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Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Fourth Quarter Results Teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on January 19, 2024. At this time, I would like to turn the conference over to Ms. Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, you may begin.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to Travelers' discussion of our Fourth Quarter 2023 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our 3 segment presidents: Greg Toczydlowski of Business Insurance, Jeff Klenk, of Bond & Specialty Insurance; and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take your questions.

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

These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements. Also in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials 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 exceptional top and bottom line results for the quarter. Core income, earnings per share and return on equity were all record highs driven by both underwriting and investment results. Our underwriting gains were broad-based.

In each of our 3 segments, underlying underwriting income was higher and prior year development was favorable. Catastrophe losses were also light. Record underlying underwriting income resulted from net earned premiums of $10 billion, up more than 13% over the prior year quarter and an underlying combined ratio, which improved 5.5 points to a record 85.9%.

Looking at our 2 commercial segments together, the aggregate BI BSI underlying combined ratio was an excellent 85.9% for the quarter. The underlying combined ratio in Personal Insurance was coincidentally also 85.9%, an improvement of more than 10 points year-over-year. In addition, we are pleased to have delivered full year core income of $3.1 billion, generating core return on equity of 11.5%.

Notwithstanding elevated industry-wide catastrophe losses earlier in the year, and a personal lines operating environment that while improving was difficult during the year.

Turning to investments. Our high-quality investment portfolio continued to perform well. Generating after-tax net investment income of $645 million for the quarter and $2.4 billion for the year, driven by strong and reliable returns from our growing fixed income portfolio.

Our operating results, together with our strong balance sheet, enabled us to grow adjusted book value per share by 8% during the year. After making important investments in our business and returning nearly $2 billion of excess capital to shareholders, through dividends and share repurchases.

Turning to the top line. We grew net written premiums by 13% to $10 billion in the quarter. For the year, we grew net written premiums by 14% to more than $40 billion. All 3 segments contributed to our top line success. In Business Insurance, we grew net written premiums in the quarter by 14% to more than $5 billion. Renewal premium change remained high at 11.8% while retention also remained high at 87%.

The combination of strong pricing and retention reflects deliberate execution on our part and the disciplined marketplace. The segment generated $672 million of new business in the quarter, which was $118 million or about 20% higher than in the prior year quarter.

In Bond & Specialty Insurance, net written premiums increased by 7% to $989 million, driven by excellent production in our surety business, where net written premiums were up 9%. Production was also strong in our management liability business. Given the attractive returns, we are very pleased with the strong production results in both of our commercial business segments.

In Personal Insurance, top line growth of 13% was driven by higher pricing. Renewal premium change was 21.2% in home and 16.7% in our auto business. Renewal premium change alone contributed more than $2 billion of written premium in this segment over the past year. With another strong production -- with another year of strong production in each of our segments, we feel very well positioned for the new year. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

Before I turn the call over to Dan, I'd like to take a minute and put our 2023 results into an overtime context with an update to some data we shared previously. A half dozen or so years ago, we laid out a focused innovation strategy. Ensure that if we were successful in this execution, we would expect to grow our business at attractive returns. A reflection of our belief that any strategy to achieve industry-leading returns over time requires a strategy to grow over time.

The data on Slide 19 of the webcast presentation show the success we've achieved. Starting at the top left corner. In terms of the top line, we've grown net written premiums at a compound annual rate of 7% over the past 7 years. That's 2.5x our rate of growth from 2012 to 2016. The growth rate in each of the past 2 years was double digits, the result of a deliberate and tailored strategy, stronger pricing where we need it and a combination of pricing and unit growth where we like the opportunity.

In Business Insurance, we've added more than $4 billion to our top line over the past 2 years. The investments we've made in capabilities to enhance the franchise value that we offer to our customers and distribution partners have contributed to strong retention and growth in new business.

In Bond & Specialty, we've increased net written premiums over that period by about $0.5 billion or 14%. More than half of that growth has come from a very profitable surety business, where our market-leading position has enabled us to benefit from increased demand for bonds with higher contract values and projects resulting from the Federal Infrastructure and Jobs Act and other federal programs.

Across both of our commercial segments, since 2021, we have about doubled our E&S writings to around $2.5 billion. That includes organic growth from the E&S business we write in National Property, our North field business and our Lloyd's business as well as the impact of more recent strategic efforts, which include our relationships with Fidelis and Corvus.

The margins in our E&S business are quite attractive. In Personal Insurance, where margins have not been at target levels in recent periods. Net written premium growth of $3.4 billion over the past 2 years has been almost entirely a result of price increases. The PI team has done an excellent job of threading the needle, maintaining a strong customer base while achieving meaningful pricing gains.

They've also done a great job with private product management. Our advanced peril-by-peril Quantum Auto 2.0 offering now represents more than 60% of the domestic property portfolio. And adoption of our telematics product and Teledrive among new customers has been strong. With pricing gains and enhanced product sophistication, the book should contribute to our earnings power going forward as we move to our target returns.

Also important is that across all 3 segments, we've grown mostly in products, classes of business and geographies and through distribution partners that we know well. That gives us a lot of confidence in the business we're adding to the books. Moving to the right, you can see that while we've meaningfully increased our rate of growth, we've maintained very strong and consistent underlying profitability.

