S&P Global
Market Intelligence

The Travelers Companies, Inc. NYSE:TRV

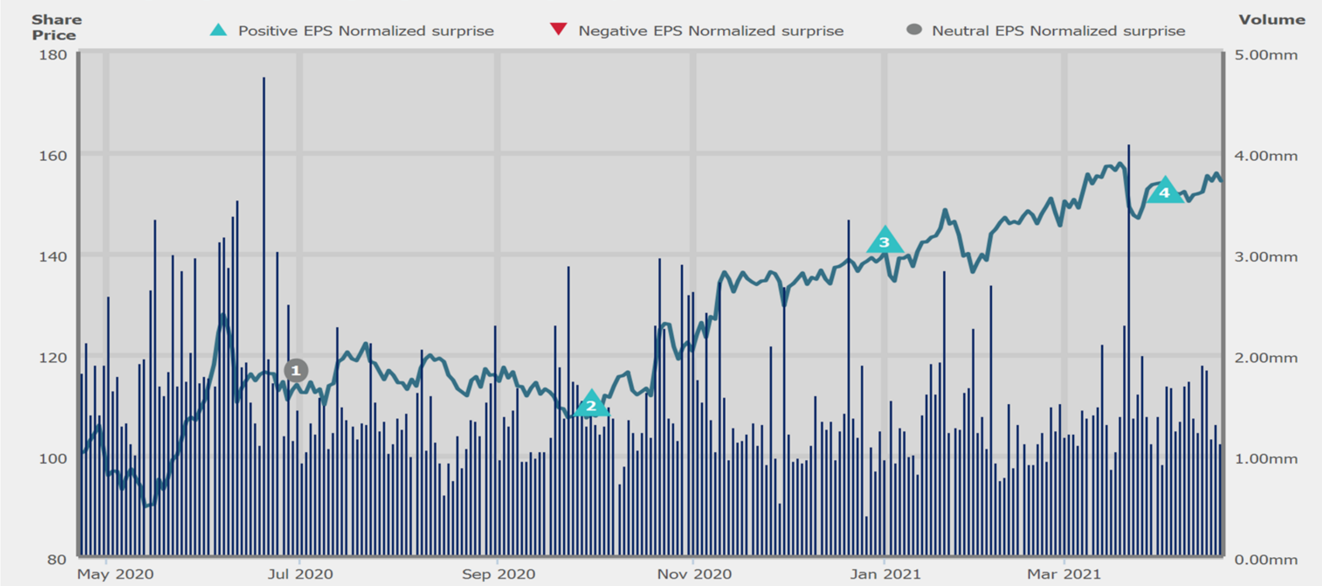
FQ1 2021 Earnings Call Transcripts

Tuesday, April 20, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.40	2.73	▲13.75	2.04	10.26	NA
Revenue (mm)	7496.21	7386.00	▼(1.47 %)	7465.80	30717.00	NA

Currency: USD
Consensus as of Apr-20-2021 5:27 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	(0.20)	(0.20)	NM
FQ3 2020	3.04	3.12	▲1 2.63 %
FQ4 2020	3.15	4.91	▲2 55.87 %
FQ1 2021	2.40	2.73	▲3 13.75 %

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EXECUTIVES

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

Michael Frederick Klein
Executive VP & President of Personal Insurance

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

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Thank you for standing by, and welcome to the Travelers First Quarter 2021 Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded, Tuesday, April 20, 2021. [Operator Instructions] Thank you.

I would now like to hand the conference over to Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, please go ahead.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to Travelers' discussion of our first quarter 2021 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our 3 segment Presidents: Greg Toczydlowski of Business Insurance; 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 would 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 statements involve risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under the forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements.

Also in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in 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, and thank you for joining us today. We are very pleased to report first quarter core income of $699 million or $2.73 per diluted share, both up from the prior year quarter despite our highest ever level of first quarter catastrophe losses. The higher level of core income for the quarter was driven by very strong underlying underwriting income as well as higher levels of favorable prior year reserve development and net investment income, all of which more than offset the record level of catastrophe losses. Underlying underwriting income of $735 million pretax was nearly 25% higher than in the prior year quarter, driven by an increase in net earned premiums to $7.4 billion and an underlying combined ratio, which improved almost 2 points to an excellent 89.5%.

We are particularly pleased with the strong underlying fundamentals in all 3 of our business segments. In Business Insurance, the underlying combined ratio improved by more than 3 points, which again included the benefit of earned pricing that exceeded loss cost trends. On the Specialty Insurance and Personal Insurance, both benefited from higher earned premiums, with continued strong margins.

Turning to investments. Our high-quality investment portfolio continued to perform well, generating net investment income of $590 million after tax for the quarter, up 14% from the prior year quarter. These results, together with our strong balance sheet, enabled us to grow adjusted book value per share by 9% over the past year, after making important investments in our business and returning excess capital to shareholders.

During the quarter, we returned $613 million of excess capital to shareholders, including $397 million of share repurchases. In recognition of our strong financial position, confidence in our business, I'm pleased to share that our

Board of Directors declared a 4% increase in our quarterly cash dividend to $0.88 per share, marking 17 consecutive years of dividend increases with a compound annual growth rate of 9% over that period. Our Board also authorized an additional $5 billion of share repurchases.

