S&P Capital IQ

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The Travelers Companies, Inc. NYSE:TRV

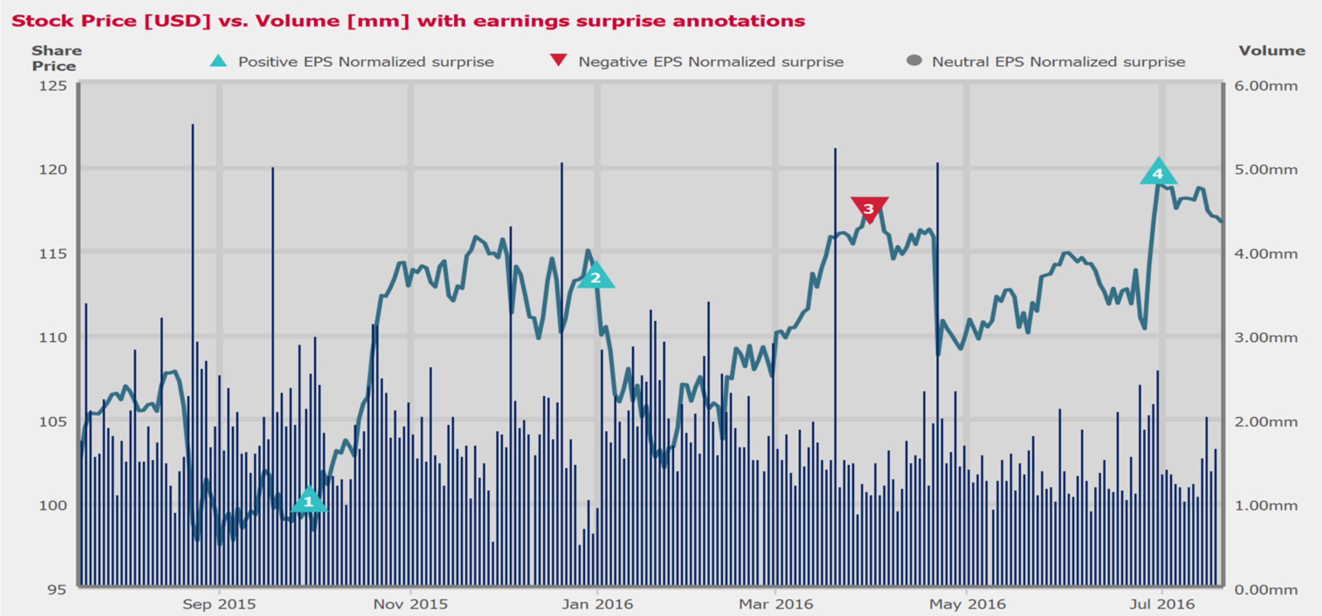
FQ3 2016 Earnings Call Transcripts

Thursday, October 20, 2016 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.36	2.40	▲1.69	2.62	9.49	9.78
Revenue (mm)	6209.70	6209.00	▼(0.01 %)	6211.77	24554.25	25179.44

Currency: USD
Consensus as of Oct-20-2016 1:54 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	2.25	2.93	▲1 30.22 %
FQ4 2015	2.66	2.90	▲2 9.02 %
FQ1 2016	2.55	2.33	▼3 (8.63 %)
FQ2 2016	2.04	2.20	▲4 7.84 %

Call Participants

EXECUTIVES

Alan David Schnitzer
Chairman of the Board & CEO

Brian W. MacLean
President and Chief Operating Officer

Gabriella Nawi
Senior Vice President of Investor Relations

Jay Steven Benet
Vice Chairman and Chief Financial Officer

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

Thomas M. Kunkel
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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Third Quarter results teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on October 20, 2016.

At this time, I would like to turn the conference over to Ms. Gabriella Nawi, Senior Vice President of Investor Relations. Ms. Nawi, you may begin.

Gabriella Nawi
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to Travelers' discussion of our 2016 third quarter result.

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 www.travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chief Executive Officer; Jay Benet, Vice Chairman and Chief Financial Officer; And Brian MacLean, President and Chief Operating Officer. They will discuss the financial results of our business in the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take questions.

In addition, other members of senior management are in the room, including Michael Klein, Executive Vice President and President, Personal Insurance; Tom Kunkel, Executive Vice President and President, Bond and Specialty Insurance; and Greg Toczydlowski, Executive Vice President and President of Business Insurance.

Before I turn it over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those projected in the forward-looking statements due to a variety of factors. These factors are described 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 question, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials that are available in the Investors section on our website, travelers.com

And now Alan Schnitzer.

Alan David Schnitzer
Chairman of the Board & CEO

Thank you, Gabby. Good morning, everyone, and thank you for joining us today. Unfortunately, I need to start on a sad note this morning. This is my fourth earnings call as CEO but the first since we lost our friend, Jay Fishman. I know I'm not alone in feeling his loss. Many of you sent thoughts and prayers. Thank you, we appreciate it.

All of us at Travelers take a great deal of comfort in knowing that we're carrying on in a culture of excellence, performance and innovation that Jay left behind. It outlives him. It's an enormous part of his legacy, and we're grateful for it. To sum it up in Jay's words, we all feel remarkably fortunate to have known him and worked with him.

At this point, Jay, would of course, demand that we get back to work, so let's get to the results.

This morning, we reported third quarter operating income of $701 million or $2.40 per share and operating return on equity of 12.5%. Our underwriting results remained strong, as reflected in our 92.9% combined ratio, and our net investment income was down only slightly from the prior year quarter. Across all our businesses, the third quarter was another example of the successful execution of our marketplace strategies.

