.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. No, I appreciate that. On the Workers' Comp PYD, was any of that from accident year '18?

Daniel Stephen Frey
Executive VP & CFO

That's a good question. Of the top of my head, I will tell you in 1 second. Comp, '18 is a very young year on a longtail line. So not a lot of movement in '18. Favorability and workers' comp is some recent accident years, but that's a little too recent for us to be making much of a change.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. And then, I guess, on the Business Insurance, sticking with that for a second. Well, there are clearly a few moving parts on the expense ratio from -- you mentioned in the Q, the Simply Business expansion, the state assessment and such. I guess, is there a way for us to maybe help us think about how kind of a good run rate going forward would be? I don't know how much the state assessment was or how much the Simply Business expansion is worth and that kind of thing because it's a good expense ratio with a lot of moving parts there.

Daniel Stephen Frey
Executive VP & CFO

Yes, so it's Dan again. I guess I'll think about expense ratio more at an enterprise level. And from a high level, we gave you some outlook at the end of last year, which was -- expect in this year to be broadly consistent with what we saw last year. Last year, as an enterprise, we're at about a 30.1. This year, in the first quarter, it's a 29.7. There's a little bit of a benefit, as Greg mentioned, from this state assessment change would have put -- you could think about that as 20 or 30 basis points back into the expense ratio. This is an example of things can be a little bit lumpy from 1 quarter to the next. We're happy with the expense ratio in the first quarter, but not taking that as a permanent improvement versus what we had expected previously.

Alan David Schnitzer
Chairman & CEO

Okay. Mike, just as a point of clarification, Mike, that the Simply Business investment wouldn't be in the expense ratio. Just for clarification.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. No, I guess, I was reading something out of the Q that said part of your G&A expense was due to expansion in Simply Business. That's what I was referring to.

Alan David Schnitzer
Chairman & CEO

Yes, that's -- it's G&A, but there's -- all of G&A doesn't go into the expense ratio, Insurance G&A does. We can take it off-line.

Operator

Your next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question. I wanted to follow-up on some of the commentary on the renewal premium change within Business Insurance. So your outlook is now more positive for the year. If we go back, you guys did see a slowdown in the third and the fourth quarter on the renewal rate, which picked up this quarter. I know Commercial Auto and Property have been lines that are getting price for some time. So I'm just trying to get a better sense of what really drove the sequential increase and gave you conviction to raise your outlook for the rest of 2019?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Elyse, this is Greg. First of all, the outlook, as a reminder, is an estimate. And so we try to give you as much transparency and our best feel around where that's going to go on a going forward basis. And if you look at the webcast slide for domestic BI, overall, you can see that the 6% for the first quarter, we think, is a terrific number and is the highest number on the page. And as Alan just said, we're going to continue pursuing our margin improvement campaign going forward also.

Alan David Schnitzer
Chairman & CEO

And Elyse, I would add that the rate increases are pretty broad other than workers' comp. So all products other than workers' comp higher sequentially and year-over-year, rate increases on a higher percentage of overall accounts, for example. So it's reasonably broad-based, although rational by product line relative with the returns we're getting in those lines.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's great. And then my second question on international. You guys pointed to about one point of underlying margin drag within Business Insurance from your international business. I mean, you did give some color on steps that you're taking to look to improve the margins there. Can you just talk to time frame? I'm assuming there's a certain level of drag that's embedded within your outlook for the next 3 quarters of the year? And just how long you think those initiatives will take to work their way through your book of business?

Alan David Schnitzer
Chairman & CEO

Yes, Elyse, this is -- it's probably more precise than either we could get or would want to share on that. We're -- we've got all the efforts focused on it. We're working on it. And we're -- there is an assumption that some of what we saw in the first quarter was an aberration and a return to more normal levels reasonably quickly. And there's other work that we're going to be doing, that's going to take some more time. But to give you any more precision than that would probably be -- would probably give you a sense of precision that just doesn't exist.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the size of the first quarter losses, would you put it kind of in line with the fourth quarter of last year?

