

# The Travelers Companies, Inc. NYSE:TRV

## FQ3 2019 Earnings Call Transcripts

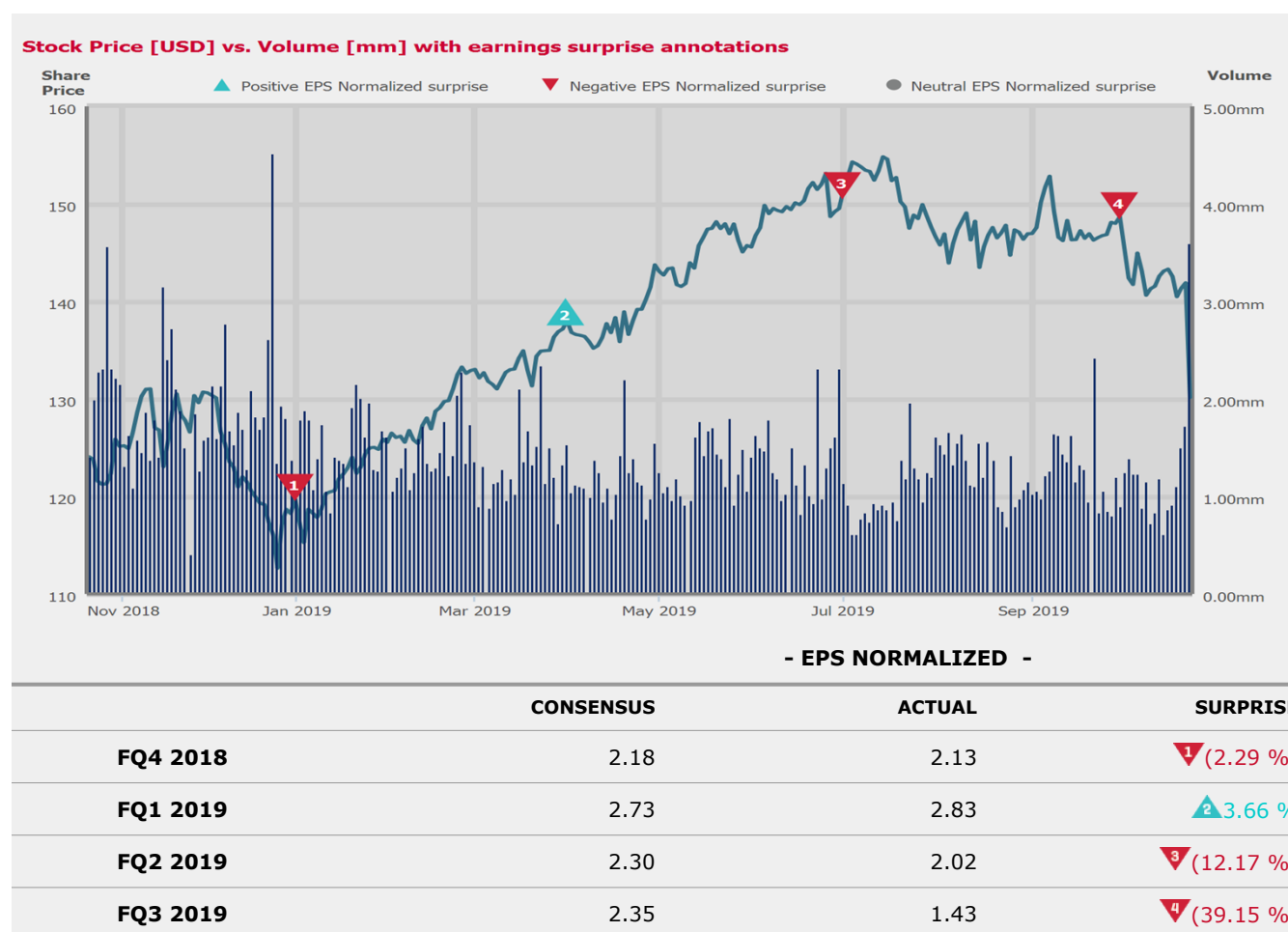
**Tuesday, October 22, 2019 1:00 PM GMT**

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	2.35	1.43	▼ (39.15 %)	3.30	10.54	11.45
<b>Revenue (mm)</b>	7168.86	7179.00	▲ 0.14	7157.83	28273.91	29649.68

Currency: USD

Consensus as of Oct-22-2019 1:54 PM GMT



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# Call Participants

## EXECUTIVES

**Abbe F. Goldstein**

*Senior Vice President of Investor Relations*

**Alan David Schnitzer**

*Chairman & CEO*

**Daniel Stephen Frey**

*Executive VP & CFO*

**Gregory Cheshire Toczydlowski**

*Executive VP & President of Business Insurance*

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

**Michael F. Klein**

*EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics*

**Lawrence David Greenberg**

*Janney Montgomery Scott LLC, Research Division*

**Thomas M. Kunkel**

*Executive VP and President of Bond & Specialty Insurance*

**Michael David Zaremski**

*Crédit Suisse AG, Research Division*

**Michael Wayne Phillips**

*Morgan Stanley, Research Division*

## ANALYSTS

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

**Ryan James Tunis**

*Autonomous Research LLP*

**David Kenneth Motemaden**

*Evercore ISI Institutional Equities, Research Division*

**Sean Keller Reitenbach**

*Keefe, Bruyette, & Woods, Inc., Research Division*

**Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

**Jay H. Gelb**

*Barclays Bank PLC, Research Division*

**Jon Paul Newsome**

*Sandler O'Neill + Partners, L.P., Research Division*

# 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 22, 2019.

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 third quarter 2019 results. Hopefully, all of you have seen our press release, financial supplement and webcast presentation released earlier this morning. All of these materials can be found on our website at [travelers.com](http://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 Toczydowski of Business Insurance; Tom Kunkel of Bond & Specialty Insurance; and Michael Klein of Personal Insurance. They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take questions.

Before I turn the call over to Alan, I would like to draw your attention to the explanatory note included at the end of the webcast. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involve risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under the forward-looking statements in our earnings press release and on 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. This morning, we reported third quarter net income of \$396 million or \$1.50 per diluted share. Our core income was \$378 million or \$1.43 per diluted share. Our results this quarter were impacted by net unfavorable prior year reserve development in Business Insurance. Continued favorable development in the workers' comp lines was more than offset by a strengthening of asbestos-related reserves and reserves for the GL and Commercial Auto lines. As I shared at an industry conference last month, GL and Commercial Auto were impacted again this quarter by a tort environment that is deteriorated beyond our elevated expectations. As I'll explain in a minute, we remain confident that this is an industry-wide issue and that we're responding appropriately to recently emerging data.