And generally speaking, underlying trends have not changed. Pricing and retention remained stable and consistent with recent trends. In our commercial businesses, retention continues to be at historic highs, with positive renewal premium change. In domestic business insurance, renewal rate change has improved a little bit for 2 sequential quarters, led by our middle market business, where rate has also increased sequentially month-to-month in the quarter.

Underneath that Middle Market, we again achieved rate gains in excess of loss trend on our poorest-performing segments. We also benefited from a mix shift in our better-performing settlements, as the loss ratio on the retained business in those segments was better than the loss ratio on nonrenewed business, the results of managing the business on a very granular level.

In Personal Insurance, we continued to achieve strong top line growth in the quarter, with continued growth in policies in-force in both our Agency Auto and Homeowners businesses. We believe that being able to deliver an account solution to our customers and agents is an important and meaningful competitive advantage.

More than half of our personalized premium come from accounts for which we write both auto and home policies. When we write both the auto and the home, we can be more competitive in the pricing for our customers since it creates higher customer lifetime value for us through higher retentions and a more complete view of the risk. While we manage the profitability of the auto and home lines independently, we also manage to a portfolio return. We'll be focusing more than usual on the performance of the auto business this morning, but we shouldn't lose sight of the fact that the all-in combined ratio for our personal lines business was 94.1% for the 9 months, a very good result.

Turning back to consolidated results for all 3 segments. Underwriting results for the quarter were impacted by lower levels of net favorable prior year reserve development, higher noncat weather-related losses, and in personal lines, higher-than-expected losses associated with auto bodily injury. Jay Benet will have more to say about the prior year development.

The higher bodily injury severity in Personal Auto had a $29 million after tax impact on the current accident year, $20 million of which related to the first and second quarters, a modest impact. Brian will discuss it in more detail.

I'd like to highlight that we believe that the increase in auto bodily severity is environmental and not specific to the Quantum Auto 2.0 product, as we see it across all our Personal Insurance auto program and in our commercial auto and trucking books. In anticipation of this trend continuing, we are addressing it through pricing, and we believe that the product remains positioned to deliver target returns over time.

I'd also add that it's important to understand that when trends change in any part of our business, and they will, what's important is having the ability to recognize it and react quickly. We believe our leading analytics give us an important advantage in this regard.

In terms of net investment income, fixed income returns declined in line with our expectations and we were pleased to see an improvement in our returns from the nonfixed income portfolio. All of this resulted in a very strong operating return on equity in the quarter and year-to-date. Given the continued historically low interest rate environment and the other items impacting our results this quarter, we're particularly pleased with that result.

In terms of the strategy going forward, you can expect more of the same. In this low interest rate environment where underwriting matters more than ever, we have significant competitive advantages in our data and analytics expertise, claim and risk control capabilities and talent. Combining that with our active capital management strategy, we remain well positioned to continue to deliver industry-leading returns over time.

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

Jay Steven Benet
Vice Chairman and Chief Financial Officer

Thanks, Alan. Consistent with what we had said about the first 2 quarters of the year, we are once again pleased with our results this quarter: Operating income of $701 million and operating return on equity of 12.5%, notwithstanding their being lower than the prior year quarter. As in the first half of the year, these reductions did not result from fundamental changes in business trends, rather, as Alan said, they were primarily driven by lower net favorable prior year reserve development and higher noncat weather-related losses.

Net investment income, which totaled $472 million after tax, was down only $12 million from the prior year quarter, entirely due to the continuing impact of the low interest rate environment on fixed income returns. Nonfixed income returns improved from recent quarters to a level that was slightly higher than the prior year quarter.

We continue to experience net favorable prior year reserve development on a consolidated basis, which totaled $39 million pretax, down from $199 million pretax in the prior year quarter.

In Business and International Insurance, net favorable development of $19 million pretax primarily resulted from better than expected loss experienced in GL ex A&E for accident years 2006 and prior and for 2014 and 2015, and workers' comp for accident years 2006 and prior and for 2015 and in commercial auto for accident years 2011 and prior, partially offset by a $225 million increase to our asbestos reserves.

The asbestos reserves increased related to a broad number of policyholders and was driven by higher estimates for projected settlement and defense cost for mesothelioma claims than we had previously assumed. Notwithstanding these higher cost estimates, our overall view of the underlying asbestos environment remained essentially unchanged from recent periods.

In Bonds & Specialty Insurance, net favorable development of $41 million pretax primarily resulted from better than expected loss experience in Fidelity and Surety for accident years 2009 through 2015, while reserve development in Personal Insurance, which remained favorable to date, Homeowners and Other had a modest amount of unfavorable development this quarter, $21 million pretax, primarily resulting from higher than expected loss experienced for a small number of liability claims related to the 2013 and 2014 accident years. Notwithstanding this current quarter activity, the Homeowners and Other 2013 and 2014 accident years have developed net favorably since their inception.

I should also point out that the unfavorable development in Homeowners and Other this quarter did not result from any change in our reserve-setting philosophy or methodologies. As we've stated in the past and in our Qs and Ks, we always book to our best estimates and we use our advanced data and analytics to respond as quickly as we can to new information.

By its nature, reserve development is episodic, and in lines like Homeowners and Other, much of it is historically related to trueing up estimated losses caused by storm damage. The number of severe storms in recent reporting periods, their timing in relation to the reporting period in which they occurred, the causes and severity of the losses, such as wind versus water, the actual size and extent of any hail, the actual amount of additional living expenses provided, et cetera, has and will cause significant fluctuations in reserve development from period to period, and changes in levels of reserve development should not be regarded as a "trend."

