S&P Global
Market Intelligence

The Travelers Companies, Inc. NYSE:TRV

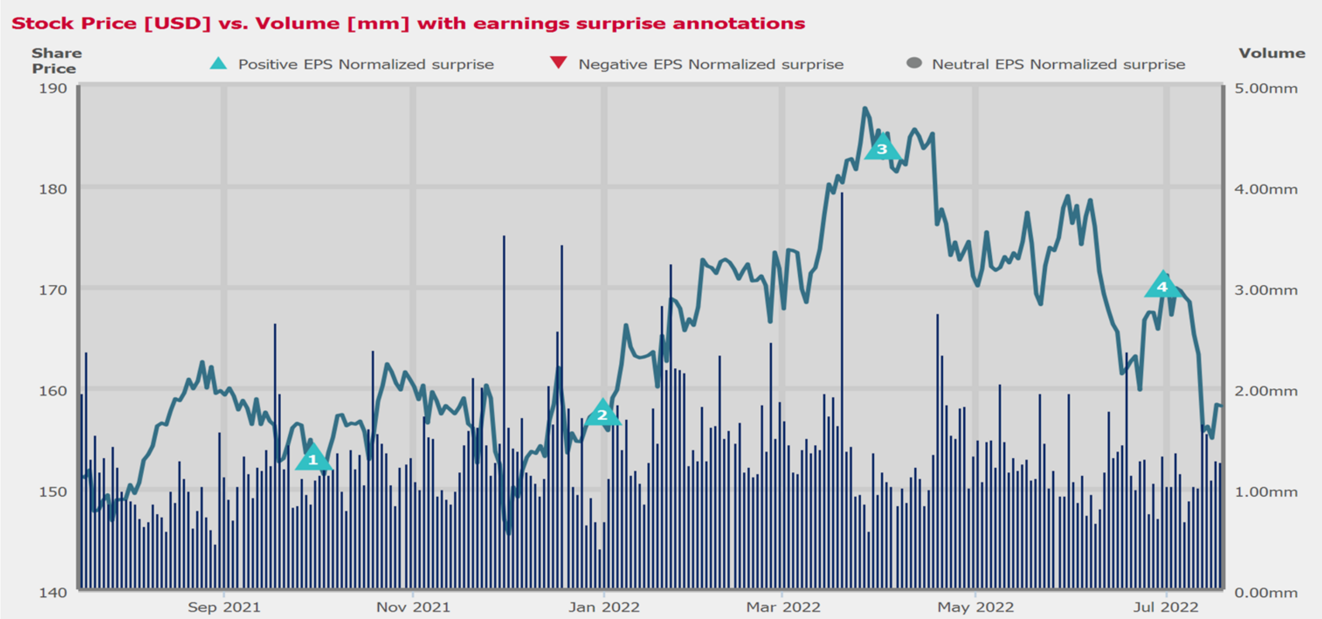
FQ2 2022 Earnings Call Transcripts

Thursday, July 21, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.97	2.57	▲30.46	2.57	13.12	NA
Revenue (mm)	8291.89	8317.00	▲0.30	8459.27	33328.96	NA

Currency: USD
Consensus as of Jul-18-2022 11:18 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	1.93	2.60	▲1 34.72 %
FQ4 2021	3.81	5.20	▲2 36.48 %
FQ1 2022	3.62	4.22	▲3 16.57 %
FQ2 2022	1.97	2.57	▲4 30.46 %

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Abbe F. Goldstein
Senior Vice President of Investor Relations

Alan David Schnitzer
Chairman & CEO

Daniel Stephen Frey
Executive VP & CFO

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

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

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Executive VP & President of Personal Insurance

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the second quarter results teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on July 21, 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 second 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, CFO; and our 3 segment presidents: Greg Toczydlowski of Business Insurance, Jeff Klenk of Specialty Insurance and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take your questions.

Before I turn the call over to Alan, I'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 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 in the Investors 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. Thank you for joining us today. We are pleased to report a very strong second quarter, including an excellent bottom-line result, double-digit top line growth in all 3 segments, strong and improved profitability in our commercial business segment, progress addressing the rental headwinds facing the personal insurance industry, a meaningful contribution from net investment income and another quarter of progress on a number of important strategic initiatives.

Core income for the quarter was $625 million or $2.50 per diluted share, generating core return on equity of 9.3%. These results were driven by record net earned premiums of $8.3 billion, up 9% over the prior year quarter and a solid underlying combined ratio of 92.8% -- environmental issues impacting insurance industry, consolidated results reflect the benefit of our diversified portfolio of businesses.

For the 6 months, core -- was ahead of the prior year at $1.66 billion, an excellent first half result. We're particularly pleased with the continued strong underlying results for our commercial businesses. Looking at the 2 commercial businesses together, the combined BI-BSI underlying combined ratio of 2.7% for the quarter, an improvement of 1 point from the prior year quarter.

Results in Personal Insurance were impacted by elevated severity in both auto and home. As you'll hear from Michael, we're on the right track in addressing the environmental issues. Excellent operations together with our balance sheet enabled us to grow adjusted book value per share by 8% over the past year after making important investments in our business, turning excess capital to shareholders.

During the quarter, we returned $725 million of excess capital to our shareholders, including $500 million of share repurchases.

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 $9 billion with, as I mentioned, each of our 3 segments growing double digits.

In Business Insurance, net working premiums grew by 10%. Renewal premium change was 10.3%. That's the fourth highest quarterly renewal premium change going back more than 15 years. Renewal premium change included renewal rate change of 4.9%. Both measures moved up from the preceding quarter.