Alan David Schnitzer
Chairman & CEO

I think, Elyse, we're going to stick with the one point that Greg shared in his prepared remarks.

Operator

Your next question comes from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

My question is just on this whole discussion around rate. And I guess, for Alan, are we at a point where the better-than-expected rate, the acceleration as you've been factoring into the way you're thinking about your outlook this year for margins? Or is it more just you're taking the rate where you need it, where you're seeing some elevated losses you're responding to it. So broadly, this is just a type of rate you think you need to be able to keep things broadly consistent or slightly better on the year?

Alan David Schnitzer
Chairman & CEO

Ryan, if I understand your question, I think the answer is yes to both. The rate we're getting when -- and we give you some perspective by segment in the outlook, and we give you some perspective on the outlook for margin in the outlook. And that does -- the outlook we give you on margin does take into account, as best as we can tell what we're going to achieve in terms of rate and exposure.

Ryan James Tunis
Autonomous Research LLP

But it doesn't seem that the outlook for margins has changed materially despite the better -- I guess the better rate we're seeing this quarter. So just trying to reconcile -- I mean, how exactly are you thinking about the 22? Was -- it's just, I guess, what was needed? Or do you feel better about what margins are going to be here in 2019 than you did when we talked at the fourth quarter call?

Alan David Schnitzer
Chairman & CEO

Yes, again, to both. Yes, we feel good about the 22, and we feel great about the 6 points of overall pricing. If you go back and look at over -- if you go back and look over a decade and you look at what rate and RPC have done, you'd say 6 points of price is pretty good by historical standards and particularly when you think about the fact that in '16 -- end of '16 into '17, total price actually never went negative. So before it went negative, it started moving back up. So we feel good about what we're achieving, and we feel good about returns.

Ryan, if you take the results in the quarter, and if you normalize for prior year development and weather, you get a pretty good result. And so we'd be probably a little bit less than what we printed because there were some other good things that happened, but you get a pretty good results. So we don't look at the returns that we're generating on a consolidated basis today and say they're disappointing. But as we look out the windshield into the future, we think there's more work to do in terms of achieving our objective of mid-teens over time. And so we're not disappointed with the 22, we're not disappointed with the 6. And we're going to keep pushing. There's more work to do.

Operator

Your next question comes from Brian Meredith with UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

A couple of questions here for you. First one, Personal Auto. I noticed your outlook underlying margins looks for some deterioration for the rest of the year on auto. I'm just curious why is that? Is it because you're seeing the elevated severities, is that what you're kind of factoring?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

Sure, Brian, it's Michael Klein. No, it's actually not due to that. It's actually pretty consistent with the outlook we gave for the full year and has a lot to do with seasonality in the auto business. So when we gave the outlook for the full year, we said that auto experience would likely be better than the prior year in the first half and worse than the prior year in the second half. And this is really just a reflection of the first quarter rolling off. And now we're just looking at the 9 months versus the 9 months.

Brian Robert Meredith
UBS Investment Bank, Research Division

So you're not seeing any issues with severity or anything?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

We -- when you look at severity, I would say we continue to see some of the same things you're seeing in the industry, physical damage, repair costs continue to be rising, but they have been -- when you look underneath that, you see a little bit of a shift in vehicles towards heavier vehicles and SUVs. You see higher repair costs due to improvements in technology and more technology in the vehicle. So we think that those severity trends sort of are persisting. The good news and we referred to this in our comments, is that frequency has continued to be better than expected and is -- in the quarter was an offset to that and part of the result that we produced in Q1. But, again, the outlook is really just a quarter dropping off and consistent with the outlook that we had for the full year.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then basically going back to the reserve development and business charts on the Childs Victim Act. Is that kind of -- when you think about the charts, are you thinking about kind of on a national basis because of the law change there in New York? Or is it possible that this law in New York legislative action spreads to other states? And could it get worse?