Underwriting income in the quarter benefited from record high net earned premium of \$7.2 billion, driven by higher pricing and strong retention over the last 4 quarters. Also contributing was the continued execution of our strategy to invest in the capabilities we believe are required for success given the forces of change we've previously identified as impacting our industry.

In addition to investments in talent, technology and workflow, this includes progress in terms of our strategic focus on productivity and efficiency, as reflected in our sub-30 expense ratio for both the quarter

and year-to-date. As you've heard us say, improved operating leverage gives us the flexibility to invest further in our strategic priorities with the benefit fall to the bottom line and/or being more competitive on pricing without compromising our return objectives.

In terms of the underlying underwriting margin, as you can see on Page 4 of our earnings presentation, the underlying combined ratio was solid at 94.1% but up 1.1 points over the prior year quarter. Favorable items impacting the underlying result included improvement in our workers' comp loss ratio and, as I mentioned, continued excellent work improving operating leverage. More than offsetting those items were higher non-catastrophe weather-related losses and headwinds from a more challenging tort environment. Dan will provide more detail on the pieces, but I'll spend a minute on the tort environment.

The aggregate impact of the adjustments we made this quarter to reflect our latest view of the tort environment together with those from the second quarter of this year and the fourth quarter of last year added about 2/3 of a point to the underlying combined ratio on a year-to-date basis. To give you some perspective on the loss environment, on Page 21 of the earnings presentation, we've included the chart of ISO data showing a measure of commercial auto bodily injury severity for the industry over the past 4 years. The full year 2018 data just recently become available.

As you can see, during 2018, the observed average paid claim costs shifted significantly compared to the prior years as well as throughout the year. This view of industry data for other commercial liability coverages is not yet available for 2018, but we believe that the more aggressive tort environment is to one degree or another impacting those as well. While the chart reflects industry data and is not Travelers specific, the shaded area of the graph illustrates the challenge we've been addressing as part of our current and prior year reserving process over the past 4 quarters. Developing a stable view of ultimate losses, in this case, is made difficult by the magnitude of the shift in the data combined with the fact that it is so recent the long tail nature of the exposure and a lengthening of the claim development pattern, which is difficult to assess as it emerges.

At the heart of the issue is a higher and more aggressive level of attorney involvement on claims. Taking a step back we'll manage through this, but the bigger issue for all of us is that the broken tort system imposes a tort tax across society. According to a recent study by the Institute for Legal Reform, tort costs amount to approximately 2.3% of U.S. GDP or more than \$3,300 per U.S. household and considerably more than that in some states.

There's also evidence that some claimants can be disadvantaged. According to a study by the Insurance Research Council, private passenger claimants with attorneys receive less on average in settlement from insurers after deducting legal and other related costs as compared to claimants without attorneys. On average, it also takes claimants with attorneys longer to receive payment. Tort reform has been a public policy focus for us and we're stepping up our efforts.

Turning to the top line, our production results were again excellent in the quarter. We grew net written premiums by 7% to \$7.6 billion, a record increase of more than \$500 million, with each of our business segments contributing. Our premium growth reflects high levels of retention and improving renewal premium change broadly across the portfolio as well as a higher level of new business. We're growing our business with confidence in terms of accounts, geographies and industries that we know well.

In Business Insurance, net written premiums increased 7% as we achieved renewal premium change to 7.4%, including renewal rate change of 4.3%, in both cases the highest levels in more than 5 years. At the same time, we maintained strong retention and grew new business. As you'll hear from Greg, new business in our National Property business benefited from a level of disruption in the market as we picked up some accounts on our terms.

New business in Middle Market benefited from success with our business center strategy which you've heard us discuss. And across the board, new business levels benefited from stronger new business pricing.

In Bond & Specialty Insurance, net written premiums increased by 13%, with strong production across our Management Liability and Surety businesses, including historically high domestic management liability retention with improving renewal premium change and record new business.

In Personal Insurance, net written premiums increased by 7%, with Agency Auto up 3% and Agency Homeowners up 11%, both benefiting from strong production. Given the headwinds that the industry is facing from continued low interest rates, a challenging level of social inflation and ongoing uncertainty surrounding weather-related losses, we will continue to seek higher prices and improved terms and conditions. You'll hear more shortly from Greg, Tom and Michael about our segment results.

To sum it up, we feel terrific that the strategy we laid out in 2017 is contributing to top line success in each of our segments. In terms of the bottom line, we would have hoped that the tort environment would not have deteriorated further but we're in a business where from time to time loss costs are going to vary from our expectations. As we've explained, what's important is recognizing it quickly and taking action.

We have a long track record of successfully managing our diversified businesses through challenging circumstances. With insight from leading data and analytics driving our execution, the best talent in the industry and deep relationships with our agents and brokers, we'll continue to leverage the power of our franchise to deliver industry-leading results over time.

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

**Daniel Stephen Frey**

*Executive VP & CFO*

Thank you, Alan. Core income for the third quarter were \$378 million, down \$309 million from the prior year quarter, and core ROE was 6.5%, down from 12%. Both measures reflect the elevated levels of General Liability and Commercial Auto losses that Alan described, which impacted both prior year reserve development and the current accident year as well as an elevated level of non-cat weather losses.

Our third quarter results include \$241 million of pretax cat losses compared to \$264 million in the prior year quarter. Prior year reserve development, which I'll discuss further in a few minutes, added 4.1 points to the combined ratio compared to favorable 0.2 points in last year's third quarter. The consolidated underlying combined ratio of 94.1%, which excludes the impacts of cats and PYD, increased by 1.1 points, driven by elevated General Liability, Commercial Auto and non-cat weather losses, partially offset by favorable experience in workers' compensation.

The adjustments we made this quarter to reflect our latest view of the tort environment added about 0.5 point to the underlying combined ratio, including a catch-up related to the first and second quarters.

In terms of weather, non-catastrophe weather-related losses added about 2/3 of a point to the quarter-over-quarter change in the consolidated underlying combined ratio. For context, total weather losses in the aggregate, cat and non-cat, were somewhat worse in the quarter than what we planned for, but year-to-date, total weather losses were well within the range of what we would consider normal.

The third quarter expense ratio of 29.5% was in line with recent periods and brings the year-to-date expense ratio to 29.8%, reflecting the terrific progress we've made in recent years. Both the third quarter and year-to-date expense ratios are about 2 points below where they were at this point in 2016.

Our third quarter pretax underlying underwriting gain of \$386 million declined by 14% as the elevated losses in GL, Commercial Auto and non-cat weather were partially offset by the benefits of higher levels of earned premium and favorable experience in the workers' compensation line.

After-tax net investment income decreased by \$19 million from the prior year quarter to \$528 million. After-tax fixed income NII increased by \$17 million as expected, and our nonfixed income NII while strong was below last year's results. Fixed income NII benefited from an increase in average invested assets, resulting from continued growth in net written premiums and slightly higher yields compared to a year ago. We expect after-tax fixed income NII in the fourth quarter to be about flat when compared to the fourth quarter of 2018 as the benefit from higher levels of invested assets will be largely offset by lower reinvestment rates.