That demonstrates that we're not growing by underpricing the business or compromising our underwriting discipline. We've grown by investing in the products, services and experiences that our customers want to buy and our distribution partners want to sell. We've also grown through a lot of great hustle and hard work on the part of our outstanding field organization. One of the clear strategic objectives of our innovation strategy has been to optimize productivity and efficiency.

Moving to the top right of the slide, you can see that over the last 7 years, we've reduced our expense ratio by 3.6 points to just over 28% for 2023, which is more than a 10% reduction relative to our 2012 to 2016 expense ratio of around 32%. Enhanced operating leverage gives us the flexibility to let the benefit fall to the bottom line and/or invest further in our strategic priorities.

Case in point, as you can see on Slide 21, since 2017, we have doubled our investments in strategic technology initiatives. Over that same period, we've carefully managed growth in routine but necessary technology expenditures. In other words, over a 7-year period, we simultaneously and meaningfully increased our technology spend, improve the strategic mix of that spend and lowered our expense ratio.

The upshot of what we've accomplished on the top half of Slide 19 is what you see on the bottom half. On the bottom left, you can see that we've increased underlying underwriting income significantly. From 2012 to 2019, underlying underwriting income averaged $1.3 billion. In 2020, we crossed the $2 billion mark, and 2023 marks the first time that we've exceeded $3 billion.

We've taken our underlying underwriting income to a meaningfully higher level. We've also significantly increased our cash flow from operations to more than $7.5 billion in 2023. The fourth consecutive year it's been more than $6 billion and more than double our average cash flow from operations in the earlier part of the last decade. Cash flow isn't a metric that we or our industry talk a lot about, but it's important. It's what gives us the ability to make important investments in our business, return excess capital to shareholders and grow the investment portfolio.

We've grown our investment portfolio significantly to nearly $93 billion. As we continue to reinvest our fixed income portfolio at higher rates, this is a highly reliable lever of earnings and value creation. To sum it up through a well-executed strategy, we've more than doubled our rate of growth, sustained strong underlying underwriting margins and meaningfully lowered our expense ratio.

That has resulted in record levels of underlying underwriting income, cash flow and invested assets. Ultimately, of course, one number that brings everything together is adjusted book value per share. On Slide 20, you can see that we have steadily increased adjusted book value per share each year since 2006 at a compound annual rate of 7.5%.

The effective management of our capital complements that result. We've increased our capital base to support the profitable growth of our business. At the same time, we've been disciplined about returning excess capital to shareholders. Over this period, we've increased our dividend at a compound annual rate of more than 8% and returned more than $40 billion to our shareholders through share repurchases at an average price of about $74 per share.

These results, together with our track record of strong returns and low volatility demonstrate the strength of our business and the success of our overtime strategy. Looking ahead, we're very confident about how we're positioned for 2024 and beyond. The fundamentals across our business are in excellent shape. We're confident that we're focused on the right strategic priorities and that with demonstrated success in execution, there's plenty more opportunity ahead of us. 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 fourth quarter was $1.6 billion, and core return on equity was 24%, both all-time record quarterly results. We're pleased to have once again generated record levels of earned premium this quarter and an excellent underlying combined ratio of 85.9%, a 5.5 point improvement from last year's quarter. The combination of premium growth and underlying margin improvement led to underlying underwriting income of $1.1 billion after tax, up $511 million or 89% from the prior year quarter.

The underlying combined ratio improved from the prior year in all 3 segments. The expense ratio for the fourth quarter improved by 0.5 point from last year's quarter to 27.4%, once again, reflecting the benefits of our focus on productivity and efficiency, coupled with strong top line growth. The full year expense ratio of 28.1% was our best ever.

As Alan mentioned, our focus is on operating leverage. And looking ahead to 2024, we're comfortable with the annual expense ratio in the range of 28% to 28.5% for now. Our fourth quarter results include a modest $125 million of pretax catastrophe losses with no individually significant events impacting our book of business.

Turning to prior year reserve development. We had total net favorable development of $132 million pretax, with all 3 segments contributing. In Business Insurance, net favorable PYD of $56 million was driven by favorability in workers' comp that was partially offset by adverse development in umbrella and general liability. Even after the reserve charge, the returns in both umbrella and GL remain very attractive.

In Bond & Specialty, net favorable PYD of $36 million was driven by better-than-expected results in both surety and management liability. Personal Insurance had $40 million of net favorable PYD driven by homeowners and other. After-tax net investment income of $645 million was up 21% from the prior year quarter.

Fixed maturity NII was again higher than the prior year quarter, reflecting both the benefit of higher average yields and the significant growth in our portfolio of invested assets.

Returns in the non-fixed income portfolio were also higher than in the prior year quarter. In terms of our outlook for fixed income NII for 2024, including earnings from short-term securities, we expect approximately $2.6 billion after tax, beginning with approximately $630 million in the first quarter and growing to approximately $675 million in the fourth quarter.