Retention remained very strong at 86%. We have a high-quality book of business and keeping it as a priority. Also, as we've shared previously, strong retention is a sign of a rational and stable pricing market.

Underneath the headline numbers, execution in terms of rate retention at a segmented level was excellent. In Bond & Specialty Insurance, net written premiums increased by 13%, driven by excellent production in both our Surety and Management Liability businesses. Surety net written premiums were up 24%. Management Liability premiums were up 7% and driven by a rental premium change of 8.8%, retention that increased to a very strong 88% and strong new business.

In Personal Insurance, net written premiums increased by 12%. We know a premium change was meaningfully higher, both year-over-year and sequentially in auto and homeowners as we continue to execute to improve returns. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

Turning to investments. Our high-quality portfolio generated net investment income of $595 million after tax for the quarter, reflecting reliable results from our fixed income portfolio and another quarter of strong returns from our nonfixed income portfolio.

Speaking of investments, given the potential for a difficult economic environment ahead, we've included on Page 19 of the webcast presentation a slide breaking down the composition of our investment portfolio. Consistent with our long-time focus on risk-adjusted returns, we're underweight compared to most in terms of risk assets as a percentage of shareholders' equity.

Our investment philosophy has served us well over many years and through many different market cycles. It starts with asset allocation. More than 90% of our $80 billion portfolio is invested in fixed income securities. That sets us apart.

Inside that, we also have relatively high allocation to municipal bonds where the default rate has been meaningfully lower as compared to corporate bonds. Even within munis, we're discriminating. We're invested in only about 1,000 municipal issuers out of an estimated 80,000. Virtually all of our municipal bond holdings are rated AA- or higher.

Our corporate bond portfolio is curated with the same level of discipline. Virtually all of it is investment grade. And within that, we are meaningful overweight AA and A credits and meaningfully underweight BBB credit.

During times of economic distress, credit quality is key and in the sometimes foreseeable and sometimes unforeseeable lead up to those times, when spreads widen and volatility increases, the market doesn't allow for a graceful repositioning of a portfolio. So we stay true to the strategy that has served us well over decades.

Our level of actual impairments over a long period of time has been remarkably low. In 2008 and 2009, with the Moody's default percentage reached 2% to 2.5%, our default rate never reached 1%. In the COVID charge turmoil of 2020, when the Moody's default rate at 1%, our portfolio default rate was around 10 basis points.

And given the credit quality of our portfolio, the fact that we hold the vast majority of fixed income investments to maturity, decreases in market value due to rising interest rates as the market is experiencing now have little to no impact on how we run the business or how we view the strength of our capital position.

In terms of our investments in alternative asset class, we don't reach for yield. Our private equity portfolio is well diversified across strategies, sectors and general partners. Our own real estate is high quality and entirely unlevered. And we have little in the way of hedge funds and higher risk assets.

Although we see potential short-term headwinds from recent declines in the equity markets, we also see near-term and potentially ongoing tailwinds from higher interest rates that will benefit our returns going forward. You'll hear from Dan shortly about how the recent rise in interest rates positively impacts our outlook for fixed income NII.

Like everything we do, all starts with our tower. We have a world-class investment team that is responsible for executing on our investment philosophy. Those with position-making authority have worked with us and with each other for an average of around 20 years. That reinforces the long-term perspective we bring to our investment portfolio.

I'm always grateful for their excellent work. But particularly at times like this, I'm reminded of the wisdom of our approach. It has contributed to a long history of industry-leading returns and industry-low volatility.

To sum things up, building on our excellent results in the first half of the year, we're confident about our outlook, benefiting from years of strategic investments as part of our performance transform called action, guided by our decades of experience successfully executing in a variety of macroeconomic conditions and supported by an outlook for improving fixed income returns. We remain well positioned to deliver industry-leading returns and shareholder value over time.

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 second quarter was $625 million and core return on equity was 9.3%. These results were very strong, especially considering the high level of cat losses, which is typical seasonality for us in the second quarter. While core income declined from the prior year quarter, remember that the prior year quarter included a very benign level of cat losses and record returns from the non-fixed income portfolio.

Our second quarter results include $746 million of pretax catastrophe losses. And while cats were higher year-over-year, they were not outsized relative to our modeled estimates for the second quarter. On a year-to-date basis, we've accumulated $935 million of qualifying losses toward the aggregate retention of $2 billion on our property aggregate catastrophe XOL treaty.

Our after-tax underlying underwriting gain of $444 million was down slightly from the prior year quarter. We generated record levels of earned premium and reported an underlying combined ratio of 92.8%. 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.

At the same time that we continue to make significant investments in strategic initiatives, the second quarter expense ratio improved 70 basis points from last year to 29% driven by the combination of our focus on productivity and efficiency and strong top line growth. We had been expecting the full year expense ratio to be around 29.5% but now expected to be more like 29% this year, getting down to that level a little sooner than we had expected.

Turning to prior year reserve development. We had total net favorable development of $291 million pretax in the second quarter. In Business Insurance, net favorable PYD of $202 million was driven by better-than-expected loss experience in workers' comp across a number of accident years and favorable movement in CMP partially offset by an increase in general liability reserves, including for runoff operations.

In Bond & Specialty, net favorable PYD of $73 million was driven by better-than-expected results in Fidelity and Surety. Personal Insurance had $16 million of net favorable PYD with modest movement in both auto and home.