Ex A&E, on a combined stat basis for all of our U.S. subs, all accident years across all product lines in the aggregate and all product lines across all accident years in the aggregate, developed favorably or had de minimis unfavorable development year to date.

While CMP currently looks as if it developed unfavorably year to date by $37 million, as I pointed out in the second quarter, there was offsetting favorable development in the property product line, as Middle Market property losses that had been recorded in the property line at year end 2015 were subsequently determined to be CMP-related.

Operating cash flows of $1.77 billion were very strong this quarter. We ended the quarter with holding company liquidity of $1.8 billion, and all of our capital ratios remained at/or better than their target levels. Net unrealized investment gains were approximately $3.1 billion pretax or $2 billion after tax, up from $2 billion and $1.3 billion, respectively, at the beginning of the year. While book value per share of $86.04 and adjusted book value per share of $78.82 increased 8% and 5%, respectively, also from the beginning of the year.

We continue to generate much more capital than we need to support our businesses, and consistent with our ongoing capital management strategy, we returned $755 million of excess capital to our shareholders this quarter through dividends of $193 million and share repurchases of $562 million. And year to date, we returned nearly $2.3 billion to our shareholders through dividends and share repurchases.

So with that, I'll turn things over to Brian.

Brian W. MacLean
President and Chief Operating Officer

Thanks, Jay. I'll start with Business and International Insurance where we had another good quarter with strong returns and production results. We were very pleased that retention remained at historically high levels while we achieved positive renewal premium change and solid new business results.

Turning to the financial results for the segment. Operating income was $457 million with a combined ratio of 96.1%. The underlying combined ratio was 94.7%, up 2.2 points compared to the prior year. The increase in the underlying loss ratio was driven primarily by noncat weather, which was higher than both the prior year quarter and our expectation, and about 0.75 points impact from loss cost trends in excess of earned pricing. These were partially offset by lower large loss activity.

Turning to production. Given the returns that we are generating in the segment, our focus continues to be on retention, and so we're very pleased that retention for our domestic business remained at 85% for the quarter. Renewal premium change was nearly 3 points, including renewal rate change that was slightly positive, while we produced new business of $431 million.

Turning to the individual businesses. In Select, retention continued to remains strong at 82%, while renewal premium change was over 5 points, and we're quite pleased that new business was up 7% over the prior year. In Middle Market, retention of 87% remains at a historical high, with renewal premium change of over 2 points. New business dollars were essentially consistent with prior year, with submissions, quotes and the number of new accounts written in the quarter up. The average size of accounts written was down slightly versus last year, but we're encouraged by the increased activity.

In Other Business Insurance on Page 12, you can see that rate and RPC both improved in the quarter and retention remained strong. New business of $124 million was down compared to the third quarter of 2015, reflecting continued disciplined underwriting for larger accounts where we don't feel that market pricing will allow us to achieve target returns.

In International, we achieved 82% retention with positive renewal premium change and a 46% increase in new business volume, resulting in a 4% increase in net written premium, excluding the impact of foreign exchange. These increases were driven by our new global construction and renewable energy groups in Lloyd's and continued success in Canada with our recently introduced Personal Lines Auto product, Optima. So all-in, a good quarter for the segment with strong production and profitability.

Turning to Bonds and Specialty Insurance. This business continues to perform exceptionally well. Operating income for the quarter of $146 million was down from the prior year quarter, driven primarily by lower -- a lower level of net favorable prior year reserve development. The underlying combined ratio of 77.4% remained strong and well within our target return levels.

On top line, net written premiums for the quarter were flat to the prior year. Across our Management Liability businesses, retention remained at historically high levels and new business volumes were up as we continued to execute our strategy of retaining our best accounts and writing more business in our return-adequate product segments. So Bonds & Specialty results remained terrific, and we continue to feel great about the segment's performance and execution in the marketplace.

I'll now turn to Personal Insurance. Alan touched on the highlights. We once again had a solid quarter with a combined ratio of 92.9% and net written premiums reaching an all-time high of $2.2 billion. Auto continues to be the bigger factor driving the growth, but Homeowners' growth continues to accelerate as well. And both products generated strong retention and new business levels.

We believe being a portfolio provider sets us apart in the marketplace and we remain pleased with the financial performance of the overall segment. The third quarter underlying combined ratio of 91% was impacted by an adjustment to our auto loss ratio that I'll discuss in a moment. And year to date underlying combined ratio of 88.9% remained strong, a very good result.

Looking at auto profitability. The underlying combined ratio for the quarter was 101.1%, up about 5 points from the prior year. About 4.5 points of this increase was due to the year-to-date impact of an adjustment we made to the loss ratio related to bodily injury severity for 2016, which for the most part, reflects higher severity in our smaller claims. About 3 points of that increase relates to the first 2 quarters of this year.

With respect to this change, I want to emphasize a few points. First, as Alan said, we believe this is environmental in nature, that is, we are seeing it across all our auto products, both in personal and commercial lines; second, what we are seeing is from the last 4 accident quarters, and for a long-tail line like auto liability, that is very recent activity; lastly, while we have been closely watching and talking to you about auto bodily injury severity for a number of years and reflecting it in our underwriting claim, pricing and reserving, recently, severity has increased to a level that's a little more than we anticipated. In response to this recent trend, we're taking the appropriate pricing actions.

