The Travelers Companies, Inc. NYSE:TRV

Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the first quarter results teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on April 19, 2023.

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 first quarter 2023 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

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

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

These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements. Also, in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investors section on our website.

And now I'd like to turn the call over to Alan Schnitzer.

Alan David Schnitzer
Chairman & CEO

Thank you, Abbe. Good morning, everyone, and thank you for joining us today. We're very pleased to report a terrific start to the year, including an excellent bottom line result for the quarter, particularly in light of the high level of severe weather activity across the United States, and very strong production in all 3 of our business segments, which produced net written premium growth of 12% for the quarter.

Profitability and growth in our Business Insurance segment were particularly strong. And as you'll hear from Michael, we're positioned for improved profitability in our Personal lines business. Core income for the quarter was $970 million, or $4.11 per diluted share, generating core return on equity of 14.5%. Core income benefited from record net earned premiums of $8.9 billion, up 10% compared to the prior-year period, an excellent underlying combined ratio of 90.6% and a onetime tax benefit.

Catastrophe losses were elevated as the industry experienced the highest number of Q1 PCS catastrophe events since PCS started tracking in the 1950s.

Turning to investments. Our high-quality portfolio generated net investment income of $557 million after tax for the quarter, reflecting reliable results from our fixed income portfolio and positive returns from our non-fixed income portfolio. Our underwriting and investment results, together with our strong balance sheet, enabled us to return $680 million of excess capital to shareholders, including $462 million of share repurchases.

At the same time, we grew adjusted book value per share and made important investments in our business as we notched another quarter of successful execution on a number of important strategic initiatives. In light of our strong financial position and confidence in the outlook for our business, I'm pleased to share that our Board of Directors declared an 8% increase in our quarterly cash dividend to $1 per share, marking 19 consecutive years of dividend increases with a compound annual growth rate of 8% over that period. The Board also authorized an additional $5 billion of share repurchases.

Turning to the top line in production. Thanks once again to excellent execution by our colleagues in the field. We grew net written premiums by 12% this quarter to a record $9.4 billion with all 3 segments contributing. In Business Insurance, we grew net written premiums by 15% to $5.2 billion. You may recall that we entered into a quota share arrangement with Fidelis for 2023. This contributed about $160 million or around 3.5 percentage points net written premium growth in the segment. Results from the quota share are not reflected in our production statistics.

Renewal premium change in Business Insurance remained historically high at 9.6%. Per renewal rate change ticked up a little bit from the fourth quarter, driven by the property, umbrella and auto lines. Even with continued strong pricing broadly, retention in Business Insurance was very strong at 87%. New business of $639 million was a record and up 17% from the prior-year period.

In Bond & Specialty Insurance, net written premiums increased slightly from a very strong level in the prior-year quarter with excellent retention of 90% and new business growth of 25% in our management liability business, and a record level of Q1 net written premium in our surety business. Given the attractive returns and the high quality of business in our commercial segments, we are very pleased with strong production results in these businesses.

In Personal Insurance, top line growth of 12% was driven by higher pricing. Renewal premium change increased to 20.2% in our homeowners and other business and a 13.9% in our auto business. Another quarter of terrific production across the board positions us well for the year ahead. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

In light of the recent disruption in the banking sector, I'd like to share a reminder about how our business differs from those in the headlines. We often talk about the high quality of our investment portfolio, and I'll get back to that. But first, let me say a few words about our prudent management of that portfolio.

The banking sector disruption started with an acceleration of liabilities in the form of withdrawals from demand deposit accounts. As we all know, there's no acceleration of our largest liabilities, loss reserves. In other words, there's no such thing as a run on the bank in our business. But the banking episode also highlighted the risk to the equity of an enterprise when the duration of assets and liabilities are mismatched. We manage the duration of our assets relative to our liabilities such that on an economic basis, we've effectively diffused our insurance liabilities.

In other words, increases or decreases in interest rates generally have offsetting impacts on the present value of both our investment portfolio and our outstanding insurance liabilities. This essentially boxes the economic impact of changes in interest rates. As we've explained in response to your questions over the years, this is a reason why we didn't reach for yield by increasing duration in the low interest rate environment over the past 1.5 decades.

In addition to duration, the bank solvency issues also highlighted the importance of thoughtfully managing liquidity. Quarter in and quarter out, we've consistently generated strong cash flows from operations. Our cash flows from premiums alone over the course of the year are consistently greater than our annual payments for claims and expenses. That was true throughout the 2008 financial crisis and more recently throughout the pandemic.

We also have a steady and reliable stream of cash flows from our very high-quality fixed income portfolio. In addition to the periodic interest payments we receive on the bonds we hold, the proceeds from our maturing investment sheet each month provide an additional source of liquidity. Back to the high quality of our investment portfolio, macroeconomic uncertainty reminds us of how important that is and the quality of our holdings and our disciplined focus on risk-adjusted returns distinguish us.

Our fixed income investments are highly diversified. They have an average credit rating of AA and comprise 93% of our investments. Our alternative investments are also high quality and well diversified. Page 20 of our webcast presentation includes further details.

To address another topic that's been in the news lately, Page 21 of the webcast presentation includes information demonstrating the relatively nominal risk we have in our investment portfolio related to commercial real estate. Real estate represents a small percentage of our total invested assets. Our fixed income real estate investments are very high quality and the largest component of our non-fixed income real estate investments is wholly owned properties. The wholly owned properties are carried at their depreciated historical cost. In other words, they were never written up when market values were high and the appraised value of the portfolio is well above book value.