Page 22 of the webcast presentation provides information about our January 1st catastrophe reinsurance renewal. Our long-standing cat XOL treaty continues to provide coverage for both single cat events and the aggregation of losses from multiple cat events. And we've increased the amount of total coverage for 2024. Despite the growth in our property book, our attachment point remains steady, and the per occurrence loss deductible is unchanged at $100 million.

For 2024, we have placed coverage for $3.5 billion of the $4.5 billion layer above the $3.5 billion attachment point. We're pleased to have obtained the extra protection in light of the recent inflationary impact on insured values. With context, we've never hit this treaty. Nonetheless, this is prudent, affordable balance sheet protection for tail events. The cost of the additional reinsurance will be largely offset by the strong renewal pricing we continue to achieve on our direct written property premiums resulting in only a de minimis impact on the underlying combined ratio.

On a financial modeling note, let me turn your attention to Slide 23 of the webcast presentation. As we enter 2024, we thought it would be helpful to once again highlight the seasonality of our cat losses over the prior decade. As shown in the data, the second quarter has regularly and noticeably been our largest cat quarter. Cat losses in the second quarter had been on average, more than 3 combined ratio points higher than in any other quarter.

And the second quarter has been our largest cat quarter in 7 of the past 10 years. Also of interest for 2024, in light of continued strong pricing and terms in the E&S and reinsurance markets, we are pleased to share that we have renewed the 20% quota share with Fidelis. The renewal includes the same loss ratio cap we had for 2023. The written premium volume, which will again be included as part of international within the Business Insurance segment is not expected to be material to the segment. but should have a modestly favorable impact on the underlying combined ratio for 2024 as it earns in.

Turning to capital management. Operating cash flows for the quarter of $2.1 billion were again very strong. And we ended the quarter with holding company liquidity of approximately $1.5 billion. As you may have seen, S&P issued their updated capital model, and we now expect that the result of the new model will be a modest improvement in their assessment of our capital metrics. Interest rates decreased and spreads narrowed during the quarter. And as a result, our net unrealized investment loss decreased from $6.5 billion after tax at September 30 to $3.1 billion after tax at year-end.

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

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $122.90 at year-end, up 8% from a year ago. We returned $298 million of capital to our shareholders this quarter, comprising share repurchases of $66 million and dividends of $232 million. We have approximately $6 billion of capacity remaining under the share repurchase authorization from our Board of Directors.

Thinking about share repurchases in 2024, while there is no change in our capital management philosophy, we will factor in the need for increased capital in light of our top line growth as well as the $435 million we just deployed to complete the Corvus acquisition. Currently, we expect repurchases in the first quarter of somewhere around $250 million.

Recapping our results for 2023. Core income was $3.1 billion, and core ROE was 11.5%. We delivered our highest ever levels of written premium, earned premium, underlying underwriting income and cash flow from operations. In addition, we ended the year with our all-time high in adjusted book value per share and with our largest investment portfolio ever. We've never been better positioned for the year ahead.

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 had another strong quarter, rounding on a terrific year in terms of financial results, execution in the marketplace and progress on our strategic initiatives. Last year at this time, I indicated that we were firing on all cylinders, and that certainly remains the case today. Segment income for the quarter was $957 million, our highest quarter ever and up well over $200 million from the prior year quarter, driven by higher underlying underwriting income and net investment income as well as lower catastrophes.

The all-in combined ratio of 86.5% was a great result, and we're once again particularly pleased with our exceptional underlying combined ratio of 86.8% and an all-time best result. The underlying loss ratio improved by almost 2.5 points from the prior year quarter, with the drivers of the improvement, including the benefit of earned pricing a mix shift to the property line and an impact from non-cat weather that was modestly favorable to both the prior year and our expectations.

The expense ratio remained excellent at 28.8%. Net written premiums for the quarter were up 14% from the prior year to a fourth quarter record of $5 billion, benefiting from high retention, strong renewal premium change and an increase in new business levels. As Alan mentioned, given the attractive margins in this segment, we're very pleased with this growth.

Turning to domestic production for the quarter. Renewal premium change was once again historically high at 11.8%, with renewal rate change of 7.4% and continued strong growth and exposure. Renewal rate change increased from the third quarter in select and middle market, however, ticked down at the segment level, driven almost entirely by a lower mix of national property written premium in the fourth quarter as compared to the third quarter.

Retention remained excellent at 87% and new business of $672 million was the strongest fourth quarter we've ever produced. We're thrilled with these production results and our field superior execution in the marketplace. In terms of pricing, we're pleased to be able to sustain strong levels of renewal premium change to address the persistent environmental headwinds. As for renewal rate change, during the quarter, we achieved meaningful renewal rate increases in all lines other than workers' comp.

The property, umbrella and auto lines led the way. Renewal rate change in each of the casualty lines was comparable or better than the third quarter. And given our high-quality book as well as several years of meaningful price increases and improvements in terms and conditions, we're very pleased to continue to produce historically strong retention levels.

As for the individual businesses, in select, renewal premium change remained strong at 11.9%, up more than 1.5 points from the third quarter driven by renewal rate change, which increased to 4.1% for the quarter. Even with strong pricing, retention remained very strong at 85%. New business was up $49 million from the prior year quarter driven in large part by the continued success of our BOP 2.0 product.