After-tax net investment income decreased by 13% from the prior year quarter to $595 million. We were pleased that returns in our nonfixed income portfolio were strong, but as expected, they were less favorable than last year's record quarter. Fixed maturity NII was again higher than in the prior year quarter as the benefit of higher invested assets more than offset the impact of lower average yields during the quarter.

With interest rates having moved higher during the second quarter, we are again raising our outlook for fixed income NII including earnings from short-term securities to approximately $470 million after tax in the third quarter and then to $495 million in the fourth quarter.

New money rates as of June 30 are about 100 basis points higher than what is embedded in the portfolio. So NII should continue to improve as the portfolio gradually turns over and as the portfolio continues to grow. Recall that results for our private equities, real estate partnerships and hedge funds 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 down significantly during the second quarter.

Through the first half of the year, the S&P 500 was down 21% with about 3/4 of that decline occurring in Q2. Accordingly, we expect that to impact our nonfixed income results next quarter.

Turning to capital management. Operating cash flows for the quarter of $1.4 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 $1.6 billion. Interest rates increased and spreads continued to widen during the quarter. And as a result, our net unrealized investment loss increased from $1.4 billion after tax at March 31 to $3.8 billion after tax at June 30.

As we've discussed in prior quarters, the changes in unrealized investment gains and losses generally do not impact how we manage our investment portfolio. We regularly hold fixed income investments to maturity. The quality of our fixed income portfolio remains, as Alan discussed, very high. And changes in unrealized gains and losses have little impact on our statutory surplus or regulatory capital requirements.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $112.37 at quarter end, up 2.4% from year-end and up 8.2% from a year ago. We returned $725 million of capital to our shareholders this quarter comprising share repurchases of $500 million and dividends of $225 million. We have approximately $3 billion of capacity remaining under the most recent share repurchase authorization from our Board of Directors.

It's also worth noting that in June, we early renewed our $1 billion credit facility for a 5-year term. While the size of the facility and the group of participating banks was unchanged, we reduced our annual cost of the facility primarily through lower undrawn pricing while also improving other terms and conditions. In a time of rising borrowing costs and tightening credit terms, our financial strength, strong operating performance and consistent fiscal discipline still enable us to obtain very favorable terms. You can see all the details in our 10-Q.

Similarly, during the second quarter, we issued a new 4-year cat bond, providing uninterrupted coverage upon the expiration of our prior cat bonds. The new bond, Long Point Re IV Ltd increases the amount of coverage available to $575 million. The recently expired cat bonds had provided $500 million worth of coverage. Specific terms are shown on Page 20 of the webcast presentation, and we're very pleased with the results.

Here again, our disciplined underwriting and consistent outperformance in the property line enabled us to increase our coverage and attain a reasonable rate online at a time when some parts of the market are finding reinsurance capacity harder to come by.

Also on Page 20 of the webcast presentation, you'll find a summary of our July 1 reinsurance renewals. The structure of our main cat reinsurance program is generally consistent with the expiring program. And while as expected, we did see some price increase. It was in line with the price increases we're obtaining on the direct property premiums we're writing. So there's no adverse impact on margins.

It's also worth noting that we increased the coverage under our Northeast property treaty by $150 million to $750 million, part of $850 million, above the same $2.25 billion attachment point.

So to sum it up, we had an excellent quarter with double-digit premium growth in all 3 segments, solid underwriting profitability and an improved outlook for fixed income NII, all of which bodes well for our future returns.

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 continues to have a strong 2022 with another terrific quarter in terms of both financial results and execution in the marketplace. Second quarter segment income was $666 million, up about 4% from the prior year quarter driven by higher net favorable prior year reserve development and higher underlying underwriting income.

The quarter's very strong underlying combined ratio of 92.4% was about 1 point better than the second quarter of 2021 driven by improvement in the expense ratio resulting from the combination of the leverage from higher earned premiums and the benefits of our strategic focus on productivity and efficiency. The underlying loss ratio was about flat to the prior year quarter, reflecting the benefit of higher earned pricing as well as elevated property loss activity in the current quarter.

Net written premiums were up in all domestic markets and lines of business, reaching $4.4 billion for an increase of 10%. Premiums benefited from strong renewal premium change and retention, both of which were once again historically high.

Turning to domestic production for the quarter. Renewal premium change of 10.3% was once again exceptionally strong. RPC includes renewal rate change of 4.9%, which was up 0.5 points from the first quarter and exposure growth of almost 6%. Retention was very strong at 86%. New business premium was about $500 million for the quarter.

We're pleased with these production results and our strong execution in the marketplace. Given our high-quality book as well as several years of segmented rate increases and improvements in terms and conditions, we're thrilled to continue to produce historically strong retention levels. The rate gains we achieved in the quarter reflect deliberate execution given the significant improvements in profitability across the portfolio while continuing the price for the persisting headwinds and uncertainty in the current environment.

As always, we will continue to execute our granular pricing, careful management of deductibles, attachment points, limits, sub-limits and exclusions to achieve profitable growth. As for the individual businesses, in select, renewal premium change was strong at over 9% while retention of 83% was up 3 points from the prior year quarter.

New business was up 8% from the prior year quarter driven by the continued success of our BOP 2.0 product. In addition to contributing to growth, the new BOP product is also contributing to improved margins in this business through industry-leading segmentation. Overall for Select, we're pleased with the improvement in profitability levels as well as the continued momentum in new business growth.

