S&P Global
Market Intelligence

The Travelers Companies, Inc. NYSE:TRV

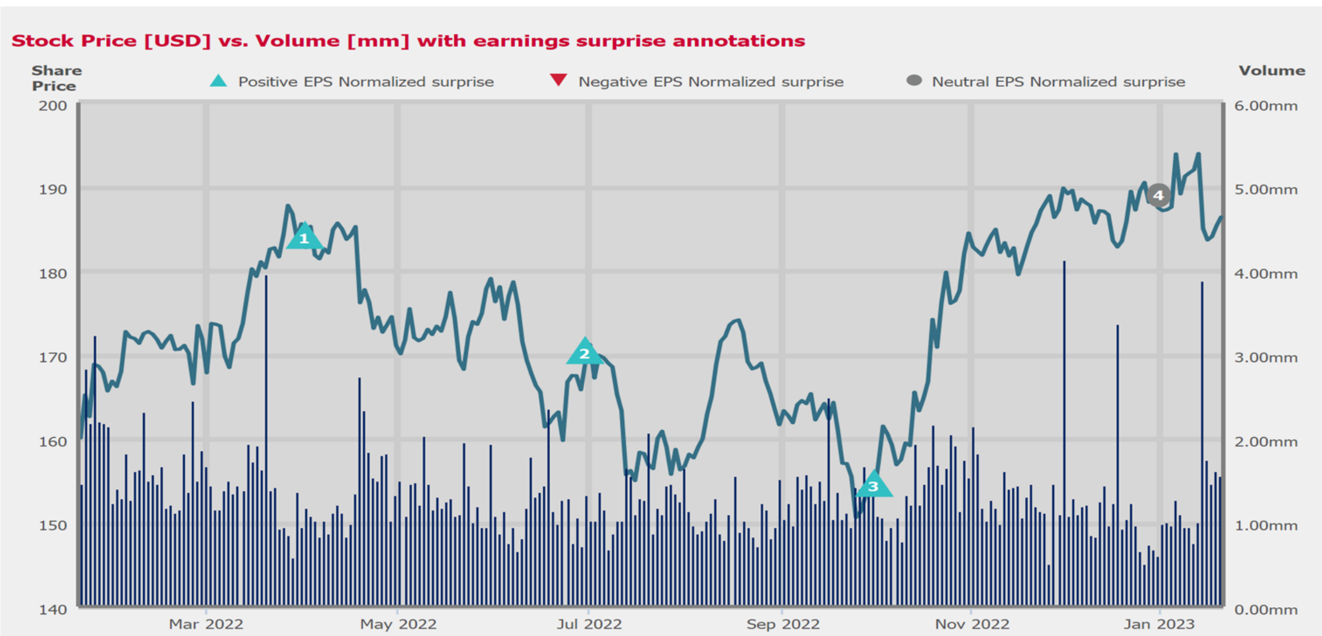
FQ4 2022 Earnings Call Transcripts

Tuesday, January 24, 2023 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	3.40	3.40	0.00	3.90	12.47	12.42	(0.40 %)	14.67
Revenue (mm)	8782.83	8817.00	0.39	9090.00	33686.21	33763.00	0.23	36828.62

Currency: USD
Consensus as of Jan-24-2023 2:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	3.62	4.22	1 16.57 %
FQ2 2022	1.97	2.57	2 30.46 %
FQ3 2022	1.60	2.20	3 37.50 %
FQ4 2022	3.40	3.40	4 0.00 %

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EXECUTIVES

Abbe F. Goldstein
Senior Vice President of Investor Relations

Alan David Schnitzer
Chairman & CEO

Daniel Stephen Frey
Executive VP & CFO

Gregory Cheshire Toczydlowski
Executive VP & President of Business Insurance

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

Michael Frederick Klein
Executive VP & President of Personal Insurance

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Raymond James & Associates, Inc., Research Division

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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 January 24, 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 fourth quarter 2022 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section. Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our 3 segment presidents: Greg Toczydlowski of Business Insurance, Jeff Klenk of Bond & Specialty Insurance; and Michael Klein of Personal Insurance.