As we look ahead to 2020, we currently expect quarterly after-tax fixed income NII to be about \$10 million to \$15 million lower than our results for each of the first 3 quarters of 2019 as the impact of lower interest rates is expected to more than offset the benefit from higher levels of invested assets.

Net unfavorable prior year reserve development was \$294 million pretax compared to \$14 million of net favorable PYD in the prior year quarter. Bond & Specialty Insurance had net favorable PYD of \$3 million. In Personal Insurance, favorable PYD of \$19 million resulted from improvements in both domestic property and auto.

Business Insurance experienced net unfavorable PYD of \$316 million pretax, including a \$220 million increase to asbestos reserves, \$134 million strengthening to General Liability reserves and \$114 million strengthening to Commercial Auto reserves, driven by similar factors to those we experienced in the second quarter.

You may also noticed that we have a small charge for environmental this quarter. As the number of claims and related reserves have decreased over time, we've now moved to a quarterly evaluation rather than the annual evaluation we had historically completed during the second quarter. These reserve developments were partially offset by favorability in the workers' compensation and property lines.

The asbestos reserves strengthening resulted from the completion of our annual asbestos review during the third quarter. As has been the case in recent years, while there was some slight improvement in several of our asbestos indicators, including a decrease in deaths from mesothelioma as a percentage of the population over time, our expectation had been for more of an improvement. This phenomenon has continued to drive periodic reserve strengthening for us and for others in the industry.

As we've discussed before, we added a new catastrophe reinsurance treaty for 2019, providing coverage for PCS-designated events for which we incur \$5 million or more in losses above an aggregate retention of \$1.3 billion. Through September 30, we've accumulated \$1.2 billion towards the \$1.3 billion retention. Should we reach \$1.3 billion, 86% of the next \$500 million of qualifying losses will be covered by the treaty. Remember that for purposes of the treaty, hurricane and earthquake events have a cap of \$250 million per occurrence.

Let me take a minute to address the topic of our subrogation claims against PG&E for the California wildfires of 2017 and 2018. On September 22, PG&E and the Ad Hoc Subrogation Group, of which Travelers is a member, agreed to a proposed \$11 billion settlement for subrogation claims against PG&E. Because of the uncertainties that remain regarding our ultimate realization of subrogation benefits from PG&E, we have not reflected any benefit in our financials as of September 30. If PG&E ultimately emerges from bankruptcy pursuant to a plan of reorganization, which includes the proposed settlement, we estimate that Travelers would recover between \$400 million and \$450 million pretax, which is net of expenses and net of amounts that would enure to the benefit of our reinsurance.

Turning to capital management. Operating cash flows for the quarter of \$2 billion were again very strong. All our capital ratios were at or better than target levels, and we ended the quarter with holding company liquidity of approximately \$1.5 billion. Recent decreases in interest rates have increased our net realized -- unrealized investment gain. As of September 30, we had a net unrealized investment gain of \$2.4 billion after tax.

Adjusted book value per share, which excludes unrealized investment gains and losses, is now \$90.09, 3% higher than at the beginning of the year. Consistent with our historical capital management strategy, our first objective for the capital we generate from earnings is to invest it back into the business where we think we can do so at attractive returns. Beyond that, we'll continue to return excess capital to shareholders. Accordingly, this quarter, we returned nearly \$600 million to our shareholders, comprising share repurchases of \$375 million and dividends of \$215 million. On a year-to-date basis, we have returned \$1.8 billion of capital through dividends and share repurchases.

As we grow premium volumes, with all else being equal, we'll need to retain more capital. So to the extent, we continue to grow, we would expect that over time the amount of capital returned to shareholders relative to earnings will be somewhat less than it otherwise would have been.

And with that, I'll turn the microphone over to Greg.

**Gregory Cheshire Toczydlowski**

*Executive VP & President of Business Insurance*

Thanks, Dan. Business Insurance produced segment income of \$179 million and a combined ratio of 107%, both impacted by net unfavorable prior year reserve development of \$316 million pretax as Dan mentioned. The underlying combined ratio of 95.9% was 0.5 point higher than the prior year quarter. There are several moving pieces underneath that variance, so we've included information on Slide 9 of the earnings presentation to break down the components of the change. I'll start with the notable items that increased the underlying combined ratio year-over-year.

The first 3 are items that we've discussed with you previously with the first of those being the 0.5 point impact from the lower earned premium due to the new cat treaty. The remaining 2 items relate to actions we took last quarter and in the fourth quarter of last year related to the challenging trends in the tort environment. The last of the unfavorable items relates to adjustments to our loss estimates resulting from an even further deterioration in the tort environment, as Alan and Dan have discussed.

The impact of these latest adjustments was about a point, with about a 1/3 of that relating to the current quarter and the remaining 2/3 of that being reestimation of the first and second quarters of the year. Similar to the last quarter, this quarter's adjustment included both Commercial Auto and General Liability.

I'll note that unlike Commercial Auto where returns are clearly inadequate, the returns in the general liability line, both primary and excess, are much healthier for us.

Turning to the favorable year-over-year items. First, there is about a point of favorability relating to adjusting our workers' compensation losses. About half of that impact relates to reestimating the first 2 quarters of 2019. Second, our expense ratio benefited by about 0.5 point due to the continued successful execution of our strategy to improve productivity and efficiency.

Importantly, we continue to achieve this expense leverage, while investing in strategic initiatives that position us for the future. In addition to these individual favorable items, there was about 0.5 point of favorable impact from other items that caused normal variability from period-to-period.

Before turning to the top line, I'll make a comment on weather-related losses. While non-cat weather losses in the quarter were elevated relative to our expectations, it was not highlighted in the quarter-over-quarter underlying combined ratio comparison as they were similarly elevated in the prior year quarter. Catastrophes for the quarter were below the long-term average in Business Insurance, and so all in, weather losses for the segment were favorable to what we would consider a normal level.

As for the top line, net written premiums for the quarter were up 7% over the prior year, driven by strong underlying production results with renewal premium change being the biggest driver.

In terms of domestic production, we continued to execute on our strategy to improve the margins in the book while retaining our high-quality portfolio. We achieved strong renewal premium change of 7.4% in the quarter, including renewal rate change of 4.3%. The renewal rate change was up 7/10 of a point from the second quarter and more than 2.5 points from the third quarter of last year, demonstrating continued momentum in our execution even after the continued downward pressure in workers' comp pricing.