In Middle Market, renewal premium change remained very strong at over 10% while retention remained historically high at 88%. Underneath the RPC of 10%, renewal rate change of 4.8% was up 0.5 point from the first quarter while exposure growth was nearly 6%.

To sum up, Business Insurance had a terrific first half of the year. We continued to deliver strong results while investing in capabilities to enhance our data and analytics leadership, digitize the commercial transaction and develop sophisticated and relevant products to drive profitable growth for the future.

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 had a terrific quarter on both the top and bottom lines. Segment income was $228 million, up 22% from the prior year quarter driven by a higher level of net favorable prior year reserve development and higher underlying underwriting income. The underlying combined ratio was an excellent 82.2%, an improvement of 1.2 points from the prior year quarter.

Turning to the top line. Net written premiums grew a very strong 13% in the quarter to a record high with contributions from all our businesses. Domestic Surety posted exceptional 24% growth in the quarter driven by larger average bond premiums.

In domestic Management Liability, we are pleased that we drove a 2-point improvement in retention while renewal premium change of 8.8% remains strong following 6 straight double-digit quarters. We're also pleased that we increased new business 16% from the prior year quarter.

So both top and bottom-line results for Bond & Specialty were terrific this quarter, reflecting 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. For the second quarter, Personal Insurance reported a combined ratio of 111%. While it's not unusual for us to generate an underwriting loss in the second quarter, it typically has the highest weather-related loss activity, this quarter's results were also impacted by the inflationary pressure that we and the industry have been experiencing for the past few quarters.

In total, the combined ratio increased 11.5 points compared to the prior year quarter and included a higher underlying combined ratio, higher catastrophe losses and lower favorable prior year reserve development. The 5-point increase in the underlying combined ratio reflects elevated loss severity in both automobile and homeowners and other, and in comparison to a low level of automobile losses in the prior year quarter.

Catastrophe losses were nearly 5 points higher than in the prior year quarter but not out of line with our assumption for second quarter catastrophes. Net written premiums for the quarter grew 12% driven by higher renewal premium changes in both domestic automobile and Homeowners & Other.

In automobile, the second quarter combined ratio was 104.3% and the underlying combined ratio was 101.8%, an increase of about 10 points relative to the prior year quarter. The increase reflects elevated vehicle replacement and repair costs. To a lesser extent, the increase is also a result of a comparison to a prior year quarter that still reflected lower loss -- lower claim frequency related to the pandemic.

Our primary response to the environmental challenge of inflation is higher pricing. We are pleased with our actions to increase rates over the past few quarters and remain confident in our ability to achieve further increases. As we have indicated in past quarters, it will take some time for rate actions to fully earn into our results.

In Homeowners and Other, the second quarter combined ratio was 118% and included 29 points of catastrophes primarily from severe wind and hail events across several regions in the U.S. The underlying combined ratio for the quarter was 90.3%, comparable to the prior year quarter. We continue to experience loss severity related to a -- higher loss severity related to a combination of labor and material price increases, but that was largely offset by various items, including a comparison to a prior year quarter that included elevated non-weather losses as well as the current quarter benefits of earned pricing.

Turning to quarterly production. We continue to make excellent progress in achieving pricing increases. For domestic automobile, renewal premium change was 6.3%, up a full 3 points from the first quarter of 2022. We continue to increase renewal premium changes and expect RPC to reach double digits by the fourth quarter.

For domestic homeowners and other, renewal premium change increased about 1.5 points from the first quarter to a record high of 13.5%. The increase in renewal premium change was from both higher insured values and increased rate.

While our primary focus is on improving profitability, we're not distracted from continuing to invest in capabilities to sustain our success. For example, in the quarter, we introduced new artificial intelligence-enabled aerial imagery to enhance our property underwriting and risk selection while simplifying the quoting process for agency customers. This is just one example of how we continue to advance our sophistication and risk expertise as part of our innovation agenda.

With our focus on performing -- on both performing and transforming, we remain confident in our ability to improve profitability over time while continuing to build the business for the future.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thank you, and we are ready to open up for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess first question on auto, for personal auto. It feels like your rate activity has been a little bit later to take hold than peers and maybe still a little bit below loss trend. I just wanted to see if you agree with that. And then if so, kind of 2-part question of that. Just how do you view your profitability of the current book in auto? You're taking on some good new business there. So how is the profitability of the current book?

And then I guess just -- we've seen some actions from others in prior period development. And I guess just confidence that that's not going to be the case for you guys.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure. So I'll take the rate activity question. This is Michael Klein, and then Dan will probably talk about prior period development.

So Michael, I think we've talked about rate pretty much every quarter for the last 3 or 4. As I said in my prepared remarks, we're pleased with our progress. There are certainly some peers who have reported bigger headline rate numbers than we have. Although when we look at the overall marketplace and compare our rate filing activity and our rate levels -- and our rate increase levels with the broader marketplace, we're largely in line with the overall industry, if not a little bit ahead of the industry average.

Again, there's a couple of peers in particular that have talked about bigger headline numbers than we have. But in aggregate, we continue to be very active in the -- on the rate filing front, continue to incorporate new data into our indications. And as I mentioned, our outlook is we're confident in our ability to continue to increase pricing to the point where we think RPC for personal auto will exceed double digits or get into double digits in the fourth quarter.

So we continue to drive to improve profitability and make progress. And in terms of the new business, the [318] this quarter is up about 6% from the prior year quarter. More of that increase is from RPC now than it was a quarter before. And as you look at the PIF growth, it is starting to decelerate responding to the rate we're putting into the marketplace. So that's sort of the trajectory we're on. And again, the priority is to continue to drive pricing to improve profitability.