They will discuss the financial results of our business and the current market environment. They will refer to the webcast presentation as they go through prepared remarks, and then we will take your questions. Before I turn the call over to Alan, I'd like to draw your attention to the explanatory note included at the end of the webcast presentation. Our presentation today includes forward-looking statements.

The company cautions investors that any forward-looking statement involves risks and uncertainties and is not a guarantee of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements due to a variety of factors. These factors are described under forward-looking statements in our earnings press release and in our most recent 10-Q and 10-K filed with the SEC. We do not undertake any obligation to update forward-looking statements. Also in our remarks or responses to questions, we may mention some non-GAAP financial measures. Reconciliations are included in our recent earnings press release, financial supplement and other materials available in the Investors section on our website.

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

Alan David Schnitzer
Chairman & CEO

Thank you, Abbe. Good morning, everyone, and thank you for joining us today. We're pleased to report this morning a solid bottom line for the quarter, exceptional results in our commercial businesses with higher full year core income and another quarter of attractive margins and strong growth, continued progress addressing the industry-wide loss pressures impacting the Personal Insurance business. Very strong production in all 3 of our business segments, resulting in consolidated net written premium growth of 10% for the quarter and another quarter of successful execution on a number of important strategic initiatives.

Core income for the quarter was $810 million or $3.40 per diluted share, generating core return on equity of 12.3%. These results include $362 million of after-tax catastrophe losses. Core income benefited from record net earned premiums of $8.8 billion, up 10% compared to the prior year period. Our solid underlying combined ratio of 91.4% reflects very strong performance in both of our commercial segments.

Looking at the 2 commercial segments together, the aggregate BI BSI underlying combined ratio was an excellent 88.3% for the quarter. You'll hear from Michael shortly about the progress we're making in Personal Insurance and the road map to improve profitability. For the full year, core income of $3 billion or $12.42 per diluted share benefited from higher core income in our commercial segments that was driven by record net earned premiums and strong profitability, including our best ever underlying combined ratio in Business Insurance.

Our underwriting and investment results, together with our strong balance sheet enabled us to return nearly $3 billion of excess capital to shareholders, including more than $2 billion of share repurchases. At the same time, we grew adjusted book value per share and made important investments in our business.

Turning to the top line. Thanks once again to excellent execution by our colleagues in the field and the strong franchise value we offer to our customers and distribution partners. We grew net written premiums by 10% this quarter to $8.8 billion with all 3 segments contributing. In Business Insurance, net written premiums grew by 11% to $4.4 billion. Renewal premium change remained very strong at an historically high 10.1%. In the property line, which has received a lot of attention [post-in], renewal premium change accelerated month-by-month in the quarter. Even with continued strong pricing across the board, retention in BI reached a record high 88%. As you've heard us say before, strong retention is a sign of a stable and rational pricing environment.

New business in the segment of $558 million increased 10% from the prior year period. Given the attractive returns in the segment, we're pleased with the very strong retention of our high-quality book of business and the strong level of new business. In Bond & Specialty Insurance, net written premiums increased by 5% on a constant currency basis, driven by excellent production in our market-leading surety business, where net written premiums were up 18%. Production was also strong in our management liability business, with renewal premium change of 6.3%, retention of 90% and new business up 23% from a year ago.

In Personal Insurance, top line growth was driven by higher pricing. Renewal premium change was meaningfully higher both year-over-year and sequentially as we continue to address the industry-wide loss pressure. Renewal premium change alone contributed more than $1 billion of written premium to our portfolio over the past year. With another quarter of impressive production in each of our segments, we feel very well positioned for the new year. You'll hear more shortly from Greg, Jeff and Michael about our segment results.

Our 2022 results cap off a decade of strong and consistent performance. We posted a double-digit return on equity in every year over the last decade with the exception of 2017, a difficult CAT year for the industry in which we posted a 9% ROE. In every one of those years, we comfortably covered our cost of equity. And over the last 6 years, we have significantly increased our rate of top line growth. We've accomplished all of this with industry low volatility. Successfully investing in differentiating capabilities has been a significant focus for us and an important contributor to our success. As you can see on Slide 24, over the past 5 years, we have meaningfully increased our overall technology spend. At the same time, through our strategic focus on productivity and efficiency, we have significantly reduced our expense ratio.