Looking at auto frequency, overall, year to date 2016 frequency is generally in line with our long-term view. That said, we have seen some texture within the year. Collision frequency for the first half of the year was favorable to our long-term view while the third quarter was unfavorable. We believe the frequency volatility that we've seen in 2016 reflects normal period-to-period fluctuations. As always, we are watching the data closely and will adjust if and when appropriate, but as of now, we have not changed our long-term frequency expectations.

For perspective, the net adjustments we have made year to date related to collision frequency have less than a $3 million after tax unfavorable impact. Normally, we wouldn't talk about a variance this small, but given the amount of recent industry discussion on the topic, we felt the disclosure would be helpful.

We've also been talking to you about the impact of tenure on our auto loss ratio for a while. So let me take a few minutes to walk you through the slide on Page 19 that we've added to demonstrate the impact of tenure on a loss ratio.

Exhibit 1 in the upper left illustrates the underlying dynamic that drives the impact of tenure, namely that the loss ratio of a given cohort of business improves over time, as poorer-performing business defects and pricing segmentation improves on the business that is retained.

Moving to exhibits 2 through 4, of course, any given calendar period consists of a number of cohorts ranging from new to multiple years of age. In these exhibits, the curved line represents loss ratio by tenure, think policy year. The vertical bars represent premium volume remaining for those years and the horizontal line is the calendar period loss ratio for all cohorts, which is a premium-weighted average of the loss ratio of each cohort of business during that calendar period.

Exhibit 2 demonstrates a steady state growth scenario, think base case. During periods of consistent growth, the newer cohorts blend with the older ones, and the calendar period loss experience will generate the target loss ratio.

Exhibit 3 illustrates the impact of a higher new business growth environment, where calendar period results are more heavily influenced by the newer cohorts of business that naturally have a higher loss ratio. This drives the calendar period loss ratio higher.

Exhibit 4 illustrates a return to steady state growth at the higher levels of premium volume. The balance between the older and newer cohorts improves, the calendar paired loss ratio returns to target levels, and in addition, increased volume brings additional profit dollars.

So obviously, these are theoretical illustrations that raise a few important questions for our business. First, what is the current impact of tenure on our auto loss ratio? And the answer is, that the loss ratio -- our loss ratio is about 2 points higher than it would've been excluding this tenure impact.

Second, do we believe that our Quantum Auto 2.0 product is performing as expected? And the answer to this is that it's been maturing in line with our loss ratio expectations.

Of course, we manage the business at a very granular level and monitor the book across multiple dimensions. For example, loss cost, retention and other proxies of profitability, such as limits profile, prior experience and insurance score. In aggregate, based on all the data we have, we believe this businesses on track to produce appropriate returns. We clearly realize that the product is still relatively new in the marketplace, having launched late in 2013, but 3 years in, we are very pleased with the performance.

Turning to Homeowners. The underlying combined ratio for the quarter was a very strong 78.3%, although up about 7 points year-over-year due primarily to an unusually low amount of noncatastrophe weather-related losses last year. The current quarter result is in line with our expectations, and we remain very pleased with the returns we're seeing in this business.

So stepping back from a lot of moving pieces in the quarter, this is a franchise with a year-to-date combined ratio of 94.1% and 9% premium growth, results we feel very good about.

And with that, let me turn it back to Gabby.

Gabriella Nawi
Senior Vice President of Investor Relations
Thank you. We can now start the Q&A portion, please. Before we get started, if I could please ask you to limit yourself to 1 question and 1 follow-up so we can get as many people on the call.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First, our condolences to the Travelers family. My first question is on the Personal Auto. Thanks for the detailed explanation. If I look at the year-over-year, like for the first 9 months, the deterioration, about 2.6 points underlying combined ratio, you explained about 2 points coming from new business and another point may be coming from the rising severity re-estimates, about $29 million for the first 9 months. Is that right way to think about it? Is that these 2 factor have driven the underlying combined ratio going higher? And then if you go -- you see your outlook, you expecting actually improvements in combined ratio into 2017. I just wonder, what's that coming from? Is that, I mean, coming from the less drag from the new business parity going forward or anything else?

Brian W. MacLean
President and Chief Operating Officer

So Kai, it's Brian MacLean, and let me clarify just a couple of things. So the 2 points I referenced in my comments are that the loss ratio is elevated. You went to the delta year-over-year, that's about 1 point. So if you're thinking of where our combined ratio, our loss ratio is relative to what it should be without it, it's 200 basis points, but the year-over-year changed only 100. Another thing that -- when speaking, a lot of our commentary was to loss ratio. And importantly, remember, in this business, as we rolled out Quantum, it was really built around a pretty decent change to our cost structure. So the expense ratio is seeing some benefit, and going forward, we'll see more as volume increases. So if you're talking combined ratio, there's an expense ratio good guy in there. The basic dynamics of what you were mentioning, though, are the right components.

Alan David Schnitzer
Chairman of the Board & CEO

And Kai, it's Alan. As to the outlook, you're right. We did suggest it was going down slightly. And we identified in the outlook 3 moving pieces. One, a lower level of loss activity, just returning to a more normal level, rate versus trend as -- given our outlook for rate and loss trend. And that's offset by the continued adverse impact of tenure.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. Then a follow-up question. Do have an early indication from potential losses from Hurricane Matthew in the fourth quarter?

Alan David Schnitzer
Chairman of the Board & CEO

Yes. Kai, we anticipated that and we're happy to give you an early range, but I do want to indicate that we're just 3 weeks post storm, so it is still early for us. And it could be influenced from here to the end of the quarter by large BI claims that come up that we haven't identified yet. So we would say our range at this point is $75 million to $150 million, and that's pretax. And again, the risk factor going forward is going to be claims that we haven't seen or don't know of yet, but they could come in between now and the end of the quarter.