Turning to production. We remain pleased with the execution of our marketplace strategies. During the quarter, we grew net written premiums by 2% to $7.5 billion. Our premium growth once again reflects strong renewal premium change and retention in each of our 3 segments. In Business Insurance, renewal premium change increased to 9.2%, its highest level since 2013 and 4 points higher than the prior year quarter, while retention remains strong.

In workers' compensation, pure renewal rate change was slightly negative but continued on an improving trend. Workers' comparable premium change, which includes exposure, was positive for the first time in a number of quarters. Both renewal rate change, annual premium change in every other product line were near or above recent record highs.

Net written premiums in Business Insurance were down a little bit year-over-year, driven overwhelmingly by the workers' comp product line, primarily reflecting the impact of the pandemic on payrolls as we're comparing a pandemic-impacted quarter in the current year to a largely pre-pandemic quarter in the prior year.

Bond & Specialty Insurance net written premiums increased by 9%, driven by renewal premium change of nearly 11% in our management liability business, our retention remains strong. Across our commercial businesses, the pricing environment continues to be rational and favorable with written pricing well above estimated loss cost trends. Overall pricing levels continue to be near record levels. And while margins have improved, given the continued headwinds impacting returns for the industry, we expect pricing to continue to outpace loss trend for some time.

Turning to Personal Insurance. Production was excellent in the quarter. Net written premiums increased by nearly 7%, driven by renewal premium change of almost 8% in our homeowners business, and strong retention and new business in both auto and home. New business for both auto and home combined was up 17% compared to the prior year quarter, which is the ninth consecutive quarter of double-digit growth in new business, demonstrating the ongoing success of our product, distribution and customer initiatives.

Before I turn the call over to Dan, given the elevated frequency and severity of catastrophes in recent years, including the recent severe winter weather, I'd like to take a minute and highlight the work we've done in terms of the strategic management of our catastrophe exposure.

Some number of years ago and consistent with our approach generally of recognizing, assessing and addressing trends rapidly, we took decisive action in anticipation of continued weather volatility. Our efforts started with talent. We added experts in data science, meteorology, geophysics and environmental engineering, among others, to our cat management organization. We also established dedicated teams for each catastrophe peril with the goal of developing industry-leading scientific and underwriting expertise. We have incorporated the results into our product development, risk selection, pricing, capital allocation and claim response.

The insights we have developed have enabled us to supplement standard vendor cat models with our own sophisticated peril-by-peril view. This gives us a refined granular view of cat risk, incorporating proprietary variables such as complex roof characteristics, tree and brush density and location intelligence down to the parcel level. These variables are incorporated into our product development, enhancing segmentation. They are also integrated into proprietary algorithms that we use at the point of sale to inform risk selection and decisions about terms and conditions.

In terms of our claim response, our data scientists and other experts have developed geospatial tools, artificial intelligence and analytic models to facilitate a more effective tailored deployment of claim resources. This has resulted in a more satisfying experience for our customers and a more efficient outcome for us. Taken together, these efforts have enabled us to more effectively manage our exposure to catastrophes.

While there is always the potential for us to have outsized exposure to an event, over the past 5 years, our share of property catastrophe losses relative to total property catastrophe losses for the domestic P&C industry have declined significantly compared to the 5 years prior to that. Our property cat losses over the past 5 years have also been meaningfully lower than our corresponding market share. Advancing our understanding of the risk and reward of catastrophe underwriting is an ongoing effort for us. As a footnote, but importantly, we've made these and other strategic investments in our business, while we improved our expense ratio.

So to sum up, the strength of our underwriting and investment expertise enabled us to deliver strong profitability this quarter, notwithstanding the severe winter weather. As a result, we're off to a terrific start to the year. We are particularly pleased with the strong underlying fundamentals in all 3 of our business segments. Our proven strategy, strong track record of execution, leading analytics and talent advantage give us confidence that we are well positioned to capitalize on opportunities as the economy recovers. And with that, I'm pleased to turn the call over to Dan.

Daniel Stephen Frey
Executive VP & CFO

Thank you, Alan. Core income for the first quarter was $699 million, up from $676 million in the prior year quarter, and core return on equity was 11.1%. The increase in core income resulted primarily from a higher level of net favorable prior year reserve development, improved underlying underwriting results and increased net investment income, largely offset by a much higher level of catastrophe losses.

Our first quarter results include $835 million of pretax cat losses, an all-time high for our first quarter cats, and an increase of $502 million compared to last year's first quarter. This quarter's cats include $703 million from the February winter storms, which impacted Texas and a number of other states.

Prior year reserve development, for which I'll provide more detail shortly, was net favorable $317 million pretax in the quarter. Our pretax underlying underwriting gain of $735 million was 24% higher than in the prior year quarter, reflecting higher levels of earned premium and an underlying combined ratio, which improved by 1.8 points from a year ago to 89.5%. The improvement in the underlying combined ratio resulted largely from the continued impacts of earned pricing exceeding loss cost trends in our commercial businesses and continued favorable loss conditions in personal auto. These improvements were partially offset by the comparison of more typical non-cat weather this year to relatively benign non-cat weather in last year's first quarter.