In addition, we have improved the mix of our technology spend, increasing our spending on strategic initiatives by nearly 70%, while holding routine but necessary expenditures about flat. The consistency of our results also benefit from the diversification of our business across our 3 segments. If we look back at the combined ratio over the last 10 years, in 5 of those years, Personal Insurance outperformed business insurance. In the other 5 years, Business Insurance outperformed Personal Insurance. And our Bond & Specialty business delivered spectacular results in every one of those years.

The depth and breadth of our diversified businesses is a key advantage and would be very difficult to replicate. Speaking of our business profile, given the economic instability and geopolitical risk around the world, we feel very good about our concentration in North America, the largest, most advanced and most stable economy in the world, where we have the pole position and plenty of room to grow. With uncertain economic conditions ahead, I'll also note, we have a strong track record of performance through a variety of challenging environments over many years. We've got the experience, the know-how and the capabilities along with an efficient operating model and a rock-solid balance sheet to manage through whatever comes our way.

To sum things up, I'm grateful to my more than 30,000 colleagues for all they've accomplished this year and over time. Given our strong foundation, our track record of successful innovation and our ambitious road map, we are very confident in the outlook for Travelers.

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 $810 million, a very strong result considering the significant impact of CAT 73, the winter storm that occurred in late December. Core income for the full year was $3 billion. For the quarter, core return on equity was 12.3%, including the 5.9 percentage point adverse impact of CAT 73. For the full year, core ROE was 11.3%. As you heard from Alan, our consistently strong performance has delivered double-digit core ROE in 9 of the past 10 years, averaging 12.6% over that time frame, and our adjusted book value per share has nearly doubled over the past decade.

For the quarter, underlying underwriting income of $723 million pretax reflected higher levels of earned premium in all 3 segments and a consolidated underlying combined ratio of 91.4%. Terrific underlying combined ratios in both Business Insurance and Bond & Specialty were offset by results in Personal Insurance. Results in all 3 segments reflected the benefit of earned price that exceeded loss trend. One additional comment on underlying underwriting income. Prior to 2020, the highest level of full year underlying underwriting income we had ever reported was $1.5 billion after tax.

Despite the significant adverse impact of elevated inflation on profitability in Personal Insurance, 2022 marks the third consecutive year with underlying underwriting income above $2 billion after tax. Simply put, our increased premium volumes and diversified portfolio of businesses are generating underwriting profit dollars at a completely different level than where we were just a few years ago. The fourth quarter expense ratio of 27.9% brings the full year expense ratio of 28.5%, our lowest full year expense ratio ever. As we've discussed previously, improvement in the expense ratio has not been achieved through cutting corners or artificially managing expenses for the short term. Rather, we have made and continue to make significant investments in technology and other strategic initiatives that we believe will drive our continued success. Our ongoing focus on productivity and efficiency has improved our operating leverage.

Looking ahead to 2023, we're very comfortable with an expected full year expense ratio in the range of 28.5% to 29%. Our fourth quarter CAT losses were $459 million pretax. Activity in the quarter was driven by $512 million from the large winter storm in late December, which impacted most of the U.S. as well as Canada. While our losses from this event were significant, but were not outsized relative to our modeled estimates for a storm of this size and intensity.

Turning to prior year reserve development, we had net favorable development of $185 million pretax on a consolidated basis. In Business Insurance, net favorable PYD of $127 million was driven by better-than-expected loss experience in workers' comp across multiple accident years, partially offset by increased loss estimates for general liability coverages, primarily umbrella, where year-over-year inflation has resulted in more losses reaching excess layers of coverage. The Bond & Specialty segment saw a net favorable development of $51 million, while in Personal Insurance, we recorded net favorable PYD of $7 million.

After-tax net investment income of $531 million reflected another quarter of improving returns and higher invested assets in the fixed income portfolio and modest returns in the alternative portfolio, which we expected given the downturn in the broader equity markets that occurred during the third quarter. Looking forward to 2023, we expect after-tax fixed income NII, including earnings from short-term securities to average about $535 million per quarter with an estimated $515 million in Q1, growing to an estimated $560 million in Q4.