Operator

Our next question comes from the line of Randy Binner of FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

I wanted to just talk on severity and just to understand what it is a little bit better. Is it that the actual injury in the bodily injury in these accidents is worse? Or is it a process by which claims are being used more for -- to cover various medical conditions? Or is it a function of more aggressive trial bar? Or is it all 3? Just kind of -- I'm just trying to understand what it is that's actually driving the severity higher on the Auto.

Alan David Schnitzer
Chairman of the Board & CEO

Randy, it's Alan. I'd say you got it right sort of across the board. Generally speaking, we are seeing a higher level of severity, generally in the smaller claims, and it's a little bit more aggressive litigation and a little bit more complexity in those smaller cases. You can't turn on the TV without seeing some kind of advertisement from the trial bars. So it's hard to pinpoint it with a high degree of specificity, but generally, all those things.

Randolph Binner
FBR Capital Markets & Co., Research Division

But the follow-up then is you mentioned that you're seeing it across your commercial and personnel auto book in small case, if I got that right. So is it -- what's the similarity across the classes? And is it more people being involved in accidents? Is that a piece of it, too?

Alan David Schnitzer
Chairman of the Board & CEO

In some cases, there are more occupants of the vehicles, and in some cases, that is driving it. And generally, we can just tell you that we see the same phenomenon across both books, commercial and personal.

Operator

Our next question comes from the line of Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

I was wondering -- the first question is if you could better help me understand the auto BI uptake. You've obviously cited outside environmental factors, yet there was a modest re-estimation for the first half of 2016. Why would that not be a Travelers-specific issue? And if you look at other companies, such as Allstate and Hartford, who've had similar issues, what you've learned is this is rarely a 1-quarter issue. So maybe just help me understand why it's external and not internal.

Brian W. MacLean
President and Chief Operating Officer

So this is Brian. Let me do a couple of pieces of that. First, when we look at claim experience across our business, and we see it in personal lines, in recently written business, legacy long-tenured business across pretty much the entire spectrum of customer profile and we see it in our commercial business from small to large trucking, that tells us that this isn't something specific to our underwriting some product we have in marketplace. So it would be, in our view, highly unlikely that we'd see it that broad based and have it be just our issue. I would also talk to -- I would completely agree with the comment that auto liability, any liability line of business, it's hard to see clarity in the near-term. And so we're constantly watching these events. I am very confident, though, that we're as on top of this as anybody. And for reference, I'd just comment, I'd say look back to commentary we had going back as far as 2011, 2012 into 2013. We were talking about liability trends, what we were seeing in the auto product relative to distracted driving, relative to increased litigation, relative to increased utilization of medical diagnostic tools and the impacts on bodily injury. And to be totally honest, there were a couple of years there where we were getting a lot of questions from folks on this call about why are you seeing something no one else is talking about? And over the years, I think everybody has been talking about it. So I'm not saying that we've got it perfectly right or we ever do, but we're looking at the trends very, very closely. And what we've seen in the last 3 or 4 accident quarters has been somewhat of an elevation, as we said, particularly on the lower end of the claim size, but driving more complexity. So...

Alan David Schnitzer
Chairman of the Board & CEO

I would also add, it didn't take us completely by surprise. Our loss takes had anticipated some increased severity. This was just a tick higher than we anticipated.

Amit Kumar
Macquarie Research

My second question is, in the opening comments, you talked about pricing actions. Does that indicate that we should anticipate a slowdown in Quantum growth? Why or why not?

Alan David Schnitzer
Chairman of the Board & CEO

So I'm going to let Michael Klein jump in on that one.

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

Sure, this is Michael. I would say the impact on growth will depend upon how our pricing actions compare to those taken in the marketplace. What I can tell you is -- and it's very incremental, but if you look of the production statistics in the webcast, you will see our pricing rise quarter-over-quarter relative to where we were in 2015, and that yet, the growth has increased. So our view of where we sit currently is while we have taken some price increases above where we were running, our competitive position so far has actually remained consistent, if not improved. And you're seeing actually increased growth this quarter relative to the couple of quarters before. To the degree that we're right about this being environmental, and we think it is, we believe the marketplace will respond. And we think that our pricing actions will be sort of absorbed in the market. Could it have an impact on growth? It certainly could. But again, to the degree we think it's environmental, we'll think we'll be in line with what's going on in the marketplace.

Amit Kumar
Macquarie Research

I mean, just a quick follow-up to that. Wouldn't actually it be prudent to say, "We're trying to get a better handle on this issue, let's just pull back on growth, let's get this piece right and then come back on the growth trajectory?"

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

What I would say to that is we are addressing what we're seeing with our pricing actions and focused on making sure we've got the right price in the marketplace. The growth will be what it will be as a result, but our focus is on getting the right terms and conditions in the market to respond to this change that we've just seen.

Alan David Schnitzer
Chairman of the Board & CEO

That's exactly right, Amit. We're trying to get the right price on the right account. And based on that and the market reaction, will determine do we or which we grow.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

First, on the Personal Auto book as well. When you guys think about your margin outlook in Q4 and into 2017, I mean, what type of increase in rates are you expecting from what we saw in the third quarter? And then as we think about the margin in the fourth quarter, I guess, given the fact you added to the current accident year, should we look for a sequential improvement in the auto underlying margin? And then one other, you guys did mention adding to the 4 recent accident quarters, so was there prior year adverse development on the auto book for 2015?