After-tax net investment income increased by 14% from the prior year quarter to $590 million as higher returns in our non-fixed income portfolio were partially offset by the impact of the expected decline in fixed income yields. Consistent with our comments on the fourth quarter earnings call and in our 10-K, we continue to expect that for the remainder of 2021, fixed income NII, including earnings from short-term securities, will be between $420 million and $430 million per quarter after tax.

Turning to prior year reserve development. Total net favorability of $317 million pretax in the quarter included a $72 million benefit from a subrogation settlement with Southern California Edison related to the Woolsey fire of 2018. $62 million of that benefit was recorded in Personal Insurance with the remainder recorded in Business Insurance. Beyond that subrogation benefit, net favorable PYD in Personal Insurance reflected both auto and property losses coming in better than expected for recent accident years. In Bond & Specialty, net favorable PYD was driven by better-than-expected results in the surety book. In Business Insurance, net favorable PYD was driven by better-than-expected loss experience in workers' comp, partially offset by some adverse development on losses for environmental exposures in our runoff book.

Regarding reinsurance, as discussed during our fourth quarter results call, we renewed our underlying property aggregate catastrophe XOL treaty for 2021, providing aggregate coverage of $350 million, part of $500 million of losses above an aggregate retention of $1.9 billion. Through March 31, we have accumulated $915 million of qualifying losses toward the aggregate retention.

Turning to capital management. Operating cash flows for the quarter of $1.2 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 $1.8 billion. Our net unrealized investment gain decreased from $4.1 billion after tax at year-end to $2.8 billion after tax at March 31 as interest rates rose during the quarter. Adjusted book value per share, which excludes unrealized investment gains and losses, was $101.21 at quarter end, up 2% from year-end and up 9% from a year ago.

We returned $613 million of capital to our shareholders this quarter, comprising share repurchases of $397 million and dividends of $216 million. Following this quarter's share repurchase activity, we had a little more than $800 million remaining under the previously authorized repurchase program. In order to provide appropriate capital management flexibility and reflecting its confidence in our business, the Board authorized an additional $5 billion for share repurchases. And as Alan also mentioned, our Board authorized an increase in the quarterly dividend to $0.88 per share.

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 produced $317 million of segment income for the first quarter, a 10% increase over the first quarter of 2020, driven by higher levels of underlying underwriting income, net favorable prior year reserve development and net investment income, which more than offset higher catastrophe losses. We're particularly pleased with the underlying combined ratio of 93.7%, which improved by 3.6 points. A little less than 2 points of that resulted from earned pricing that exceeded loss cost trends. The improvement also reflects the comparison to the net charge we took in the prior year quarter related to the pandemic.

Turning to the top line. Net written premiums were down 2%, primarily due to lower net written premiums in the workers' compensation product line as a result of the impact of the pandemic on payrolls. Net written premium benefited from strong retention, higher renewal rate change and a return to positive exposure growth, reflecting an improving trend in our customers' outlook for their businesses.

Turning to domestic production. Renewal rate change remained strong at 8.4%, up 2.5 points from the first quarter of last year, while retention remained high at 83%. Written pricing for some time now has been exceeding loss trend and is significantly improving the margins of our book. Importantly, we believe we have a high-quality book of business and seek to maintain high retention. With that in mind, we continue to execute deliberately and granularly on an account-by-account and class-by-class basis. We remain exceptionally pleased with our execution.

As for the individual businesses, in Select, renewal rate change increased to 4.5%, up almost 3 points from the first quarter of 2020. Retention of 78% reflects deliberate execution as we pursue improved returns in certain segments of this business. As I mentioned above, we're pleased with the segmented execution underneath the aggregate result.

New business of $95 million was down $24 million from the prior year quarter, also driven by our focus on improving profitability as we remain disciplined around risk selection, underwriting and pricing. Importantly, we have not slowed down our commitment to invest in product development and ease of doing business, which position us well for the long-term profitable growth in this business. As an example, in previous quarters, we've highlighted our completely redesigned BOP 2.0 small commercial product, which includes industry-leading segmentation and a fast, easy quoting experience. During the last 3 months, we rolled out the new product in an additional 7 states, bringing the cumulative total to 30 states, representing approximately 60% of our CMP new business premium. We are encouraged with our agents' adoption of the new product as both flow and new business premium are meaningfully improved as compared to the legacy BOP product.

In Middle Market, renewal rate change was strong at 9.1%, up almost 3 points from the first quarter of 2020, while retention remained high at 86%. Additionally, we achieved positive rate on more than 80% of our accounts this quarter, a 10-point increase from the first quarter of last year. New business was down $12 million driven by certain business units and geographies where returns are not meeting our thresholds. To sum up, we're pleased with our execution and further improving the underlying margins in the book, and we continue to invest in the business for long-term profitable growth.

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 posted strong returns and solid growth in the quarter despite the ongoing headwinds of COVID-19. Segment income was $137 million, an increase of 12% from the prior year quarter, driven by an improved underlying underwriting margin and higher business volumes. Elevated cat losses related to the Texas weather event were largely offset by favorable prior year reserve development.