Daniel Stephen Frey
Executive VP & CFO

Brian, so it's Dan. So to be clear, this reaction in the first quarter is to the New York change only, right? So we are setting reserves actuarially and from an accounting standards perspective based on what the law is. We're aware that there are a number of other states that have discussed possible similar legislation on a go-forward basis and are keeping a close eye on those. If more states enact, we would react accordingly as other states react. The one that looks to be sort of in the nearest term potentially ready to go would be New Jersey. We've made an assessment of New Jersey and would expect that to not be anywhere near the magnitude of what we just recognized for New York. But it's an ongoing issue in a number of states that we're keeping an eye on.

Operator

Your next question comes from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Follow-up to Brian's question on personal lines. So auto results continued to outperform and that feels to be like an industry-wide trend. Maybe you can comment on if you expect the competitive environment there just to naturally get tougher? And then switching to the other side of personal lines, homeowner's results on underlying basis are deteriorating and it seems also be industry-wide trend and pricing does seem to be moving little north there. So I know those -- you guys are mostly a bundled product shop. Maybe you can talk to whether those 2 conflicting trends there? And whether you feel that personal lines can start growing more for you guys going forward?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

Sure, Mike. Again, it's Michael Klein. And I think certainly sort of 2 components there. I will start with the segment, right? We're really pleased with the positioning of the segment. We are growing policies in the segment, growing premium in the segment and really had a terrific start to the year in terms of the total segment. If you look at the pieces, the auto competitive environment, certainly, we compete in that market every day. I think if you use competitive rate filings as the proxy for a level of competitiveness and you look at that data, you see that rate filings in the industry -- the file rate for the industry is down period to period and continues to be lower increases in aggregate than the industry had filed for in the past. The aggregate, I think, 12-month rolling rate increase for the industry now is below 2%. So that could be a proxy for the competitive environment in auto.

We -- and maybe just an additional comment on the outlook. While our outlook is for a higher combined ratio in the next 9 months than the prior 9 months, it's still a target return. So to your point, we're seeking to grow in the auto line. We're executing on marketing, distribution and marketplace execution strategies to do that. And as I said, the production results demonstrate improvements in new business, strong retention, moderating pricing that, I think, is all consistent with that view.

On the home side, again, most of the deterioration in underlying from the first quarter of last year is explained by the treaty. And so that's most of it. If you actually remove the treaty impact from the underlying combined ratio and compare that to history, it's very consistent with our long-run average underlying combined ratio in home. That said, there's some period-to-period volatility there. There is still some pressure in nonweather water loss activity, which we have talked about which is part of why you see RPC rising and why we're focusing on improving RPC as we go forward. But, again, I think we're very pleased with the performance of the property portfolio and the path we're on. And then conversely to the auto outlook that I described, the property outlook, again, mostly just because of the quarterization of the outlook is for better results on an underlying basis in property for the balance of the year sort of going the other away from auto. And when you put those 2 together, you get a better combined ratio outlook year-on-year.

Michael David Zaremski
Crédit Suisse AG, Research Division

Got it. It's helpful. I did see the improved commentary in the outlook. One follow-up on commercial pricing. Thanks for the insights on Commercial Auto and Property driving the pricing increases. But I was wondering on workers' comp pricing, is that getting quarter-over-quarter more or less negative?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Mike, this is Greg. Yes, we really aren't going to share workers' comp on an individual line in the price and just because it is such a sensitive dynamic of how we compete in the marketplace. We have in the past I've shared, and it's pretty evident that there's been very good loss results in workers' comp and there has been reductions in the market. So if you look at our RPC at 6%, clearly ex workers' comp, we'd be higher than that, and we really aren't going to disclose the individual product lines going forward.

Operator

Your next question comes from Larry Greenberg with Janney Montgomery.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

For Michael, again, on auto. And if you answered it, I apologize. But is written premium -- written auto pricing keeping up with loss trend?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

I don't know if I spoke specifically to written keeping up with loss trend, but certainly, on an earned basis, we continue to expand margins. And on a written basis at 5 points of RPC, I would say we're continuing to expand margins on both basis. I didn't speak specifically to that, but we feel good about the margin expansion. And again, the outlook is for auto to produce target returns.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Great. And then in Bond & Specialty, I know the PYD jumps around quite a bit there. But it was modest this quarter. Is there anything changing on that front?