The higher rate levels are being achieved broadly across the book with about 3/4 of our Middle Market accounts getting positive rate increases this quarter, which is up from about 2/3 in the third quarter of last year. Also, while the Commercial Auto and Property lines continue to lead the way, our General Liability, both primary and excess, as well as commercial multi-peril lines, also saw meaningful increases. Importantly, at the same time as we achieved these pricing increases, we maintained strong retention.

New business of \$568 million was up 21% from the prior year quarter, driven by strong results in our National Property business, which I'll touch on in a moment, as well as higher new business pricing and deliberate execution across the other markets.



As for the individual businesses, in select, renewal premium change and renewal rate change both ticked up from the second quarter and year-over-year, while retention remained strong at 82%. New business was up 5% over the prior year quarter, reflecting strategic investments in product development and ease of doing business. To that end, we're excited to have launched the completely redesigned small business owners' policy product in 3 states during the quarter that includes industry-leading segmentation and a fast, easy quoting experience. The full rollout of this product will take some time, but we're encouraged with the early returns.

In Middle Market, renewal premium change was 6.3% with renewal rate change of 3.8%, up more than 2 points from the third quarter of last year, while retention remained high at 86%. New business premiums of \$308 million were up 15% from the prior year quarter, driven by higher new business pricing as well as success in writing larger accounts during the quarter.

While impacts from large accounts will be lumpy from time to time, we're pleased to see the results this quarter as further evidence that the business center strategy that we've discussed with you is paying off by freeing up our local underwriters to spend more time on larger accounts.

Finally, I'll touch on our National Property business, which has had 2 consecutive quarters with substantial year-over-year increases in new business. As I mentioned last quarter, in this space, we are seeing more opportunities given the level of disruption in the marketplace, and we're selectively writing attractive accounts at our prices and on our terms and conditions.

Case in point, for the new accounts of size that we wrote in the second and third quarters, we had previously written or quoted 80% of them and let them go when we couldn't write them at prices and on terms and conditions that met our discipline standards.

To close, while we're managing through a changing environment, we couldn't be more pleased with our insight and execution. As Alan said, given the low-interest rate environment, continued uncertainty around weather-related losses and an upward pressure from the tort environment, we'll continue to seek rate and use all other available levers to meet our return objectives.

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

**Thomas M. Kunkel**

*Executive VP and President of Bond & Specialty Insurance*

Thanks, Greg. Bond & Specialty delivered another quarter of strong returns and growth. Segment income was \$139 million, a decrease of \$57 million from the prior year quarter, primarily due to a lower level of net favorable prior year reserve development and to a lesser extent modestly higher Management Liability loss estimates for the current year.

The underlying combined ratio increased 5.3 points from the prior year quarter. As you can see on Slide 14, about 3 points of that is a third quarter adjustment for Management Liability coverages, about 2 points of which reflects a reestimation of losses from the first 2 quarters of 2019. Despite the increase, the combined and underlying combined ratios remained strong at 83.3% and 83.6%, respectively.

Net written premiums for the quarter were up 13%, with strong growth across all businesses. In domestic Management Liability, we are pleased that retention remained at a historically high 90% with renewal premium change higher at 4.8%. New business for the quarter was a record \$67 million.

Domestic Surety growth reflected higher bonded contract sizes, and our international growth was primarily in our U.K. Management Liability businesses, including from new product offerings. Our production results reflect the profitability of our high-quality portfolio, strong field execution and our strategic long-term investments in our suite of products and services, together with our commitment to thoughtful and disciplined underwriting and risk selection.

As reflected in our improving renewal premium change, we are pursuing price increases for coverages where we are experiencing elevated levels of loss activity, and we will continue to do so. So Bond &

Specialty remained strong, results remained strong, and we feel terrific about our ability to continue to deliver excellent results over time.

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

**Michael F. Klein**

*EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics*

Thanks, Tom, and good morning, everyone. In Personal Insurance this quarter, we're pleased with our continued execution in the marketplace as we grew premium and policies in force in both our Agency Automobile and Homeowners and other product lines, continued to achieve excellent profitability in Agency Automobile and reported good results in Agency Homeowners and other, particularly considering a high level of non-catastrophe weather-related losses.

The combined ratio for the quarter was 98%, slightly higher than the prior year quarter of 97.2%. For the segment, catastrophes and net favorable prior year reserve development were comparable to the prior year quarter, while the underlying combined ratio was higher by 1.1 points, primarily driven by higher non-catastrophe weather-related losses and the impact from the new catastrophe reinsurance treaty, partially offset by lower other loss activity.

Net written premiums for the quarter grew 7% with strong retention in renewal premium change and new business. Agency Automobile delivered another strong quarterly performance with a combined ratio of 93%. This is our seventh consecutive quarterly combined ratio under 96%. The underlying combined ratio for the quarter of 92.7% was comparable to the prior year quarter and consistent with an excellent year-to-date result of 92.8%, 2 points lower than the prior year.

In Agency Homeowners & Other, the third quarter combined ratio of 100.2% increased 1.7 points from the prior year quarter, driven primarily by a higher underlying combined ratio, partially offset by lower catastrophe losses and a favorable change in prior year reserve development. The underlying combined ratio for the quarter of 93.5% was 5 points higher than the prior year quarter as approximately 4 points of higher non-catastrophe weather-related losses and 1.5 point impact from the new catastrophe reinsurance treaty were partially offset by lower other loss activity.

The higher non-catastrophe weather-related losses this quarter are on top of an elevated level in the prior year quarter and are reflective of an increased number of events compared to historical experience. As a point of reference, data from NOAA, the National Oceanic and Atmospheric Administration, reflects approximately 8,500 severe weather events in the U.S. for the third quarter of 2019. That's a 28% increase when compared to the average third quarter for the period 2013 to 2018.

As we've mentioned in the past, we've increased our loss expectations to reflect higher levels of loss activity in property, and that's reflected in the pricing gains we're achieving and our plans to further improve pricing and property going forward.

Before I shift to discussing production, I'll remind you that looking ahead to the fourth quarter, there tends to be a good amount of seasonality in our combined ratio results. On a relative basis, fourth quarter losses are typically higher than the full year average for automobile and lower for homeowners and other.

Shifting to quarterly production, Agency Automobile premiums grew 3% with modest growth in new business and policies in force, while retention remained strong at 84% and renewal premium change was 3.6%. We remain focused on actions to grow our auto business at returns that continue to meet our objectives and are encouraged by the increase in policies in force this quarter.

Agency Homeowners & Other delivered another strong production quarter with retention of 86% even as renewal premium change rose to 6.9%, up more than 3 points from the prior year quarter. This marks the seventh consecutive quarter where renewal premium change is higher than the corresponding prior year quarter.

Consistent with our objectives, new business for Agency Homeowners & Other was up over the prior year quarter, with increases in both issued policies and average new business premiums, largely driven by our

ongoing successful rollout of Quantum Home 2.0. We remain pleased with the quality of the new business we're writing. The profile of the business is consistent with our expectations and most of the increase in issued policies results from higher quote volume at a consistent close rate.

