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Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Fourth Quarter Results teleconference for Travelers. [Operator Instructions] As a reminder, this conference is being recorded on January 22, 2025.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to Travelers discussion of our Fourth Quarter 2024 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

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

Before I turn the call over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast presentation. Our presentation today includes forward-looking statements. The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described in 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. Before we begin, I want to take a moment to acknowledge the tragic wildfires that have devastated communities across Los Angeles. Our hearts go out to everyone affected. Those who've lost their homes, their businesses, and lost tragically their loved ones. At times like these, words alone are, of course, not enough. As a company rooted in the communities we serve, we will be there for our customers and neighbors to support them as they recover and rebuild. We've assessed impacted areas through aerial imagery and made live contact with the substantial majority of our customers with claims, enabling us to expedite claim payments.

In addition, our expert claim team is on the ground, we're grateful for their efforts. We also have mobile claim offices positioned in the area where customers can file a claim in person or receive an advanced claim payment. And we look forward to working with policymakers in California, to make sure the state has a resilient insurance market going forward.

Now let me turn to our fourth quarter and full year 2024 results. We're very pleased to report that for the full year, core income was up 64% to more than $5 billion or $21.58 per diluted share, generating core return on equity of 17.2%. These results were driven by strong fundamentals, growth in earned premiums, excellent underwriting profitability and a higher level of net investment income. That combination makes for a powerful earnings engine and that momentum is at our backs as we enter 2025.

Turning to our fourth quarter results. We are very pleased to have generated exceptional top and bottom line results. Core income for the quarter of $2.1 billion was a record. Net earned premiums increased 9% to $10.9 billion, and the combined ratio improved 2.6 points to 83.2%. The improvement in the combined ratio was driven by very strong underlying profitability and higher net favorable prior year reserve development. The underwriting margins were strong in all 3 segments. The combined ratio in Business Insurance improved by more than 1 point to an excellent 85.2%. The combined ratio in our Bond & Specialty business was a very strong 82.7%, and the combined ratio in Personal Insurance improve than 6 points to an exceptional 80.7%. These terrific segment results led to a reported consolidated combined ratio that improved 2.6 points to 83.2%.

Turning to investments. After-tax net investment income for the full year was up 21%, $3 billion, driven by strong and reliable returns from our growing fixed income portfolio and higher returns from our non-fixed income portfolio. These results, together with our strong balance sheet, enabled us to grow adjusted book value per share by 13% during the year to $139.4. After making important investments in our business and returning more than $2 billion of excess capital to shareholders.

Turning to the top line through continued terrific marketplace execution across all 3 segments. We grew net written premiums during the year by 8% to more than $43 billion and in the quarter by 7% to $10.7 billion. The strong value proposition that we offer to our customers and distribution partners, along with outstanding execution by our colleagues in the field contributed to our top line success.

In Business Insurance, we grew net written premiums in the quarter by 8% to $5.4 billion. Renewal premium change in the segment remained very strong at 9.6%, including renewal rate change of 6.9%. Retention also remained strong at 85%. A combination of strong pricing and excellent retention reflects our deliberate and granular execution in a generally disciplined marketplace.

In Bond & Specialty Insurance, we grew net written premiums by 7% to $1.1 billion, with excellent retention of 88% in our high-quality management liability business. In our market-leading Surety business, we grew net written premiums by 19%. We are very pleased to have generated terrific production results across our commercial segments where margins continue to be attractive. That includes our E&S offerings, where we grew net written premiums by 13% in 2024.

In Personal Insurance, we grew net written premiums in the quarter by 7% to $4.3 billion. Driven by continued strong renewal premium change, particularly in our Homeowners business.

As we wrap up the year, I'd like to take a few minutes to reflect on our 2024 results and put them into an overtime context. As we've shared, we are and have been focusing our investments on 3 strategic innovation priorities. First, extending our advantage in risk expertise. Second, providing great experiences for our customers, distribution partners and employees; and third, optimizing productivity and efficiency. These investments are designed in large part to position us to grow over time at leading returns. The successful execution of that strategy has been an important contributor to our strong results providing us with the financial resources that enable us to continue investing at scale, which we believe will increasingly be a differentiator in this industry. It's a virtuous cycle.

The data on Slide 19 of the webcast presentation illustrates the significant acceleration of our performance since we launched this strategy. We've grown our net written premiums over the past 8 years by more than 70% to over $43 billion. At the same time, we've improved our underlying combined ratio by nearly 7 points. High-quality growth with strong underwriting profitability is a noteworthy achievement in this industry. In lines of business with returns that meet our objectives, growth over time has generally come from a combination of price increases and growth in customers. In lines where the emphasis has been on improving returns, premium growth has been driven by higher pricing.

In addition, our growth has largely been organic from products in which we have deep expertise, to distribution partners with whom we have long-standing relationships, and in geographies where we have a thorough understanding of the regulatory environment and other market dynamics. In other words, a relatively low-risk growth strategy. Through our focus on productivity and efficiency, we've also meaningfully improved our operating leverage over this time. We've allocated some of that benefit to investments in strategic priorities.