In middle market, renewal premium change of 10.4% and retention of 90% remained historically strong. New business of $348 million was an all-time best fourth quarter result. As we close out 2023, let me provide a little color on full year results before turning the call over to Jeff. Segment income was nearly $2.6 billion, an exceptional result. The underlying combined ratio of 88.9%, top line of $20.4 billion. Renewal premium change, retention and new business premiums were all record results. These results are a direct reflection of our successful execution of our thoughtful and deliberate strategies.

And while delivering these financial and production results, we've also continued to invest in strategic capabilities that will enhance our many competitive advantages. For example, during the year, we continued to advance our data and analytics capabilities by leveraging evolving technologies, including AI, and new data sources to help us manage the portfolio and equip our frontline underwriters with data and insights to better enable our risk selection, underwriting and pricing.

In addition, we continued to advance our already state-of-the-art product and service capabilities by continuing to roll out our BOP 2.0 product, which is now live in all but a couple of states as well as our new commercial auto product, which is now live in 14 states.

Both products deliver industry-leading segmentation and user experiences. In addition, we continue to make progress on developing other industry-leading user experience capabilities to make it easier and more efficient for our distribution partners and customers to do business with us. In particular, in our middle market business, we advanced our capabilities around digitizing the underwriting transaction for our agents and brokers.

In our Small Commercial business, we continued to roll out our new front-end rate quote and issue interface platform to make it faster and easier for our agents to write business with us, while maintaining all the underwriting discipline and specialization behind the scenes. And finally, we continued to improve our operating leverage through our relentless focus on productivity and efficiency. We're proud of these extraordinary results in the best-in-class team that produce them.

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

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

Thanks, Greg. Bond & Specialty ended a strong 2023 with a terrific quarter on both the top and bottom lines. Segment income was $240 million, up 9% from the prior year quarter. delivered very strong underlying underwriting income and an outstanding underlying combined ratio of 80.6%. Turning to the top line. We grew net written premiums by 7% in the quarter. In our high-quality domestic management liability business, we again delivered excellent retention of 90%, in line with the prior year quarter, while continuing to achieve positive renewal premium change.

New business was up driven by a new domestic cyber capacity agreement with Corvus. Surety net written premiums increased 9%, reflecting continued strong demand for surety bonds. So we're pleased to have once again delivered terrific top and bottom line results this quarter, capping off a year during which we generated record segment income and net written premium.

Finally, we're pleased that earlier this month, we closed our previously announced acquisition of Corvus Insurance. Corvus is an industry-leading cyber insurance managing general underwriter, powered by proprietary technology. Corvus has developed cutting-edge capabilities, including digitally integrated cyber sales, underwriting, service and support, sophisticated underwriting algorithms and advanced vulnerability scanning.

Corvus also brings deep cyber underwriting and risk management expertise, and we're pleased to welcome them to the Travelers family. This acquisition affords us the opportunity to write Corvus' profitable book of business which will be reflected as new business in our production results over the course of 2024.

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

Michael Frederick Klein
Executive VP & President of Personal Insurance

Thanks, Jeff, and good morning, everyone. I'm pleased to share that Personal Insurance generated $520 million of fourth quarter segment income, strong results and a significant improvement compared to the prior year quarter, due to higher underlying underwriting income and lower catastrophe losses. The underlying combined ratio of 85.9% improved over 10 points compared to the prior year quarter, reflecting improvements in both Automobile and Homeowners and Other.

Net written premiums grew 13%, driven by continued elevated levels of renewal premium change in both Auto and Home bringing full year net written premiums to a record of nearly $16 billion. In automobile, the fourth quarter combined ratio was 103.6%. The underlying combined ratio of 102.7% improved nearly 8 points compared to the prior year quarter.

This improvement was driven by the benefit of higher earned pricing. To a lesser extent, it also benefited from the year-over-year impact of a modest favorable re-estimation of prior quarters in the current year compared to a modest unfavorable re-estimation in the prior year quarter.

In Homeowners and Other, the fourth quarter combined ratio of 70.8% improved by over 28 points, reflecting catastrophe losses that were favorable to both the prior year quarter and our expectations and an improved underlying combined ratio. The underlying combined ratio improved 12.5 points, primarily due to non-catastrophe weather-related losses that were favorable to both the prior year and our expectations and the impact of earned pricing.

Turning to production. Our results demonstrate our continued disciplined execution of rate and non-rate actions to improve profitability and manage growth. In domestic automobile retention remained consistent. Renewal premium change of 16.7% remains strong and as expected, moderated from the third quarter of 2023, as the majority of our book reached rate adequacy on a written basis.

We expect renewal premium change to remain in the mid-teens through the first half of 2024 as we continue to assess the environment and seek rate on a state-by-state basis as appropriate. We're pleased to note that auto new business increased relative to the prior year quarter, as we tempered our non-rate actions in states where we've achieved written rate adequacy. We will continue to evaluate our non-rate measures as more states reach adequacy throughout 2024.

In Homeowners and Other, retention remained consistent even as renewal premium change reached a record level at 21.2%, primarily driven by higher renewal rate change. As we noted last quarter, we expect homeowners' renewal premium change to moderate to low double digits in 2024. We will continue to see great increases in response to elevated loss levels. But at the same time, our automatic increase in limit factors will return to more normal levels, reflecting the progress we've made on aligning insured values with replacement costs.