The underlying combined ratio of 84.2% improved by 1.5 points due to an improved expense ratio, primarily reflecting higher earned premiums. Earned pricing that exceeded loss cost trends was largely offset by the impact of COVID-19 and other loss activity.

Turning to the top line. Net written premiums grew 9% in the quarter, primarily reflecting strong management liability production. Decreased demand for new construction surety bonds due to the economic impacts of COVID-19 were largely offset by strong commercial surety production. In our management liability business, we are pleased that the renewal premium change remained near historic highs of nearly 11%, while retention was a strong 87%.

Management liability new business for the quarter decreased $8 million, primarily reflecting our disciplined underwriting in this elevated risk environment. Consistent with recent quarters, submissions were up while quote activity was down. These production results demonstrate the successful execution of our strategies to maintain underwriting discipline and pursue rate where needed, while maintaining strong retention levels in our high-quality portfolio. So Bond & Specialty results were again strong despite the challenges in the current environment.

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

Michael Frederick Klein
Executive VP & President of Personal Insurance

Thank you, Tom, and good morning, everyone. Personal Insurance began 2021 with strong profitability and growth. Segment income was $314 million, and net written premiums grew 7%. The combined ratio of 90.3% rose about 2 points from the prior year quarter, primarily due to higher levels of catastrophe losses, partially offset by higher net favorable prior year reserve development. On an underlying basis, the combined ratio was a strong 85.4%.

Before I turn to product line results, let me remind you that we have updated the presentation of certain financial and statistical data for our automobile and homeowners and other product lines to include the results of direct-to-consumer and international. This new presentation provides a more comprehensive view of product line results.

Automobile delivered another very strong quarter with a combined ratio of 81.8%, an improvement of more than 9 points compared to the first quarter of 2020. The improvement comprises 5 points of higher net prior year reserve development and an underlying combined ratio that is 4 points better than the prior year quarter. These results reflect the ongoing effects of the pandemic, namely lower claim frequency due to fewer miles driven. That said, we have begun to see miles driven moving back toward pre-pandemic levels as restrictions have eased and economic activity is picking up. We're actively monitoring current trends and incorporating them into our state-specific pricing decisions as we continue to balance business volumes and profitability.

In homeowners and other, the first quarter combined ratio of 99.4% increased by 15 points relative to the prior year quarter, driven by catastrophe losses of 22 points, up over 11 points with most coming from the February winter storm and freeze events and an 8-point increase in the underlying combined ratio, primarily due to a comparison to unusually mild winter weather in the prior year quarter, along with about 2 points of elevated fire losses, many of which relate to extreme winter weather, often resulting from the use of alternative heating sources. The increases were partially offset by 5 points of higher net favorable prior year reserve development, which included the subrogation benefits of the Woolsey wildfire that Dan mentioned.

Turning to domestic production. Automobile net written premiums grew 3%, with 14% growth in new business, while retention remained strong at 84%. Renewal premium change was about flat, consistent with our plan to align pricing with our loss experience in auto. We are very pleased with our ongoing balanced execution in this line, which has resulted in a 4% year-over-year policies-in-force growth at attractive returns.

Homeowners and other delivered another strong quarter with net written premium growth of 12%. New business was up 21% from the prior year quarter. Retention remained strong at 85%, and renewal premium change was 7.7%.

As Alan mentioned, we have achieved double-digit new business growth across auto and home for each of the past 9 quarters. Our ongoing new business success is driven by a combination of strategic investments and initiatives, including Quantum Home 2.0, IntelliDrive and new and expanded partnerships and distribution relationships.

In addition to delivering strong results for the quarter, we continue to rollout new and expanded capabilities to deliver value in the eyes of our customers. Recent examples include closing on the acquisition of InsuraMatch, our digital independent agency, that expands our capabilities to serve customers and distribution partners; improving our customer self-service capabilities with the rollout of our new MyTravelers mobile application; continuing the rollout of our digital quote proposal to further enhance our agents' digital capabilities; further expanding our new version of IntelliDrive into Canada and 8 additional states; and adding digital auto discount in 9 more states for customers who leverage paperless, telematics and mobile applications.

In summary, we're off to a great start to the year and are well positioned to continue to deliver profitable growth. With that, I'll turn the call back over to Abbe.

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

Question and Answer

Operator

[Operator Instructions] Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

First question on Business Insurance. I guess as we kind of think about the rest of the year and Alan, your comments on pricing continuing to outpace loss trends, I guess I want to get your take on how the renewal price -- renewal premium change should -- what -- we should expect that to continue to rise given the impact of maybe better exposure growth for the year and how you think about that versus maybe a continued deceleration in pricing? So how we can think about maybe the RPC for Business Insurance?

Alan David Schnitzer
Chairman & CEO

Michael, thanks for the question. We stopped giving outlook on price change, but I'll make a couple of comments that hopefully are responsive. We're now several years into compounding year-over-year improvement in rate and price. And the 3 sequential quarters prior to this one, I think, in Business Insurance anyway, all made record prices. So that's pretty good process -- progress, I'm sorry, pretty good progress. As a consequence, margins are improving. But having said that, the drivers of price change overall are environmental and still relevant. So we expect that overall pricing and pure rate for that matter will continue to be at levels that result in expanding margins for a while now.