Alan David Schnitzer
Chairman of the Board & CEO

That was a lot and quickly, so let me try to address what I caught, and then maybe I'll ask you to repeat what we didn't get to. So I think you asked for the outlook on rate in auto. We don't give outlook on rate, we do provide outlook on overall price. And so I think you'll see that generally, we are forecasting an increase in renewal price change, which is all-in rate and exposure. We don't quantify it any more than that other to say an increase. And I'm sorry, Elyse, what were the other questions?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Well, I was looking -- you guys had mentioned adding to the auto losses for the 4 most recent accident quarters. So were there adverse development on 2015?

Alan David Schnitzer
Chairman of the Board & CEO

There was a very little bit of adverse in the fourth quarter. It's obviously in the overall net PYD number, but it's a very small -- think after tax, single-digit number.

Gabriella Nawi
Senior Vice President of Investor Relations

Sorry, Elyse, it's Gabby. I think if I've understood your question correctly, on the current year prior quarter addition, it was $30 million pretax related to the first 6 months and, then there was roughly -- that which means $15 million a quarter, which continued in the third quarter of '16 and continued in the fourth quarter of '16. Is that your question?

Alan David Schnitzer
Chairman of the Board & CEO

I interpreted your question to be is there anything in prior year development related to this?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Yes, that was the question.

Alan David Schnitzer
Chairman of the Board & CEO

And the answer to that is in the overall net number of prior year development, there is a single digit after tax $1 million number in the fourth quarter.

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

Offset -- and this is Michael Klein. Offset by other items, so there is no adverse prior year development in auto. That number is 0 in the aggregate, so there's...

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Alan David Schnitzer
Chairman of the Board & CEO

Right. And there are always things in PYD over the various accident years that are going one way or another, and the aggregate of those things was 0.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one, if I may switch topics a little bit. In terms of your commercial lines pricing view, with inflation levels looking like they could be picking up in reserve cushions for you guys and maybe some others starting to slow overall for the industry, do you think that it's time that some companies look to take price to kind of get ahead of the inflection point if current trends continue as they are?

Alan David Schnitzer
Chairman of the Board & CEO

Yes. It's hard to answer that. I mean, I certainly can't answer that question for anybody else. You can see what our pricing has done, and our pricing is -- the headline number you see is really the aggregate of the many thousands of transactions that we complete during the quarter. And you can see that it ticked up a little bit. I will tell you that generally speaking, we feel like we are achieving the written margins that we're seeking to achieve today and feel pretty good about their product returns given where that tenure is. We do give you some outlook in the 10-Q for underwriting margins, so we'll see where the market goes.

Operator

Our next question comes from the line of Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

On the excess capital position for the company, clearly, Travelers continues to buy back stock and increases its dividend, although that -- the pace of capital return has slowed for the year to date compared to the same period of 2015. I'm trying to get a perspective on how much excess capital you feel Travelers holds now in excess of rating agency requirements.

Jay Steven Benet
Vice Chairman and Chief Financial Officer

Jay, this is Jay. You've asked the question in the past, and when we go back to what we've said at those times, as well as in our Qs and Ks, ultimately, it's going to be the earnings level of the company that's going to drive how much we return to our shareholders through dividends and share repurchases. As it relates to the specifics of excess capital, we try to manage the operating companies to what the rating agencies require of us as it relates to being a AA company. In any given quarter, based on profitability of that quarter, we might end up with a little extra capital. I think it's very, very rare that we end up with anything less than we need. So it's not a significant number and it's just going to vary from timing. Ultimately, we carry our rating agency capital level in line with the AA over time. And we return the excess. We don't sit on the excess capital.

Jay H. Gelb
Barclays PLC, Research Division

And then, Alan, on the merger and acquisition front, a lot of it -- or essentially all the growth it seems at Travelers this year is coming from personal lines with little overall top line growth in commercial insurance. Is there any interest in accelerating the commercial insurance growth through acquisitions?

Alan David Schnitzer
Chairman of the Board & CEO

Yes, Jay. We always give the same answer to that question. I can't tell you whether we will or we won't, but I can tell you that I think our shareholders should demand that we have a view on what the attractive businesses are in every market that we operate or might want to operate in and have a view on whether we want to do we them. We do think that we've come together over a couple of decades through a lot of transactions. We feel like it's a competitive advantage for us. We're good at finding them, we're good doing the diligence, we're good at negotiating them, we're good at integrating them. So we feel highly qualified to do it, and under the right terms and conditions, interested in doing it. Having said that, over the years, we're also highly attentive to the risks. You buy the entire balance sheet, you buy systems issues, you buy people issues. So we're very -- I'd say we're very aware on both sides of the analysis, but we are certainly interested in doing things if we can get them done on the right terms. And generally speaking for us, those are -- we think about it through the lens of returns. Will it -- will a transaction improve our return profile and/or will it improve our volatility? And so that's the lens, and we're always interested in looking.

Jay H. Gelb
Barclays PLC, Research Division

That makes sense, Alan. Would that include large deals as well? Something that would -- might require issuing shares?

Alan David Schnitzer
Chairman of the Board & CEO

Jay, I wouldn't make any distinction between a large deal and a small deal. All I can tell you is what the lens is through which we would evaluate it.

Operator

Our next question comes from the line of Charles Sebaski of BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

I guess the first one, just a follow-up back on Personal Auto really quickly. And I guess the question is on the timing of the rate actions that you guys took. And what I'm trying to figure out is with regard to the growth. While the PIF growth was obviously very strong, I'm wondering if the severity issues were recognized at the close of the quarter and the rating actions are going to be prospective, or these were rating actions that were taken at the beginning of the quarter, and the 11% PIF growth was after those rating actions took place.