Our continued efforts to manage new business flow and thoughtfully deploy capacity in the face of market dislocation drove the year-over-year decline in homeowners new business and policies enforced during the quarter. We anticipate this trend will continue as we take further actions to improve profitability and manage growth in property.

In 2023, we made notable progress on improving the underlying fundamentals of our business and are moving towards our goal of delivering target returns. While the environment remains dynamic, we're confident we're on a path to generating leading returns in personal insurance and growing profitably over time.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thanks very much. We're happy to open up for your questions.

Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I just had a question on the Business Insurance underlying loss ratio. And if you could size the components of the improvement between earned pricing above trend the light non-cat weather as well as the property mix shift?

Daniel Stephen Frey
Executive VP & CFO

David, it's Dan. So we're not going to put numbers on them. But price versus trend has been favorable throughout the last couple of years and was favorable again this quarter. A little bit of a mix shift towards property, as Greg said, and modestly favorable non-cat weather impact, not huge but worth to mention, but we're not going to put numbers on each of those.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then I think it's been 5 of the last 7 quarters or something like that where you guys called out the general liability umbrella as areas of reserve increases in business insurance. I'm wondering if we could get a little bit more detail about exactly what you guys are seeing and reacting to, and if you think we're closer to the end of some of these true-ups?

Daniel Stephen Frey
Executive VP & CFO

Sure, David. It's Dan again. So not big, big movements this quarter, more of the same, more of what we've sort of been talking about the last couple of quarters, which is no surprises in terms of the themes of the things that we're seeing come through those numbers, but the magnitude has been a little greater than we had allowed for previously, and we're just looking at the data that comes in every quarter and try to make sure we stay as current with it as we can. And so a modest reaction to keep up with that, but nothing really new.

Operator

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

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

Well, first of all, you had a great fourth quarter, so congratulations. But I wanted to focus on Slide 7, the return on equity slide and you guys have all mapped out really a pretty strong outlook. And I guess I'm trying to reconcile what is looks to be a very pretty good outlook with the fact that your ROE is running below where I think it should be.

I feel like the ROE should be running higher. So maybe, Alan, you can provide some perspectives because I know the ROE is an important factor that you guys look at.

Daniel Stephen Frey
Executive VP & CFO

Greg, it's Dan. I'll start. So look, 11.5% for ROE for a full year, pretty good number, another year, double digits, well above our cost of capital, and the risk-free rate, not quite where we'd like it to be. And I think the biggest contributor, and as you called out, Slide 7 is that yellow bar from the contribution from underwriting really impacted, as we talked about, especially in the second quarter and the third quarter by a very elevated level of catastrophe losses for the year.

That's not what we expect to be the new normal run rate. We're certainly factoring more recent cat experience into our view of cat expectations going forward, but we wouldn't expect it to be elevated at that level.

Alan David Schnitzer
Chairman & CEO

Greg, it's Alan. The other thing I would add to that is I won't tell you would do, but one of the things I do every quarter is try to take a stab at normalizing these things. And so eliminate prior year development and put in for cats, whatever you think is a normalized cat number and then you get a different perspective.

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

Right. Okay. And then Dan, I just wanted to go back to your comments about share repurchase and uses of capital. I know you talked about the expectation for what's going to happen in the first quarter, and you talked about capital. Are there any other things you'd like to call out in terms of capital allocation outside of dividends and share repurchase.

Alan David Schnitzer
Chairman & CEO

Let me start with that, and then I'll see what observations Dan has on that. So I think we've said for a very long time, our first objective for every dollar of capital we generate is to invest it back in the business when we think we can do that and achieve our objectives and contribute to shareholder value.

But we think we've got a long track record that demonstrates our discipline with shareholders' capital. And so we're going to invest the money back in the business when we can and that could be keeping capital on the balance sheet to support profitable growth. It could be buying things like Corvus.

It could be investing in technology or people doing the things that we think we can do that are accretive to our objectives. And when we can't do that, we're going to give the dollars back. So it's a long-winded way of saying no change at all in our capital management loss. Dan, [indiscernible].

Daniel Stephen Frey
Executive VP & CFO

I agree entirely. There's no hidden message in there, Greg. It's business as usual.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the Fidelis relationship. Dan, I think you called out and said you expect a modest favorable impact in 2024. Can you just give us a sense of how favorable that deal was to '23 margins within BI and how we should think about the year-over-year improvement you guys are expecting in '24 versus '23?

Daniel Stephen Frey
Executive VP & CFO

Sure, Elyse, it's Dan. So really not going to put a very fine number on it. Keep in mind now that Fidelis is now a stand-alone public company. They haven't reported results yet. I don't think it would be appropriate for us to give an outlook of what we felt about their profitability. But it was a modest help in 2023. It will be a modest help again in 2024.