As we intended, sales and marketing activities associated with the rollout of Quantum Home 2.0 along with its granular pricing segmentation, customizable coverages and ease of quoting are leading contributors to higher new business volumes.

Wrapping up. While profitability for the quarter was down slightly from the third quarter of 2018, we're pleased with our year-to-date results. Segment income of \$497 million and the combined ratio of 96.2% are both significantly improved relative to the prior year. Given our pricing actions in property and early signs of policy growth in auto, we remain confident in our ability to generate profitable growth going forward. The competitive advantage of a balanced and diversified portfolio and our focus on being a complete property and casualty solution for our agents and customers continues to position us well in the marketplace.

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

**Abbe F. Goldstein**

*Senior Vice President of Investor Relations*

Thank you very much, and we're ready to take your questions.

# Question and Answer

## Operator

[Operator Instructions] Our first question comes from the line of Jay Gelb with Barclays.

### Jay H. Gelb

*Barclays Bank PLC, Research Division*

I wanted to touch base on the liability claims inflation issue across GL, Commercial Auto and D&O. I realize that this topic was discussed and essentially warned about it at the Barclays Conference last month. And what I'm trying to get a perspective on is whether the company can say we have the all clear on reserve issues going forward or there's still a risk of more reserve strengthening going forward given this has been an issue in 3 out of the past 4 quarters?

### Alan David Schnitzer

*Chairman & CEO*

Jay, it's Alan. Thanks for the question. I don't think that we or any company could ever give that kind of assurance. We take our best people, our best processes, we look at the data that we have and we come up with our best estimate every quarter. When we look back over the last 4 quarters at the decisions that we've made and estimates that we've published, we look at it and say, gee, based on the information we had at the time, we think we made the right call. We weren't too aggressive in any of our assumptions. We, in fact, picked close to the top end of the range in many of those cases. And again this quarter, we look at the data and we think we've done the right thing.

So -- and that's one of the reasons why we wanted to provide Slide 21. You could see this is an industry-wide phenomenon and you can see the extent of the shift at least from an industry perspective. This isn't our data, but it's illustrative and relevant in thinking about our data. It's quite a significant shift. And one of the associated factors is this lengthening of the claim development pattern, and that's a difficult thing to assess as it emerges. And so with every quarter, we get a new data point.

With every new data point, we get a different trend line, and we put our best estimate behind it. And we continue to think running the business by the numbers, being very disciplined about that is the right way to do it. So I'd say the answer is, we've got a long track record of managing that way over time. We think we're running it the right way, and we think we've got the right estimate now, but I don't think we or anybody could give you a guarantee.

### Jay H. Gelb

*Barclays Bank PLC, Research Division*

Right. Although, essentially, you're saying you're as confident as you can be that this issue is addressed, right?

### Alan David Schnitzer

*Chairman & CEO*

I'm as confident as I can be that it's our best estimate.

### Jay H. Gelb

*Barclays Bank PLC, Research Division*

Right. Okay. And then separate topic. With regard to capital return, I believe there was commentary in the prepared remarks around potentially less capital being returned as a percentage of earnings as the company's growth rate continues to accelerate. Would you be able to give us some parameters around that? I mean, historically, it's been right around 100% of earnings being written annually in the form of dividends and share buybacks. Would that number be something closer to 75% or should we think about another number?

**Daniel Stephen Frey**

*Executive VP & CFO*

Jay, I don't think -- it's Dan. I don't think we would target a number and I don't think you should think about it as a target per se. That's going to be an outcome of the things that we always talk about, which is how much capital do we have, how much capital do we think we need to adequately support the business that we're writing and that we expect to add on a go-forward basis, what are all the investments we'll make in the business that we think can generate an adequate return and then we'll look at what's left and try and return it.

It kind of was intended to raise awareness as you say. From this point forward, as we continue to grow premium to support a business that's got a bigger premium base, you're going to need a bigger capital base. And if you perpetually returned 100% of earnings, your capital base wouldn't change. So it's simply to give you an indication that as we continue to grow, if all else remained equal, you should expect something lower than it otherwise wouldn't have been. But we're actually not going to target a particular percentage of earnings that we're looking to return.

**Alan David Schnitzer**

*Chairman & CEO*

And Jay, I'd just add 2 things to that. One, there's no change at all in our thought process or approach towards capital management. This is ordinary course and just a function of what we've been able to achieve in terms of growing a premium base. And two, one of the reasons why we can't give you a number is, it's going to depend on what lines we're growing in and what the geography is. And it's just not linear math behind it. So we couldn't actually give you that target.

**Operator**

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

**Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

My first question goes to your outlook for Business Insurance. Broadly, really unchanged. You guys are looking for margin improvement, which given the commentary in the Q seems to be a function of price exceeding trend and some improvement in your international business. So what I'm trying to get a sense of is what's the forward view that you guys had for price. And then also for trend, can you give us the sense, and I know it's a compilation of all your different businesses, where trend sits today and then the outlook for that as we think about improvement coming into your margins from here in the Business Insurance segment?

**Alan David Schnitzer**

*Chairman & CEO*

Yes. Elyse, in terms of the outlook for price, you see the price that we've written and that's going to earn in and we give you an outlook for RPC. And so it's those 2 components that are going to earn in over time.

In terms of loss trend, we always talk about that in BI from a segment perspective, and we showed last quarter that we had increased our view of loss trend to 4.5% and that's obviously on top of the current picks which have been adjusted throughout the course of the year. So it really is the math from those pieces.

**Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

Okay. So if trend was 4.5% last quarter, so it's somewhere within the vicinity of 5% right now?

**Alan David Schnitzer**

*Chairman & CEO*

No, no. The 4.5% was up 0.5 point from what we had historically talked about at 4%. Also, Elyse, I'll caution you that the 4.5% is our long-term outlook on loss trend. And so in any given period, there's going to be some volatility in actual losses, but that's sort of the math and the way we think about it over time.

**Elyse Beth Greenspan**

*Wells Fargo Securities, LLC, Research Division*

Okay. And then my second question. Within Business Insurance, you guys released reserves within workers' comp. You also lowered your loss picks there this quarter. I guess I'm just trying to get a little bit more color given the weaker pricing in comp combined with the higher loss trend you're now seeing in other businesses within that segment, what gave you guys, like, the conviction to change your picks there? And then if you could also let us know the prior year development on comp in the quarter?

**Daniel Stephen Frey**

*Executive VP & CFO*

Elyse, it's Dan. So I'll start. Thematically, what gives us the conviction to move on workers' comp is as we see results come in, again, there's a long-term assumption around what's going to happen to the cost to settle workers' comp claims. A lot of that's driven by medical cost inflation. And we see in our data and there's been discussion in the industry that medical cost inflation has continued to be pretty benign relative to our expectation. So that drives the prior year release as another period of data comes by where, again, the cost of loss settlement comes in favorable to what our expectation was.

In this quarter, in round numbers, order of magnitude is around \$100 million pretax, a little less than that. That flows through into what we're seeing in the current period as well. Obviously, in the current period, you're reacting to both what are you seeing in terms of the number of claims coming in and those settlement trends. So workers' comp has been a pretty steady level of good news relative to our expectations, and that's why we adjusted both numbers.

**Alan David Schnitzer**

*Chairman & CEO*

Elyse, I'd just add. It's just ordinary course. We treated workers' comp this period like we've treated it every other period. And we didn't actually make a change to either our frequency trend or our severity trend. It's the impact of adjustments to prior year reserve that's rolling through the current year.

**Operator**

Your next question comes from the line of Mike Zaremski with Crédit Suisse.

**Michael David Zaremski**

*Crédit Suisse AG, Research Division*

First question is on the catastrophe reinsurance treaty because I have a feeling that it's going to trip us up in our model. So I believe you said it's up to \$1.2 billion, so it's very close to the \$1.3 billion retention. And you've reported \$800 million of catastrophes, which is a separate definition. So if we trip the \$1.3 billion, which it seems likely from a probability standpoint, does that start benefiting the underlying loss ratio in both the Commercial and homeowner segments or just -- if you can help us think about that?

**Daniel Stephen Frey**

*Executive VP & CFO*

So Mike, it's Dan again. I think as we discussed the treaty from when we first talked about it going back to the first quarter, it will depend on what weather actually comes in over the remainder of the year if we have a treaty benefit, how the treaty benefit will be allocated back between what we would call major cats versus minor cats. So if all the losses that come in from this point forward are a major cat and that's what causes us to trip the treaty and then those are the recoveries most of the benefit would be attributable to major cats. If on the other hand, most of the weather that comes in is \$10 million to \$15 million PCS

events that don't meet our major cat threshold, that's where the money will go. So it really is too early to tell, and it will depend on what actual weather we experience in the fourth quarter.

**Michael David Zaremski**

*Crédit Suisse AG, Research Division*

Okay. So it could benefit the underlying loss ratio as well?

**Daniel Stephen Frey**

*Executive VP & CFO*

That's correct.

**Michael David Zaremski**

*Crédit Suisse AG, Research Division*

Okay. And lastly, so if I think about the past 2 to 3 years and what sticks out, top line growth clearly has improved for the company, but it's also coincided during a period of time of increasing non-cat weather losses. You guys have said catastrophe levels changed your view on that being a little higher and now we're seeing kind of higher liability loss trends in the last year or so. So is this all telling us that top line growth and maybe retention rates need to maybe fall a little in the coming year and take a step off, I guess, a little bit.

**Alan David Schnitzer**

*Chairman & CEO*

No. Mike, I don't think that's the way we think about it at all. It's not -- we don't ring a bell and say grow or ring a bell and say don't grow. We execute one account, one class of business at a time, and we do that with a return focus. And so we're out there executing on our accounts, trying to retain the ones we want on the prices and terms and conditions that we want. And we're out there hustling on new business that we find attractive and that meets our return objectives. And when the sum of those things adds up to growth, we'll grow, and when it doesn't, we won't. So it's -- there's nothing about the growth that's contributed to the loss environment, and we are pretty good about reflecting the loss environment into our pricing models. And so I -- the answer to that is I don't think so. The other thing I would say is the growth that we've seen is -- and I don't want to diminish the strategic efforts that's led to new business. I think that's important and it's been successful. But a very big component of the growth that we've reported has come from a very strong foundation of retention and price on top of that. So that's important to keep in mind as well.

**Operator**

Your next question comes from the line of Larry Greenberg with Janney Montgomery.

**Lawrence David Greenberg**

*Janney Montgomery Scott LLC, Research Division*

So on Commercial Auto, I'm just trying to compare what you're experiencing with the issues that you had a while back in personal auto. And I think then you talked about taking a higher loss pick or adjusting your loss pick for severity, but then the actually trend really didn't -- hadn't changed in your view. So if I'm hearing correctly, in this situation, we're talking about higher kind of loss pick foundations and then an accelerating trend on top of that, is that fair?

**Alan David Schnitzer**

*Chairman & CEO*

Well, we've definitely increased the base year, and we also, last quarter, as we told you, increased the loss trend from there. So we have increased both in Commercial Auto. Is that responsive, Larry, I'm trying to make sure...

**Lawrence David Greenberg**

*Janney Montgomery Scott LLC, Research Division*

Yes. Yes. Yes. Okay. That's great. And then -- and I think Greg talked about terms and -- pricing and terms and conditions. Can you talk about how terms and conditions might be changing in response to what's going on?

**Gregory Cheshire Toczydlowski**

*Executive VP & President of Business Insurance*

Sure, Larry. This is Greg. Yes, most of the terms and conditions activity are happening in the National Property space. And that certainly is leaking down into property across Middle Market. And I think our underwriters start with the first thing is they look at the total insured value, making sure that we've got the right values on the properties. From there, we'll get into discussions with both distribution and the customer around coinsurance, and that includes both deductibles and sublimits. You can think of sublimits on both flood and earthquake, but those are some of the items that are in the marketplace right now and our underwriters are very involved in pulling those levers.

**Alan David Schnitzer**

*Chairman & CEO*

And there's...

**Lawrence David Greenberg**

*Janney Montgomery Scott LLC, Research Division*

Yes, I was thinking more in terms of Commercial Auto.

**Alan David Schnitzer**

*Chairman & CEO*

Larry, in response to that, given the environmental nature of that, most of the fix to that is going to come from price. To some lesser degree, it will come from some risk selection and that's a factor as well. And then we'll calibrate our litigation strategy and those would be primarily the 3 levers we'd use to address it.

**Operator**

Your next question comes from the line of Paul Newsome with Sandler O'Neill.

**Jon Paul Newsome**

*Sandler O'Neill + Partners, L.P., Research Division*

I was hoping we could revisit sort of the view in commercial insurance between the relationship between pricing and retention. I guess I'm a little surprised at the strength of the retention given you are raising prices. And I was just wondering if that means that you're not stepping on the pricing as hard as you could or if there's some other dynamic going on there?

**Alan David Schnitzer**

*Chairman & CEO*

Yes, Paul, again, we're executing one account at a time. And so we're making the right decisions on pricing and retention we think. But I think one take away that we take from the retention is that there's certainly more room to go. I mean, the market's not pushing back on us which I think is evidence that these really are environmental issues. So we think the execution is terrific, and we think there's more room to go. I think also in terms of our customers and our distribution relationships doing this thoughtfully, slowly, steadily, I think, there's a lot of benefit to that. And so that's part of our execution strategy.

**Gregory Cheshire Toczydlowski**

*Executive VP & President of Business Insurance*

Paul, one thing I would add, this is Greg, is those are both headline numbers, both the rate and the retention. Our underwriters are equipped with very granular segmentation. And so we spend more time watching the mix distribution of some of the distressed accounts and the healthy accounts than we do in the aggregate numbers, and we're pleased with that execution when we look at that segmentation.



**Jon Paul Newsome**

*Sandler O'Neill + Partners, L.P., Research Division*

Then -- and separately, I was wondering, as we look at the expense ratio, if there is any impact this quarter from change in contingent commissions that would affect the -- either this quarter or maybe even next year the level of expense ratio?

**Daniel Stephen Frey**

*Executive VP & CFO*

Paul, it's Dan. I'd say across the place, generally not. It's been pretty consistent and contingent commission is a relatively small component of the overall commission mix to begin with.

**Operator**

Our next question comes from the line of David Motemaden with Evercore ISI.

**David Kenneth Motemaden**

*Evercore ISI Institutional Equities, Research Division*

Just a follow-up on the changes that were made in General Liability. Are you still -- are the changes really still Commercial Auto related excess? Or has it spread to other parts of GL? And if you could talk a bit about the changes you made to each portion of that?

**Alan David Schnitzer**

*Chairman & CEO*

David, it continues to be both. Again, I think the right way to look at this is broadly over the last year is we've been addressing this issue. And if you look at it in that context, Commercial Auto and the excess GL where the underlying event is auto related continues to be the majority of it, but GL has been a not insignificant factor and in fact, in this quarter, was a bigger factor than Commercial Auto.

**David Kenneth Motemaden**

*Evercore ISI Institutional Equities, Research Division*

Got it. Okay. And just in terms of just putting numbers around it, a peer had come out and said they were seeing severity on the GL side up in the high single digits. Just wondering is that sort of what you guys are seeing? And is that what you guys are assuming now going forward in your loss picks?

**Alan David Schnitzer**

*Chairman & CEO*

We've just never given the severity at that granular level, and I don't think we're inclined to do that. We stop at the segment level where we've given you the 4.5%. And I also think there can be some confusion when we're talking quickly about loss trend because ultimately, we're trying to get a loss pick, and there's 2 things that contribute to that. One is base year changes; and two, is a change in loss trend. And as I said earlier, over the course of this year, as it relates to liability lines, we've raised both the initial loss pick, which we refer to as base year and the loss trend. So those are both up.

**David Kenneth Motemaden**

*Evercore ISI Institutional Equities, Research Division*

Got it. Okay. And just a follow-up. The slide in the back, I mean that would imply that what you guys are seeing is more severity related. But I mean are you also seeing just a spike in frequency from higher attorney involvement as well?

**Alan David Schnitzer**

*Chairman & CEO*

No. It's definitely more of a severity issue than a frequency issue.

**Operator**

Your next question comes from the line of Josh Shanker with Deutsche Bank.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

So I wonder if there's any way of getting to a little more granularity on the tort issues. As you've acknowledged, you're experiencing it and you do look at your competitors' numbers and they're not. Is there something going on the account side that's different between large, middle market and small accounts on the tort severity side that might make Travelers book look different from some others?

**Alan David Schnitzer**

*Chairman & CEO*

Josh, I mean, I don't -- my instinct is no, and that's one of the reasons we shared the industry data. We don't think that -- we believe this is environmental. We don't think there's anything about our book of business that makes us more susceptible to these types of claims. And you turn on the TV, you see attorney advertising. I mean the rate of attorney involvement and the aggressive behavior is up. And I think that's going to impact anybody writing liability coverages. So we don't think there's any reason to think that our book of business is more susceptible than anybody else's.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

And then do you have any -- anything you can add to the granularity of where you're seeing the biggest tort severity issues from your own experience?

**Alan David Schnitzer**

*Chairman & CEO*

Josh, it's broadly across geographies, business and accounts. I mean, I guess, if you're -- again, it's always hard to generalize broadly in a sentence or two because this is a complex issue and just -- we've spent hundreds of hours on this internally. So it's always difficult to try to summarize in a sentence or two. But broadly speaking, it's probably groups of homogeneous-type claims where a potential plaintiff can be reached by a television commercial. And so whether that's Commercial Auto accidents or slips and falls or things like that. Once you get into the bigger stuff, you tend to have cases that are and always have been associated with claimants being represented and aggressive litigation. But again, that's -- it's a very high level summary of a complex issue.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

And then Elyse kind of asked it, but I just wanted to -- so the workers' comp reserve release for the entry of reserve release, is third quarter typically a quarter where you do a comprehensive workers' comp reserve analysis? Should we expect to believe that in the third quarter we could see resets of picks typically?

**Daniel Stephen Frey**

*Executive VP & CFO*

Josh, it's Dan. Not really. The comp is something that we have enough update and enough information that's in the regular flow that we're assessing work comp reserve levels every quarter and I've commented on work comp and PYD in earlier quarters this year.

**Operator**

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

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Just a couple quick ones here. First one, if I kind of strip out some of the noise in the quarter on Business Insurance, it looks like the underlying loss ratio kind of improved call it by 40 to 50 basis points. Is that a kind of fair representation of what earned rate right now is coming through in excess of trend?

**Alan David Schnitzer**

*Chairman & CEO*

I don't -- that's a Business Insurance question?

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Yes, Business Insurance, sorry, yes. Just making all the adjustments that you put in the slide, it looks like it's about 40 to 50 basis points of improvement on a year-over-year basis.

**Alan David Schnitzer**

*Chairman & CEO*

Brian, we're looking at the math. I don't think it's quite so easy to look at it that way. You're getting to a very narrow view of rate versus loss trend, and I understand why that's so appealing to look at. But the fact is there's a lot of things that go into margin. And whether it's mix or reinsurance or claims handling or risks, there's all sorts of things that go into that. And so it'd be really hard to look at rate versus loss trend, I think, you've captured it.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Got you. And then just one other quick one here. As I look at your outlook for RPC for the Business Insurance here over the next 12 months, what is your assumption with respect to exposure in that figure? Do you expect it to kind of moderate here, be the same?

**Alan David Schnitzer**

*Chairman & CEO*

Yes. We just don't break that out. There's a lot of estimation that goes into that number and we have a view on the pieces. But to imply that we've got that level of granularity out a year, that would be a false impression.

**Operator**

Your next question comes from the line of Michael Phillips with Morgan Stanley.

**Michael Wayne Phillips**

*Morgan Stanley, Research Division*

I guess if I -- I'll take the pressure off on Business Insurance guys and switch over to personal and specifically personal auto. Your outlook says for margins that are relatively in line with last year. So I guess could you talk about what you're seeing there in pricing and loss trends? We're certainly hearing loss trends in the rise in some segments from competitors. So kind of want to see you what you're thinking there and why we'd expect it to be flat next year.