Whether prices in particular lines go up, down or sideways, I don't think we're going to try to predict that. But it's all pretty rational. It's all pretty relative to the rate where we need it. And again, there's always a lot of focus on that headline number because that's what we provide, but we're looking hard at the granular execution underneath that takes into account all the variables of account rate adequacy. So we feel great about this pricing level. We are near all-time highs in pricing. And we expect to continue the favorable environment to continue for some time.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. I guess one more, if we could switch over then to the authorization. Anything to read there on that, that would signify the interest or lack of interest in any kind of large-scale M&A?

Operator

Dan, you take that?

Daniel Stephen Frey
Executive VP & CFO

Michael, it's Dan. No signal at all. It's simply the math I gave you. By the time we did the repurchases we did in the first quarter of this year, we were down to $800 million of authorization remaining under the share repurchase. If you look at our history over the last 10 or 12 years, every time we sort of get down to this level, the Board authorizes an additional buyback, and this was just the timing to do that.

Operator

Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

So I guess following up on that one with rate. Just trying to get a feel for -- if we look at the 8.4% rate increases, are we seeing more accounts that are closer to rate adequate and that 8.4% is a product of some accounts needing a lot and some not needing much at all? Or if we were to look at across the book of renewals, is it safe to say that you're still getting positive rate on kind of the vast majority of accounts that are renewing?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Ryan, this is Greg. Yes, we absolutely are getting -- the vast majority of our accounts are getting rate. And as Alan said, with 9 consecutive quarters with year-over-year rate change, certain pockets, of course, are becoming more rate adequate. And just as a reminder, as we've shared with you in the past, we really empower our local underwriters to look at every single account based on its own merit. And we think they've been doing a terrific job of retaining the book and continuing to get some pricing change across the portfolio.

Ryan James Tunis
Autonomous Research LLP

Got it. And then I guess for Alan, just, I guess, looking for an update on your current thinking around M&A strategy there. I think in the past, you haven't done any larger deals. I think maybe Simply Business might have been the last one I remember, which was, I think, less than $1 billion. How are you thinking about scale? How are you thinking about M&A appetite?

Alan David Schnitzer
Chairman & CEO

Yes. Ryan, I understand the question and probably the thought process behind it. There's no change in our approach to M&A. And that's not to say that we're not interested. Our shareholders should expect that all the time we are evaluating transaction opportunities and thinking about them. And we often say some of the best deals we've done are the deals we didn't do. But that's not to say that we're not often looking and thinking strategically about what's out there.

And so we have a view on all the things out there and all the markets we're in that might be attractive to us and under what terms and conditions we want to do them. And I would have given you the same answer a year ago or 5 years ago, frankly. And as we've said many times, the lens we would use for whether we would do a deal or not are, does it improve our long-term return profile? Does it reduce volatility and/or would it create shareholder value through some other important strategic benefit?

So I mean, of course, we do the analysis as granularly and detailed as hopefully you would expect from us. But essentially, that's the lens, and that hasn't changed.

Operator

David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I guess I had a question for Greg. Was there -- just in Business Insurance, I'm wondering if there was any sort of COVID benefit that you guys had underneath -- in that underlying loss ratio that we should be thinking about?

Daniel Stephen Frey
Executive VP & CFO

David, it's Dan Frey. I'll take that. COVID has did interesting this quarter in that it's -- we've been living with it for about a year now. Last year, as it emerged, it was pretty apparent what you thought the impact was of COVID because you were looking at an immediately pre-COVID environment versus something new. Doesn't feel that way anymore, it's sort of woven into the fabric of the economy and overall results. That's one of the reasons that even going back to last year, we chose to leave everything related to COVID in our underlying combined ratio and why it's really not feasible to be able to specifically spike out what do we think the impact of COVID was in the quarter.

Having said that, qualitatively, we have some idea. You heard Michael talk about the impact of COVID on miles driven in PI. Didn't get a mention in Business Insurance because we think it was pretty modest. There was again some level of direct charges related to COVID-specific losses in things like workers' comp but very modest, and we'd say probably largely offset, if not slightly more than offset by related benefits in non-COVID frequency.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Great. That's helpful. And then maybe if I could just follow up on that. Obviously, great to see the margin expansion, a little under 2 points of underlying loss ratio improvement in BI. That increased from, I calculate around 150 basis points in the fourth quarter. It feels to me like that should continue to improve at a better -- at an increasing rate. But when I look at the amount of renewal rate change that you guys have gotten over the last 5 to 6 quarters, I would have thought that there would have been a bit more than 2 points of improvement this quarter. So maybe you could help me just think about some of the moving pieces here as I -- as we think about margin improvement going forward.