There'll be a little bigger base of earned premium as we'll have 2 years' worth of written impacting 2024. So worth calling out as a modest benefit, but not a big number, and I really don't think it would be appropriate for us to try to put a finer number on it than that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Then within personal auto, what percent of your states or premium still have non-rate restrictions in place.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Elyse, I don't think we'll get more specific than the majority, but you can think of the non-rate restrictions as tracking very closely with where we see written adequacy state by state. So the majority of the premium is in states where we have relaxed some of those or tempered some of those non-rate actions because the majority of premium is in states where we've got target returns on a written basis.

And again, as I indicated in the -- in my prepared remarks, we'll continue to follow that path as more states get adequate will temper actions in those states as they reach adequacy.

Operator

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

Ryan James Tunis
Autonomous Research US LP

I guess my question is just looking at the rate slides. We saw an acceleration of pricing in middle market in select obviously, a decelerated headline. So I'm guessing that means there's deceleration in national property. Could you just, I guess, talk a little bit about the relative pricing dynamics in those 3 markets?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Ryan, it's Greg. Yes, you can see, if you look at underneath the price, and you can see rate is up in both the middle market and Select business. So the residual that makes up the total BI, you're correct, the preponderance of that is national property. And so a couple of dynamics this quarter in National Property One is when that plays out to the total book, we did have less weight on a net written premium national property this quarter, quarter 4 versus quarter 3 and quarter 2.

And we did have a tick down overall in Rates national property also just given where the returns are in that business, and the business is performing extremely well.

Alan David Schnitzer
Chairman & CEO

But make no mistake, Ryan, the overall rate change and renewal price change in the property line continues to be very strong.

Ryan James Tunis
Autonomous Research US LP

Got it. And then just a follow-up. We're not used to seeing this type of margin expansion in business insurance. I would think that would mean that's largely attributable to short tail lines. But I guess I was also curious, obviously, Rate's been running an excessive onstream and casualties well for a while.

We have been really talked about changing loss picks or anything like that. But was there a change on the casualty side to I guess, loss picks in the fourth quarter? Any true-up to the current year or something like that we should be aware of?

Daniel Stephen Frey
Executive VP & CFO

No. Ryan, it's Dan. Like if we have an unusual item in the quarter that's sort of nonrun rate, we'll usually try and call it out for you, including some kind of year-to-date catch-up. Michael referred to it in PI auto, but you didn't hear Greg talk about anything significant in BI because there wasn't really anything significant in BI.

So we do -- what we always do, right, go through all the lines there's puts and takes across every line, looking at frequency and severity. But on the whole, no big change in our view of blended trend.

Operator

Your next question comes from the line of Mike Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

First question is maybe looking for a little bit more color on some of the pleasantly surprising commentary about the general liability and umbrella returns still being very good despite but someone else had pointed out, was 5 of the last 7 quarters adding to reserves. So just curious, is there any more -- can you elaborate on that business? Is that maybe you're taking into account the -- you don't typically hear that. Maybe it's the investment income that's helping or it's sold as part of a package. And so the rest of the products are running at better returns? Or anything you could add to that?

Daniel Stephen Frey
Executive VP & CFO

Mike, it's Dan. So we're thinking about the returns, and that is our all-in view of return, but we are specifically looking at those lines when we make that comment, although we do, to your point, also pay a lot of attention to returns on an account basis. But those comments were specific to the liability and umbrella lines. And this really goes back to the comment that Alan made a couple of quarters ago, which is -- the amounts that were, I'll say, tweaking prior year reserve development by is really pretty modest in the scope and the scheme of those reserves. And when we look at the total volume of business that we're writing and the returns on an over time basis, we still both like both of those lines very much.

Alan David Schnitzer
Chairman & CEO

Another way to think about it might be that you think about it in terms of rate adequacy and you might have an attractive rate adequacy, you might make an adjustment to it. It might be to one degree or another, slightly less rate adequate, nonetheless, you like the rate adequacy. So that's -- it's in that context, we say we continue to like to return in those lines.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. And my follow-up, Alan, you continue to mention and show gauges of free cash flow. You also mentioned that it's -- I still don't think it's appreciated, at least I don't appreciate it why it's important. So maybe you can try to further elaborate on is it -- is the increase in cash flows, which I assume is correlated with your increased growth. Is that actually aiding your ROE? Or what are we -- why should we be focusing more on free cash flow, which has a lot of moving parts in it.

Alan David Schnitzer
Chairman & CEO

Yes. I wouldn't say it's just growth. It's a combination of profitable growth is what I would say about that. And as I've said, that I mean that's what gives us the flexibility to invest in all the important things we invest in, return capital to shareholders and grow the investment portfolio. So without strong free cash flow, we couldn't do those 3 things, and those are key to our operating model.

Operator

Your next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First question, if I look at the underlying combined ratio on your business insurance, it's, I believe, the best it's ever been since the St. Paul merger and public prior to that just on the numbers. I guess can you kind of talk a little bit about -- is that a sustainable kind of underlying combined ratio, underlying margin?

Is there more improvement potentially can go there? At what point do you kind of say, okay, the margins we're seeing on the business are about as good as we should have and there maybe more focus on growth and more expenses and other things. How do you balance that?

Alan David Schnitzer
Chairman & CEO

It's a really good question. And as you can imagine, I'm going to resist the temptation to try to share too much on an outlook of that number or what we might want to do strategically. Everything you mentioned is something we can think about. And I really would like to get away from talking about the future of margins.