**Michael F. Klein**

*EVP, President of Personal Insurance and Head of Enterprise Business Intelligence & Analytics*

Sure, Michael. This is Michael Klein. I would say we see the same industry data you're referring to and certainly are keeping an eye on severity trends, both in physical damage and in bodily injury. As we've talked about this year, we've tended to see frequency going the other way and offsetting some of those severity increases. Our view of loss trend heading into the outlook is fairly consistent with the trends we've been seeing. The outlook includes an assumption that pricing will continue to moderate in auto and that's consistent with our strategy to continue to work to return to growing policies in force.

So the broadly consistent outlook has a little bit less earned price in it than we've been running and again a consistent view of loss trend. And then lastly, I would just remind you that on sort of 4 quarters, we do expect a higher combined ratio in the fourth quarter than we saw in the fourth quarter of 2018, partly driven by normal seasonality and driven by the fact that we had an unusually good quarter in the fourth quarter of '18 as well as some prior quarter good guy catch-up in that quarter. So it's a tough comparison fourth quarter to fourth quarter.

**Michael Wayne Phillips**

*Morgan Stanley, Research Division*

Okay. Great. And then, I guess, second question on Bond & Specialty. Can you -- what are you seeing in the Management Liability and kind of maybe some more granular details of kind of what's driving that increase there?

**Thomas M. Kunkel**

*Executive VP and President of Bond & Specialty Insurance*

Sure. Thanks for the question, Michael. So if you look back at where we started reserving at the beginning of 2019, there were definitely some elements of normal loss trend versus rate that impacted how we were reserving there. But when you look at that third quarter reestimation we did, that was largely driven by an increase in frequency having to do with things like #MeToo sexual harassment and to a lesser degree securities class action suits. So that's really what we've seen driving any movement that we've had in Management Liability there. By the way, I should point out that where we're having elevated loss trending, we're definitely pursuing price in the marketplace. I think you can see that with publicly traded companies, and you can see it in various other parts of the marketplace that are impacted by the scenarios I discussed.

**Operator**

Your next question comes from Ryan Tunis with Autonomous Research.

**Ryan James Tunis**

*Autonomous Research LLP*

Just had a couple of quick technical ones and then a broader one for Alan. But first of all, just trying to size this, within multi-peril, what percentage of the claims dollars are usually for liability type of stuff versus property?

**Alan David Schnitzer**

*Chairman & CEO*

Yes, I don't know that we have that at our fingertips or that we've vetted that number, Ryan.

**Ryan James Tunis**

*Autonomous Research LLP*

Got you. And then -- that's fine. The other one I had was just -- it seems like part of this is auto claims and excess umbrella, those type of things. Is there -- can I get a sense for maybe like what percentage of overall casualty claims outside of workers' comp or something like that can be tied back to something auto related? I mean is there some way that you think about that? Just trying to think about the auto exposure outside of what you explicitly call Commercial Auto.

**Alan David Schnitzer**

*Chairman & CEO*

Yes, we definitely don't have that break out at our fingertips here, Ryan. We can look for that and try to figure out whether we can share that outside of this call. But we definitely don't have that in a vetted way that I think we'd be comfortable sharing.

**Ryan James Tunis**

*Autonomous Research LLP*

Okay. Fair enough. And then again, Alan, I guess this is sort of a broad one, but yes, this is, I guess, the third quarter of the last 4 where we've had, I guess, an increase in the loss picks. What would you point us to this quarter that would give us more confidence that's unlikely to happen going forward? What are you looking at that gives you more confidence as you give us more confidence?

**Alan David Schnitzer**

*Chairman & CEO*

Ryan, I think it was the first question of the call. I wish I could stand up and guarantee that we got it and this will never happen again. Obviously, I can't do that. I don't think anyone can do it. And I point to the magnitude of the shift, this is very recent information and a long tail line the lengthening of the claim development pattern really does complicate our ability to assess it. So it's a complicated process and it's taken us a couple of quarters to get to where we are. We're going to get another quarter's worth of data in a couple of months here, and we'll see where that comes in.

There is an incremental level of confidence that comes from the fact that we've now got a couple of quarters strung together and a view on what a new trend line might be. So that gives us a little bit more comfort. But I can't tell you now where the next dot is going to come in on the chart or what that's going to do to the trend line. It's data we haven't seen yet. I can tell you that we now have 4 quarters of data and a new trend line. We certainly reacted to that. And we're confident that we're taking the right swing at it. But I don't know what I could tell you beyond that.

**Ryan James Tunis**

*Autonomous Research LLP*

But you'd say that the '19 picks are now relatively reflective of some of the more seasoned accident years at this point.

**Alan David Schnitzer**

*Chairman & CEO*

Yes, for sure, it would be more reflective of the more seasoned accident years. I mean you've got '17 and '18 accident years, which I think the '17 accident year is on Commercial Auto less than 50% paid, and so the GL would be even less than that. And the '18 accident year would be less than that on both. So we've got a couple of recent accident years that are still developing. But the older accident years, yes, as they season, we certainly feel much better about those. And as I said, we now have 4 quarters. It's not just another data point. It's another line. And we've reflected that in a way that we feel is very responsible in terms of coming up with our best estimate. But I can't and nobody could tell you what the next data point is going to look like.

**Operator**

Our last question comes from the line of Sean Reitenbach with KBW.

**Sean Keller Reitenbach**

*Keefe, Bruyette, & Woods, Inc., Research Division*

For PG&E, would any benefit from there come through operating income?

**Daniel Stephen Frey**

*Executive VP & CFO*

Yes. Ryan (sic) [ Sean ], it's Dan. It would. It would come through the same way we would record any prior year reserve development. So it will be in core income. It won't affect the underlying combined ratio because it relates to prior accident years.

**Sean Keller Reitenbach**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. And although it's still very strong, the retention rate slipped by 0.32. Would you expect any further kind of that to tick down any further as a result of either any kind of non-renewing any business that you've had trouble with or pushing for more rate and losing anything there?

**Alan David Schnitzer**

*Chairman & CEO*

I would say the retention rates remain very, very strong by historical standards, particularly in an environment where we're getting rate at the level that we're getting it. So we feel terrific about the retention. We don't project where that's going. So I don't have a comment on that. But I will say that we like our book of business and our objective would be to keep a lot of it.

**Operator**

There are no further questions at this time. I now turn the call back to Ms. Abbe Goldstein.

**Abbe F. Goldstein**

*Senior Vice President of Investor Relations*

Thank you very much for joining us this morning. And as always, if there's any follow-up, please feel free to reach out to Investor Relations. Thanks, and have a good day.

**Operator**

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

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