Now I'll turn it over to Dan to talk about PYD.

Daniel Stephen Frey
Executive VP & CFO

Mike, it's Dan. So on the PYD question, I guess I'd bring you back to accident years '20 and '21 when we were talking about seeing favorability largely frequency driven but we are seeing favorability in personal auto. We are seeing favorability in commercial auto. We're seeing favorability in non-COVID claims in the workers' comp line. And we said at the time that we were recognizing some of that favorability in our results, but that there was also uncertainty in the environment.

And one of the things we talked about was uncertainty around what the ultimate severity of some of those claims might be. And in PI, we talked specifically about the fact that claims were happening at higher speeds and we were seeing some more severity.

And so we said pretty consistently in 2020 and in 2021 that we were being cautious in our reserving in order to make sure that we were allowing for the additional level of uncertainty that we felt was possible. And so at least so far, the way things are playing out seems to bear that out.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. And Michael, this is Michael Klein again. I just want to add one other comment on the pricing conversation, which is we get a lot of conversation about the headline rate number that people are getting today. It's also important, and we've talked about this in the past, to look back at the history. And our renewal premium change in personal auto never went negative. And we didn't talk about that as much back then when some other carriers had renewal premium change that was negative. So the starting point matters, I guess, is the point that I would add. Thanks for the question.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. Okay. Yes. Perfect. That's very helpful. Second, switching gears -- completely switching gears then on comp. Has there been any change in mix of the type of claims you're seeing recently in comp, either mix by permanent versus temporary or partial sources so that kind of mix change that might in fact impact the closure rates of your claims either faster or slower the past year?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Michael, this is Greg. We haven't seen any real material mix change. Of course, as we went through the pandemic, we had a certain mix of claims. And so as you normalize that, if we look at our claim mix today to pre-pandemic, there isn't any real material change.

Operator

Your next question comes from Alex Scott from Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

I was hoping you could just comment on just the overall outlook for business insurance margins and for further underwriting margin improvement. Certainly, we can look at your renewal rate changes and then we can think about loss costs, which I think you've got to be getting impacted at least some by the CPI inflation that we're seeing. But there's obviously parts that aren't quantifiable for us and we'd just be interested in understanding some of those pieces and how you see it unfolding.

Alan David Schnitzer
Chairman & CEO

Alex, it's Alan. Let me start and then I'll turn it over to Greg. And let me just start with -- we're starting from a pretty good place. The underlying loss ratio and the overall underlying combined in BI is starting at a very good place. And we don't give outlook on those measures. But let me just make a broad comment, which is if you look at where our overall pricing is today, we would say all other things being equal, it's ahead of loss trend.

And so as that earns in, we would expect some improvement from there. Let me just caveat that with all things are never the same. And so this quarter, for example, we're calling out some elevated level of property loss activity. And it was just a couple of quarters ago when we were calling out favorable property loss activity.

So that kind of stuff is always going to be a little episodic. But when we look at the factors that we would consider to be run rate for lack of a better word, and we look at where pricing is and where we think loss trend is, we think the outlook, again, from a pretty good place is positive.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

And for my follow-up question, I think you mentioned higher invest -- sorry, higher insured values when you're talking about the personal lines business. But I'd just be interested on the business insurance side of things. The growth is coming in pretty nicely there as well. We can see the exposure units going up. I mean how impactful are sort of the audits around the insured values for the growth? And how much do you expect that to be helping the top line here?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. Alex, this is Greg. Yes, clearly, our underwriters are looking at terms and conditions and insured values in this environment and constantly trying to get the right insurance to value on the exposure to the right both new business and renewal. And so that's been an active lever very similar to the personal insurance side. That's more on the transactional side.

And on the flow side of Select, we do have an inflationary protection guard that we're actively managing to make sure that, that keeps up with the inflation environment. So very much an active management lever for us on the business insurance side.

Operator

Your next question comes from Greg Peters from Raymond James.

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

The first question I had is around what the market seems to be projecting or anticipating a recession either later this year or next. And I was wondering if you could talk about how you might think business insurance and domestic bond and specialty might perform and where the areas of pressure might be if there is indeed a recession?

And then related to that, I'm just curious as you sort of strategize how you might change your approach to management of the company if this were to come to pass.

Alan David Schnitzer
Chairman & CEO

Thanks for the question. And let me just make a couple of general comments and feel free to follow up if I don't scratch the edge. But in a recession, we're going to do what we do. We serve our customers. We serve our distribution partners. We take care of our communities. We take care of our employees. And so from that perspective, it's business as usual for us.

Now we ensure the output of the economy. So we'd expect some impact to the top line, and that's going to impact everybody. But we're pretty well positioned. The work we've done to improve productivity and efficiency positions us well. And we've got the resources and financial strength continue to make investments in our business without interruption.

In terms of credit sensitivity, as I shared in my prepared remarks, the investment portfolio is very high-quality -- high credit quality, as is our surety business. So I guess the only other point I would make in a recession again, you'd expect some maybe pressure on the top line. But if history is any guide, at least in the commercial businesses, maybe you get some relief on loss trend.

So we run the business for the long term. We say that all the time. So there's really not a lot we need to do differently. And you can just look and see how we perform through various economic cycles over the years, including recession, financial crisis, et cetera. We think we're very well positioned and we'll do just fine.