Daniel Stephen Frey
Executive VP & CFO

Sure, David. It's Dan again. So I think the numbers that we see coming through business insurance for rate versus trend aligned with what we've seen from written results over the last several quarters, if you just factor in what's earning its way through. So we did see a steadily increasing level of rate increase over last year, and we are seeing a steadily increasing level of improvement in terms of the earned impact of rate versus trend. It moves slowly and it moves in sort of tenths of a point changes at a time.

I guess the other thing I'd say to keep in mind is, it's not just the simple math of if we got 8 points of rate versus 5 points of trend, that's 3 points of margin expansion, it's not. It's rate versus trend, that's a 3 percentage point difference. But if you translate it into loss ratio points, when you consider, say, theoretically, a 60-ish loss ratio, that translates into a little less than 2 points of margin expansion. So being close to 2 points of margin expansion and expecting that number to increase maybe very slightly from here as the higher rates earned through is right where we thought we'd be.

Operator

Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

A few out of left field questions that I hope I can get some information on. As you restated the personal lines segment and I guess, folded the direct-to-consumer business into homeowners and personal auto segments, what does that say about Travelers' interest in the direct-to-consumer as a channel going forward? Should we expect that Travelers will be a player in that market? Or it's not really important to your P&L in the long run and it makes more sense just to fold it in?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Josh. It's Michael. I would say, very specifically, the restatement of the financials doesn't say anything about our commitment to direct-to-consumer one way or the other. It's still an important capability for us, still a segment of the business we're investing in. Frankly, it got to the point where, and you can see it in the restatement that we gave you, it was north of $400 million worth of revenue as of the end of last year. And it was a big enough portion of the business, frankly, that leaving it to the side of the line breakout on the P&L didn't make sense. Not that it moved the needle on those numbers that much, but it was an important part of the business that we thought it should be fully included in the P&L statistics and then in the domestic production statistics so that when we do make investments in, for example, marketing and advertising, that drives growth in direct-to-consumer, we want that to show up in the production results that you see.

So I would say it doesn't indicate a change in our emphasis. And if anything, I would say, it reinforces the importance of that business to us both as a business segment and as essentially a place to continue to build and test and learn and build capability.

Joshua David Shanker
BofA Securities, Research Division

And similarly, how should I think about Simply Business going forward? Sort of 2 parts. One, how big is it? How big does Travelers think it's going to be over the next few years? And two, not that we need numbers, but when you are taking a quote in from a direct-to-consumer manner in Business, is the loss ratio materially different than it is from your agency-directed book?

Alan David Schnitzer
Chairman & CEO

You're talking about Simply business? You're talking about Simply Business, Josh, and that line of business?

Joshua David Shanker
BofA Securities, Research Division

Absolutely.

Alan David Schnitzer
Chairman & CEO

Just as a reminder there, we're the intermediary in that business. We're not the market behind it. So we wouldn't comment on the profitability of that. And I would say about Simply Business, it continues to be a medium-term initiative that we feel urgent about. We're not going to break it out more than that, but we are investing in it.

It is a very important capability for us. So far, the small commercial market hasn't really adopted a direct approach to buying the product other than at the very micro end. But we're not betting that's going to stay the same, and we're investing in capabilities to make sure that we're prepared to address that market as it matures. Greg, anything?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. Just to give you a little more color on geographies. But for us, the premium is still in the U.K., but we've invested in infrastructure in the United States to capture some of that value that Alan just articulated, but that we believe is going to take some time.

Daniel Stephen Frey
Executive VP & CFO

Thrust on the revenue, Greg, not coming through premiums.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Correct. Yes. Thank you.

Operator

Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on going back to the Business Insurance discussion. So it sounds like you guys are kind of looking for stable rate, I guess, across your businesses. Hoping to kind of confirm, I guess, that would be the case kind of stable through the balance of this year just based up with some commentary. And then would you guys expect workers' comp, it sounds like that's still slightly negative. Do you expect that to inflect this year or perhaps that's something that we should more be thinking about in 2022?

Alan David Schnitzer
Chairman & CEO

Yes. Elyse, on the go-forward view of rate, we actually didn't give a view of direction other than to say we expect it to continue to be at levels that will continue to contribute to margin expansion. And we're just trying to get away from giving outlook and prognosticating. But we feel great about what we achieved in terms of pricing this quarter, and we feel very good about the outlook for pricing.

In terms of workers' comp, we've said in recent quarters that it feels like we're pretty close to making a bottom and turning around, and we continue to feel that way. We saw progress in the quarter, both in terms of pure rate, which was slightly negative, but a steady improvement over the last several quarters. Renewal premium change, as I said, including exposure, was positive for the first time in a few quarters, which we think is -- really speaks to our customers' confidence. So that was a really good thing. So that's what we would -- that's what we'd share about that.

I guess the other point I would say, Elyse, is, it turns out that the workers' comp experience through COVID at least so far, and we're being cautious about this, but at least so far, what we see in the data is that it's a little bit better than we expected. And that could impact pricing going forward. I don't -- I think the likely result of that is maybe instead of hitting the bottom and inflecting positively, it hits the bottom and bounces around there a little bit before making the term positive. But again, not a bad sign. It's reflective of the profitability of the line, which has been very strong. And we continue to think we're making a bottom and moving towards a turn north.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then my second question, going back on to the M&A discussion. Alan, I think you said you guys will consider deals with the caveat of not wanting to add to the volatility of the company. As you think about transactions, are there certain business lines that are higher up on the list as you evaluate potential M&A? Can you just help us think through potential transactions from where you might want to add on to your business offering?