Page 21 of the webcast presentation provides information about our January 1 CAT Treaty renewals. Our long-standing corporate CAT XOL Treaty continues to provide coverage for both single CAT events and the aggregation of losses from multiple CAT events. Consistent with the increase in our annual net written premium volume for property, we increased our retention level to $3.5 billion from the prior $3 billion level. The Treaty provides 100% coverage for the $2 billion layer above the $3.5 billion retention. The per occurrence loss deductible remains unchanged at $100 million. We did not renew the underlying property aggregate catastrophe XOL Treaty, which was only 45% placed in 2022. As we've said previously, we believe that a hardening reinsurance market provides a relative advantage for Travelers.

Our consistently strong underwriting results give us an advantage in terms of reinsurance pricing and capacity. That, combined with the fact that we buy less reinsurance than most of our peers gives us a cost of good sold advantage. We can let that fall to the bottom line or reflected in pricing without compromising our return objectives, making us more competitive for attractive new business opportunities.

Overall, while property reinsurance pricing was higher when we consider the level of price increase as well as changes in terms and conditions we are obtaining on our direct written business, we do not expect a noticeable impact on our net underlying loss ratio for property. Also related to the overall reinsurance market as well as the E&S market, you'll recall that in 2021, we took a minority ownership stake in Fidelis Effective January 1, 2023, we have separately entered into an agreement with Fidelis, whereby Travelers will take a 20% quota share on policies issued by Fidelis with effective dates in 2023. The market for Fidelis products is probably as favorable as it has been in 20 years or so, and the market was impacted by 9/11, dot-com collapse and Hurricane Katrina.

This quota share arrangement allows us to participate in the hard market, while also accelerating our understanding of this marketplace. While strategically valuable and expected to be accretive to earnings, the quota share deal is not expected to have a significant impact on our consolidated financial results. Our portion of net written premiums from Fidelis is expected to be around $550 million to $600 million for the full year, and those premiums will be reflected within the international results of Business Insurance.

Detailed terms of the quota share have not been disclosed, but we can share that there is a loss ratio cap to ensure that even a worst case underwriting scenario is boxed to a very manageable impact on Travelers. Turning to capital management. Operating cash flow for the quarter of $1.3 billion was again very strong. All our capital ratios were at or better than target levels, and we ended the quarter with holding company liquidity of approximately $1.5 billion.

For the full year, operating cash flow was once again very strong at $6.5 billion, reflecting the benefit of continued increases in premium volume, strong profitability and paid losses that for the full year were once again less than 90% of incurred losses. As we've said previously, we are assuming that this lower level of payment activity is ultimately a timing issue. In establishing our reserves and pricing our products, we assume that elevated severity related to social inflation has not abated at all. Our substantial cash flows give us the flexibility to continue to make important investments in our business, return excess capital to our shareholders and grow our investment portfolio, which increased to $86.7 billion, excluding net unrealized losses at year-end.

Interest rates increased slightly during the fourth quarter, but spreads narrowed, and accordingly, our net unrealized investment loss decreased from $6.3 billion after tax as of September 30 to $4.9 billion after tax at year-end. Adjusted book value per share, which excludes unrealized investment gains and losses was $114 at year-end, up 4% from a year ago. We returned $721 million of capital to our shareholders this quarter, comprising dividends of $220 million and share repurchases of $501 million.

For the year, we returned $2.9 billion of capital to shareholders, including $2.1 billion of share repurchases. Overall, we had another very good year with strong top line growth in all 3 business segments, excellent and improved margins in our commercial businesses, our best ever expense ratio and a very strong balance sheet that has us well positioned for whatever economic conditions the future may bring.

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 had another strong quarter, rounding a terrific year in terms of financial results, execution in the marketplace and progress on our strategic initiatives. We're firing on all cylinders. Segment income for the quarter was $725 million with an all-in combined ratio of 89.5%, both great results. We're once again particularly pleased with our exceptional underlying combined ratio, which was also 89.5%, an all-time best fourth quarter result.

The underlying loss ratio increased by a little more than 0.5 point as the benefit of earned pricing was more than offset by the comparison to the prior year quarter, which benefited from both a particularly low level of property losses and the favorable impact associated with the pandemic. The increase in the underlying loss ratio was more than offset by a lower expense ratio that benefited from our ongoing strategic focus on productivity and efficiency. Net written premiums for the quarter were up 11% from the prior year quarter to a fourth quarter record of $4.4 billion, benefiting from strong renewal premium change, high retention and an increase in new business levels.