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

So Charles, this is Michael. I would say we have been putting some rate into the market, first of all, throughout the year. The filed rate has started to rise in the quarter. I would say the growth in the quarter reflects some of that activity, but just a little bit, and there's more to come.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Excellent. And then follow-up on the weather and the commentary on higher losses from noncat weather. You guys already provide a lot of detail, which is very helpful. I'm just wondering if you could help us out a little further and give some kind of baseline of what weather losses are intended. I mean, I guess particularly in, like, a Homeowners line of business, I guess the commentary that losses are higher or lower in a particular period due to higher noncat weather that isn't specifically identified without a baseline, is -- color was hard to model or understand. And I don't know if there's some clarity you could give on a baseline for us on what noncat weather should be and what the volatility is that through the year.

Alan David Schnitzer

Chairman of the Board & CEO

Charles, it's Alan. I do appreciate the question and why you want to know. And also, I would -- I'd just thank you for acknowledging the fact that we do give a lot of color and texture and we try to be very thoughtful about that. This is one that we think about, and we think it's hard to do for a couple of reasons. One is, weather is just inherently unpredictable. There's a lot of volatility, obviously. And we don't know. We do have a plan, we do price for weather, but that reflects, generally speaking, longer-term trends. So it's -- we just don't feel like it would be particularly meaningful for us to give you a plan for next quarter or next year, just given the volatility. So we shy away from getting that specific relative to our expectations. What I will tell you, in case it's helpful, is on a year-to-date basis for the company, weather was about $70 million -- the noncat weather was about $70 million worse after tax than it was in the prior year. So I know that's not exactly what you asked for, maybe that's a little bit of color that will be helpful. But we're just a little hesitant to start giving you plan numbers.

Operator

Our next question comes from the line of Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just back to auto for a second if I could. Is it impossible to kind of understand where the accident quarter loss ratio is here at the beginning of the fourth quarter? Or just post these adjustments that you made to the current calendar year in the third quarter? And then where is that relative to kind of where you wanted that business to be running when the sort of Quantum 2.0 effort began?

Alan David Schnitzer
Chairman of the Board & CEO

I guess we're looking at each other trying to understand exactly what it is you're asking. If you're looking for a view on fourth quarter, we're not really inclined to give any information about the fourth quarter yet.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Where did -- how about where did the third quarter end? I mean, in terms of -- so you made the adjustments to the third quarter. So I would imagine if you're thinking about your prospective trend, then you're going to start with the third quarter, you're going to look at rate, and then you're going to look at loss. I'm just trying to get an idea of what's your starting point for new business today.

Alan David Schnitzer
Chairman of the Board & CEO

So stepping back, if you look at it on the 9-month and you look at PI auto, the underlying combined ratio was about a 98%. Is that helpful?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes.

Alan David Schnitzer
Chairman of the Board & CEO

And that's for the 9 months in PI. And that's on an underlying basis, ex cats and ex PYD.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And so that's the 9-month numbers. That -- has that changed throughout the year? Or is that just kind of -- that's a fair representation?

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

Michael, this is Michael. I would just say -- so for context on that underlying, right? Brian talked about the fact that there's a point of impact from tenure year-on-year in that number. The other thing is if you take the bodily injury severity number and decompose that $45 million by quarter, it's about 1.5 points on a run rate basis for the year-to-date. That 1.5 points, we expect to go forward into the fourth quarter. And the other thing I would say, just clarification on the fourth quarter outlook, the fourth quarter outlook says that we expect the combined ratio to be higher in the fourth quarter. There is a seasonality impact underneath that number, right? The combined ratio and the loss ratio in the fourth quarter run higher in the fourth quarter than they do in the first 3 quarters of the year. And so that's part of what's underneath that outlook number as well.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I mean, I guess one question I have is -- I mean, Quantum is -- it sounds like it's been very effective in a lot of ways. We've seen PIF growth, acceptance in the market. All of those things seem like a real positive. And then we have this sort of environmental trend that has been occurring in, like, fits and spurts over the last couple of years. So taking those things separately, I mean, is it possible that the growth that you've seen just might have occurred at a difficult time sort of before some of these loss trends emerged? And following up on a prior question, should that imply that at some point, we should see that growth revert back until you calibrate those things? Or is this still within your sort of expectations when you rolled out Quantum?

Alan David Schnitzer
Chairman of the Board & CEO

Yes. So let's go back a few years to where we were 3 or 4 years ago or 2 or 3 years ago when this business was shrinking at double digits. So we put Quantum Auto in and we took a lot of cost out and we've dramatically improved the overall profile of the business. So we shouldn't lose sight of that. This has been a big success. And a lot of the growth you're seeing is high in percentage terms because it's off a smaller base after a couple of years of shrinking. So that's, I think, just important context to keep in mind. We don't go out there and try to manage the growth. We try to go out there based on everything that we see and price for the return that we're looking for. And based on the market, we'll grow or we won't grow. And we feel very good about the growth. Maybe we don't have it exactly right. Maybe we'll have to adjust, I'm not really sure. And honestly, we could be adjusting up or down, not really sure. And this isn't unusual for any line of business that we have. As I said before, loss trends are going to change for one reason or another. We've got other trends in other parts of our business that have emerged favorably. And so we watch these things, we think having the diagnostics and the ability to understand it, to diagnose it, to price for it, is what's really important.