But we've answered that question before with loss trend where it is and pricing where it is. So you can conclude that answer hasn't really changed. So I think I'm just going to leave it with we really like these margins. We really like the business we're putting on the books at the margin we're putting it on the books and we really like the opportunity ahead of us.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Brian, this is Greg. Just one follow-up. I would note you said you could grow the business. We are growing the business 16% on a full year basis and have strong new business. So there's a number of items that we watch and we compete in the marketplace, but growth is one of them through the lens of adequacy of our products.

Alan David Schnitzer
Chairman & CEO

Yes. And on that note, as I've shared before, we -- it's a full area in this industry to try to grow and compete on price. That's a losing proposition. we try to grow by making sure we've got the products, services and experiences that our customers want to buy and our distribution partners want to sell.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then, Michael, I'm just curious, back on personal auto. When you look at your business, the majority right now being, call it, rate adequate on a written basis, what are you kind of thinking from a loss cost in place in perspective? And is that maybe why you're not stepping on growth maybe a little bit quicker right now because of uncertainty as far as the claim severity?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Brian. It's a great question. I would say that we continue to see loss trends moderate in personal auto but they remain at elevated levels. And so I guess I would describe our outlook as cautiously optimistic, and I would just say we're staying very disciplined, as I described earlier, with state-by-state execution, making sure we have our arms around written rate adequacy and then adjusting our marketplace actions in auto accordingly.

And as I said, we're very pleased with the increase in new business production that we saw this quarter and policies in force stabilizing. And our plan is to continue down that path, achieve rate equity in additional states and for those non-rate actions as we go. and see what that does to the top line as we move forward.

Operator

Your next question comes from the line of Meyer Shields from KBW.

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

I was hoping for an update on what you're seeing in workers' compensation medical inflation. We've heard some comments about it moving back towards normalized levels and I'm wondering what Travelers experience is?

Daniel Stephen Frey
Executive VP & CFO

Meyer, it's Dan. So sure, a couple of comments on that. We do see some paid medical severity. That's now higher than what we saw in the very benign pandemic levels. On the flip side of that, frequency has been pretty favorable. And as you know, we've shared a number of times previously, our view in reserving and in pricing still assumes that there's going to be a return to that higher longer-term trend.

But when we factor all that in, in the most recent data that we're looking at, loss costs still coming in better than we expected, and that's why you get another quarter of favorable PYD.

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

Okay. Fantastic. And then switching gears. When we look at the, I guess, the premium data in Business Insurance, it looks like exposure and other components that are not rates accelerated in select but decelerated in middle market and property. And I was hoping you could talk us through that.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Meyer, this is Greg. We have a couple of dynamics going on between those 2 businesses. In Select, we have a higher exposure in workers' comp E&CMP. And for workers' comp relative to middle market, I think that it's just a different cohort of customers. So in a wage increase environment on a smaller customer base, you get bigger deltas and so that's what's driving the difference in workers' comp.

CMP, similar to what Michael said, that's our business owner product with a heavy property coverage that comes with it in. So we do have to think of it as an automatic inflationary level underneath the CMP product, so you get a little more exposure to growth there also. So those are the drivers underneath the difference between select and middle.

Operator

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

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is on Business Insurance. And I was just interested in hearing a little bit about the competitive dynamic in the market. I mean I look at the returns, the underlying loss ratios are and so forth and the ROEs that suggests and yet price accelerating and in some areas, your business retention is actually hitting pretty darn high levels.

So it also gets a lot of discipline in the marketplace. And -- just wanted to get your perspective on what is it in the environment that's causing everyone to remain so disciplined despite good underwriting and the additional contribution to net investment income.

Alan David Schnitzer
Chairman & CEO

Alex, it's Alan. Let me start and then I'll turn it over to Greg to add anything I missed. But I would say, overall, you're correct. The pricing environment remains very strong and broad-based by any historical standard or on any measure.

And as you said, even with another quarter of very strong pricing, retention remains at historical highs. And I would say in broad strokes and there's really no change here from recent quarters. In broad strokes, I think there are 2 trends impacting pricing. On the one hand, there's just a lot of uncertainty out there in the world, and there's some headwinds.

So the reinsurance market continues to be strong. You've got inflation of various varieties. You've got a tight labor market. I think weather is probably on everybody's minds, think about geopolitics these days, the world has never been more active than it is now and on and on. And so I can't speak for anybody else, but we're reacting to those things in our pricing.

At the same time, we've had -- returns were in a much better place than they were a few years ago because we've done a pretty good job with pricing terms, conditions and all the rest. And so the pricing you see from us, and you referred to it as a competitive marketplace. I would say that it is a marketplace that is pretty disciplined. I suspect reacting to many of the things that we're reacting to. Greg, anything to add?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

No, I think that's spot on.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. The second one I had is on personal auto. Can you just give us maybe a high-level idea of what's going on with severity in the claims, and we can look a lot at used cars and that kind of thing, but some of the more nuanced elements are on core repair and that kind of thing. Any color you can provide on some of those trends?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. Sure, Alex, it's Michael. Maybe just give a couple more comments relative to the comment I made earlier about moderating trends. You're right to point to sort of vehicle severity and used car prices, and we certainly see moderation there in the level of increase year-on-year. And in fact, when you look at the dynamics underneath the prior period adjustments that I described in the script, those really are driven by the physical damage coverages. Late last year, we were adding to our estimates for vehicle losses because physical damage coverages were rising more than we thought they were going to.