Turning to domestic production for the quarter. Renewal premium change was once again historically high at 10.1%, with renewal rechange of 4.5% and record growth in exposure. Retention reached an all-time high at 88%. New business of $558 million was the strongest fourth quarter we've ever produced. At the product level, in addition to what you heard from Alan about pricing in the property line, terms and conditions and the line tightened over the course of the quarter, further improving the price per unit of risk. While not reflected in our production metrics, this improvement in the price per unit of risk will contribute to our profitability over time.

In workers' comp, renewal rate change was a little more negative than we've seen in recent quarters, which is a reflection of the strong profitability in the line and the benefit of continued strong exposure growth. Overall, workers' comp renewal premium change was positive in the mid-single-digit range and actually a little higher year-over-year. We're pleased with these strong production results and the excellent execution by our colleagues in the field.

Given our high-quality book as well as several years of segmented rate increases, together with improvements in terms and conditions, we're thrilled to continue to achieve this historically strong retention levels. The pricing gains we achieved in the quarter reflect our deliberate execution, which balanced the persistent headwinds and uncertainty in the current environment with the improvement in profitability across our portfolio after several years of strong pricing. As always, we will continue to execute our granular pricing, careful management of deductibles, attachment points, limits, sublimits and exclusions to maintain profitable growth.

As for the individual businesses, in select, both renewal premium change of 10.8% and retention of 83% were strong. New business was up 6% from the prior year quarter, driven primarily by the continued success of our BOP 2.0 product as well as growth in other lines. We're pleased with the progress we've made in improving the profitability of this business over the last couple of years, while continuing to invest for future growth.

In middle market, renewal premium change remained historically strong at 8.8%, while retention of 91% reached an all-time best. New business was up 13% from the prior year quarter. As for full year results, segment income of more than $2.5 billion was exceptional, benefiting from record earned premium in our best-ever underlying combined ratio.

In addition, the top line of $17.6 billion and full year retention were both record highs, while new business premiums were near in all-time high. These results were driven by the successful execution of our thoughtful and deliberate strategies. And while delivering these financial and production results, we've also continued to invest in strategic capabilities that will enhance our many competitive advantages, designed to enable us to continue delivering profitable growth over time. For example, during the year, we advanced our already state-of-the-art product and service capabilities by continuing to roll out our BOP 2.0 product, which is now live in 46 states as well as launching our new commercial auto product in a handful of states. Both products contain industry-leading segmentation.

In addition, we continue to make progress on developing industry-leading user experience capabilities to make it easier and more efficient for our distribution partners and customers to do business with us. In particular, in our middle market business, we advanced our capabilities around digitizing the underwriting transaction for our agents and brokers. And in our Small Commercial segment, we launched our new front-end rate quote and issue interface platform to make it faster and easier for our agents to write business with us, all while maintaining the underwriting discipline and specialization behind the scenes.

And finally, we continued to improve our operating leverage through our relentless focus on productivity and efficiency, as I referenced earlier. I'll note that our full year expense ratio of 29.7% is down more than 2.5 points from the 2016 level. We're proud of these results and the team that produce them.

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

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

Thanks, Greg. Bond & Specialty ended a terrific 2022 with another great quarter on both the top and bottom lines. Segment income was $221 million, up 30% from the prior year quarter, driven by strong and higher earned premium and an exceptionally strong combined ratio, which benefited from a higher level of net favorable prior year reserve development. The underlying combined ratio was also strong and improved about 1.5 points from the prior year quarter to a terrific 81.7%, driven by the benefit of earned pricing.

Turning to the top line. Net written premiums grew 5%, excluding the impact of changes in foreign exchange rates. Domestic Surety grew an outstanding 18% in the quarter, driven by an increase in the number of bonds issued and higher average bond premiums. In domestic management liability, given the strong returns, we're very pleased that we increased retention 1 point from last quarter to a near record 90%. That's a 4-point improvement from the prior year quarter.