As you can see on Slide 21. Since 2017, we've more than doubled our investments in strategic technology initiatives. Over that same period, we've carefully managed growth in routine but necessary technology expenditures. In other words, over an 8-year period, we simultaneously and meaningfully increased our technology spend and improve the strategic mix of that spend. In 2017, our strategic investments represented about 1/3 of our tech spend. In 2024, our strategic tech investment approached nearly half of our overall tech spend of more than $1.5 billion. At the same time, our efforts to improve operating leverage also enabled us to lower our expense ratio by more than 3 points or about 10%. The flexibility that operating leverage gives us to allocate the benefit between investment opportunities and the bottom line is a valuable competitive advantage.

Turning to underwriting. The tremendous strength and relative predictability of our underlying underwriting income has increasingly contributed to our bottom line. Our underlying underwriting income has more than tripled over the last 8 years, reaching $4.5 billion after tax in 2024. This level of underlying underwriting income positions us to deliver strong income and returns even with the level of outsized natural catastrophes we and the industry experienced in 2024.

Our growth in underwriting income also contributes to the increase in our cash flow from operations which was $9.1 billion in 2024, our highest level ever and nearly $4 billion more than it was just 5 years ago. Our strong operating cash flow is important. It gives us the ability to make strategic investments in our business, return excess capital to shareholders and grow our investment portfolio. Our investment portfolio, which we grew almost $100 billion at year-end, positions us to continue generating a higher level of predictable and reliable net investment income.

In summary, we're capitalizing on the successful execution and effective strategy. Our strong results and financial position enable us to be there when our customers need us most, as our friends and neighbors in Los Angeles do right now. The significant momentum we have built gives us great confidence in our ability to continue serving our customers and distribution partners, while delivering for our shareholders. In other words, we remain very confident in the outlook for Travelers.

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

Daniel Stephen Frey
Executive VP & CFO

Thank you, Alan. Core income for the fourth quarter was $2.1 billion, and core return on equity was 27.7%, bringing the full year core income to $5 billion and full year core ROE to 17.2%. We once again generated record levels of earned premium this quarter and we're very pleased with both the total combined ratio of 83.2% and the underlying combined ratio of 84%. The value of premium growth at strong underlying margins is evidenced by the quarter's underlying underwriting income of $1.4 billion after tax, bringing the year-to-date figure to $4.5 billion. That's our first time ever above $4 billion and an increase of nearly 40% from last year's then record level. The reported and underlying combined ratios for both the quarter and the full year were very strong in all 3 segments.

The expense ratio for the fourth quarter came in at 28.2%, once again, reflecting the benefits of our focus on productivity and efficiency, coupled with strong top line growth. The full year expense ratio of 28.5% was in line with our expectations and our guidance throughout the year. Even as the excellent loss ratio resulted in higher supplemental commission expense.

Looking ahead to 2025, we're comfortable with the annual expense ratio at this level for now, as the strength of the underlying loss ratio provides continued opportunity to make meaningful investments in both people and technology that we believe will broaden and deepen our competitive advantages well into the future.

Catastrophe losses in the fourth quarter were a modest $175 million pretax, including a net increase of a little more than $100 million related to re-estimation of prior quarter cats. Turning to prior year reserve development. We had total net favorable development of $262 million pretax with all 3 segments contributing. In Business Insurance, net favorable PYD of $147 million was driven by favorability in workers' comp that was partially offset by adverse development in abuse and molestation exposure and our runoff book. In Bond & Specialty, net favorable PYD of $45 million was driven by better-than-expected results in Fidelity and Surety. Personal Insurance had $70 million of net favorable PYD with favorability in both Auto and Homes.

After-tax net investment income of $785 million was up 22% from the prior year quarter. Fixed maturity NII was again higher than the prior year quarter, reflecting both the benefit of higher yields and the significant growth in our portfolio of invested assets, which, as Alan mentioned, is approaching the $100 billion mark. Returns in the non-fixed income portfolio were also higher than in the prior year quarter. In terms of our outlook for fixed income NII for 2025, including earnings from short-term securities, we expect approximately $3 billion after tax, beginning with $710 million in the first quarter and growing to $790 million in the fourth quarter.

Page 22 of the webcast presentation provides information about our January 1 catastrophe reinsurance renewal. Our long-standing cat XoL treaty continues to provide coverage for both single cat events and the aggregation of losses from multiple cat events, and we have increased the amount of total coverage for 2025. The per occurrence loss deductible was unchanged at $100 million, and we've placed coverage for $3.7 billion of the $4 billion layer above the $4 billion attachment point. We're pleased to have added $150 million of coverage while reducing the total amount of ceded premium for this treaty.

Also as part of our January 1 renewals, we enhanced our Casualty Reinsurance Program for 2025. Thanks to the reinsurance market's receptivity to our casualty book, we were able to purchase more coverage at a lower attachment point on a roughly margin-neutral basis. I'd point this out to make you aware that the incremental ceded premium related to the additional coverage will impact the growth rate of consolidated net written premium for full year 2025 by a little less than 0.5 point because the written ceded premium impact all hits Business Insurance in the first quarter. The impact on net written premium growth in Q1 for the BI segment will be about 4 points or about 2 points on a consolidated basis.

And while we're talking about the 2025 year on a financial modeling note, as you can see on Slide 23 of the webcast presentation, our pre-tax catastrophe plan for 2025 is 6.9 combined ratio points. Slide 23 also provides a summary of the seasonality of our cat losses over the prior decade. As shown in the data, second quarter is regularly and noticeably been our largest cat quarter. We've provided this view of historical data in our year-end packages for a few years now, but we thought it might also be helpful to share our plan view for the coming year by quarter, so you'll find that here as well. Obviously, the 2025 plan figures were put together without knowledge of the January wildfires in California.

As you know, the California wildfires that began earlier this month are going to be a material event for the industry and will have a material impact on our first quarter earnings. Because the event is so recent and to some degree, still ongoing, we'd like to take more time to refine our analysis before providing an estimate. Also of interest for 2025, we continue to value our relationship with Fidelis and are pleased to have renewed the 20% quota share with them. The renewal includes the same loss ratio cap we had in place for both 2023 and 2024.

Turning to capital management. Operating cash flows for the quarter of $2.1 billion were again very strong and we ended the quarter with holding company liquidity of approximately $1.8 billion. For the full year, we generated our best ever level of operating cash flow at $9.1 billion. Interest rates increased during the quarter, and as a result, our net unrealized investment loss increased from $2.1 billion after tax at September 30, $3.6 billion after tax at year-end.

Adjusted book value per share, which excludes net unrealized investment gain losses, was $139.04 at year-end, up 13% from a year ago. We returned $494 million of capital to our shareholders this quarter, comprising share repurchases of $252 million and dividends of $242 million. We have approximately $5 billion of capacity remaining under the share repurchase authorization from our Board of Directors.

Recapping our results for 2024, core income was just over $5 billion and core ROE was 17.2%. We delivered our highest ever levels of written premium, underwriting income, net investment income, core income, and cash flow from operations. In addition, we ended the year with our all-time high in adjusted book value per share and with our largest investment portfolio ever. In short, we're extremely well positioned for 2025 and beyond.

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

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Thanks, Dan. Business Insurance had another strong quarter, rounding out a terrific year in terms of financial results execution in the marketplace and progress on our strategic initiatives. Segment income for the quarter was nearly $1.2 billion, our highest quarter ever and up about 25% from the prior year quarter, which was our previous quarterly high. The improvement from the prior year was broad-based, driven by higher net investment income, higher underlying underwriting income, and higher favorable prior year reserve development. The all-in combined ratio of 85.2% was a great result, and we're once again particularly pleased with our exceptional underlying combined ratio of 86.2%, an all-time quarterly best. The underlying loss ratio improved by more than 0.5 point from the prior year, driven by the benefit of earned pricing. The expense ratio remained excellent at 28.8%.

Turning to the top line. We grew net written premiums by 8% to an all-time fourth quarter high of more than $5.4 billion. Pricing remained strong with renewal premium change of 9.6% driven by a renewal rate change of 6.9%. Retention remained excellent at 85%, a new business of $641 million was the second highest fourth quarter result ever, second only to last year's record fourth quarter.

We're pleased with these production results and our ability to sustain strong levels of pricing, reflecting the relative return profiles and environmental trends for each line. Renewal rate increases in umbrella and Auto were both well into double digits and both up sequentially from the third quarter. Rate increases in CMP and GL remains strong and generally in line with third quarter levels, while the rate increases in property were less than Q3.

More specifically on property rate, the moderation continues to be driven by our national property book where returns are very strong after several years of compounding rate and improvements in terms and conditions. Across the book, even with the sustained strong pricing levels, retention remained excellent, as I mentioned earlier, reflecting our strong value proposition and the marketplace's acknowledgment of environmental trends and uncertainty.

As for the individual businesses, in Select, renewal premium change remained strong at 12%, up about 1 point from the fourth quarter of last year. Renewal rate rechange of 5.6% ticked up from the third quarter and was up more than 1.5 points from the prior year quarter. As we expected, retention moderated as we continue to intentionally optimize our CMP risk return profile in a couple of targeted geographies. New business was healthy and near historical highs. Overall, we remain pleased with the granular pricing and underwriting execution driving profitable growth in Select. The mix we are achieving through these actions positions us for long-term success.

In Middle Market, renewal premium change was close to 10%, with renewal rate change of 7.8%, about flat with the third quarter and up about 1 point from the prior year quarter. The rate increases remain broad-based as we achieved positive rate change on almost 80% of our middle market accounts, and the execution was once again excellent with meaningful spread from our best-performing accounts to our lower-performing accounts. Lastly, new business of $357 million was our highest ever fourth quarter, and we're pleased with the risk selection and strength of pricing on the accounts we added to the portfolio.

As we close out 2024, let me provide a little color on full year results before turning the call over to Jeff. Segment income of more than $3.3 billion, the underlying combined ratio of 88.1% and top line of more than $22 billion were all record results. As for production, renewal premium change in retention both remained historically high while new business premiums reached an all-time best. These results are a direct reflection of our strong value proposition as well as the successful execution of our thoughtful and deliberate strategies.

And while delivering these exceptional financial and production results, I'm also extremely pleased with our field execution and our broader team's dedication to delivering new tools, insights and product enhancements. We have strengthened our competitive advantages in several key areas. Among other achievements, we have developed a more granular and predictive price to risk models, enhanced submission insights based on quality and appetite, leverage more segmented and responsive loss analytics methodologies, and integrated a customer relationship platform with our cutting-edge underwriting workstation. Our financial and operational performance this year was terrific, and our continued focus and investment in strategic capabilities positions us extremely well for long-term profitable growth. We're proud of these results and the best-in-class team that produce them.

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

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

Thanks, Greg. Bond & Specialty ended the year with another strong quarter on both the top and bottom lines. We generated segment income of $228 million, an excellent combined ratio of 82.7%, and a strong 86.8% underlying combined ratio in the quarter.

Turning to the top line. We're pleased that we grew net written premiums by 7% in the quarter. In our high-quality domestic management liability business, we delivered very strong retention of 88%. We're pleased that Corvus transition from an MGA to writing on our high-quality paper drove higher attention relative to Corvus historical experience. Management liability renewal premium change was positive and improved 1 point from the third quarter and new business were consistent with the very strong fourth quarter of 2023.

Turning to our market-leading Surety business. We grew net written premiums by an outstanding 19% from prior year quarter. This growth reflects a robust construction environment, continued strong demand for our surety products and services and outstanding execution by our team in growing our high credit quality portfolio. So we're pleased to have once again delivered strong top and bottom line results this quarter in Bond & Specialty Insurance, caping off a year during which we delivered record levels of net written premiums in both our surety and management liability businesses.

We're also pleased to have delivered excellent returns while making significant strategic investments in our business, including enhancing our cyber capabilities, upgrading our management liability technology platform, and optimizing segmentation and productivity through advanced analytics and AI.

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

Michael Frederick Klein
Executive VP & President of Personal Insurance

Thanks, Jeff, and good morning, everyone. I'm very pleased to share that Personal Insurance delivered segment income of $798 million and a combined ratio of 80.7% for the fourth quarter of 2024. Both results outpaced last year's strong fourth quarter results. For the full year, PI delivered record segment income of $1.25 billion and a combined ratio of 94.4%, reflecting substantial improvement in the fundamentals of our business.

Net written premiums grew 7% in the quarter and 8% for the year, bringing full year net written premium to a record of nearly $17.2 billion. In Automobile, the fourth quarter combined ratio was 94.2%. The underlying combined ratio of 96.3% improved 6.4 points compared to the prior year. This improvement was primarily driven by the benefit of higher earned pricing, lower losses resulting from favorable frequency across a number of coverages, and sustained moderation in physical damage [severity trends]. This quarter's underlying results included a 1.5 point benefit from the favorable re-estimation of prior quarters in the current year.

For the full year 2024, the Auto combined ratio of 95% was a considerable improvement compared to the prior year, reflecting the success of our disciplined approach to execution. With another quarter of sustained profitability, we remain focused on growing the Auto book. In Homeowners & Other, the fourth quarter combined ratio of 67.8% improved 3 points compared to the prior year as an improved underlying combined ratio was partially offset by the impact from higher catastrophes. The underlying combined ratio improved 4.3 points, primarily driven by favorable non-weather losses relative to the prior year, and the continued benefit of earned pricing. This quarter's underlying results included a 2-point benefit from the favorable re-estimation of prior quarters in the current year.

Stepping back, the 2024 full year property combined ratio of 93.9% was a strong calendar year result. That said, we have more work to do to improve accident year profitability and consistently deliver target returns over time. Our production results reflect our continued focus on generating growth in Auto while improving profitability in property through the execution of a granular state-by-state strategy.

In Domestic Automobile retention remained consistent, while renewal premium change of 10.2% continued to moderate as intended, reflective of Auto profitability. We're pleased to note that Auto new business premium increased relative to the prior year quarter, driven by growth in new policies and new business premiums in states that are not constrained by our property actions.

In Domestic Homeowners and Other, retention rose slightly to 86% and renewal premium change of 14.1% remained strong and consistent with recent quarters. In 2025, we expect renewal premium change to increase to the high teens as we continue to see rate increases and further increase insured values to ensure they remain aligned with replacement costs. The slight decline in Homeowners policies in force continues to reflect our deliberate efforts to improve profitability and thoughtfully deploy our property capacity.

To recap, in 2024, we delivered record net written premiums and segment income. The substantial year-over-year improvement reflects the success of the significant actions we've taken to improve the fundamentals of the business, as well as the moderation of underlying loss trends. At the same time, we continue to invest in and deliver capabilities that will support the profitable growth of our business. Examples include the replatforming of our Specialty products, continued advancement of our IntelliDrive telematics offering, further evolution of our AI-enabled aerial imagery capabilities and modernization of our infrastructure.

I couldn't be more proud of our team or more grateful to our distribution partners for their hard work and dedication in the face of an environment that continues to test and challenge us and our industry. In particular, I'd like to recognize our claim team who, as we speak, are on the ground in California, supporting our customers in their time of need.

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

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thanks, Michael. We are ready to open up for questions now.

Question and Answer

Operator

We will now begin the question-and-answer session. [Operator Instructions]. We'll go first to Robert Cox at Goldman Sachs.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Maybe just first on pricing. I was hoping you could kind of unpack the renewal rate change a little bit and what you saw over the quarter that might have been indicative of a trend into 2025, whether it's by account size or product. Just curious what changed in the context of an overall stable figure for Business Insurance.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Hi Robert, this is Greg. Given the headline numbers, you can see there isn't meaningful change between the pricing. So again, our very granular local execution. We continue to look at it on an account-by-account basis, and we haven't seen any meaningful shift other than the color that I gave you in the prepared comments, so very stable.

Robert Cox
Goldman Sachs Group, Inc., Research Division

Okay. Got it. And then maybe just as a follow-up on cats. Obviously, a number of large events here. I was hoping you could just walk us through what you booked for Milton if that $100 million increase in current year cats was all related to Helene, and then not necessarily a quantitative question, but ultimately, like the impacts that you expect might come out of the California fires.

Daniel Stephen Frey
Executive VP & CFO

Rob, it's Dan. So I'll start with PYD. So no big events in the quarter, as you can see by no new events you'll be able to see when the K comes out in the table. Milton was around $60 million for us, so a little less than the preliminary range we had provided on the third quarter earnings call. A number of prior quarter cats had adjustments to them. That's typical. That change that you referenced from my prepared remarks, was driven by Helene, not surprising, not concerning, right? That was a big event in the last 5 days of the quarter. And with sort of an unusual pattern as it had sort of did more damage in Georgia and the Carolinas than it did in Florida.

So when you get a big event at the end of the quarter, you're trying to say have other similar historical events that I can model out, how claims are going to come in and then with the severity of their types of claims is going to be, you just didn't have a lot of comparables in terms of Helene. So not really surprising to see a move there.

In terms of California, look, as we said in our remarks, it's going to be a big event for the industry. We think it will have an impact on our first quarter earnings for sure. But to the degree that it's still very early and it's still really ongoing. In some cases, it's just too soon for us to provide a number at this point.

Operator

We'll move next to Gregory Peters at Raymond James.

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

I guess for the first question, kind of building on the last answer. In your prepared remarks, Greg, you talked about the Select retention dropping down a little bit due in part to some changes in your CMP profile. If you could give us a little color on that. And maybe as we look at business insurance, give us some perspective on the retention ratios as it relates to lost business that you're losing on price versus intentional reunderwriting?

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Yes, Greg, let me take those 2 pieces. First, the Select one, start there. You get into a little bit of competitive sensitive information, if I give you the exact specifics of what geographies and industry classes that were non-renewing, but let me give you a little color over the top. We would only do nonrenewals when we can't get the right price to risk through the regulatory process. So you can think about severe convective storm. That's a recent peril that continues to be more severe. We've isolated a couple of spots where we've needed nonrenewal components of the small commercial book, but that gives you a little bit of the flavor of what's driving that.

We think we bottomed out on those nonrenewals of Select. So at that 80% retention. That's kind of the expectation that we have, given that we are through the thrust of those renewals in the back half of 2025, we would see some improvement there. So that's really the driver of what's driving the slight deterioration in retention across Business Insurance.

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

Great. And then I guess as a follow-up, and I've asked this question of you before, Alan. But looking at Slide 21, which is your technology investments, not really -- you provide us this chart, don't really put some numbers in there, and we hear you in various comments, dribble out commentary about where you're making investments in technology. But I thought maybe we could spend a minute and give us some more granular details on what's going on there because it seems like it's a pretty important initiative for the company.

Alan David Schnitzer
Chairman & CEO

Yes. Thanks, Greg. In terms of numbers, we don't put numbers on that scale, but we have shared that the overall tech spends over $1.5 billion last year, and I think we shared that in the prior year. And if I had to give you a broad-brush response to where is it, I would say, broadly speaking, but not exclusively, but broadly speaking, we're digitizing the value chain. And so that's digitizing the customer journey, it's modernizing the foundation, it's advanced analytics, it's automation, it's faster speed to market, getting the right price on the risk. Those sorts of things.

But at the enterprise level, we're also investing in talent and AI and third-party data, product development, the business units and segments are busy at work investing in new products, partner integration, better front end for customers, things like that.

Operator

We'll go next to Mike Zaremski at BMO Capital Markets.

Michael David Zaremski
BMO Capital Markets Equity Research

First question on the reserve releases in commercial. Most releases we've seen in a couple of years, good to see. Any -- I heard -- we heard the prepared remarks, the high-level prepared remarks, but anything you'd want to call out as kind of a notable true-up? Or I guess this level of releases would kind of imply that the IBNR you guys have added in recent years, more so than your peers kind of is helping.

Daniel Stephen Frey
Executive VP & CFO

Sure, Mike, it's Dan. So just to come back to the remarks specific to Business Insurance. The main driver of the favorability was workers' comp. Workers' comp has been as you all well know, a very favorable story for a long time now. It's sort of just a question of how much is it from quarter-to-quarter depending on the way data developments and changes in frequency and severity. We've said it before, and I'll just say it again, we don't really think of PYD as a run rate of any sort. So I expect that number to be different from quarter-to-quarter. That was the big piece of good news in the quarter.

The only noteworthy piece of unfavorable development in the quarter, as I mentioned on the call was strengthening in the runoff book for abuse and molestation, there are always other puts and takes in the quarter, but nothing of any significance or worth calling out.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Great. And I guess my follow-up, I'll stick to workers' comp. And you may have answered this in Rob's question. But in the prepared remarks, I don't think you mentioned kind of any pricing changes quarter-over-quarter or trends on workers' comp. So is it just fair to assume given the workers' comp pricing is still a bit negative on real pricing?

Alan David Schnitzer
Chairman & CEO

I would say, Mike, I would describe it as largely stable. The pure renewal rate change is a little bit negative. And with exposure, you get to something a little bit positive. And there's always some fluctuations quarter-to-quarter, but I think stable is sort of the way I'd describe it.

Operator

We're going next to David Motemaden at Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question just on the Business Insurance underlying loss ratio. Greg, I heard you call out just earned rate coming in. I guess I'm wondering, is there anything else in that 57.3% that's not sustainable or favorable mix or anything like that that's flattering the result?

Daniel Stephen Frey
Executive VP & CFO

David, it's Dan. I'll take that. So I guess the answer is not really. When we have something that we think you need to sort of call out as nonrecurring, we tried to do it in prepared remarks. You heard Michael reference current year prior quarter adjustments benefiting the fourth quarter in Auto and Home. We didn't call anything out in BI because we didn't really think there was anything unusual to call out.

So the benefit in the quarter is earned price, really terrific underlying at 57.4% and even within that, we did choose to add a little bit of IBNR to the casualty line, again, reflecting uncertainty in that line, a big move. So a pretty clean jump-off point and really driven by benefit of earned pricing.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then maybe just on that point, just adding more IBNR to some of those casualty lines and then maybe just looking in the decision to increase the reinsurance protection on the casualty book. Could you just walk through sort of the thought process of getting the reinsurance and -- is it just sort of -- I mean, you guys are -- it seems like you guys are reacting sooner than many in the industry. And is that just sort of added protection as you lean into growth? Or I'd be interested in sort of the thought process there?

Alan David Schnitzer
Chairman & CEO

David, let me start and then I'll turn it over to Dan if he had anything to add. I would say the changes we made, we made because we could. And every renewal of every reinsurance treaty, we take a look at our business. We take a look at the reinsurance marketplace and make the best risk-reward decisions we could make. And so what we were able to achieve for the price we were able to achieve it, we thought made a lot of sense. But I would describe ordinary course process and a terrific result.

Operator

We'll go next to Brian Meredith at UBS Financial.

Brian Robert Meredith
UBS Investment Bank, Research Division

I'm just curious, looking at the BI results, the underlying combined ratio is as good as it's been in 20 years. I'm just curious, in your thoughts, are we kind of sitting here at peak margins? Is there more room for improvement? How should we kind of think about the margin return you're generating in the business, which are record?

Alan David Schnitzer
Chairman & CEO

Well, thanks for that, Brian. They are terrific margins, and we're very pleased with these margins. I'm not going to forecast the margins for you, but what I'll tell you is we love the business that we're putting on the books, and we love the pricing. We love the stability in the marketplace. We love the retention that we're seeing. And these -- you take a look at this RPC, which is near double digits, that's it's about the highest it's ever been over a long period of time. So market feels stable for us, and we feel good about the outlook, but I'm going to stop short of telling you what the direction is going to be.

Brian Robert Meredith
UBS Investment Bank, Research Division

I appreciate that. And then maybe a little bit as a follow-up that I'm curious your comments and thoughts on the tort environment right now. I always appreciate your comments on it. Anything that you're seeing are happening that maybe point to some improvement potentially going forward or vice versa?

Alan David Schnitzer
Chairman & CEO

Yes. The tort environment is -- it definitely continues to be front and center in front of mind for us. It's an environmental issue that we're all facing. Yes, from a public policy perspective, the insurance industry might be the tip of the spear, but this is really an industry for businesses and consumers. And I think there's a growing recognition of that. It also has contributed to some very difficult insurance markets in a few states, and we've seen a couple of states take action to respond to that. And in a couple of other states, we've had some favorable development in terms of some legislation around third-party litigation financing disclosure, which we think is positive and hope is a trend. So it continues to be front and center for us, and we continue to try to get at it.

Operator

We'll move next to -- excuse me, Wes Carmichael with Autonomous Research.

Wesley Collin Carmichael
Autonomous Research US LP

My first is on catastrophes in the 2025 plan. I think you mentioned there's nothing in there related to California wildfires, but your full year assumption at 6.9 points, I think that's a little bit maybe below the last couple of years. So could you maybe just help us with what's going into that planning assumption?

Alan David Schnitzer
Chairman & CEO

Sure. Well, there's a lot of methodology and thought and frankly, judgment that goes into that number. And I think it would be premature to assume that what we've seen in the last couple of years that, that high watermark is a new normal going forward. But certainly, we take a look at that and incorporate into our thinking and we've waived the more recent years more heavily as we've come up with the cat plan.

So I think that 6.9 points on a point basis would cover the cat losses in 7 out of the last 10 years or something like that. So we've got a bias toward the high end of recent experience. But again, we think it would be a little premature to assume that this high watermark is a new normal.

Wesley Collin Carmichael
Autonomous Research US LP

Got it. And my follow-up on reserve development in BI, I know you talked about favorability in workers' comp. Are you able to size the gross amount of favorable development for us in the fourth quarter?

Daniel Stephen Frey
Executive VP & CFO

Yes, Wes, it's Dan. So we were -- you could think about that as comp in the fourth quarter being in the ballpark of around $250 million of good news.

Operator

We'll take our next question from Alex Scott at Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

First one I have is on the Personal lines business. I appreciate there's a big event going on in Homeowners right now, but just the underlying results this quarter kind of coming along faster than I would have guessed. I'm wondering if it changes your approach to the market and just how competitive you want to be on place and desire to grow, et cetera?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Alex. It's Michael. I would say, not really. As I mentioned in my prepared remarks, if you look at the full year result at about a [94] and you take out PYD, you get to a [98] that is not delivering target returns in the Property line of business. We also, throughout the year, have commented on favorable frequency in property, offset by a bit of percent severity. Hard to know how much of that favorable frequency is going to persist. And so that's really why I said we still have work to do property and our focus on property really remains on improving profitability and generating consistent target returns.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

Got it. As a follow-up, I wanted to see if I could ask one on the ongoing wildfires in California. Any additional color you can help us with regarding your exposure maybe to Pacific Palisades in particular, the way you approach the more wildfire prone areas of that market, anything on additional living expenses that might just help us well, I know you're not willing to quantify at this point, that totally makes sense. Like anything that could kind of help us understand.

Alan David Schnitzer
Chairman & CEO

Alex, I just don't think there's a lot we can share there. We have, and I think Michael shared this recently we've taken steps to thoughtfully manage our exposure in wildfire prone areas, others have two. So we don't know what that's done to our relative market share in some of these places. So I don't know if there's any real color that we can give beyond what we've already shared.

Operator

We'll go next to Elyse Greenspan at Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I just want to go back to the Business Insurance underlying loss ratio. So you guys saw in the third quarter, right, there was 180 basis points of year-over-year improvement. And you said, right, that there was no real noise to call out. So that was kind of a good run rate. Now it seems like 60 basis points this quarter is a run rate. I know you guys said that you -- there was some conservatism put into the casualty picks, but I believe that was the case in every quarter this year. So what was the change from the 180 to the 60 that now seems like run rate in BI from Q3 to Q4 on the underlying loss ratio?

Daniel Stephen Frey
Executive VP & CFO

Elyse, it's Dan. So when we're talking about adjustments to jump off point of run rate, Again, we really think it's important to look at the business comparing the fourth quarter to the fourth quarter, the third quarter to the third quarter, not either the sequential quarter or the sequential margin improvement. So we're trying to give you a jump-off points of was there anything particularly unusual in a quarter that you think about that as your model beginning point for the next year's quarter that you'd call out.

It's not to say that there's 0 besides pricing. There are -- as we've said in each of the quarters this year, there's a number of puts and takes each year, but none of them were individually that significant, and so we're down to a point of we're inside of a point of change, and we're trying to say, is there anything in there that really seems like it's abnormal and should be adjusted or are we thinking about it as not a "clean jump-off point" and that's the color we're trying to give you there, not to the basis point of how much is the improvement going to be in one quarter versus the next.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my follow-up, I just wanted to go back to the California fires for a second. We obviously can look at statewide share market share. Is there any commentary, I guess, you would give relative to statewide share for Travelers relative to potential share in the impacted areas?

And my second question, Dan, on the reinsurance coverage, right, that's an aggregate cover, right? So I know there's like a $4 billion retention and then there's deductibles. But if the fire is a large event, this does earmark your cats to a certain degree, right, for the full year. I just want to make sure I'm thinking about that correctly.

Alan David Schnitzer
Chairman & CEO

Elyse, let me start on your market share question, and then I'll turn it over to Dan for the reinsurance question. So you could take some estimate of market share and apply it to an estimate of industry loss, and that would give you what I would describe as a point of reference.

So pretty blunt instrument, though, for reasons. First, it's obviously pretty sensitive to whatever estimate you have of insured losses for the industry, and that's going to develop over time. And second, when it comes to market share, the publicly available market share is dated information. It doesn't reflect actions we or others have taken to manage exposure and it doesn't reflect any differences that might exist between local market share and statewide market share. So those are the cautions I'd give you in applying that. But it's a reference point, I get it.

Daniel Stephen Frey
Executive VP & CFO

And then, Elyse, with regard to the 2025 cat treaty, you're right, one of the, we think, great features of our treaty is that it is an aggregate cover. So while I wouldn't expect recoveries under the treaty from the

California wildfires to the degree that they impact first quarter earnings, and it's a big number. There's $100 million per event deductible as I said in my prepared remarks and as you can see on the chart.

But yes, this will accumulate towards the $4 billion retention, which if there's a very active second quarter for cats, or a very active third quarter for cats, it's possible that we'd be talking about recoveries under the treaty.

Operator

We'll move next to Yaron Kinar at Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Just going to the topic of the data of the California wildfires. Can you maybe talk about how, if at all, they would impact the company's appetite for Home and Property business in the state. Would you look to further prune exposure to wildfires? Or do you believe that the actions that you've taken to date position you well from that perspective?

Alan David Schnitzer
Chairman & CEO

I'll start and then Michael, I'll turn it over to you. I think it's going to depend on how the market reacts to it. The insurance market was challenged going into this. There were some recently adopted reforms, and I think that was a good start. It's possible that this is going to be a catalyst for further and meaningful reforms. So I think we're just going to wait and need to see how that shakes out before we make any decisions.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. And the only thing I would add to that, Yaron, is we've been shrinking in California coming into the event. We have a rate increase for property on file with the department as we speak, which clearly doesn't include the losses from the California wildfires. So all of that will certainly feed into our assessment of actions we need to take going forward.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Makes sense. And then, Michael, maybe another question for you. It sounds like your appetite for Auto is -- Personal Auto is growing, you're open for business in a growing number of states. At the same time, I'm sure you're seeing the same headlines we are on tariffs and for like. Are you -- is your appetite for Auto taking into account the potential for tariffs? Or is that something that you'll react to if and when we actually see those put in place?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure. It's a great question, and I would lean more towards the latter in terms of your question. I think certainly, it's hypothetical, it's hard to predict. We don't know which countries we don't know what amounts and where auto parts and autos come from. It depends a lot on which countries you're talking about. And what level those tariffs are at. And so as opposed to trying to predict it, we're looking at our prospective view of rate adequacy. We feel great about the margins in the business.

Today, we're actively pursuing Auto growth and will continue to do so. And then we'll reflect any changes in our pricing when and if we know what they are and then factor that into the calculus at that point in time.

Operator

We'll take our next question from Josh Shanker at Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I hate asking more wildfire questions. I understand you don't know, but education very valuable to us. Can you tell us the degree to which some Travelers' policies might exclude fire or is the Travelers' policy, one that has not been put any into the FAIR plan and has comprehensive coverage.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Josh. It's Michael. So we write 2 types of property policies in California. We write a standard Quantum Home 2.0 property policy that does include coverage for a wildfire in areas where we do not have an appetite to write policies that cover fire. We do write what we call a DIC policy, which you can think of as a policy that excludes losses from fire and wildfires. Some customers pair that with a FAIR plan policy because then they have the Travelers, claim service, they have the Travelers' coverage for non-fire losses. And so we do have both types of policies in force in the state.

Joshua David Shanker
BofA Securities, Research Division

And just one other question, and I'm not trying to hold number on you, just trying to be smart. What is Travelers appetite for $5 million on in the state of California or whatnot? I don't think Travelers' is targeting high net worth individuals, but California is an expensive real estate market. Can you just talk about appetite and what are the normal Travelers target home in that state?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes, sure, Josh. It's Michael again, I would say our appetite for and our exposure to $5 million homes in California is very limited. As you know and we've talked about in the past, our appetite really is Middle Market and mass affluent business. I would say when you get to million homes, we would consider that really more high net worth business, and we're not a significant player in that market.

Operator

We have time for one question and that question comes from the line of Michael Phillips at Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

I wonder if you could peel back the growth in Commercial Auto mid-teens right now. How much of that is rate? How much of that is PIF? And then maybe any comments on Commercial Auto that you're seeing on frequency and severity would be appreciated.

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

Michael, I'm not going to get into the details on loss trend on that, but give you a little bit of color on the top line delta that you asked about. The thrust of that is renewal premium change, so really is rate and exposure that's driving that top line growth.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. And then you talked a bit about Personal Auto. I guess we're kind of hearing a bit of a mixed bag between different companies on where they are with rates and how much they want to grow. Can you just -- at a higher level, can you talk about what you're seeing this quarter versus maybe the last couple of quarters and certainly last quarter in the competitive environment in Personal Auto?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Michael. It's Michael here. I would say the competitive environment last quarter versus this quarter is fairly consistent. And I would say our observations on what's happening in the marketplace are fairly consistent. I think the good news is that we continue to make progress. As we pursue Auto growth, new business was up 6% relative to the fourth quarter of last year. This quarter's fourth quarter new business is actually a record for fourth quarter new business for us in Auto.

And as I mentioned, in states that aren't constrained by our property actions, we're growing both new policies and new business premium in aggregate. So we're encouraged by the progress and I would say the marketplace has remained relatively consistent over the last couple of quarters.

Operator

And that concludes our Q&A session. I will now turn the conference back over to Abbe for closing remarks.

Abbe F. Goldstein
Senior Vice President of Investor Relations

Thanks, everyone, for joining us. We appreciate your time. And as always, if there's any follow-up, please reach out directly to Investor Relations. We hope you have a good day, and thanks again.

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