Alan David Schnitzer
Chairman & CEO

I guess, Elyse, the comment was of the 3 prongs to the lenses we think about. Reducing volatility is one of the virtues that we might look for. And I guess to your question, when we think about our portfolio, we think about our capabilities, we think about the breadth and depth of our business, we feel great. There's nothing missing from our portfolio of businesses. We can keep going exactly the way we are and compete very successfully. Having said that, there are various opportunities. And some of them could be for scale. Some of them could be for products. Some of them could be geography. I mean there's all sorts of things that in one circumstance or another might contribute to an attractive acquisition opportunity for us. So it's hard for me to say, "Geez, this is what we're looking for. That's what we're looking for." Again, no gaps in capabilities but potentially some opportunities.

Operator

Mike Zaremski with Credit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Greg, maybe sticking with the Business Insurance. You gave us some nuggets about kind of recent loss trend. I think you said there might have been a slight benefit, workers' comps trending a little better than expected. And I know you guys don't -- for longer tail lines, you probably don't want to take a lot of good news in the near term. But maybe you can kind of give us a sense in other commercial long tail lines, are you seeing a frequency benefit or a severity benefit kind of as the world in terms of the kind of the courts kind of gotten back to normal or maybe even more than normal in the digital age, Zoom age? So kind of curious if you can give us some kind of color on the near-term loss trends you've been seeing in commercial long-tail lines.

Daniel Stephen Frey
Executive VP & CFO

Sure, Mike, it's Dan. So I'll take that maybe in a couple of parts. On the court and -- question and sort of that activity, I'd say we see that to continue to be pretty slow, right? We talked about it last year in terms of, there's definitely a change in the data from the fact that courts were closed for a long time and other settlement venues have been less active. And I think that continues. And I think will probably take a while to work through what could be the backlog there. So what we've done in terms of both our view of current accident year and prior accident year reserve adequacy is to assume that nothing really has changed. So the data might tell you that things look a little bit favorable, we're not really going to react to that. Our assumption is that once things do get back to normal, ultimately, what we're going to see is social inflation at the levels and the trends that we've seen it before, loss cost trend at the elevated rate that we talked about even in the second quarter of last year. And then ultimately, these things will all settle out in reflection of those levels.

So to the degree that we talked about some favorability last year and we had some favorability in prior year reserve development this year, a lot of that is frequency driven, where the losses themselves have simply not emerged. But from a severity perspective, we're still going to take the view that we think that severity pressure has not really gone away, and that's one of the reasons that you see us continuing to pursue rate in Business Insurance to the degree that we are.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's very helpful. And my follow-up is probably for Dan on the investment portfolio. Curious if you can update us on approximate new money yields in the fixed income portfolio versus the expiring portfolio yields. So there's been a tick up in interest rates, but I believe there's still a gap there that you guys are trying to overcome.

Daniel Stephen Frey
Executive VP & CFO

Yes, Mike, there is still a gap. So it's just -- it's a little less than it was. Last quarter, we were talking about that gap being maybe 150 basis points. Now, maybe it's closer to 90 or 100 basis points, but it's still a negative. And a reminder, just the portfolio turns over slowly enough that even when we factored in the current environment that didn't actually change because we gave you a $10 million range around our quarterly view of fixed income NII on a go-forward basis. So it moved the needle, but only very modestly. Still a gap, so yes, new money yield is still below what's maturing out of the portfolio.

Operator

Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of just quick ones here. First, I'm just curious, could you comment on workers' compensation insurance? As we start to see payrolls increasing here, should that have a positive benefit on margins?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Brian, this is Greg. The short answer on that is yes. And we saw that this quarter, as Alan said, on an RPC basis, workers' comp was up. And obviously, we don't project where exposure is going to go long term. But we have shared with you that we are a broad solution of the economy. So as the economy hopefully corrects and improves, we'll see positive in payroll, mostly from new employees and shares. And certainly, we'll see some of that on the GL side with sales receipts increasing also.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right, which favorably impacts margins, not just top line?

Daniel Stephen Frey
Executive VP & CFO

Yes, Brian. Margins to the -- you get 2 pieces of exposure coming through comp. One could be more workers, which -- for which there's not really an expected margin benefit related to that in and of itself to the degree that wages go up and we collect more premium for effectively the same risk that can -- that's when we have historically set a portion of exposure can behave like rate. That's where you see that. So it's a little bit of both. To the degree that workers are being added to the payroll, that brings with it additional risk. Higher wages bring higher exposure as well.

Alan David Schnitzer
Chairman & CEO

And obviously, as volumes go up, regardless of which those would come from, you get some expense levers.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then can I just focus a little bit on the premium in Business Insurance. Workers' comp, I understand. Also saw CMP continue to be down. Is that just purely related to what's going on from the economic activity? Or are there other things that are going on right now there where you're culling your portfolio underwriting initiatives, the stuff that are potentially pressuring that top line? And perhaps are there any kind of programs in place to kind of recharge that growth at some point?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes, Brian, this is Greg. Really 2 drivers in that. And the first one, I mentioned in my prepared comments. We've really been trying to prove the profitability of that book. And you can see that with the RPC increasing 5 points over the last 5 quarters. And so that's the primary driver. But we are still feeling the COVID impact. Flow overall in terms of submissions from the volume from our agents is down also. But I would also say that's a secondary driver.

Operator

Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

My first question is in personal lines. Can you maybe talk about the uptick in the expense ratio considering that premiums earned were up quite a bit where if doesn't, maybe it would remain a bit flatter? Where are you investing there?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure. This is Michael. The uptick in the expense ratio really is volume-related costs. Think commissions, think report ordering. We do continue to make investments in the business and increase our investment level slightly. But really the driver of the uptick in the expense ratio was just volume-related costs in the business. And I wouldn't pay too much attention to a one-quarter change in expenses. We still feel good about the expense ratio and the efficiency in the business.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And then my second question in Bond & Specialty. I was just curious about the comment that new business declined due to discipline. I'm just trying to kind of wed that with the fact that management liability rates are near all-time highs. I would have thought that even with discipline, you'd have more opportunities to write new business. Can you maybe talk about the dynamics there?

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

Sure. Well, the new business flow is actually up. But when you think of some of the lines that we write, the situation we've been through, economically speaking, can create more risks. So think of things like employment practices liability, think about some of the trends that have been in place for public company D&O. So there are a number of things going on that at this point in time, it makes sense to really be prudent about the risk you're selecting. And we really actually feel quite comfortable with where our new business is coming in.

Operator

Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Just wanted to follow up on BI rate. Is there a seasonality in your first quarter business mix? I realize that workers' comp renews on 1/1. So I'm just wondering if that might be impacting your rate story for this quarter versus last.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

There's a little bit more workers' comp in this quarter than typically but not a meaningful amount.

Tracy Dolin-Benguigui

Barclays Bank PLC, Research Division

Okay. And then can we also talk about the Child Victim Act more broadly than just the Boys Scout Association that's getting a lot of attention. In our research, we saw that 31 states introducing statute of limitation reform bills. And you commented in the past on New York, but wondering how you feel about the strength of your reserve in light of potentially higher reviver cases beyond New York?

Daniel Stephen Frey
Executive VP & CFO

Tracy, it's Dan. We've -- I think we were very, very early to tackle Child Victims Act stuff. Remember, we took our charge related to New York in the first quarter of 2019. So I think pretty far ahead of the market. We've been very cognizant of abuse, molestation and CVA-type exposures. We are, as you would imagine, staying very up to speed on developments and potential developments, not only across the state, but with stories like Boy Scouts where we're very cognizant of our exposures and what the latest news may mean for those exposures, and we continue to be quite comfortable with how those things are reflected in our reserves.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

If I could just sneak in, would you be willing also to enter into a settlement on the Boy Scouts similar to one of your competitors?

Daniel Stephen Frey
Executive VP & CFO

I don't think we'll comment on any specific matter.

Operator

Meyer Shields with KBW.

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

Tom, in your comments, you mentioned, I guess, other losses in the category within the segment and I was looking if you could play on that a little?

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

I'm sorry, I couldn't hear the last part of the question.

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

I'm sorry. I was hoping you could flesh out, when you were talking about the underlying loss ratio in Bond & Specialty, you mentioned something about other losses, but I'm not sure what you were referring to.

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

Yes. So the other losses, we are having some elevated COVID losses versus the first quarter last year, and so that's a significant piece of it. And then you typically have various miscellaneous things as well as things like mix issues. And so in this particular case, we had some cyber claims this quarter. And those actually hit our numbers a little bit. But generally, it was COVID and a variety of other things.

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

Okay. That's helpful. And then a question for Michael, if I can. I know there's been some news about California's insurance commissioner looking for more data and possibly more rebates. How are you thinking about that for Travelers?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Meyer. Good question. And I would say, certainly, California is one of a number of states that continue to examine rate levels and premium relief. First and foremost, we're working closely with state regulators across the country and continue to remain in contact and respond to requests for information. For the most part, our approach to balancing rate levels with loss experience has been to manage it through rate, and I've mentioned it before. But since the onset of the pandemic, we've actually now filed decreases in about 20 states across the country. California doesn't happen to be one of those. You may recall in the latter half of 2020, we actually provided an additional premium refund to California policyholders, partly in response to the ongoing dialogue with the state of California.

But broadly speaking, I would say, we remain in contact and conversation with the departments of insurance, including California, and are working to be responsive to, again, requests for information and/or requests for rate level adjustments, et cetera. So we just continue to monitor and manage the situation.

Operator

This finishes the time allotted for the Q&A session. It is now my pleasure to turn the call back over to Abbe Goldstein for closing comments.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you all for joining us this morning. We really appreciate your time. And as always, if there's any follow-up, please reach out to Investor Relations. And have a great day. Thank you.

Operator
This concludes the Travelers First Quarter 2021 Results Conference Call. We thank you for your participation. You may now disconnect.