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

Got it. Well, Dan, in your comments regarding investment income, you talked about the nonfixed income piece. And you mentioned the fact that the market was down, the S&P is down 21% year-to-date. Is it conceivable that the actual marks in this area of your portfolio might turn negative in the third and fourth quarter, considering the dramatic performance of the market?

Or I guess, in a broader sense, versus saying it's just going to be worse, can you just give us some sort of context of what you think it might look like in the second half of this year?

Daniel Stephen Frey
Executive VP & CFO

Yes. I think it's very hard to predict. And we've got a portfolio that is individually underwritten. And so that's why we say it's not going to be perfectly correlated. But directionally, if you see weakness in the equity markets, we'd expect to see at least some slowdown in the level of strength. We have, although rarely, seen negative returns in the alternative portfolio in times of extreme disruption like we did in the first or second quarter of 2020 at the onset of COVID.

But over a pretty short period of time when the markets came back, we got all that back and then some. So we're not really in a position to give a forecast of whether we expect alternative NII to be less robust than it has or how low it might go. But again, we're doing this for the long term. And if you look at our results over a long term, even in really significant downturn for the broader markets, we've done probably better than most.

Operator

Your next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I'm looking to get color on the BI margin. You guys called out higher earned pricing. You also called out elevated property losses. Could I get the impact of both of those on the current quarter?

Daniel Stephen Frey
Executive VP & CFO

Yes. Elyse, it's Dan. So directionally, without going down to a very fine level of reconciliation, we've been talking about in recent quarters, the benefit of earned pricing being somewhere around 1 point. That's not going to change all that quickly. As written premium -- as written price over the last few quarters came down, you'd expect the earned basis to come down, but that takes time to come down.

So that's still sort of the ballpark. And with the margins relatively stable from a year ago, that would sort of imply that the property piece going the other way relative to what we expected was about 1 point.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question. You guys had talked about higher inflation on last quarter's call and said that inflation within Business Insurance was probably in the range of 5.5% to 6%. Did you guys see any movements in your loss trend assumptions in the second quarter?

Alan David Schnitzer
Chairman & CEO

No, Elyse, we didn't. We -- I'll say 2 things. One, the loss activity you saw in the quarter was generally consistent with that. But two, loss trend is something we evaluate over a long period of time. So not typically -- doesn't typically gyrate around in a particular quarter. But I think to be responsive to your question, the loss activity we saw was consistent with what we expected.

Operator

Your next question comes from Ryan Tunis from Autonomous.

Ryan James Tunis
Autonomous Research LLP

Just in BI, how should we interpret the acceleration of written rate from 43 to 49?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Ryan, it's Greg. Yes, I'll give you a little bit of color from the prior quarter. It was broadly based across many lines led by auto, property and our primary GL lines. And our underwriters look at every account that come up for the renewal in that quarter. And they're focused on making sure that they've got the right price to risk, terms and conditions just to get the right rate adequacy.

So in terms of -- on one hand, we feel great about that increase in pricing and returns are in a much better place based on the industry and our pricing over the past few years. But those headwinds that we've talked about, inflation and weather, et cetera, are still out there. So it's a headline number at an aggregate level. Our underwriters are going to continue to be focused on making sure that the accounts that come up renewal have the rate adequacy on it. And that -- hopefully, that gives you a little bit of color for the quarter.

Ryan James Tunis
Autonomous Research LLP

And then for Michael, just curious from a frequency perspective, what are you observing, I guess? It's the summer, gas prices are lower. There's been some discussion of that impacting frequency trends. But just curious sort of like how are you thinking about frequency? What are you seeing right now?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Ryan. Thanks for the question. I would say two things. One, specific to your question on gas prices, and I think we talked about this a little bit last quarter, we don't see huge sensitivity in our miles driven data to gas prices. We actually think employment has a bigger impact on miles driven than gas prices do. So really, the impact of the price upswing we saw 2, 3 months ago and the slight relief we've seen over the last month or so isn't really driving change in driving behavior based on the data we're observing.

And then in terms of frequency, again, I think two comments are important about this quarter. One, second quarter of last year still showed favorable frequency because driving levels were still depressed. And so they'll return towards pre-pandemic normal is a bad guide quarter -- or year-over-year. But in terms of driving behavior and claim frequency, we would say it remains in that space of approaching pre-pandemic normal levels.

Operator

Your next question comes from Meyer Shields from KBW.

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

I guess first question overall. I was hoping you could take us through how you're thinking about medical inflation potentially lagging the really high overall inflation that we've seen broadly and how that impacts loss trend selection?

Alan David Schnitzer
Chairman & CEO

Yes. Meyer, a couple of comments on medical inflation. So given that it impacts long-term lines like workers' comp and GL, you can imagine when we watch it very closely. And two, as we've shared before, we take a very cautious approach to reserving those long-term lines.

Having said that, while medical inflation certainly isn't immune from the broader inflationary environment, the recent trends on the whole continue to be, I'd say, relatively benign. The other thing is you got to make a distinction between medical inflation and the types of inflation that impact loss costs. So workers' comp and GL, for example, are driven by a subset of medical costs.

We're treating workplace injuries. We're treating accidents. We're not treating chronic diseases. And those components of medical inflation that impact workers' cost -- workers' comp and GL are increasing at lower than the headline medical CPI. Also in terms of workers' comp, for example, we've got fee schedules and other medical management practices that mitigate the types of inflation that could impact those loss costs. So there's a little bit of a narrative on medical inflation. Hopefully, that's responsible.

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

No, that is very helpful. And then a quick question for Michael. Within -- specifically on the home side, other than actual rate changes, how do average premiums per policy respond to rising replacement costs?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes, Meyer. So in the home, really, RPC is a combination, right, of operate and those insured values. And so in terms of how they respond, that renewal premium change number that we share with you is a blend of the rate change we're getting on renewals and the impact of increased value.

And I guess just one step deeper into the process. We evaluate replacement cost data on a regular basis and typically update our annual inflation -- our annual increased limit factors, what we call AIL on an annual basis. In this environment, we're actually looking at it more frequently and have actually updated it a second time this year, which is part of why you're seeing that RPC in home continue to rise. And that's why I mentioned in my prepared remarks that the increase in RPC in home is a combination of increased rate and increased limit.

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

Okay. So that sounds like it's broadly margin neutral, if I'm understanding it correctly.

Michael Frederick Klein
Executive VP & President of Personal Insurance

What I would say is both the rate and the increased limit are responsive to the inflation that we're seeing.

Operator

Your next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just first, one quick clarification. Dan, on the business insurance kind of non-cat weather losses in the quarter, you kind of said about 1 point better than last quarter. I think last second quarter, you said it was 150 basis points below trend. Would that imply that this quarter was maybe 50 basis points below typical second quarter?

Daniel Stephen Frey
Executive VP & CFO

No. Brian, if we think about the non-cat property losses that are in underlying last year, we said the -- as you pointed out, last year we said they're about 1.5 points better than what we would have expected in the second quarter. This year, what we actually said that it's about 1 point worse than what we would have expected.

So there was actually a bigger swing in the underlying property losses, I think, north of 2 points. And then there's -- as there are frequently in other quarters, a number of other things, none of which were individually big, think mix, think segmentation that actually benefited the loss ratio in the quarter. And that got us back down to the neutral number.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. That makes sense. And then just one other just quick one. Workers' compensated insurance continue to see a nice improvement in premium growth there. Is that all just exposure growth that you're seeing at this point?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Brian, it's Greg. Yes. For the most part, that is absolutely some of the strong exposure growth. You can certainly relate to the increases in payrolls across the economy. So that's one of the key drivers of that in that line.

Operator

Your next question comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I was looking at the 10-K, and you guys have duly warned us about the variable investment income in the back half of 2022. Obviously, the markets were not so strong in the first quarter this year. I would have thought that the 2Q results would have been weaker. And when I look at you saying, hey, the back half of the year be careful, is there more than a 3-month lag when we think about these things? Do we have any reason to think that 4Q should be particularly weak at this point in time?

Daniel Stephen Frey
Executive VP & CFO

No, Josh, it's Dan. I don't think there's any change to our sort of historical commentary. We say generally, things are on about a 1-quarter lag. Second quarter was pretty strong from an alternative, if you consider it in the context of the broader market. But again, we're not necessarily going to follow that in lockstep. We've got individual investments within the quarter.

Real estate did pretty well. We had some energy holdings that did pretty well. We had some transportation holdings that did pretty well. So it's going to be a function of what's actually inside of our portfolio. And that's really what you're seeing as opposed to any change in the live pattern.

Joshua David Shanker
BofA Securities, Research Division

All right. And then the renewal premium change is obviously a lagging indicator of what you're doing on rates. When you look at the -- I guess for Michael. When you look at the auto book or maybe even auto and the home book and you know what kind of rates you were getting, when do you hope that you are getting rates in excess or at least matching the loss trend? And I guess when do you think that a renewal rate trend will sort of be matching that on the net premium earned line?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. Great question, Josh, and a really hard one to answer in this environment. I mean I think -- there's one conversation we could have around what those numbers are relative to a relatively long-term view of trend. Unfortunately, the environment that we're in and -- you can pick your statistic. I mean it's really a pretty unprecedented environment in terms of loss cost inflation in the personal lines of business. You can look at body work CPI, I think, is the highest it's been since 1980 in low double digits. You can look at shingles prices, lumber prices. The Manheim Used Vehicle Index right, was up 30-plus percent last year and it stayed there.

So it's really hard to put a point on when the rate will exceed loss trend until we fully understand how long this elevated inflation is going to last. And so from that standpoint, that's why our focus really isn't on picking that point. Our focus is on continuing to incorporate the latest data into our pricing and underwriting processes, and continuing to raise rate as we see that evidence of further need.

To your point, and it's a good one, the 6.3 RPC as an example that we reported in auto is the written impact of the rate we've taken essentially over the last 3 or 4 quarters as it hits renewals. And so one important point to make is even if we didn't file for any additional rate, which we are, that number would rise next quarter because we haven't yet seen the full written impact of the rate that we've already gotten filed and approved.

But again, importantly we've gotten -- that rate already in the pipeline that will drive that number higher. And we are continuing to seek additional increases, which will continue to drive that number higher and, again, drive it into the double digits by the fourth quarter of this year, speaking specifically to auto.

Operator

Your next question comes from Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I'm just trying to reconcile your deteriorating underlying loss ratios in both BI and PI on a sequential basis in your premium growth achievement. I mean, is the idea that you're happy with your risk-adjusted returns, so you don't feel like you need to withdraw underwriting capacity just yet? I guess I'm just trying to figure out if you're trying to be more discerning where you're growing from here, even if it's just pockets of your business.