Operator

Our next question comes from the line of Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess we hit most of the issues on the auto side. Just, can you give us an update on the workers' comp business? It feels like it's been relatively stable. Are you seeing any changes in that environment, both either pricing or claims?

Alan David Schnitzer
Chairman of the Board & CEO

I would say continued stable environment, no real change in the trends. Obviously, we had a couple of court cases in Florida that the overall market has reacted to and we've reacted to. Those dollars weren't enormous for us. I think last year, we had something on the order of $34 million, $35 million pretax that we added to reserves for those 2 court cases. So relatively minor for us. But other than that, no real trends in workers' comp.

Operator

Okay, our next question comes from the line of Ryan Tunis of Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

My first question is just on thinking about the BI severity on the commercial auto side. I mean, it sounds like you guys are flagging this as an environmental issue kind of across all the wheels business. Is there a way that you can maybe help us think about the impact that had year-over-year on the loss ratio in commercial, just from the severity in commericial auto?

Alan David Schnitzer
Chairman of the Board & CEO

Yes, Ryan, what I'll tell you is on the Business Insurance side, the proportion of premium that comes from auto is just much smaller than the same is true for the PI segment. So overall, the numbers are just less significant to that segment. There were some small numbers, but nothing all that significant. The other thing I'd point out is on the commercial line side, we have more flexibility to change pricing more quickly than we do on the personal lines side.

Brian W. MacLean
President and Chief Operating Officer

Yes. The other thing I would add, Ryan, this is Brian, is when you really look at the commercial exposure, when you're thinking of smaller claims that, that could be more of a PI thing. So the actual, we did have some activity on the severity side in BI this quarter, the dollars were actually less than PI. Obviously, as Alan said, the percentage was dramatically less. We actually had a little bit of good news from frequency in the current year. Again, small dollars, but -- so you don't see the impact as much. So a bunch of different factors going into it.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay. Understood. And then I guess a follow-up for Brian, I guess, on the impact of tenure. So I guess over the last couple of years, it's been 2 points. If we would have had this conversation a year ago, it would have been 1. So then, new business currently, I guess, is growing year-over-year. And I guess this introduces the question of just how and over what time period can we really get that 2 points back? I guess especially when you think about the fact that Quantum 2, it seems like it's supposed to be a more competitively priced product. So over time, there should be a higher percentage of premium in new business. So yes, I mean, just anything you can give us on getting that 2 points back and whether or not you can get it back and keep growth anywhere close to where it is for quantum.

Brian W. MacLean
President and Chief Operating Officer

Yes. So a couple of things, and again, this is back to the theoretical example. Although not possible, if you keep growing, you keep kind of chasing it. But if you keep growing with business that you believe has lifetime value that's meeting your returns, then it's all a good thing. So -- and I get that that's a theoretical comment. The real -- and we're not going to disclose exactly what the timing is because that would leave someone to be able to triangulate exactly how we're pricing and the returns that we're -- where specific returns we're targeting. But the answer is it's kind of a function of when -- what do you think is going to happen to our growth. It's not going to reverse in the next year or 2. It's going to take a while to play out. The other thing that is certainly worth noting is we talk a lot about the ratio. As we grow and it performs, we're generating profit dollars that are incremental to the franchise. And obviously, that's a good thing.

Operator

And our next question comes from the line of Sarah DeWitt of JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

In the Q, you provide guidance that the Personal Auto combined ratio on an underlying basis could improve in 2017. What are your assumptions in terms of the auto BI severity there? Do you assume any further uptick? Or is that a risk?

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

This is Michael. I would say that what we've said is, right, that auto severity uptick is about 1.5 points on a run rate basis. We assume that continues on a go-forward basis. I mean, there's always a risk it could change from here. It could change up, it could change down. When you look at the outlook, the outlook reflects the comments we've made this morning, and that we're responding with price. And so the outlook, I think, literally says, "We believe price will exceed loss trend," which will be a good guy. The outlook says, "I believe, that, that offsets some continued adverse impact from tenure." And then other big component is an expectation about more normalized loss levels, which relates a little bit to the noncat weather conversation we've been having this morning and just a broader, more consistent expectation on loss level. So again, I think the pricing and the outlook anticipate that the bodily injury severity -- the higher levels of bodily injury severity are with us going forward. But we're responding with price and believe that we'll get price ahead of loss trend in '17.

Gabriella Nawi
Senior Vice President of Investor Relations

And this will be our last question. Thank you.

Operator

Our last question comes from the line of Larry Greenberg of Janney.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

And just about all my questions were answered, but I have one nerdy one. In the bond line, the -- were you waiting for that, Gabby?

Gabriella Nawi
Senior Vice President of Investor Relations

Yes. No, it's just that's such a great business and nobody ever asks questions, so if you can [indiscernible] here for Tom Kunkel [indiscernible].

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

The underlying loss ratio improved a few points. And I was wondering, was there any re-estimation of the first half year similar to what you did a year ago in the third quarter?

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

There was a re-estimation in the quarter, yes. And it was an improvement in loss ratio, of 2.3 points. And so that's when you pull the first 2 quarters back in and add what's into the third quarter. So yes, that's correct.

Gabriella Nawi
Senior Vice President of Investor Relations

And so I would thank you all for joining. And as always, we're available for follow-up question and answer in Investor Relations. And we'll be speaking with a number of you in the next few days. Thank you, and have a great day.

Operator

Ladies and gentlemen, that concludes the conf call for today. We thank you for your participation and ask that you please disconnect your line.