The portfolio has also produced a strong free cash flow yield. In short, whether we're talking about underwriting or investing, Travelers is built to manage through uncertain times.

Before I turn the call over to Dan, I'll share with you that we just returned from our annual conference with our most significant distribution partners who collectively represent more than half of our premium. We all left with the continued confidence that our relationships with these business leaders and their firms are strong as ever and feeling tremendous support for the strategic initiatives that we have underway. It's a great reminder that our position with distribution sets us apart and is an important competitive advantage. It's hard to replicate.

To sum things up, we're off to a great start for the year with another quarter of strong profitability and growth driven by our underwriting and investment expertise. At the same time, we continue to successfully execute on our innovation strategy which has contributed to significantly accelerated premium growth, superior returns and industry low volatility over the past decade. With the best talent in the industry, we remain well positioned for success through a wide range of economic and operating environments and confident in our ability to continue to create shareholder value over time.

With that, I'm pleased to turn the call over to Dan.

Daniel Stephen Frey
Executive VP & CFO

Thank you, Alan. Core income for the first quarter was $970 million and core return on equity was 14.5%. Compared to the prior year, this year's first quarter results included a significantly higher level of catastrophe losses and a lower level of favorable prior year reserve development. Those unfavorable items were largely offset by higher underlying -- underwriting income including a onetime tax benefit. The tax benefit impacts the income tax line only and thus does not impact the combined ratio or the underlying combined ratio.

Our first quarter results include $535 million of pretax cat losses, significantly higher than the prior year's benign results and about $160 million above the average of our first quarter cat losses for the past 5 years. Our pretax underlying underwriting gain of $797 million was $131 million higher than the prior year quarter, reflecting higher levels of earned premium and an improved underlying combined ratio of 90.6%. Results were again very strong in both Business Insurance and Bond & Specialty, while in Personal Insurance, we made significant progress in obtaining price increases that position us to get back to target returns.

The first quarter expense ratio of 28.7% was again very strong. Our ongoing investments in strategic initiatives are balanced by our continued focus on productivity and efficiency and strong top line growth, resulting in an expense ratio that, as expected, was broadly consistent with last year's first quarter and full year figures.

We reported net favorable prior-year reserve development of $105 million pretax in the first quarter. In Business Insurance, net favorable PYD of $19 million pretax was driven by another quarter of favorable development in workers' comp, largely offset by an increase for umbrella liability coverages and environmental exposure in our runoff book.

In Bond & Specialty, net favorable PYD of $58 million pretax was driven by better-than-expected results in both surety and management liability. Personal Insurance recorded $28 million pretax of net favorable PYD, driven by improvement in the homeowners book. After-tax net investment income increased 3% from the prior year quarter to $557 million.

Fixed income NII was higher than in the prior-year quarter, benefiting from both higher fixed income yields and a higher level of invested assets. Returns in our non-fixed income portfolio remained positive but were, as expected, less favorable than in last year's quarter. We are raising our outlook for fixed income NII, including earnings from short-term securities to $530 million after tax in the second quarter, growing to approximately $555 million in the third quarter and then to around $575 million in the fourth quarter.

Remember, only about 10% of the portfolio turns over each year, so the higher new money rates will take a while to fully impact run rate NII. Regarding the tax line, this quarter included a onetime tax benefit of $211 million with respect to the repeal of Internal Revenue Code Section 847, which addressed the discounting of property casualty loss reserves. And as a reminder, last year's first quarter included a $47 million benefit from the favorable resolution of our most recent federal income tax audit.

Turning to capital management. Operating cash flows for the quarter of $1 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 $1.6 billion. As interest rates decreased during the quarter, our net unrealized investment loss decreased from $4.9 billion after tax at year-end to $3.9 billion after tax at March 31.

Remember, the changes in unrealized investment gains and losses do not impact how we manage our investment portfolio. We generally hold fixed income investments to maturity. The quality of our fixed income portfolio remains very high. And changes in unrealized gains and losses have little or no impact on our cash flows, statutory surplus or regulatory capital requirements.

Adjusted book value per share, which excludes unrealized investment gains and losses, was $116.55 at quarter end, up 2% from year-end and up 4% from a year ago. We returned $680 million of capital to our shareholders this quarter, including share repurchases of $462 million and dividends of $218 million. As Alan mentioned earlier, our Board authorized an 8% increase in the quarterly dividend to $1 per share and also authorized an additional $5 billion of share repurchases on top of the $1.6 billion remaining under the prior authorization.

Let me wrap up my comments today on a personal note. A few weeks ago, we announced that on June 2, our friend and colleague, Doug Russell, will retire after a 40-plus-year career, about 25 of which have been with Travelers. For the past 5 years or so, Doug has held 2 very important roles, Corporate Controller and Treasurer. Doug is knowledgeable. He is unflappable and he is one of the very nicest people you could ever have the good fortune to know. He's also a great teacher. And in addition to being invaluable to me when I took over the corporate CFO role, Doug has positioned us well for the future. We're fortunate to have 2 highly capable long-time Travelers' employees ready to step in. Paul Munson will take over as Corporate Controller and Larry Mills will take over as Treasurer. Thank you, Doug, for all that you have done for the success of our company as well as for the success of the finance professionals who've had the privilege of working for you and working with you.

And now I'll turn the call over to Greg for a discussion of Business Insurance.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Thanks, Dan. Business Insurance continues to deliver exceptional results with a strong first quarter of 2023 in terms of both top and bottom line results. Segment income of $756 million, was up 13% from the first quarter of 2022, driven by higher underlying underwriting income. In addition to higher earned premium and the lower underlying combined ratio, underlying underwriting income also benefited from the segment share of the onetime tax benefit that Dan mentioned.

We're once again particularly pleased with the quarter's underlying combined ratio of 89.6%, which was more than 2 points better than the prior-year quarter. The improvement was driven by the loss ratio, which benefited from property losses that were lower than a somewhat elevated level in the prior-year quarter and the benefit of earned pricing. The expense ratio was a strong 29.8% and continues to benefit from the combination of the leverage from higher earned premiums and our strategic focus on productivity and efficiency.

Net written premiums increased 15% to an all-time quarterly high of $5.2 billion, benefiting from historically high renewal premium change and retention as well as record new business levels. As you heard from Alan, the Fidelis quota share also contributed to the higher net written premiums.

Turning to domestic production for the quarter. Renewal premium change was once again historically high at 9.6%, with renewal rate change ticking up sequentially to 4.7% and continued strong exposure growth. Retention of 87% also remained exceptional while new business was up 17% from the first quarter of last year to a record high of $639 million.

We're thrilled with these production results and our field superior execution in the marketplace. In terms of pricing, we're pleased to be able to sustain strong levels of renewal premium change to address the persistent environmental headwinds. And given our high-quality book as well as several years of meaningful price increases and improvements in terms and conditions, we're very pleased to continue to produce historically strong retention levels.

Lastly, we are particularly pleased that our ongoing focus on our strategic investments help us drive an increased flow of new business opportunities, and we capitalized on those opportunities by being more responsive in quoting and converting our more quality accounts during the quarter.

As for the individual businesses, in Select, renewal premium change remained strong at 10%, while retention increased to point to an exceptional 84%. New business increased 16% from the prior-year quarter to $129 million, driven particularly by the continued success of our BOP 2.0 product.

In Middle Market, renewal premium change was 8.1%, with renewal rate change increasing sequentially to 4.4%, while exposure growth was once again strong at 4.1%. Retention remained exceptional at 89% and new business was up 19% from the prior-year quarter with increases across all account sizes in most markets.

As I mentioned a moment ago, we're pleased with the impact that our focus on strategic initiatives is having on our production results. To sum up, Business Insurance had a great start to the year. We continue to grow our profitable book while investing in capabilities to enhance our position as the undeniable choice for the customer and an indispensable partner for our agents and brokers.

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

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

Thanks, Greg. Bond & Specialty started the year with a great quarter on both the top and bottom lines. Segment income of $207 million was slightly lower than the prior-year quarter. Pretax income improved slightly as higher levels of net favorable prior-year reserve development and net investment income were mostly offset by losses related to disruption in the banking sector. A lower favorable income tax adjustment in the current quarter more than offset this pretax improvement.

The segment combined ratio was an excellent 80% for the quarter. The underlying combined ratio was a solid 86.1% with a 3.9 point increase primarily driven by losses related to a few financial institutions and a higher expense ratio, partially offset by the benefit of earned pricing. Our quality risk selection and disciplined limits management continue to position us well to navigate through uncertain economic conditions.

Turning to the top line. Net written premiums were strong and consistent with our exceptional top line in the prior-year quarter, which, as you might recall, grew by over 20%. Domestic management liability, considering our strong returns, we're very pleased that retention continued to be at a near record 90%, a 5-point improvement from the prior-year quarter, and net renewal premium change was solid at 5%.

We're also pleased that we increased new business 25% from the prior-year quarter. As Alan mentioned during his opening remarks, we're pleased to have driven a very strong and record level of first quarter surety net written premiums. So both top and bottom line results for Bond & Specialty were terrific this quarter, driven by excellent execution, benefits from our ongoing strategic investments, and the market-leading competitive advantages and franchise value that we offer our customers and distribution partners.

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

Michael Frederick Klein
Executive VP & President of Personal Insurance

Thanks, Jeff, and good morning, everyone. In Personal Insurance, first quarter segment income was $83 million. The combined ratio of 101.5%, increased approximately 6 points from the first quarter of 2022, driven by higher catastrophe losses, primarily related to the significant tornado and hail events in March.

The underlying combined ratio of 92.9% was comparable to the prior year as the benefit of earned pricing across all products, lower losses in the homeowners and other product line and a lower expense ratio were offset by elevated losses in the automobile product line. Net written premiums for the quarter grew 12%, driven by double-digit renewal premium change in both domestic automobile and homeowners.

In automobile, the first quarter combined ratio was 104.7% with an underlying combined ratio of 103.4%. The underlying combined ratio increased 4.6 points from the prior year due to increased vehicle replacement and repair costs, higher bodily injury severity and to a lesser extent, higher frequency. These increases were partially offset by the growing benefit of earned pricing as well as the lower expense ratio.

In Homeowners & Other, the first quarter combined ratio of 98.5%, increased 7.3 points, primarily due to higher catastrophe losses. The underlying combined ratio of 82.7%, improved 4.2 points, reflecting lower losses associated with mild winter temperatures in the Eastern and Central United States as well as the benefit of earned pricing and a lower expense ratio. These benefits were partially offset by elevated loss severity from continued labor and materials price increases.

As a reminder for homeowners, we expect the upcoming second quarter to be the seasonally highest quarter for weather-related losses.

Turning to production. Our results demonstrate the impact of rate and non-rate actions in both lines as we seek to improve profitability and manage growth. In domestic automobile, renewal premium change of 13.9% increased 2.5 points from the fourth quarter of 2022. We expect renewal premium change to be modestly higher than this level throughout the remainder of 2023.

We've shared previously that we expect written pricing in auto to be adequate in states representing the majority of our premium by midyear. While the loss environment is incrementally more challenging, we are adjusting our pricing plan accordingly, and still expect to get there or very close to it. We will continue to pursue rate increases necessary to deliver target returns and the benefits of this increased pricing will earn into our results over time.

As we've taken significant pricing actions, retention and growth in auto have continued to moderate as expected. Policies in force declined 1% from year-end 2022. In domestic homeowners and other, renewal premium change of 20.2% increased approximately 6 points from the fourth quarter. We expect renewal premium change to remain at this elevated level through the end of the year. In the phase of these increases, retention declined but remained strong. New business written premiums were in line compared to the prior year quarter and policies in force remain consistent relative to year-end 2022.

In Personal Insurance, we entered the year with continued focus on disciplined marketplace execution in response to a loss environment that remains challenging. In addition to making more progress in pricing, we continue to implement non-rate actions. Examples include tighter underwriting in both auto and home and improved pricing segmentation and risk selection in property.

We're encouraged by the progress we're making towards our goal of achieving target returns. While we have more work to do, we are confident that the actions we have taken and will continue to take will improve profitability as we move through 2023 and beyond.

Now I'll turn the call back to Alan.

Alan David Schnitzer
Chairman & CEO

Thanks, Michael. I'd like to add to Dan's recognition of Doug Russell. I met Doug in 2002 during Travelers' IPO. He's been a great friend and a source of endless expertise and insight ever since. Doug, we thank you, and we'll miss you, around this table in particular. And thanks for leaving us in such good hands. Abbe, back to you.

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thanks, Alan. Okay, we are ready to open up for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Greg Peters from Raymond James.

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

And I guess where I'd like to start off is on the top line growth in the business insurance, the 15%. I'm looking at Slide 8 of your presentation. Can you provide some color on the various lines that are going up? I was intrigued by national property and then at the geography of Fidelis. Is that an international -- and when I think about property, can you talk about where the growth is coming from in the context of what we're seeing in reinsurance costs?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes, this is Greg. First of all, I'll take the National Property one. Yes, clearly, we shared with you in the fourth quarter that post some of the severe weather activity in the fourth quarter, we did expect a hardening of the reinsurance market, and we are going to be in such a good position given our gross line underwriting mentality. And I think that's what's playing out ultimately in some of the growth in National Property. It is mostly driven by renewal premium change, although we are getting opportunistic looks at new business, but most of that growth really is coming through pricing.

In terms of Fidelis, I mean, Alan made his comments. If you look at the webcast, you can see the domestic production up 11%. So when you look at all the businesses from Select and National Property, again, double-digit growth, and we're feeling terrific about that growth. And similar to National Property, most of that growth is coming through price increases. But again, some thoughtful new business, adding quality accounts to the portfolio has been in addition to the pricing.

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

Great. And then my follow-up question, just pivoting to inflation assumptions. If we're watching CPI data, it still seems like there's inflationary pressures. And maybe, Alan, you can give us your view of how you think inflation is going to affect your loss cost assumptions for the current accident year?

Alan David Schnitzer
Chairman & CEO

Yes, Greg, I guess I would say that we're pretty confident that in our loss picks, we're contemplating everything that is going on that could impact loss costs, and that includes inflation. And we're only trying to predict out as far as the duration of the liabilities. And so we feel pretty comfortable with the picks.

I mean we're certainly seeing inflation. You see it more prominently in Personal Insurance, where you've got shorter tail lines and more of the loss costs impacted by things like materials cost and labor, and you see it relatively less in our commercial lines because that's just a lower proportion of the loss cost. But I guess that's what I'd say, Greg.

Operator

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

Michael David Zaremski
BMO Capital Markets Equity Research

Maybe focusing on the Business Insurance segment. Cognizant results were good. But just curious, Greg, you mentioned persistent environmental headwinds. Reserve releases were lower than expectations in that line. And sorry to be harping on the negative, but umbrella liability was called out as one of the reasons and the environmental reserve addition was, it looks like it was lower year-over-year looking at the Q. So just any comments there?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

What's -- Mike, what's the question? We heard the comment...

Michael David Zaremski
BMO Capital Markets Equity Research

Just -- sorry, curious about what Greg meant about the persistent environmental headwinds. Are you speaking to inflation picking up a bit or kind of staying kind of at levels that are a bit above historical trend?

Alan David Schnitzer
Chairman & CEO

Mike, I'll turn it back to Greg if I miss anything here, but there's -- I think there's nothing new in that comment. It's reinsurance pricing, it's economic inflation, it's a tight labor market, it's weather frequency and severity and so on. But it's a continuation of trends we've been facing for some time.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Mike, the only thing I'd just add, and I think that's what's driving the renewal premium change of close to 10% and, ultimately, the combined ratio of sub-94% and an underlying of sub-90. So I feel like given those headwinds, we're operating very well in terms of relationship to them.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Great. Last question just on Personal lines. Clearly, good momentum on the pricing side. Clear about your comments about rate adequacy in most states. But if we just look at the combined ratios in your comments, it looks like inflation is staying much higher for longer in both auto and home. I don't know if you'd agree with that or anything you want to call out or that maybe is getting better or onetime in nature?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Mike. It's Michael. Yes, I would say, I would agree inflation is higher for longer, continuing to put pressure on both lines. And I call that out as a driver of the continued deterioration in auto and then a little bit of an offset to some of the improvement in property. So we continue to face that persistent inflation pressure.

The other thing just to be really clear on the comment about rate adequacy, right, that's a comment about written adequacy for business we're putting on the books, which is really a prospective view. And certainly, the GAAP financials will lag that because we need that rate to earn through before it shows up in the GAAP financials, which is why I've been consistently commenting that it will take time for those rate changes to earn through.

But we do see continued momentum in pricing in both auto and home, and I'll give you a quick example. We were actually really pleased last Friday to get approval from the State of California for 19 points of rate in auto effective May 31, which is one of the elements of that prospective view and 1 piece of the puzzle in terms of why we see renewal premium change going higher from here.

Operator

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

Brian Robert Meredith

UBS Investment Bank, Research Division

A couple of quick ones here for you. First, I'm just curious, Michael, in the -- did you have any effect in your auto results from the additional claims that were filed in Florida as a result of the legislation? Anything on reserve? I know you're relatively small there, but any impact at all?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. Thanks, Brian. No, we did not have an impact from the Florida law through filings in our results, and that's largely due to the fact the comment that you just made, our auto market share in Florida is about 2%. So it's a relatively small exposure for us.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then secondly, on the commercial lines, I'm just curious in Business Insurance, Fidelis coming in, I'm assuming it was relatively small from an earned premium perspective. But as we think about that continuing to earn in your business insurance results, is that going to have a favorable impact on your underlying loss ratios here? Does it have a more property component, maybe better underlying loss ratios?

Daniel Stephen Frey
Executive VP & CFO

Brian, it's Dan. I'll take that. So look, I think the short answer, as we said at the end of the fourth quarter, is it's just not going to be big enough to move the needle a lot. If it plays out the way that we hope it would play out, it would be -- it would have a very modest favorable impact to underlying combined ratio in Business Insurance.

The first quarter, it's tiny because the earned premium component of a partial earning is just not that big. And then the only other thing I'll throw out there, as a reminder, since you mentioned the property book or any of the business that they write, we do have a loss ratio cap on that quota share. So it can't really hurt us badly on the other side.

Operator

Your next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I just had a question on Business Insurance. If you look at price increases, they've been fairly steady over the past several quarters, but inflation stayed pretty high as well. So as you think about your margins in the business over the next 1 to 2 years, do you think they'll improve further? Or should we assume that more of the earnings growth will come from just the momentum in premiums?

Alan David Schnitzer
Chairman & CEO

Jimmy, it's Alan. I think we'd like to get away from forecasting margins. What I will say is we have answered that question from time to time over the last year or so. And frankly, these written measures aren't that different than they've been over the last year or so. But we would like to get away from forecast. What I will say is we are very, very pleased with the business we're putting on the books.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then any color on sort of the timing of completing the buyback authorization? Is it the next 2 to 3 years? Or is it more open-ended? And like any sort of color on that?

Daniel Stephen Frey

Executive VP & CFO

Jimmy, it's Dan. So very open-ended. We are rightsizing capital over time. It will depend on our view of capital strength. It will depend on what happens from a loss perspective. It will depend on our view of growth and how much capital we need to hold on to growth.

I think what the increased authorization gives us is, one, recognition from the Board of the strong financial performance of the company; and two, it gives us a fair amount of flexibility to manage through whatever environment we see. But there's no targeted time horizon by which we're going to try and execute that remaining buyback authorization.

Alan David Schnitzer
Chairman & CEO

And also no change in our capital management philosophy.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Understood. And just lastly, if I could just follow up on the point on margins. If we think about the loss inflation in your Business Insurance division, should that be somewhat similar to what general CPI inflation is? Or what are the puts and takes? Because at one point, I guess, social inflation was a big deal, but it seems like it hasn't come back the same way as it was prior to COVID?

Alan David Schnitzer
Chairman & CEO

Jimmy, if you're talking about loss trend, there's -- we didn't make any changes to our trend assumptions in the quarter.

Daniel Stephen Frey
Executive VP & CFO

Jimmy, it's Dan. On social inflation, just to clarify, and I think we've said it probably every quarter for the last 10 quarters, social inflation was elevated. We called it early in late 2018. We saw it in 2019. We saw it in 2020. Even during COVID when the court slow down, we don't think social inflation has gone anywhere. So if you're thinking that social inflation is less of an issue now than it was, we don't think that, and we continue to book our loss reserves on that basis.

Alan David Schnitzer
Chairman & CEO

But all of that reflected in the really exceptional margins we posted in the quarter.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Yes. And I see that you're booking at that level, but are you actually seeing that as well? Because it seems from the outside in that it's not as -- doesn't seem as elevated as it has been?

Alan David Schnitzer
Chairman & CEO

I think we're not going to comment beyond the combined ratio we printed in our comment on loss trend.

Operator

[Operator Instructions] Your next question comes from the line of Alex Scott from Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had was on Business Insurance. When I listened to the comments about the year-over-year change in underlying loss ratios and so forth, one of the things I didn't hear was sort of the mix shift, maybe a bit towards property or impact from the reinsurance, changes that you made, a little higher retention, et cetera. I mean is that because that was not really too material to that? Or can you provide any color on how that may have impacted year-over-year comparisons of loss ratios?

Daniel Stephen Frey
Executive VP & CFO

Yes, Alex, it's Dan. So I think you're coming to the right conclusion. Not a big impact or we would have called it out. Because as a reminder, we did say even back in the fourth quarter when we went through what the 1/1 reinsurance renewals looked like and what our attachment points were and what the cost was and what treaties we renewed and what treaties we didn't renew, that we didn't expect that to have a big impact on margins going forward and that prove to be the case.

Mix does move over time. We give you the written premium numbers by line of business so you can see that, but not a driving factor in the year-over-year margin comparison.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And then maybe just in terms of the pricing, could you kind of unpack for us at all -- when we think about that modest reacceleration of renewal rate change, can you help us think about what you're seeing among some of the different product lines?

Alan David Schnitzer
Chairman & CEO

Let me just try to respond to that with some general comments about the pricing environment, and you can follow up if we don't get to the question. I would say the pricing environment remains very strong. We saw, as you saw in the numbers, a little acceleration in renewal rate that was led by property, umbrella and auto. And we'll just have to see whether that's the start of the trend in that direction or it's not.

And very significantly, when you were thinking about prices, as we've said many times, even with another quarter of very strong pricing, retentions remain at historical highs, which for us is terrific given the attractive return. So in broad strokes, and I think Greg included this in his commentary, there are 2 trends impacting pricing. On the one hand, there are headwinds, and we've been seeing those for a while now, and they're still there, and that's what you see us reacting to.

And on the other hand, after years of some pretty good pricing and improvements in terms and the conditions, return turned a better place. And so the pricing that you see us putting up is -- and what we're achieving is really threading that needle incredibly well. I mean hats off to our field organization for just really superior execution.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Could you -- I don't know what details I'm looking for [indiscernible] smart ones. Where are the courts shaping up right now? How is the backlog of cases coming through? How efficiently are they handling current cases compared to where we were 1, 2, 3 years ago? Where are we in that story?

Daniel Stephen Frey
Executive VP & CFO

Josh, it's Dan. So I'll take a shot at that. Look, I think we were saying 2 years ago, that even when courts did reopen, that we expected that it was going to take quite a while for the backlog to work its way through. We thought that was going to be measured in years, not in quarters. I think the data that we look at every quarter would so far confirm that to be true.

So in some of the most recent, say, 3- and 6-month diagonals, the amount of claims that are closing in a 3- or 6-month period is a little higher than the historical pattern would tell you it would be. But when you put that on a life-to-date basis for those accident years, closure rates are still lagging where they were pre-pandemic. And so that's what we're seeing. You're starting to see some of that backlog work its way through. But again, we think we've got a long way to go there.

Joshua David Shanker
BofA Securities, Research Division

And does the backlog mean that if I have a new incident in 2023 that it's going to be an extended period of time before it can see a courtroom?

Daniel Stephen Frey
Executive VP & CFO

It depends, Josh. It depends jurisdiction by jurisdiction. It depends by type of claim. It depends by complexity of claim. So I wouldn't say that as a universal rule. But I would say, generally speaking, we're still modeling slower closure rates than pre-pandemic.

Operator

Your next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I also like to wish Doug Russell best of luck. I really enjoyed the interactions in my prior role over many years. Since the boy scouts appeal by insurers did not go through, wondering were you holding out on that appeal passing? Or do you feel good about the IBNR reserves you set aside? It would also be helpful if you could quantify how much IBNR you set aside for reviver cases in general?

Daniel Stephen Frey
Executive VP & CFO

Yes, Tracy. So it's Dan. So I'm not going to do the latter. You know from the way we've talked about reviver statutes, and those types of exposures going all the way back to the first quarter of 2019 when New York implemented what for us was a pretty significant reviver statute, we're looking at what happens state-by-state quarter-by-quarter and reacting in real time as best we can.

PSA is something that we and the whole industry has been watching for a long time. You generally don't see our name in the news in connection with that because we don't have anywhere near the exposures that some of the other folks have. We weren't necessarily going to be significantly swayed by bankruptcy proceeding or not proceeding one way or the other. We have all the information at our fingertips in terms of what's the latest and greatest, and that's what's baked into our reserves.

In that regard, one thing I'll mention, in case you were going to go there. In the month of April, the state of Maryland implemented a new reviver statute. It's not effective until October of '23, but because the law changed in the second quarter of '23, we'll do our assessment in the second quarter '23. Too early to say with any certainty what that impact might be, but not expecting that to be a big deal for us at this point.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

That's very helpful. Maybe just a follow-up question that Josh raised. I noticed in your 10-K, you've reported a lower number of cumulative number of reported claims. And I'm wondering when you set aside reserves if you think about a more normalized number of claims coming through considering the backlog in the court system?

Daniel Stephen Frey
Executive VP & CFO

Tracy, I think for the last few years, we've said, given the backlog in the court system and the delay in closure rates, there was more uncertainty in the loss environment, and we were trying to make sure that we allowed for that uncertainty when establishing our loss picks.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So something north of the reported claim, correct?

Daniel Stephen Frey
Executive VP & CFO

No. We're not going to do frequency time severity. I'm just telling you that we recognize that there's a level of uncertainty in the environment, and we're trying to factor that into our loss picks.

Operator

Your next question comes from the line of David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question on the Business Insurance underlying loss ratio. Could you talk about some of the drivers of the improvement year-over-year and the sustainability of it going forward? And I'm specifically looking just for how much lower the non-cap property losses were this year versus the elevated level last year? And were they at a lower level than you would normally expect in a typical first quarter?

Daniel Stephen Frey
Executive VP & CFO

David, Dan again. So look -- so the underlying combined improved by a couple of points, almost 0.5 point of that you could see was expense ratio. So you got about 1.5 points in the loss ratio. And Greg's comments were slightly elevated level of property losses in last year's number and the continued benefit of earned pricing. Neither of those are huge.

To the probably more salient point of your question at the end, we look at this quarter and see it as a pretty clean quarter in terms of a jump-off point, not really anything that was significant one way or the other that we think you'd adjust out for.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Okay. Great. That's helpful. And then just a question for Alan, just on the pricing environment and specifically for the property business. So last quarter, I think you had said you saw property rate accelerate month by month in the quarter. Just wondering how that trended in the first quarter here. And just given property is a seasonally small part of the business in the first quarter, would you expect continued acceleration in renewal rate change in Business Insurance?

Alan David Schnitzer
Chairman & CEO

I mean the first quarter property pricing was -- we saw a continuation of that trend through the first quarter. I think we're going to try not to forecast and line pricing is not much more competitively sensitive than our pricing strategy. But given the hardening of the reinsurance market, there's a fair amount of activity in the pricing space. There's, overall, probably a constraint in capacity, and I think underwriters are generally just reacting to the loss environment.

Operator

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the quarter. I've got a couple of Personal lines related questions. In the context of there are some rumors that Progressive is getting back to digital marketing a lot. The implications, they saw something in March that made them nervous about the business has been confirmed. But is there anything in the data that you saw sort of inter-quarter, as we went through the quarter, particularly in auto that would suggest some sort of market change either in the loss ratio or maybe even the sort of marketing piece of the business? Obviously, the average looks what you'd expect. But just wondering if there's anything in that Intercore level that we should be -- that would stand out at all?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes, Paul, it's Michael. I would say probably nothing that would stand out. I will tell you that the first quarter in auto is one of the tougher quarters to try to diagnose trends in because of changes in weather, when the weather improves, when you get winter storms or not, the sort of frequency and severity results in auto in Q1, sort of inter-quarter, as you described, are sort of the toughest to discern trends from really of any quarter in the year.

And then as you look at the external indices, you see wholesale used car prices moving around. One consistent trend we see underneath everything is parts and labor costs continuing to rise. That's been fairly steady for a long time. And then again, a lot of the items that I mentioned, just impact driving behavior very differently from 1 year to the next. So I wouldn't say I see anything on the loss side that's worth pointing out from within the quarter.

And then if you think about more of the business dynamics, to your point about digital advertising, et cetera, we continue to see healthy demand for quotes in the marketplace. And I think there's a variety of drivers of that, probably the biggest of which is the rate that's going through the marketplace and through the industry driving people to shop.

So I don't know if that was one of the elements you were trying to get at. But certainly, we see pretty healthy quote activity, again, through the quarter, not a lot of inter-quarter variability.

Jon Paul Newsome
Piper Sandler & Co., Research Division

That definitely helps me understand it better. And then relatedly, I was just listening to your comments about Personal line pricing. And maybe just a clarification, and I apologize if it's just me being confused. But it sounds like you're going to hit the expectations for guidance of rate adequacy on time. But was there an implication that essentially Travelers will have to kind of jack up the rates a little bit faster or a little bit higher than you previously expected because the underlying trends are a little bit worse? Or am I just not interpreting that correctly?

Michael Frederick Klein
Executive VP & President of Personal Insurance

No, I think you're spot on, Paul. We have seen the loss experience be incrementally worse, frankly than it was and than we expected. And so we have adjusted our rate plan for 2023 accordingly and are seeking more rate than we thought we would as we put the plan together for the year.

And so that's -- but that is underneath the comment that I made about RPC going north from here for the balance of the year. So that expectation of where RPC is headed reflects both our original plans around rate and the additions that we're now seeking because the loss experience has been a little bit worse.

Operator

Your next question comes from the line of Michael Ward from Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

Just thinking about the small business insurance clients. Seems like pretty healthy growth. I was hoping you could comment on what you're seeing there in terms of kind of macro trends?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes. Michael, this is Greg. First, I'd point to the top line in Select plus 11%. And you can see on the webcast, a lot of that is being driven by a strong pricing environment with a 10% RPC. But you can also see below that, that we've got real strong new business. New business is up 16% over the prior year, and we've shared with you the success of our BOP 2.0 product. So that's driving a lot of the new business.

So the combination of new business and pricing is really driving that strong top line growth. And we're feeling terrific about the profit profile of that business and continue to invest in it.

Michael Augustus Ward
Citigroup Inc., Research Division

Super helpful. And then maybe on management liability, was hoping you could unpack some of the losses or expected losses in Bond & Specialty. And then for management liability, any -- not necessarily asking for an outlook, but any commentary on pricing trends?

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

Yes, Michael, this is Jeff Klenk. So relative to the financial institutions, we've got some exposures on some of the financial institutions that were prominent in the news in the first quarter. We booked some losses for those over and above what we have in our loss picks, and I mentioned in the prepared remarks, that's really the primary driver of the 3.9 points increase in the underlying combined ratio.

And then what was the second question?

Michael Augustus Ward
Citigroup Inc., Research Division

Management liability pricing commentary?

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

I think we wouldn't really give a projection on pricing going forward. I would say that given the healthy returns that we have in our portfolio, feel really very good about the 5 points of RPC that we got, the 90 points of RPC and you know that we're growing our new business. Thanks for the question.

Daniel Stephen Frey
Executive VP & CFO

90 points of retention.

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

Sorry about that. 90 points of retention and then growing the new business by 25%. Thanks, Dan.

Operator

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

Ryan Tunis

Obviously, the pricing look better in middle markets, National Property. It did look like it softened a bit in small commercial. I'm not sure if things are getting more competitive there or it's just a function of mix, but looking for some color on that?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Ryan, this is Greg. For this particular quarter, we do have a stronger weight in the Select business, particularly of workers' comp. And so given the continued negative rate environment that we're seeing broadly across the workers' comp industry, the Select business felt that in the first quarter. But again, I'll point out the strong RPC overall at 10% exposure was really robust. And as we've shared with you before, there's a meaningful portion of that, that does behave like rate.

Ryan Tunis

Got it. And then, I guess, for Michael, I mean we've seen modest sequential PIF declines in the past couple of quarters in home and auto, but nothing significant. How should we think about -- when you think about the rate that you've put through or you're planning to put through, are you feeling like we've probably seen kind of, I don't know, retention bottom or, I guess, anything on that?

Like are your clients kind of feeling the full impact of the type of rate that you put through yet?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure. Thanks, Ryan. I would say that as we continue to push rate and renewal premium change through the portfolio, we would anticipate some continued pressure. Again, not our primary focus. We're not wringing our hands over PIF growth at the moment. Our primary focus really is on improving profitability and the actions we need to take there. But we wouldn't be surprised if we see a bit of continued pressure on PIF as we continue to work to improve margins.

Operator

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

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

Two quick questions for Jeff. One, can you give us a little color on the expense ratio increase on year-over-year basis?

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

Sure. So Meyer, I think we're making strategic investments to maintain and extend our competitive advantages. And so -- and to make sure that we're investing in our future success. The 2 biggest buckets on that would be people and technology. And I'd point out why we continue to deliver attractive returns. A little more color on what that investment is would really be to develop and extend our flow underwriting capabilities in what I'd say are these traditionally higher touch management liability and surety lines of business. And again, that's all in the context of a reported combined ratio of 80%.

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

Okay. That's very helpful. Second question, I guess, there -- I'm sorry, Greg called out some reserve issues related to the BI segment's general liability. It doesn't look like that problem manifest itself in Bond & Specialty in the quarter. Can you talk about, I guess, what's going on there and why the same issues wouldn't present?

Daniel Stephen Frey
Executive VP & CFO

Yes. Meyer, it's Dan. I'll take the PYD question. I think just a different dynamic. Umbrella and we talked about it a little bit last quarter. You're writing excess coverages in an environment of inflation, whether it's both the combination of sort of CPI, headline type inflation plus the fact that social inflation never went anywhere. What you've seen is some more items pierce into those higher layers.

So not directionally inconsistent with the way we would have thought about it, but the magnitude of it was different, and we're just trying to react to that as we see the data come in. Just a different dynamic in terms of the management liability exposures that exist in the BSI book. And it just hasn't had the same crossover.

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

Okay. So that's a function of the book as opposed to the actual loss trend if I understand it correctly?

Daniel Stephen Frey
Executive VP & CFO

I would say that's true, yes.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, did you drop your workers' comp loss picks in the quarter?

Daniel Stephen Frey
Executive VP & CFO

Well, we took favorable PYD at least -- be a little more specific on what your question is?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Sorry, I'm trying to get a sense of just how you booked the underlying year if you took down the picks and comp relative to where you were booking accident year 2022 and prior, on the current accident year?

Daniel Stephen Frey
Executive VP & CFO

Yes. I don't think so, Elyse. So we -- you saw what we did in '22. '23, we do our normal process of projecting what we think loss trend is off of '22. Loss trend is still positive in workers' comp because we are making an assumption that severity is going to return to some more normalized level and not be as benign as it has been. And it's -- so '23 -- and '23 is early in the year, we wouldn't have done anything to modify our pick at this point.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then in terms of personal auto, obviously, recognizing right, it's been a pretty hard environment in terms of loss trend for everyone. I had thought if in previous years, right, Q1 has at times been seasonally the best quarter when just looking at underlying combined ratios. You guys obviously have rate going to the system but that needs to earn in and trends remained high.

Would you expect that same seasonality to persist that the other quarters of the year would be weaker on an underlying basis relative to the Q1? Or how should we think about the dynamics within personal, auto?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes, Elyse, it's Michael. I would say that we don't see anything that would cause us to change our view of seasonality in auto. And to your point, the biggest reason the combined ratio came down relative to fourth quarter of last year really is that seasonality. So notwithstanding the year-over-year same period, the same period deterioration, those seasonality trends still seem to be intact based on looking at this year's first quarter relative to last year's fourth quarter.

Operator

And we have time for 1 more question. Your final question comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Two questions, if I may. One, on the Florida reform. I realize your market share in Florida is underweight or in small overall. But would you expect there to be an impact beyond personal, auto, maybe in some commercial lines as well?

Alan David Schnitzer
Chairman & CEO

I'll say we are very, very encouraged by what they've done in Florida. We think it's great progress. And I think we're just going to wait and need to see how it plays out a little bit. It's been a pretty challenged market over a pretty long period of time, still competing against citizens. It's pricing at a subsidized level. The current reinsurance market doesn't help.

So I guess I'd say we're going to watch it with great interest and continue to evaluate the opportunity, but we are very encouraged by what they've done in Florida.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then just on Slide 21 of the presentation on the real estate portfolio, again, realize high quality, relatively small. One thing that caught my eye is you said that the appraised values are meaningful -- meaningfully in excess of carrying value. I'm just curious how often the properties are appraised or when were they last appraised?

Daniel Yin

This is Dan Yin from Investments. We go through an official appraisal every year annually. But quarterly, we do sort of notebook type of appraisal as well.

Operator

And I will now turn the call back over to Abbe Goldstein for some final closing remarks.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you all for joining us today. And as usual, if there's any follow-up, please get in touch with Investor Relations directly, and have a good day.

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