Renewal premium change was solid at 6.3%, and we're also pleased that we increased new business 23% from the prior year quarter. Excluding FX, net written premium in our international business contracted modestly from the exceptionally strong fourth quarter of 2021, primarily due to the impact of the significant decline in merger and acquisition activity on our transactional liability book of business.

For the full year, Bond & Specialty produced record earned premiums and an outstanding combined ratio of 75.3%, driving segment income above $900 million for the first time ever. So for both the quarter and year, our results were terrific, driven by excellent execution, returns from our ongoing strategic investments in our competitive advantages and the market-leading value proposition 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, the fourth quarter loss of $61 million and a combined ratio of 105.3% were negatively impacted by the weather event in late December as well as elevated underlying loss activity in both automobile and homeowners and other. While our results aren't meeting our target returns, we are encouraged by our strong marketplace execution as we continue to respond to the loss environment with both increased pricing and non-rate actions.

Net written premiums for the quarter grew 13%, driven by double-digit renewal premium change in both domestic automobile and homeowners, reflecting our focus on improving profitability. In automobile, the fourth quarter combined ratio was 111.4%. As a reminder, while there is some seasonality in auto every quarter, the fourth quarter typically has an elevated loss ratio driven by things like holiday driving in Northeast winter weather.

Over the last 10 years, the fourth quarter underlying loss ratio has been approximately 6 to 7 points above the average for the first 3 quarters. Seasonality aside, the underlying combined ratio of 110.5% increased 6.7 points from the fourth quarter of 2021, primarily related to the continued inflationary impact on vehicle replacement and repair costs, as well as increased claim frequency, which returns to pre-pandemic levels in the quarter and higher bodily injury severity.

These loss impacts were partially offset by the growing benefit of earned pricing and a 1 point reduction in the expense ratio. Separately, the current quarter results included a modest impact for the reestimation of prior quarters. We continue to factor our latest view of loss experience into our pricing actions going forward. In Homeowners and Other, the fourth quarter combined ratio was 99.4%. This was 21.6 points higher relative to the prior year quarter, driven by catastrophe losses that were [13 points, 2 points] higher than the prior year period and a higher underlying combined ratio. The underlying combined ratio of 82.2% increased 8.8 points. This increase was primarily driven by higher loss severity related to continued labor and material price increases as well as higher non-catastrophe weather losses. This loss pressure was partially offset by the current quarter benefit of earned pricing.

Turning to production. Quarterly results reflect our rate and non-rate actions as we seek to manage growth and improve profitability. In domestic automobile, retention moderated this quarter as renewal premium change increased 3 points from the third quarter to 11.4%. New business written premiums declined 3% compared to the prior year, and policies in force were essentially flat with last quarter as our additional rate and non-rate actions are taking effect.

In domestic Homeowners and Other, we achieved renewal premium change of 14.5% in the fourth quarter. The retention remained strong at 84%. Slide 17 provides a graphical representation of renewal premium change in domestic automobile and homeowners and other. We added this view to highlight our progress with respect to renewal premium change over the last several quarters. The magnitude and speed of our pricing actions simultaneously across both lines of business is significant. As Alan mentioned, we have added over $1 billion of written premium to our portfolio in 2022 as a result of the high levels of renewal premium change. The benefits of this increased pricing will continue to earn into our results over time.

Looking ahead to 2023, renewal premium change in both lines of business will increase above these already very strong levels as we continue to take action to improve profitability. Consistent with our comments last quarter, we expect written pricing in auto to be adequate in states representing the majority of our business by midyear 2023.

In 2022, our team met a challenging environment head-on and took action to address rising costs. We are confident that the actions we have taken and will continue to take will drive improved profitability as we move through 2023 and beyond.

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

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

Question and Answer

Operator

[Operator Instructions] Our first question comes from Greg Peters with Raymond James.

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

It's Greg Peters. I guess I'll start with the first question on Business Insurance and the growth. You produced some outstanding results in all of your segments and for '22. And there's a bunch of factors that we're considering as we think about the outlook for '23 and '24. We're watching, obviously, as you are the renewal premium change. We're also watching the rate change on renewals. And I'm curious, when you look about -- when you think about '23, what are some of the factors that you think might influence your top line results in Business Insurance?

Alan David Schnitzer
Chairman & CEO

Yes, Greg, and thank you for the question. Let me just go back to basics and just talk about how we approach this business because we don't approach it with a grower shrink mentality, we approach it with an overall approach to the marketplace. So we look at our business and we want to keep our best business, and you can see our retention this quarter was off the charts, which is a reflection of how we feel about that book of business. We want to improve the returns on the business that need it, and so we want to execute at a very granular, very thoughtful, very strategic level in terms of price and rate in RPC.

And then by investing in franchise value and through a lot of hustle in the marketplace, we want to make sure that we're generating attractive new business opportunities. And we're going to -- we did that in '22 and the results have been fantastic. We're going to do it again in '23, and we're very confident about that.

And let me spend just a second on the pricing environment because that seemed like it was part of your question, and I've seen a number of you write about it this morning. So I think it's hard to characterize this pricing environment as anything other than very strong. At 10.1% that RPC is spot on an 8-quarter average. So incredibly stable and near record levels. Small movements between pure rate and exposure, but I would emphasize small movements between rate and exposure. The breadth of the pricing gains across our book is very strong and very consistent. I don't think you can assess the pricing environment without looking at retention and given where that is, literally record levels and given the profitability very strong.

The pricing gains that we achieved were broad-based, led by property, auto, umbrella and CMP. And then you take all that against the margins that we printed and we just -- we feel fantastic about the pricing and the overall execution this year. And again, we're going to go out and do it again in '23.

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

Just a point -- in your answer, you mentioned the renewal premium change. Can you talk about your perspective on what's going on with the renewal rate change, which seems to be trending down?

Alan David Schnitzer
Chairman & CEO

Yes. Again, we're executing at a very granular level, looking at what it is we need to do by account. And you look at that 10.1% overall renewal premium change, very strong near-record levels. And the fact that there's a little bit of movement back and forth between rate and exposure to us almost inconsequential. So you can look at that 0.5 point of change in isolation and try to make something out of it. We look at the overall production picture, and it just looks fantastic. So -- and again, Greg made a really important comment in his remarks, which is we're -- the execution you see is balancing a bunch of things going on. On the one hand, there's headwinds and some uncertainty. We've got inflation in the marketplace, supply chain is -- hasn't returned to pre-pandemic levels. We've got weather volatility. We've got reinsurance. We've got social inflation we've talked about over the years.

So on one hand, that continues to be a headwind for us, and we take that into account. But on the other hand, we've got a bunch of years of very strong pricing and look at where the margins are today. So that -- the rate change of 4.5% and the overall RPC doesn't happen to us. That's a very deliberate execution on our part, taking into account everything that we see in front of us.

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

Great. And just the last clarification point. You talked about the inflation factors. And I think in the comments, you mentioned there are some issues in umbrella, minor issues. What's your view on inflation trends as it might affect the reserve levels for '23 relative to what your assumptions may have been last year? That's it.

Daniel Stephen Frey
Executive VP & CFO

Greg, it's Dan. So I don't think anything terribly surprising. And I guess I'd step back and look at reserve development over the course of 2022 and say, full year number, $650 million of favorable reserve development. Of course, there are some lines that are going to develop a little better and some that are going to develop a little worse, but $650 million over the course of the year, favorable development in all 3 segments of the business, umbrella, not really different than our overall thesis, but sort of the degree to which severity moved was a little more than we expected. So as we usually do, we're trying to look at the data as quickly as possible and react as quickly as possible and all of that inside of a net favorable PYD. So we're feeling very good about where the balance sheet is.

Operator

Our next question comes from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

First question, just around the excess capital position. Historically, the company has been able to easily return operating earnings and then in some years, even more than debt of shareholders. We've never seen this level of, first of all, exposure growth and also just seeing the retention go up on the property CAT Treaty, are we at a point yet where I guess the growth and the risk of the business could start to impact capital return decisions?