Daniel Stephen Frey
Executive VP & CFO

So Tracy, it's Dan. I'll start. And I think we've done this before. But again, I think there's a reason that we don't look at combined ratio on a sequential basis. And part of that is what you see in the second quarter in particular because whether it's cat losses or underlying property, we expect more activity in the second quarter than the rest of the quarters of the year.

To go back to the comments that Alan was making and that Greg made, if we look at where the underlying combined ratios are and the returns are coming out of 2021, in which we had north of a 13.5% core ROE in the first half of the year this year, that's 12.4% through the first 6 months of the year. We feel like the business as a whole is in a pretty good place. We've got a balanced portfolio. Some parts of the portfolio are going to be stronger than others at certain times. But we're managing the business for the long term. And we're not thinking about withdrawing capacity at this point. We've got plenty of capital. And we think there's plenty of good business in the marketplace to write that's going to serve us well in the long term.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Could you maybe unpack your favorable prior development in specifically within CMP? Was that liability or nonliability? And the reason I'm asking is because you experienced unfavorable development in GL. And I noticed the releases from CMP came from recent accident years, which would make more sense for short tail lines.

Daniel Stephen Frey
Executive VP & CFO

Yes. It's not a big number, Tracy. I'm just not going to break it down any further than that.

Operator

Your next question comes from David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question for Michael on personal auto. Could you talk a little bit about how you're handling closing claims quickly and just claims resolutions? I would think that your book has more preferred business and newer cars that are more complex to repair, which -- it sounds like you guys feel like you're on top of that potential issue. But maybe you could just talk about how you're approaching closing claims in a timely fashion on the auto book?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, David. So I would say yes, we're on top of it. Our claim team is top-notch. They're terrifically talented and capable. And we've got great discipline and process inside the claims organization. They're really just terrific partners in support of the business.

That said, we're not immune from the environmental pressures that you read about and you've seen and heard others talk about. So while we are on top of things and while the way you described our portfolio makes sense, it is taking longer to get parts. It is taking longer to get a time slot in a body shop. That is putting pressure on the length of time it takes to make repair. That is putting pressure on average rental days for nondrivable repairs.

We're doing a lot in really all we can to work with customers to help manage that. One example is being in dialogue with the customer and ensuring, for example, that if their vehicle is drivable, that they wait to take until the shop until we and they have verified the parts of the labor are available. So doing a lot of things to try to manage that. But the length of time to repair on average is extending.

And it's really -- that's one element of the process. Salvage and subrogation takes longer these days for total vehicle availability remains a challenge. I mean those -- we're faced with all those challenges. But I think our claim organization is doing a terrific job of managing and navigating those.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then just a question for Dan. I think you had mentioned that the expense ratio getting down to 29% for the full year, a little bit ahead of schedule. Should we be thinking about a lower expense ratio than 29% as we think about '23 or '24? Or are we -- do you feel like 29% is a good level to operate at going forward?

Daniel Stephen Frey
Executive VP & CFO

Yes, David, we're not going to give '23 or '24 outlook here. I'd just say a couple of years ago, we were talking about being pretty comfortable with the 30. And then a quarter or 2 ago, we were talking about being more comfortable with the 29.5. We're not really setting a target expense ratio. We're managing the business as a whole to overall combined ratio and returns. We're making all the investments that we want to make. What we find is that we've been able to do that inside the still improving expense ratio. I think last quarter, we said we might get down to 29 sometime in the next year or 2 -- another quarter of success. It looks like we'll probably be there this year. I'm not really inclined to give an outlook beyond that.

Operator

And we have time for just one more question coming from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I guess first question for Michael around the loss trends in personal auto. I heard you talk a lot about physical damage. Are you also seeing a bodily injury component there? Because it's something that we've certainly heard from a lot of the other auto insurers as of late. So maybe you could quantify or qualify that?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. Yaron, thanks for the question, and I'll qualify it probably and not quantify it. But similar to the comment I made last quarter, we haven't spiked out bodily injury loss trend as a driver in the sort of year-over-year comparisons and relative to expectation. Not because it hasn't been elevated and not because we haven't seen elevated bodily injury loss trend. But -- and in particular, we've seen elevated inflation in bodily injury. There's been a little bit of favorability in bodily injury frequency, offsetting some of that severity. And we had a pretty healthy assumption around what the bodily injury loss trend was going to be. And so it just hasn't jumped out as a delta relative to our expectation. But that doesn't mean we don't see pressure. It doesn't mean we're not observing it. It just means it's not a significant difference from what we had anticipated.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And then -- and this is probably a broader question maybe for Greg or for Alan. You guys are essentially the insurer of the U.S. economy, if you will. And with all this talk about a potential recession, fears of recession, is there any indicator that you're seeing in your conversations with clients today that would lead you to see that actually materializing? And if so, are there specific sectors or industries that you're seeing maybe pressure emerging in?

Alan David Schnitzer
Chairman & CEO

Yaron, I'd say not yet. The business underlying fundamentals we're seeing from our customers are strong. I think the economic -- the macroeconomic data you see confirms that as the time continues to increase interest rates in an effort to bring down demand, I think we're all reading those tea leaves and imagining it's coming. But we're not seeing it in our data, not any significant degree.

Operator

I will turn the call back over to Abbe for closing remarks.

Abbe F. Goldstein

Senior Vice President of Investor Relations

Thank you very much. We appreciate everyone joining us today. And as always, if you have any follow-up, please feel free to reach out directly to Investor Relations. Thanks.

Operator

This concludes today's conference call. You may now disconnect.