And this year, we actually took down some of our estimates for vehicle severity on prior periods because they've been a bit more favorable than we anticipated. Broadly speaking, severity in auto is running mid- to high single digits, think closer to mid in the vehicle severity, think closer to high and bodily injury.

And so that's sort of where trends are running today. We don't have a dramatic improvement in those trends sort of factored into our comments about when we're going to get to written adequacy state by state or those types of things, but that's a little bit more detail on sort of where things are running today.

The other thing that we've mentioned a couple of quarters throughout the year is we are also monitoring the mix of losses between vehicle loss and losses that have third-party property damage and bodily injury. We've seen a bit of a mix shift towards more bodily injury claims, which is one of the things that has us keeping our severity trend estimates at that sort of elevated level.

Operator

Your next question comes from the line of Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I want to follow directly on that maybe similar thoughts about the home part of the business, Michael.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure. Just in terms of outlook for trans [indiscernible]?

Jon Paul Newsome
Piper Sandler & Co., Research Division

Yes, please.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. So in property, again, the big driver of the improvement this quarter really was catastrophes and non-cat weather. The non-cat weather and I guess the non-weather loss dynamic that I would elaborate on is a lot of that non-cat weather favorability and some of the non-weather loss favorability that we've commented on throughout 2023, really has been frequency-driven.

We do still see pretty healthy severity trends in the property space, offsetting some of that favorable frequency. Now again, we've had favorable results in the quarter. So the net is a good guy. But labor and some large loss pressure along with that favorable frequency is what's happening kind of underneath the loss levels in property.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I'm just curious for some time, I think we've seen a little bit of a divergence between commercial auto and personal lines auto. Has that continued to be the case? Or are we seeing pretty similar claim trends in across sort of anything that drives?

Alan David Schnitzer
Chairman & CEO

I think broadly, the claim trends are similar. I mean we see similar threads. It's obviously -- I mean that the exposures are different. The size of the vehicles are different. Mike, what else would be the other, limits profile were different.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Limits profile were different. Mix of vehicle versus bodily injury is different between business insurance and personal insurance, right, Greg?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. I mean, one of the benefits, Paul, of having 2 large cohorts of auto business, commercial, auto, personal our product managers and actuaries spend a lot of time together and compare the trends. And for commercial, we'll have passenger -- private passenger, light vehicles, think Vans of that sort. And then we'll have heavies, which aren't as relevant, but we spend a lot of time on the 2 cohorts that are private passenger like and the trends are very similar, both on a frequency and severity basis between the 2 portfolios.

Operator

We have time for one more question. And that question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

Question -- most of my questions are answered. But the -- in Bond & Specialty, the results looked exceptional. But in the context of renewal premium change, I'm very curious as to how pricing fared with regard to D&O and cyber in the quarter and what you're thinking in terms of those 2 lines going into 2024.

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

Yes. Andrew, this is Jeff Klenk. So relative to D&O and cyber, public D&O pricing continues to be, I'd say, more pressured relative to the other liability lines. I would remind you that for public D&O and our management liability book, we're relatively underweight there. That's not been a major area of focus for us. On the cyber side, we continue to see some modest negative pricing there. I think, given some broader market perception on the returns in the line. Again, we feel really good about our execution there. We closely monitor our return profiles and are comfortable with our execution, both for those lines of business and management liability problem.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. Great. And along the same lines in business insurance with regard to workers' comp, I was wondering if you could put some numbers around that paid medical severity higher than the benign numbers you were seeing during the pandemic. I think that was in response to Meyer's question. And then the same question on the pricing of workers' comp. What are you thinking about going into 2024 as you proceed?

Daniel Stephen Frey
Executive VP & CFO

Andrew, it's Dan. So I'll start and disappoint you on the work comp severity. So we're not going to put a number on it. But again, it's been benign. We've seen some of those numbers move up, but your starting point matters. So what you assumed medical severity was going to be inside of your overall loss pick.

Pick really matters in terms of whether a move-up is problematic for you or not. And again, we saw more favorable reserve development this quarter. And then in terms of pricing, and I'll turn it to Greg. I think the returns in comp have continued to be good. So pure rate has continued to be slightly negative for us. We are getting strong exposure increases, Greg referenced in the select comments a few minutes ago. that's the poster child for where a lot of that exposure behaves like rate because it's the same worker just earning a higher wage and we're getting paid a higher price for it. the rating agencies, the bureaus are looking at their data on a lagging basis. And until returns come under some pressure in work comp, we wouldn't be surprised to see this environment stay pretty steady.

Operator

Thank you. I will now turn the conference over to Ms. Abbe Goldstein for closing remarks.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you, everyone, for joining us today. We appreciate your time. And as always, if there's any follow-up, please feel free to reach out. Have a great day.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect.