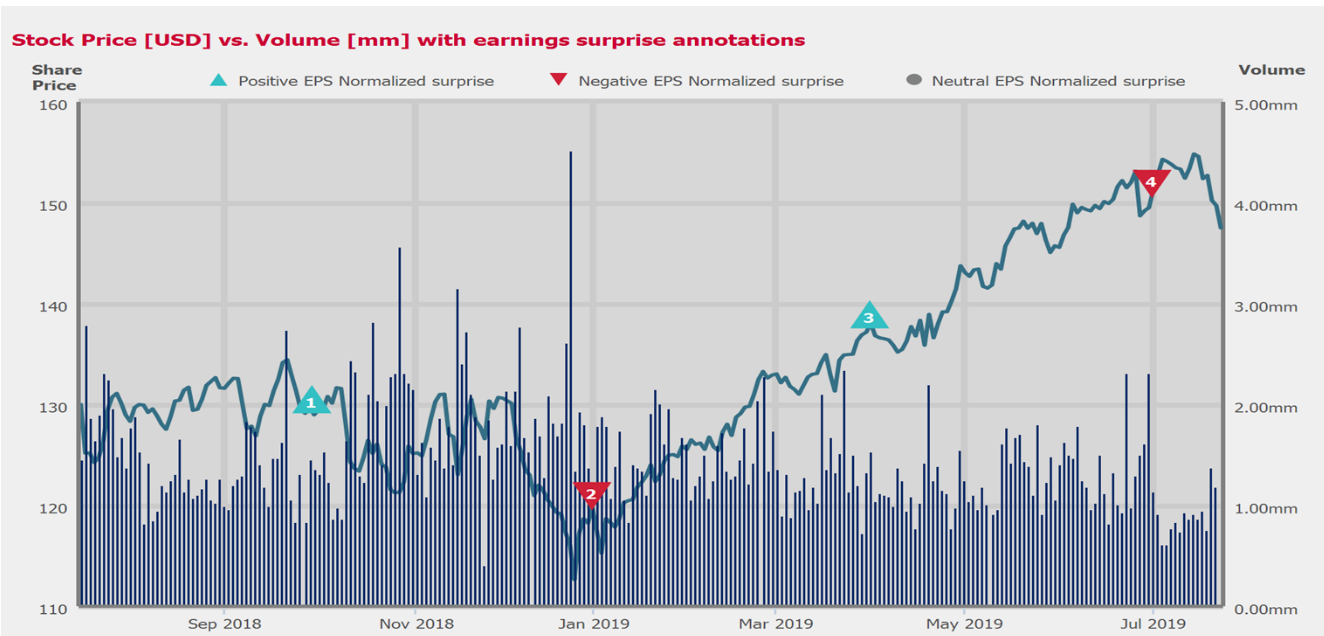
S&P Global
Market Intelligence

The Travelers Companies, Inc. NYSE:TRV
FQ2 2019 Earnings Call Transcripts
Tuesday, July 23, 2019 1:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.30	2.02	(12.17 %)	2.39	11.00	11.79
Revenue (mm)	7029.57	6988.00	(0.59 %)	7118.80	28485.96	29488.62

Currency: USD
Consensus as of Jul-23-2019 1:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	2.26	2.54	1 12.39 %
FQ4 2018	2.18	2.13	2 (2.29 %)
FQ1 2019	2.73	2.83	3 3.66 %
FQ2 2019	2.30	2.02	4 (12.17 %)

Table of Contents

Call Participants

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

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

William Herbert Heyman
Vice Chairman & Chief Investment Officer

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Jay H. Gelb
Barclays Bank PLC, 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

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Second Quarter 2019 Results Teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on July 23, 2019.

At this time, I'd 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 so much, and good morning. Welcome to Travelers discussion of our second quarter 2019 results. Hopefully, all of you have seen our press release, financial supplement and webcast presentation released earlier this morning. All of these materials can be found on our website at travelers.com under the 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 your questions.

Before I turn the call over to Alan, I would like to draw your attention to the explanatory note included at the end of our 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 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. The overall results for the quarter were solid, benefiting from the continued successful execution of our strategic agenda. We said for years that the primary measure we use for managing the business is return on equity, and we've also said that any strategy to deliver leading return on equity over time requires a strategy to grow over time.

To that end, a few years ago, we laid out a strategy to achieve profitable growth in the context of the forces of change we've previously identified impacting our industry. We established key innovation priorities and invested in capabilities consistent with those priorities.

The successful execution of that strategy has contributed to growth over the past several years and contributed to the growth in earnings this quarter. Earned premiums were up 4% to almost $7 billion adding meaningfully to underwriting income in the quarter. We've also shared that improving productivity and efficiency is a priority and efforts we've been undertaking for some time to leverage technology investments and workflow enhancements are paying off.

Again this quarter and year-to-date, we've grown the top line and managed general and administrative expenses to about flat, while continuing to make important investments in the business. All of that together with strong performance from our investment portfolio contributed to core income of $537 million, a 9% increase over the prior year quarter and core income per diluted share of $2.02, a 12% increase over the prior year. Core return on equity was 9.2%.

In terms of underwriting margins, this quarter we delivered a solid all-in combined ratio of 98.4%. As a reminder, our expected weather losses are seasonally highest in the second quarter. But as you can see on Page 4 of the webcast, the underlying combined ratio was up 1.3 points over the prior year quarter. There were a number of favorable items impacting the underlying results, including a lower level of large losses and improved expense leverage. But I'd like to highlight and put in context 2 items contributing to the increase; non-catastrophe weather losses and some continued deterioration of trends in the tort environment.

I'll start with the weather, which of the 2, had the larger impact. For the quarter, total weather losses in the aggregate cat and non-cat were well within the range of what we would consider normal. But breaking that down, catastrophe losses were favorable, while non-cat weather losses were worse than what we would consider a normal level for the second quarter. That resulted in a nearly 2-point increase in the underlying combined ratio compared to the prior year quarter. Again, all-in weather losses weren't far off what we planned for, so we consider this bucketing.

In terms of the tort environment, the trends we discussed in the fourth quarter of last year impacting bodily injury severity in Commercial Auto have developed a little worse than we expected in the Commercial Auto line. And while we anticipated those trends extending into the other liability coverages, they extended into the primary and excess coverages of the general liability line somewhat more than we anticipated, that drove the adjustment this quarter.

On the whole and looking back over the last 3 quarters, the issues continued to be most heavily associated with Commercial Auto related losses, manifesting in 2 places, in the Commercial Auto line, as you would expect, and also in excess coverages of the general liability line where the underlying losses are auto related.

The run rate earnings impact of this updated view of the tort environment is a little less than $20 million per quarter after tax. The current quarter underlying result also included a catch up of about same amount from development of the first quarter. The aggregate impact of the first and second quarter adjustments added around 0.6667 point of the consolidated underlying combined ratio, which amounts to about $0.14 per share. Also I'll note that unlike Commercial Auto where the returns are still clearly inadequate, the returns in the general liability line, both primary and excess, are much healthier for us.

Turning to the top line, production was once again excellent in the quarter. We grew net written premiums by 4% to a record $7.5 billion. Our premium growth reflects high levels of retention and positive renewal premium change broadly across the portfolio. As I pointed out before, that speaks to the high quality of the business we're putting on the books. We're growing our new and renewal business with confidence in terms of accounts, geographies and industries that we know well.

In Business Insurance, we achieved renewal premium change of 6.7%, including renewal rate change of 3.6%. In both cases, the highest level since 5 years, while maintaining historically high levels of retention. We increased renewal rate change and renewal premium change both year-over-year and sequentially in each of our product lines other than workers' compensation.

In our leading Bond & Specialty business, we once again achieved strong production in both our Management Liability and Surety businesses with a record levels of retention and new business in domestic Management Liability.

In Personal Insurance, higher net written premiums benefited from renewal premium increases in both our Agency Automobile and Agency Home businesses and an all-time high for domestic new business. We have momentum in all of our businesses. And in an environment of persistently low interest rates, ongoing uncertainty surrounding weather-related losses and continuing challenges in the tort environment, we will continue to leverage the power of our franchise to meet our return objectives, including by continuing to selectively and thoughtfully seek priced and improved terms and conditions. You'll hear more shortly from Greg, Tom and Michael about our segment results.

To sum it up, our performance this quarter and year-to-date reflect both the successful execution of our long-term strategy and our relentless execution in the marketplace every day. With leading data and analytics in the hands of our frontline underwriters, the best talent in the industry and deep relationships with our agents and brokers, we remain well positioned to continue to deliver shareholder value over time.

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

Daniel Stephen Frey
Executive VP & CFO

Thank you, Alan. Core income for the second quarter was $537 million, up 9% from $494 million in the prior year quarter and core ROE was 9.2% up from 8.7%. Earnings per share and core earnings per share were up 9% and 12%, respectively. Our second quarter results include $367 million of pretax catastrophe losses, down from $488 million in last year's quarter, but the lower level of cat losses was more than offset by higher levels of non-cat weather.

As we have previously disclosed, our definition of catastrophes is limited to industry events where our losses exceed a specified dollar amount, generally around $20 million. In the second quarter, a larger portion of the weather losses we experienced fell below our cat threshold and thus adversely impacted our underlying combined ratio. But again, as you heard from Alan, overall weather results, cat and non-cat combined, were well within the range of what we would expect.

In terms of weather expectations, during our fourth quarter earnings call, we explained that our expectations for cat losses for 2019 would trend up for 2 reasons: one is that we've seen growth in our premium volume and the overall exposure level in the business; two is that we're placing a little more weight on recent periods and that results in a bit of an uptick in terms of our view of normal cat load per dollar premium. Adding the seasonality of our cat losses in our second quarter, total weather results were no surprise.

Pretax underlying underwriting gain, which excludes the impacts of cats in prior year reserve development, decreased by 19%. Higher non-cat weather-related losses adversely impacted the underlying combined ratio of 94.9% by nearly 2 points compared to the prior year quarter. Also, and to a lesser degree, the change in the underlying combined ratio was impacted by several favorable items, including lower large losses and improved expense leverage, partially offset by a modest impact from the continuing challenges in the tort environment, as Alan mentioned.

Net favorable prior year reserve development in the second quarter was $123 million pretax, down from $186 million in the prior year quarter. In Business Insurance, net favorable PYD was $71 million. In terms of highlights, the net favorability resulted primarily from better-than-expected performance in workers' comp, which improved by about $275 million. Partially offsetting the favorability in workers' comp is unfavorable development of approximately $125 million in general liability for both primary and excess coverages and Commercial Auto. This represents the estimated impact of the continuing challenges in the tort environment that drove the nearly $20 million of after-tax run rate increase in the current quarter's underlying losses.

Second quarter PYD in Business Insurance also included a $60 million increase to environmental reserves for accident years prior to 2010. As a follow-up to last quarter, second quarter PYD also included a modest impact resulting from a handful of additional states extending the statute of limitations for molestation claims. The impact on our book from these legislative changes in the second quarter was much smaller than the first quarter impact from the adoption of similar legislation in New York. In Bond & Specialty Insurance, net favorable PYD of $39 million was driven by domestic Management Liability. In Personal Insurance, net favorable PYD of $13 million was driven by favorability in our domestic businesses.

Last week, the U.K. updated the Ogden rate, which is the discount rate applied to lump sum bodily injury payouts. The rate change was modest and as a result, we expect to book only a small benefit in the third quarter.

Net investment income increased by 8% from the prior year quarter to $548 million after tax as higher fixed income returns were complemented by higher returns in our nonfixed income portfolio. Fixed income NII increased by $25 million after tax due to the higher-average yield on invested assets and an increase in the amount of average invested assets. Higher returns in the private equity portfolio reflected the broader market recovery.

Looking forward, with interest rate expectations now lower than they were 3 months ago, we have updated our outlook and now expect after-tax fixed income NII for the remainder of 2019 to increase by approximately $10 million to $15 million per quarter compared to the same period a year ago.

As we discussed on our earnings calls for the last 2 quarters, we added a new catastrophe reinsurance treaty for 2019 providing coverage for PCS-designated events for which we incur $5 million or more in losses above an aggregate retention of $1.3 billion. While the impact on written premiums was reflected entirely in the first quarter, the new treaty impacts all 4 quarters on an earned basis.

For the second quarter, the impact of the treaty increased our consolidated underlying combined ratio by about 0.5 point as expected. Through June 30, we've accumulated a little less than $800 million towards the $1.3 billion retention. As you think about the elevated non-cat weather this quarter, it's important to keep in mind that much of that weather activity was from non-PCS events that did not count towards the treaty.

On the topic of reinsurance, I'll direct your attention to Page 20 of the webcast and provide an update on our catastrophe reinsurance program. The structure of our cat reinsurance treaty is generally consistent with the prior year. We renewed our Northeast Cat Treaty effective July 1 with substantially similar terms and flat pricing. Our cat bond, Long Point Re III, is in the second year of its 4-year term. And in the annual reset for the 2019 hurricane season, the attachment point was adjusted from $1.9 billion to $1.79 billion, while the total cost of the program was flat year-over-year.

A more complete description of our cat reinsurance coverage, which also includes a description of our gen cat aggregate XOL treaty that covers in the cumulation of certain property losses arising from multiple occurrences is included in our 10-Q, which we filed earlier today and in our 2018 10-K.

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 $1.5 billion. Net unrealized investment gains increased from $1 billion after tax as of March 31 to $1.9 billion after tax as of June 30 due to the decrease in interest rates during the quarter.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $90.05 at June 30, 3% higher than at year-end and 6% higher than the end of the second quarter last year. We returned nearly $600 million of excess capital to our shareholders this quarter, comprising share repurchases of $376 million and dividends of $217 million. On a year-to-date basis, we have returned over $1.2 billion to shareholders.

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

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Thanks, Dan. Business Insurance produced segment income of $351 million for the quarter and a combined ratio of 101.1%. The combined ratio includes catastrophe losses, which were essentially in line with our expectations for the quarter. The underlying combined ratio of 97.4% was 0.9 points higher than the prior year quarter. There are several moving pieces underneath the 0.9 point year-over-year change, so we've added Page 9 to the webcast to illustrate the components.

I'll start with the notable items that increased the underlying combined ratio year-over-year. The most significant item was non-cat weather, which was higher than the prior year quarter by about 1 point. Next are 2 items that we've discussed with you previously: The first is the 0.5 point impact from lower earned premium due to the new cat treaty and the second is the approximately 0.5 point run rate impact related to the Q4 2018 re-estimation of Commercial Auto losses.

The last of the unfavorable adjustments relates to further deterioration of the trends related to the continuing challenges in the tort environment that drove the re-estimation of Commercial Auto losses in the fourth quarter, as you heard from Alan.

The most recent data showed loss experience that was somewhat higher than our revised expectations from the fourth quarter. This included further modest deterioration in auto and extended into general liability for both primary and excess coverages to a higher degree than we had previously anticipated. For these adjustments, there is about 0.5 point of ongoing run rate impact and about 0.5 point of catch-up from the first quarter of 2019.

As for the favorable year-over-year items, first, we had about 1.5 point from domestic large losses returning to a more normal level as we expected. And second, we had about 0.5 point driven by continued benefit from higher earned premium volumes and disciplined expense management. Importantly, we continue to achieve this expense leverage while investing in strategic initiatives that position us for the future.

Now to the top line. Net written premiums for the quarter were up 2% over the prior year driven by strong underlying production results. Partially offsetting the production results were some items that were generally timing in nature. For example, we changed the timing of one of our reinsurance treaties from the first quarter to the second quarter. Adjusting for those items, the top line trends were in line with recent quarters.

In terms of domestic production, we achieved strong renewal premium change of 6.7% in the quarter, including renewal rate change of 3.6% both their highest level in the 5 years. The renewal rate change was up 1.3 points from the first quarter and more than 1.5 points from the second quarter of last year. This is a strong result, particularly given continued rate decreases in workers' comp.

While the Commercial Auto and Property lines continue to lead the way, our general liability, both primary and excess, as well as CMP lines also saw meaningful increases. Importantly, at the same time as we achieved these pricing increases, remained historically high retention of 85%.

Last quarter, we said that in addition to price, we've also been focused on improving terms and conditions, particularly in our property coverages. In this quarter, terms and conditions, things like deductibles, sublimits and insurance-to-value tightened further contributing to rate adequacy. Even after our updated view of loss trend resulting from our re-estimation of losses in the auto and general liability lines, which increased our overall view of domestic loss trend by about 0.5 point, we estimate that pricing, that is rate plus the portion of exposure that acts like rate, was in excess of loss trend on a written basis for the quarter.

New business of $531 million in total was essentially flat to a strong prior year quarter. We're very pleased with our production results and our continued granular and deliberate execution. As you heard from Alan, given the low interest rate environment, continued uncertainty around weather-related losses and some upward pressure from the tort environment, we'll continue to seek rate and use all the other available levers to meet our return objectives.

As for the individual businesses, in select renewal premium change and renewal rate change both ticked up from the first quarter, while retention remained strong at 82%. New business was strong in comparable to the prior year quarter. We're pleased with the returns in this business, and these production results reflect our strategic execution.

In middle market, renewal premium change was 6.1% with renewal rate of 3.4%, up more than 1 point from the first quarter and 1.6 points from the second quarter of last year, while retention remained historically high at 87%. New business premiums of $275 million were down from a strong prior year quarter.

For the most part, we attribute the new business dynamic to our underwriters prioritizing improving price, terms and conditions at renewal and being disciplined in managing risk selection related to our exposure to the auto line. We're very comfortable with our execution, and we continue to invest in our strategic capabilities and are confident that we're well positioned to profitably grow over time.

Page 18 of the webcast shows production statistics for our international markets across all 3 of Travelers' segments. Although these statistics include more than Business Insurance, the overall trends are consistent with what we're seeing for the BI portion of international and reflect the rate, risk selection, risk control and other measures we continue to execute to improve profitability.

Lastly, I'd like to touch on our National Property business, which had a notable increase in new business this quarter. In this space, we've been seeing more opportunities in the marketplace, and we've been selectively writing some of them. Importantly, many are accounts that we quoted or written before, so we're familiar with them and we're writing them at prices and on terms and conditions that meet our discipline standards.

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

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

Thanks, Greg. Bond & Specialty delivered another quarter of strong results. Segment income was $174 million, a decrease of $30 million due to a lower level of net favorable prior year development. The combined and underlying combined ratios were an excellent 74.9% and 81%, respectively. Net written premiums for the quarter were up a very strong 9% with solid growth across all businesses. Considering the high quality of our Management Liability portfolio, we are pleased that the domestic retention remained at a historically high 90% with renewal premium change higher at 4.2%. New business for the quarter was a record $65 million, up 20% from the prior year quarter. These results reflect a successful execution of our various marketing, product and underwriting strategies to profitably grow these lines.

Domestic Surety net written premiums were up 4% over a very strong prior year quarter. Our existing portfolio remains well positioned to continue to provide leading returns over time, and our competitive advantages allow us to thoughtfully and selectively add quality new accounts.

So Bond & Specialty results were strong, and we feel terrific about our marketplace execution, competitive advantages and our ability to continue to deliver excellent results.

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

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

Thanks, Tom, and good morning, everyone. Personal Insurance grew income, revenue and policies in force in the second quarter with improved performance in both auto and home. Segment income for the second quarter of 2019 increased $105 million relative to the second quarter of 2018.

Our combined ratio for the quarter was 100.2%, an improvement of 4.7 points over the prior year quarter driven primarily by catastrophe levels that were nearly 7 points below last year. The underlying combined ratio of 94.6% was up 2 points from the prior year quarter, driven by an increase in non-catastrophe weather losses and the impact on earned premiums related to the new Catastrophe Reinsurance Treaty, partially offset by earned pricing that exceeded loss trend in Agency Automobile and a lower underwriting expense ratio.

Weather losses in the aggregate were better than the prior year quarter, and we're pleased with the overall results. Recall that the second quarter is our seasonally highest quarter in terms of expected weather losses.

Turning to the top line, net written premiums for the quarter grew 6% with Agency Homeowners & Other leading the way with growth of 11%. Personal Insurance had strong retention in renewal premium change and record new domestic new business for the quarter.

Agency Automobile once again delivered strong results with a combined ratio of 94% for the quarter, a 1.4 point improvement from the prior year period. The quarter benefited from a lower underlying combined ratio and lower catastrophe losses, partially offset by lower net favorable prior year reserve development. The underlying combined ratio continued to benefit from earned pricing that exceeded loss trend, including continued favorable frequency trends.

In Agency Homeowners & Other, the second quarter combined ratio was 104.5%, 9.1 points lower than the prior year quarter due to lower catastrophe losses and higher net favorable prior year reserve development, partially offset by a higher underlying combined ratio. Higher non-catastrophe weather losses were the main driver of the 7.7 point increase in the underlying combined ratio to 92.9% as compared to the prior year quarter.

While weather in total was favorable relative to the prior year quarter, a significant component of the weather activity came from non-PCS events this quarter in addition to PCS events that did not meet our catastrophe threshold.

Turning to quarterly production. Agency Automobile retention remained solid at 84% with renewal premium change of 4.6% and a modest increase in new business from the prior year quarter. We remain focused on actions to grow this book at returns that continue to meet our objectives. Agency Homeowners & Other delivered another strong quarter. We achieved renewal premium change of 6.7%, up 1.4 points from the first quarter and up 3 points from the second quarter of last year with retention remaining strong at 86%. The pricing we achieved reflects actions we're taking to address the higher loss activity that we and the industry have experienced in recent periods.

New business was up 26% driven by our successful rollout of Quantum Home 2.0. QH2 continues to be well received and is performing as expected, driven by sophisticated pricing segmentation and the ability for agents and customers to easily tailor the product to meet their needs.

During the quarter, we continue to make investments in the business. For example, we rolled out QH2.0 in 3 more states and the District of Colombia and QH2 is now available in 28 states. We remain on track to complete the rollout in most of the remaining states later this year.

In addition, we announced several new initiatives. First, we've partnered with American Forests, the oldest National Conservation Organization in the U.S., to plant up to 1 million trees in connection with our initiative to encourage more customers to enroll in paperless billing, resulting in more efficiency for us, a better experience for them, all while benefiting the environment.

Second, we're working with Wildfire Defense Systems to help provide loss prevention services in California that supplement local firefighters and other first responders in the event of a wildfire. This new service gives California policyholders an added layer of wildfire protection at no additional premium. It’s also an additional tool to help us manage our exposure.

These are the latest examples of initiatives that continue to position us well to deliver value in the eyes of the customer and to grow profitably while investing in the business.

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

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

Question and Answer

Operator

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

Jay H. Gelb
Barclays Bank PLC, Research Division

I'm sure people are going to have a fair amount of questions on the underlying combined ratio shift in 2Q year-over-year. I really think you explained it well in terms of the impact of non-cat weather and the tort environment deteriorating. I am wondering given the pace of price improvement, do you think at some point, over the course of the rest of 2019 or 2020, we could see underlying margin improvement given how those trends are unfolding?

Alan David Schnitzer
Chairman & CEO

Jay, we give you an outlook for the underlying underwriting margin in the Outlook section of the 10-Q, and we do it by segment. So you can see there what it is that we're thinking going forward. In particular where -- in BI where we're calling for continued improvement, really it's 3 things, it's non-cat weather, it's -- we would expect improved results in international. And in the fourth quarter of last year, you've got the timing impact of the fourth quarter auto adjustments, but there is a lot of levers we have to pull to manage overall margins and profitability and including price terms and conditions and we're working on all those things relentlessly in the market every day and that will impact premium that we put on the books and that also will earn in over time.

Jay H. Gelb
Barclays Bank PLC, Research Division

All right. That's helpful. All right, so expectations of continued improvement. And then I was wondering if you might have the rate impact or the rate benefit in domestic Business Insurance, excluding, what I would imagine, is a drag from workers' comp?

Alan David Schnitzer
Chairman & CEO

Jay, workers' comp continued to be negative in the quarter. And we have given that as a separate statistic from time-to-time. We do it when we think it's relevant, and we need to do it to clarify one thing or another. But there is some competitive sensitivity there, and we don't intend to continue to update that number and probably would prefer not to give it to you now. But clearly the numbers that you see for rate in RPC and BI would be higher, but for workers' comp, which is negative.

Operator

Your next question comes from Mike Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Two questions. First on the personal line side, Agency Auto. I'm sure you saw a pretty decent expansion there of your core margin. And if I am reading correctly, it sounds like your outlook calls for consistent levels of profitability into 2020. So I guess, could you talk about what you're seeing on the competitive environment, sounds like it might be more competitive now than it was last year and sounds like if you're looking for consistent levels of profitability, you're not concerned then with any rise in physical damage severity impacts in your margins there?

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

Sure. Mike, this is Michael Klein. I would say on the competitive environment, we talked about it the last couple of quarters, we certainly see, as you can also find a moderation in rate increases being filed by our competitors, I think broadly speaking it's in pattern with the methods that we've been sending that we're moderating rate in response to the improved profitability. And I think we're working to be in step with the marketplace there. In terms of loss trend, we do continue to see upward pressure on severity in personal auto more than offset over the last couple of quarters with improvements in frequency. I think what we're working to do is to balance our pricing with the long-term view or trend over time, and the outlook reflects the fact that we think we can do that and shift a little bit more growth in auto at attractive margins. So that's the view on our outlook. The one exception inside the outlook you'll note that we talk about the fourth quarter in particular, and so I'll just remind you that as you look at the fourth quarter of 2019 and the comparison to 2018, there is a challenging year-over-year comparison there because we had both very strong quarter in terms of profitability in the quarter and in the fourth quarter of '18, we recognized some of the favorable loss trends that we had been seeing throughout '18. So there was a good guide catch-up in the fourth quarter of 2018. So broadly consistent with the exception of the fourth quarter, which is really just a year-over-year comparison challenge.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. Switching over then to workers' comp, you mentioned this time reserve development was from multiple accident years. I guess, one, was there anything from accident year '18 and anything from the first quarter of '19 in that? And then I guess, secondly on comp, some competitors were talking about changing in loss trends maybe slightly getting worse, and California recently came up with some uptick in severity in California. So I guess, at what point do you become concerned on pretty substantial margin pressure in that line?

Daniel Stephen Frey
Executive VP & CFO

So Mike, it's Dan Frey. I'll take at least the first part of it on PYD sort of to clarify, right? So there wouldn't be anything in PYD from the first quarter of '19, we'd count that as current year and we'd have called it out if there was a significant catch-up there. With the long-tail nature of workers' comp, the majority of our prior year reserves development is going to have to come from years prior to 2018 just because you have a better chance to see how those were seasoning, but there is a small piece from 2018 as we see the favorability in some of the older years continue to bid into 2018.

Alan David Schnitzer
Chairman & CEO

Mike, it's Alan. On the loss trend of workers' comp, I'd say, broadly speaking, it continues to behave well.

Operator

Your next question comes from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Couple of questions. First probably for Greg. In your prepared commentary, I believe you said in addition to price you're getting tightened terms and conditions. If that's correct, just want to clarify whether your disclosure of pricing changes is taking into account terms and conditions tightening as well?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. Terms and conditions is all net inside our book of business yield. When we talk about terms and conditions, we're predominantly seeing that on the larger portion of the property segment. So think insured value, thing deductibles, all peril deductibles, sublimits, so that's where we're seeing some of those terms and conditions improvement. So as we make those changes on the renewal block, that certainly has an impact from a favorable point of view from a loss cost net on the book of business.

Alan David Schnitzer
Chairman & CEO

Mike, are you asking whether that's somehow adjusted in the rate number, is that your question?

Michael David Zaremski
Crédit Suisse AG, Research Division

Yes. If it's mathematically taken into account within the disclosure rate?

Alan David Schnitzer
Chairman & CEO

It's not mathematic -- I mean, the rate numbers are pretty pure just price calculation, although to some extent it could show up on the exposure side, right? So if deductibles went up, for example, that would be negative for exposure, but it would not factor into the pure rate calculation.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful. I may follow up. And lastly on tort inflation, would you say it's gaining momentum in terms of the inflation rates? And do you think there are any underlying causes, I believe, litigation finance, there is a bunch of -- there is a couple of public firms and there's been a lot of capital raises there over the last couple of years and it's kind of gaining momentum as an asset class, maybe that's one of the underlying drivers. If you have any thoughts there, that would be helpful.

Alan David Schnitzer
Chairman & CEO

Yes. So it's -- so what we're describing is the result of squaring triangles and coming up with numbers and then looking for causal factors in the environment. So there's a fair amount of estimation here, and it's not -- there is no math formula that gets us to the answer to that question necessarily. But I would say broadly what we're reflecting in our numbers, we would describe it as a more active and more aggressive plaintiffs' bar. Now litigation finance is sort of its own topic, and we certainly read about that, we can see numbers on that. We know more money is being raised for that as an asset class. We don't dismiss that as a factor. I will tell you that, that is one aspect that at least now -- this could change, but at least now we're not seeing that as a particularly significant driver in what we're referring to as change in the tort environment. That could come. I mean, we see the funds being raised for that. And so -- and by the way to the extent, we see that and anticipate it, that would get reflected in our loss PIKs as well, but we're not seeing that as a standout issue.

Operator

Your next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question going back to the Commercial Auto and GL PIKs that went up in the quarter, I guess, what I'm trying to tie together is, a, the increase that you guys saw there and then also the commensurate increase in rate. So do you -- can you kind of try to bucket, I guess, how much of the rate was driven in your view off of just this higher loss trend environment because when we think about going forward, it does sound like you guys are a bit more positive on pricing inflecting relative to loss trend in terms of just thinking about your outlook? But if trend keeps going up, that's going to obviously offset that rate versus trend phenomena.

Alan David Schnitzer
Chairman & CEO

Yes. Elyse, we did give you some perspective on outlook for RPC in the Outlook section of the 10-Q. And certainly everything we know about loss trend goes into our pricing models and our view of rate adequacy and our view what rate we need to achieve our return objectives. I will say that, that does come in on a lag basis. We've got to see it, we've got to put it through in our models to the extent there are regulatory filings, there's a process there, then you got to put it on the book, it's got a earn in. So there is a lag between the recognition of these trends and the time price goes into the market and gets -- is put on the books. So it's a long way of saying that Commercial Auto was at an inadequate return before we saw some of these trends, it just got worse. And I think to a large degree, the pricing that we're seeing now is reflective of longer-term trends in Commercial Auto, although some of what we're seeing in the quarter will be reflective of recent trends.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, so you guys said, the increase PIKs are about $20 million going forward, that's about 50 basis points within Business Insurance. I know there is 2 buckets, 1 being Commercial Auto and then 1 being the GL portion, but you guys did increase your Commercial Auto PIKs 2 quarters ago in the fourth quarter. So just trying to get a sense, the conservatism that you guys have now that this has been addressed and why -- maybe instead of 0.5 point, it's not 1 point that you chose to increase to your loss PIKs in the current quarter?

Alan David Schnitzer
Chairman & CEO

Yes. Elyse, our objective isn't miss it high or low. Our objective is always to get it right. We're trying to come up with an estimate of losses. We price the product based on an estimate of losses and an interest rate curve. And so our objective is always to get the right price. And so we weighed through a lot of data. We've got terrific actuaries and experts that help us think through this, we've got management input on top of that. And our objective is to just get it right. So can we tell you "Boy, we swung a big stick at it, and we're done, this is it." No we can't. But we can tell you that based on everything we see in the data and based on our experience, we think we got the PIKs in the right place.

Operator

Your next question comes from Bijan Moazami with Compass Point Research.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

I guess, I want to understand a little bit more what's going on in the Commercial Auto business, in particular, you guys picked up a fair amount of premium volume this year and last year, was it all great, or was it something else? And this big tick up in BI severity, is that broad-based, or is it related to a subsection of the Commercial Auto or is it geographically located?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

This is Greg. Commercial Auto, as you can see in the quarter, we had an 8% change in net written premium. The predominant dynamic underneath that is broad RPC across the portfolio. We're clearly seeing the Commercial Auto challenges that we believe the industry is also. So it really isn't a segment of the book. It's a broad dynamic and hence the reason why we've been achieving RPC so broadly across it.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

And then regarding your $60 million reserve chart for environmental liability, I assume this is all pre-1986, and what's going on there?

Daniel Stephen Frey
Executive VP & CFO

It's Dan. I am not sure that it goes all back as far as pre-'86. It's certainly in the year -- action years older than '09. It's really a continuation of what we have seen in environmental over the last several years. We do see an improving environment in terms of the number of claims that come in. Because it is old, we do expect it's a runoff. The reaction here in this quarter is simply that things have not improved quite to the degree that we would have anticipated in our prior PIK. So you're right to think about this as mostly very old stuff, you're right to think about it as generally improving over time in terms of the volume of these things slowing down, it just hasn't slowed quite to the degree that we had previously expected.

Operator

Your next question comes from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

My first question, I guess, is just on the renewal rate number sequentially. And I'm trying to get a feel for maybe how much of that increase just had to do with the mix of the premium that you wrote in the second quarter versus the first, because I noticed that there was less workers' comp or you're obviously not getting rate, but there is a lot more property where I'm guessing the rate is better in the 3.6%. Is there any way to kind of tease out the impact of just control for mix in that 3.6% versus the -- or the 130 basis point increase sequentially?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Ryan, this is Greg, again. Comp wasn't off materially and obviously every month, we pride ourselves in our pricing to the local execution, very granular partnership with our distributions. So it depends on the accounts that are coming up, the loss experience that's associated with them, and we do our best in partnering with them, but can't really say that there was a comp dynamic drive in that. It was really the exposures that came up for renewal.

Ryan James Tunis
Autonomous Research LLP

And the exposure increases in workers' comp, is it fair to kind of use the exposure increase for all of BI as a good barometer of what you're seeing in comp too?

Alan David Schnitzer
Chairman & CEO

No. Not necessarily, and we don't disclose comp at that level, but not necessarily. But Ryan, I'm looking here for the data. My instinct is that there's not a big mix factor driving the overall rate change.

Ryan James Tunis
Autonomous Research LLP

Okay. That's helpful. And then, Alan, my follow-up was hitting on interest rates. First, I'm curious, what the new money yield is today for the company? And then second of all, just thinking about buybacks versus where the stock is trading, like I haven't seen it trade at this price-to-book valuation in quite some time. And I know, Alan, you've always talked about structural returns in this business being linked to a certain extent to wherever interest rates are, and I guess we're back to very low levels of interest rates. So I'm curious looking into the back half of the year, has your appetite for buybacks changed at all?

Alan David Schnitzer
Chairman & CEO

Ryan, let me start with the buyback and then I'll see if Bill wants to comment on the new money yields. But in terms of buybacks, our first objective for every dollar of capital that we generate is to invest it back in the business when we think we can do that and generate a return for it. And when we can, we're going to give it back to investors. And our alternative is to put that in a fixed income bond portfolio, and we don't think that's what our investors expect us to do. As between dividends and buybacks, we think, by and large, buybacks is the preferred solution, it's less diluted to book value per share. And so we're not trading in the stock, we're rightsizing capital and we'll continue to do that. Of course, we wouldn't be buying back stock if we thought the stock was trading at above intrinsic value, and we don't. So this really is -- it's not tactical. We're rightsizing capital and it's a strategy to deliver shareholder value. And over the last 10 or 12 years, we get this question from time-to-time when -- depending on where the stock is trading. And so this has come as a concern before or at least as a question before, maybe not a concern, and I would just point out since '06, we bought back something like $35 million worth of stock and at an average price per share of, I think, $66 or $67 a share. So we feel pretty good that we've bought the stock back thoughtfully and in a way that's created shareholder value and no change in our philosophy. Bill, do you want to comment on new money?

William Herbert Heyman
Vice Chairman & Chief Investment Officer

Ryan, in terms of new money yields, in the second quarter, the new money yield was between 3% and 3.25%. It ended the quarter what was the bottom of that range, and it's probably about there now. We think more in terms of the relationship between new money yields and mature yields. And obviously in the fourth quarter of last year, we were reinvesting at book yields comfortably above money running off. We were above in this first quarter, but less so, but obviously in the second quarter, we slipped below and rates were at the lowest point in that cycle. To measure the gap and on a daily basis, it's random, so we do it over periods. We look at the curve and spreads, we look at what is running off, we look at the mix of assets we're buying, which also changes, and we also look at sales we're making in the market and we do make some sales, especially in areas where the tax reform act changed the profitability to us of certain products. I can tell you that the gap, as we measure it, is in excess of 50 basis points and can run higher than that.

Alan David Schnitzer
Chairman & CEO

And Ryan, the net effect of everything built this year was in the outlook for NII that Dan shared in his prepared remarks and that's in the outlook section of the 10-Q. So that would all be reflected in that number.

Operator

Your next question comes from Meyer Shields with KBW.

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

So quick question, I guess, on the workers' compensation reserve release. It's not a perfect comparison, but Schedule P showed $625 million-or-so of releases in full year 2018 for workers' compensation. So it seems like the pace is picking up, and I was wondering is that because of more conservative loss PIKs or incrementally better observed loss trends?

Daniel Stephen Frey
Executive VP & CFO

It's Dan. I wouldn't say more conservative loss PIKs. I would say, we're simply doing what we always do, which is every quarter we're going to go through all the data as it comes in relative to the expectations that we had in the previous set of PIKs. Clearly, we've moved over time favorably in prior year reserve development in workers' comp. We do take those things and reflect them in our most recent views. What you see this quarter is simply another quarter's worth of data where things had come in more favorably than what we would have embedded in the prior PIK. I don't think this is in anyway the unwinding of some increase in conservatism in prior PIKs.

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

Okay. That's helpful. And then, I guess, this is for Michael. When we -- if we take out the Personal Auto and Agency Homeowners from total personal lines, it seems like the remainder, the direct-to-consumer and international, actually saw about 200 basis point in the quarter loss ratio on a year-over-year basis, excluding catastrophes and reserve development. Is that mix? Is that international?

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

So we obviously disclosed the segment, we disclosed the components and you're talking about the delta. I would say -- and we sort of talked about this in past quarters, the Canada -- the international book, which is predominantly Ontario auto, but broadly Canada has been underperforming. We're being impacted there by similar trends and experience that you've heard others in the industry talk about. We've got a game plan to work to improve that, but it's a challenging environment. I will say, on a positive note, we've got the 7-point rate increase approved by Ontario earlier this year. We have another rate increase on file with the regulators, as we speak. And through that and some distribution management and underwriting actions, we're working to improve the performance there. But yes, the delta there is really a drag primarily from international.

Operator

Your next question comes from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Going to the rate improvement in Business Insurance, so I think you said that it's currently in excess of loss trends on a written basis. Considering the fact that loss trends have moved up over the last couple of quarters, at least, I guess, what quarter was the inflection point in terms of achieving rate in excess of trends?

Alan David Schnitzer
Chairman & CEO

Yes. Yaron, that's a hard one to pick here on the fly. We're talking about going back and looking at it. We've said for a few quarters that they were close one way or the other a couple of quarters ago when we said written was a little bit ahead of trend. It was -- now based on our new view, it's probably a little bit behind trend. Exactly what quarter-to-date, the inflection point is hard to pick. There is a lot of estimation in all of it. We can tell you that as you heard Greg say in his prepared remarks where we are today, and it's not just rate, it's rate and exposure. Where we are today even taking into account our updated view of loss trend, we feel like, on a written basis, we're expanding margins.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That's helpful. And then if we turn to homeowners, so the deterioration in the loss ratio comes in the face of strong net premiums written growth and the quantum to product and in-home. Is the quantum product [you viewed as] the growth strategy performing as expected? And is it just a matter of severe non-cat weather that's kind of thrown a wrinkle this quarter or -- I want to stop there.

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

Sure, and this is Michael. I would say the short answer to your question is yes, the Quantum Home 2 product is performing as expected as we monitor the loss experience there and in particular, the data that's most credible feel at this early stages is frequency, but the loss experience is performing as we expected in the product. And in this quarter, really the miss on underlying is actually more than explained by the non-cat weather variance. I will take a step back and just talk to you sort of more broadly about homeowners profitability and just remind everybody that we have been talking about a bit of pressure on underlying loss experience in property, some of that weather-related, some of that nonweather water-related. And while non-weather water wasn't a significant impact this quarter, it doesn't mean it's gone away. And so that's behind my comments about continuing to drive for price change in homeowners in order to address some of those underlying profitability challenges. But again, we think it's really weather-related and a little bit of non-weather water-related less about the product itself.

Operator

Your next question comes from Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Maybe 2 quick follow-ups on the total climate. The first question I have is what should give us confidence that this, I guess, adverse trend line will not spread across other segments. Is it more so the inherent, I guess, nature of Commercial Auto, which leaves it open to the plaintiffs' bar chasing it? Or what else is going on, on a bit more deeper basis?

Alan David Schnitzer
Chairman & CEO

Amit, I think we have said in prior quarters that we do see this thematically across liability lines. So whether it's bodily injury severity in personal auto or whether it's the CMP product or -- we have said we see it broadly. But we've also said that this is driven by a Commercial Auto underlying dynamic and the reason and I think, we went into this a little bit in the fourth quarter, but the reason is there's a high degree of homogeneity to those losses. And so in terms of the plaintiffs' bars business model, there is just a lot of attractiveness to that as compared to other claims. Slip and fall, for example, where it's going to be highly dependent or -- anyway, more dependent on facts and circumstances and it's a little bit more complicated to litigate. But again as we've said in the past, we do see this thematically and we are taking that into account in all of our loss PIKs. Just so far it's been for the most part a Commercial Auto dynamic.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. The second question and my only question is, if you look at the past trend lines, and I think all of us have lived through adverse total climate, is your margin guidance -- is the thought process that it stabilizes here or are we at an inflection point? Or what should give us confidence that this does not deteriorate or continue to deteriorate further and then sort of swing back? I mean, how do we think about the inflection point here on this slide?

Alan David Schnitzer
Chairman & CEO

Amit, Greg did say in his prepared remarks that we did increase our loss PIKs for BI as a consequence of what we're hearing. So we are -- we think that the starting point was higher and the inflation rate from here is higher. As I said in my answer to a prior question, do we think we've taken care of all of this? We think so otherwise we would have done something different. Having said that, we're not trying to be aggressive or conservative. We're trying to get it right. Our loss estimates or yield losses go into our pricing. And so it's important that we sharpen the pencil and put our very best estimate on it, and that's what we've done. And I think you can look back over some number of years in our business and our track record, and whether it's in Commercial Auto or whether it's in Personal Auto or other issues, this is insurance, loss estimates and underlying loss dynamics are going to change. And all you can hope is that you've got the right data, the right analytics, the right experience and the right expertise to see it and react to it. And we think if you look back over time in our business, we've done a pretty good job of reacting to that. And this -- it's unfortunate when it happens, but that's the business we're in and we think that we've done all the right things.

Operator

Your next question comes from Brian Meredith with UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

I'm just curious here. Looking at the middle market, new business down year-over-year, little bit of deterioration to retentions, are you guys starting to dig in your heels a little bit more right now just on pricing in terms and conditions? Maybe kind of like we start to see happen back in 2011, Greg, it doesn't seems like an extreme situation. But is that -- should we expect kind of new business to continue to kind of be more challenging here going forward, maybe retention start to deteriorate a little bit?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Brian, this is Greg. First, when you do that math, you're looking down from a really strong period in the prior year, and we've shared with you in the past all those strategic initiatives we've been executing in the business really to free up our underwriters and give them more capacity to be active in the marketplace. The word active, we'll use based on different environments in the business. Right now active is really addressing what you said, making sure that we do have the right terms and conditions and most importantly, the right adequate price on the product. And so our underwriters have been using a lot of that capacity right now to improve the margins on the business, and we think in terms of the book of business and your question on retention, we think it's a really high-quality book of business. And we do everything possible to work with our distributors to try to keep those retention levels up there, while improving the margins on the business also.

Alan David Schnitzer
Chairman & CEO

I would like to point out, 2011 was a very different environment in terms of where we were in terms of rate adequacy and returns. So it's difficult to draw a comparison. Every point in the cycle is different, and I'm not sure there's a lot of comparison.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you, got you. And then second question, just quickly here. I know you guys are in Q2, but you do have an excess and surplus line through a nonadmitted carrier. Can you give us any differentiation between those 2 markets as far as what you're seeing happening in nonadmitted versus admitted? What you're seeing...

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Brian, this is Greg, again. Sure. We see some of the industry statistics also where there has been an uptick in some of the larger states from a nonadmitted point of view. Just as a reminder, we have 2 areas where we write nonadmitted business, one in our north field business, which is a less complex solution, a smaller business exposure, you can think of it that way. And then we also use the nonadmitted business across our property book of business. But as you said, certainly not a real big part of our product strategy. And that's because we think we've got really modular and customized product offerings and what we need to do to address terms and conditions in this market, our product portfolio has been able to do that. So we've been comfortable with that portfolio mix.

Operator

We have completed the allotted time for questions. I would now like to turn the call back over to Abbe Goldstein for closing remarks.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thanks, everyone, for joining us this morning. As always, if you have any follow-up, please feel free to get in touch with Investor Relations, and have a good day.

Operator

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