Thomas M. Kunkel
Executive VP and President of Bond & Specialty Insurance

This is Tom, Larry. So the nature of the PYD in Bond & Specialty is it that it can be a little lumpy. If you look at our Surety business over the years, you can see we've had some really good returns. And as our losses were continuing to come down, we, of course, tried to accurately account for that in our initial year loss PIKs. So that the majority of the results would hopefully be shown in that first calendar year. So I think what you've seen over time is an improved initial loss year PIK. And maybe less headroom in some of those areas for that stuff to move up. All that said, in our Management Liability businesses there's been a little bit of that too as we look to recognize things in that initial year as best we can. So I think, other than that no other great underlying dynamics that would explain that.

Operator

Your next question comes from Meyer Shields with KBW.

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

Going back to the pricing dynamics within Business Insurance. Is there a difference between what you're seeing in what we call standard lines versus specialty?

Alan David Schnitzer
Chairman & CEO

Yes, we're sort of looking at. Greg, you want to take that?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. Meyer, are you referencing specialties like E&S?

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

Yes.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. I mean that depends so much on your product mix. I mean we're predominantly in the E&S business much more from a property perspective. So the answer would be yes, for us given some of the catastrophic pressures we've seen on property over the last 2 years.

Meyer Shields

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

Okay. And then more broadly I think this is mostly a question for Greg. We've seen in -- at least the U.S. treasury, the pretty significant decline in interest rates from mid-November. How long does it take before that is reflected in pricing?

Daniel Stephen Frey
Executive VP & CFO

Meyer, it's Dan. So we'll consider that in pricing as we do a number of factors. It's one of the hundred things that go into the process of determining what's the right price. We've seen the 10-year treasury move up and down, but it's been sort of plus or minus 0.3, not more than 0.2 or 0.3 per quarter over the last 4 or 5 quarters. So not a dramatic impact. It does eventually get baked into what we think we need for price to generate the returns that we're trying to generate because clearly, that's a component of return, but it hasn't had a dramatic impact at this point.

Alan David Schnitzer
Chairman & CEO

Yes, also I'd add that -- we bifurcated a little bit. We think about the return on the float and that we adjust periodically to reflect market rates and then separately we think about the capital on the balance sheet that supports the risk and that, that really reflects the overall portfolio return.

Operator

Your next question comes from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I was reading outlook as everyone else was and I think it's not too different from what it said before. Despite the improvement you're getting on rates it's really the cessation of large losses in non-cat weather that will drive margin improvement for the remainder of the year. Am I reading that correctly?

Alan David Schnitzer
Chairman & CEO

If you're looking at Business Insurance, yes, that's right. It's large losses returning to a more normal level.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so can we say with the close approximation that pricing and loss cost trend are in harmony right now, I guess, is your view?

Alan David Schnitzer
Chairman & CEO

I would say that's about right on an earned basis. On a written basis, we're probably doing little bit better than that.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And just the same sort of reflections on the homeowner's business as well?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

Yes, Josh, this is Michael. I would say on the homeowner's business, we're working to move RPC north. So we're not quite there on a written basis yet, but we're close.

Operator

Your next question comes from Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

I guess 2 quick follow-up questions. The first question goes back to the discussion on expense ratio. In your 10-K letter, you talked about 40% of the business flowing through these business centers and BI. And I was curious if maybe you can talk about where does that sort of net out to? Is that an eventual improvement in expense ratio, or do the savings get reallocated somewhere else?

Alan David Schnitzer
Chairman & CEO

Amit, thanks for that question. Productivity and efficiency is a strategic priority across the entire place in each of the businesses, in the claim organization and virtually everything we do. And so some of what Greg's achieving through the business centers contributes to that. It also contributes to other strategic objectives specifically making sure that we're providing great experiences for the brokers that we're doing business with and the customers that we're serving so it all goes to that point. The savings -- whatever productivity and efficiency we generate there and frankly, anywhere else, really for us is, we look at operating leverage or enhanced operating leverage as an opportunity. And as we said before, we'll take those dollars and we'll reallocate them over time as we see fit. We can let it fall to the bottom line and you'll see it in the expense ratio. We can reinvest it in strategic initiatives that we think are going to drive shareholder value. Or if we want to or need to we can decide that we want to put into pricing without compromising our return objectives. So I know you've heard us say that a lot, but what's important to us about enhanced operating leverage is having that flexibility.

Amit Kumar
The Buckingham Research Group Incorporated

Now that you answered that question, the only other question I had is maybe for Michael, switching gears to personal auto. I know you answered several questions on what we saw on the loss cost trend. But can you sort of opine where do you see the trajectory from here on frequency and severity?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

Sure, Amit. It is Michael. The short answer is when we look at our sort of long-term trend, PIK, it remains relatively consistent. And I would say talking about frequency and severity a little bit separately, generally what we see on the severity side is quarter-to-quarter fluctuations that sort of bounce around our long-term expectation. So again, we see the severity pressure that you see in industry statistics around parts and liability cost and those things. But feel like our long-term assessment on severity reflects those. On the frequency side, again, we talked about the first quarter underlying being driven by pricing earning in excess of trend inclusive of both sort of our assumption and a better-than-expected result in the quarter. And we do see for a number of quarters in a row now frequency coming in better than I think we or the industry had expected it, and it's something we're keeping an eye on and thinking about how to factor in.

Amit Kumar
The Buckingham Research Group Incorporated

And is that -- with the historical -- frequency at a historical low, does that trend line continue or do you get a sense that probably this is as good as it gets?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

I think it's a great question. I think if you take a longer-term look at frequency in auto, you see a bit of a secular decline and that's the piece that we're trying to figure out as are we returning to sort of that long-term downward trend in frequency or not. There's been a lot of commentary and discussion around -- in the marketplace and in other places about what could be driving it and one of the things people point to is safety features on vehicles. I think it is important to point out that a number of the features that folks like the Insurance Institute for Highway Safety point to as the ones that could have the most impact still have relatively low penetration in the fleet, right. Things like automatic emergency braking less than 5% of the cars on the road have it. So again, I think the jury is still out on whether there is a shift in long-term frequency trend but those are some of the things we're watching in addition to miles-driven employment and the other factors that we've talked about.

Operator

Your next question comes from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

My first question, I think Elyse took a stab at it, is in Business Insurance. Can you talk about the impact from the nonweather large losses this quarter? How it compared to the prior year?

Alan David Schnitzer
Chairman & CEO

Beyond -- the international, is that what you're referring to Yaron?

Ujjwal Kumar
Goldman Sachs Group Inc., Research Division

Well, I think last year, you just talked about large losses, nonweather losses, not necessarily referring to international.

Alan David Schnitzer
Chairman & CEO

Yes, the large loss activity in domestic BI has been relatively flat, I would say.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

I gave you in my comments here the non-cat weather was a little more than 0.5 point, the good guy relative to the first quarter of 2018.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Right, right. I mean I think in 2018, you talk about roughly, 60 basis points of non-cat weather and another 60 basis points or so of other large, so it sounds like it couldn't really...

Alan David Schnitzer
Chairman & CEO

Yes, we're also slicing the bone probably a little bit -- we're heading towards slicing the bone probably a little bit thinner than we'd like too. And I think most of the impact you're talking about was quarters 2 through 4. And so my answer relatively flat was Q1 to Q1. But if you go back and look at your commentary from last quarter I think you'll hear us say that the improvement was primarily going to be in quarters 2 through 4.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That's helpful. And then Greg, I think you'd said that in addition to pricing and also taking some terms and conditions, actions in large property. Can you give maybe a few examples of where the terms and conditions are improving or how they're improving?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Sure. Yes, coming off those 2 catastrophic years, there's obviously been some dislocation in the marketplace in just an opportunity for more risk sharing and that typically comes with terms and conditions. So you can think about sublimits on flood and earthquake, deductible shifting from a fixed component to more of the percentage certainly in the geographic exposed areas but that's something we're constantly looking at. With all that said, we look at our National Property business on account-by-account basis. So that's a generalization and we are, again, looking at each account and looking at the risk/reward of those accounts. And if there's an opportune time to have some risk-sharing like there is in the property segment right now, then we go about and achieve that.

Operator

Your next question comes from Jeff Schmitt with William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Question about your Umbrella book. Heard in the market that there's an uptick in large losses there, mainly due to the litigation environment higher jury awards, higher settlement amounts. Is that something you're seeing at all?

Alan David Schnitzer
Chairman & CEO

Let me -- let's stay away from Umbrella. Let me just respond to social inflation more broadly. So I -- this is probably an oversimplification. But I think, about social inflation broadly in 3 buckets. I think about legal decisions, I think about plaintiff activity and I think about jury awards. From a legal decision's perspective, certainly, at the federal level, over the last couple of years, I'd say that's probably been on balance an improvement. If you look at jury awards, I would say a little bit more volatile, a little bit more unpredictable. And broadly speaking when it comes to plaintiff activity, the plaintiff's bar I would say we have seen a more aggressive plaintiff activity. Now that was certainly a big driver of the Commercial Auto charge that we took last quarter for example. We think about the liability side of C&P for example, but when you get into the larger end, when you get into Umbrella when you think about the large end of GL, when you think about Management Liability, those are broadly speaking coverages where there's already a lot of litigation. Generally, everybody is represented in those cases and so those have always been reasonably active in terms of litigation. It's really at least so far on the smaller end where we've seen more activity.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Yes, and I guess, I was curious I mean it's been more acute obviously in Commercial Auto than other lines hearing they're starting to tick up in Umbrella. I guess, is that spreading or I mean it sounds like you're saying it's a little bit more broad-based already?

Alan David Schnitzer
Chairman & CEO

No. I mean we're certainly seeing it. The phenomenon you're identifying could vary from company to company based on mix of business too, right. The net lines you put out, the types of risk. I mean you got to remember, we are -- we're a Middle Market Main Street business for the most part. I mean obviously we do have a National Accounts business, a National Property business. And we do write public company liability on Management Liability side but, by and large, when you think about Travelers, it's a Main Street middle market business. So it could be a mix difference for us relative to others.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

And just one quick one on the homeowner's book looking at the underlying loss ratio up 100 basis points, half of that looks to be about related to the new cat treaty. But this remainder of 100 basis points after being up a lot last year, is this -- is that pretty much all nonweather water losses that you're seeing? Can you speak to that more? Is that state-specific? Is this older homes? I mean, why is this popping up now for the industry?

Michael F. Klein
EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics

Sure, Jeff. Just starting with the premise of the question I would say the treaty impacts a little more than you're estimating there and therefore, the other impacts are a little bit less in the underlying. But then underneath that we, again, as I mentioned we do continue to see some nonweather water loss pressure. And I would stay consistent with what we've talked about in the past we've sort of sliced and diced that by geography, by type of home, by age of home. We've looked at -- we've seen commentary around the first floor, second floor, so we've looked at it by type of construction. And what we tend to see is these nonweather water losses are up sort of consistently across most of those dimensions. So there's not a thing we point to, which is why our strategy to address it has been to seek to increase price. So that be our view on the trend. But the underlying in the quarter does reflect some continued pressure there. Again, we expected some continued pressure there and have built a pricing strategy to address it. So that's our take on it.

Operator

There are no further questions at this time. I will now turn the call back over to the presenters.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Great. Thanks, everyone, for joining this morning and as always, if you have any follow-up questions please get in touch directly with Investor Relations and thanks. Have a good day.

Operator
This concludes today's conference call, you may now disconnect.