Daniel Stephen Frey
Executive VP & CFO

Ryan, it's Dan. Yes, look, I think we've talked even a couple of years ago about the fact that we were seeing an increase in the level of top line growth. We knew we were going to need to hold more capital to reflect both a bigger top line book of business, which brings with it a higher level of reserves on the balance sheet. And so we said at that time, look, don't expect us to continue to be able to return nearly 100% in terms of operating earnings between buybacks and dividends. I think what you see in 2022, in particular, is the fact that we had a good strong capital position coming out of 2021. Remember, earnings in the fourth quarter of last year were tremendously strong. So we probably exited last year with a little more capital than we might have forecasted we were going to end the year.

So what we're doing in 2022 with capital management and as we go into '23 is considering all the things that you just said, continued outlook for top line growth, where the balance sheet is from a reserve perspective, what our reinsurance programs are and what our property exposures look like. And we were very comfortable returning what we just did in the fourth quarter.

Ryan James Tunis
Autonomous Research US LP

Got it. And then a follow-up for Michael. Just thinking about the rate you're taking on the home side, is there a way to kind of compartmentalize that in terms of how much of the rate is toward attritional type losses versus how much is budgeting for higher caps? I'm not sure if there is, but I'd be curious if you had any perspective on that.

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Ryan. Thanks for the question. I would say, broadly speaking, it's sort of hard to compartmentalize because the majority of the rate we're taking is base rate. Now again, the numbers that we give you are renewal premium change. So just to clarify, right, renewal premium change is rate and values, and we've talked about the fact that the RPC numbers that you see certainly include both. And our outlook for 2023, where we indicate that renewal premium change is going to go north from here, is driven by further increases in both rate and values. But in terms of attritional loss versus cat loss, again, it's fairly broad-based rate across the book. So there's not really a significant differentiation there.

Operator

Our next question comes from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Michael -- or actually, Dan, sorry about that. Dan, could you just elaborate a little bit more on the financial impact of nonrenewing the aggregate reinsurance outside of a higher potential catastrophe load? I think when you put it on, there was a 50 basis point headwind to the underlying combined ratio, which obviously was offset by lower cat load, but that was back in 2019, so I'm sure it's changed. Doesn't sound like you expect a noticeable impact on the property loss ratio or the total company expense ratio. So just wondering if you could just sort of talk through the puts and takes of nonrenewing that aggregate.

Daniel Stephen Frey
Executive VP & CFO

Sure, David. So a couple of things. In 2022, we did not attach the treaty, right? So we didn't hit the underlying, so it didn't have any beneficial impact in 2022 results. You're right that when we first entered into the treaty, which was at the beginning of 2019, we said at the time that the impact of the incremental ceded premium from that treaty was going to have about 0.5 point adverse impact on underlying results because of the impact on the denominator.

In 2019, we told you that we placed -- it's the same $500 million layer in all 4 years. In 2019, we told you that we placed 85% of the layer. In 2022, we only placed 45% of the layer. So in sort of broad sweeping terms, you could expect that the absence -- the impact in 2022 on the underlying would have been about half as much as it was in 2019. And so that's what the year-over-year comparison will look like in 2023. So maybe somewhere around 1/4 of a point.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then just following up on that, is that something -- and you also mentioned just the relative cost of goods sold advantage from buying less reinsurance. Does that benefit something you are looking to price or just allow to flow through in pricing as opposed to falling to the bottom line just based on your commentary, it sounds like that might be the case, but maybe elaborate on that as well.

Daniel Stephen Frey
Executive VP & CFO

Yes. I don't think it's really big enough to impact the way we think about the pricing on the property book overall. I mean -- so again, we placed 45% of a $500 million layer. We didn't attach it. If you look across the business, we've got $8 billion or $9 billion worth of property premium. It goes into our consideration of how do we think about pricing in our underwriting appetite. But we said sort of from the first day we bought that treaty, we sort of would have been happy if we bought it or almost as happy if we didn't buy it, it was sort of on the margin. So the absence of it is not really going to have any impact on the way we view pricing adequacy and property.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got you. And then coming back to Michael. Just wondering, I think in the past, I've heard you guys talk about mid-90s combined ratio in auto. And you said you thought you could get to written rate adequacy still by '23. Maybe just one, is that still the right combined ratio to think about you guys are targeting? And then any sort of view on timing of when you think you can get there?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, David. I think in terms of the target, obviously, it's impacted by a lot of things. I think we've said mid-90s or even a range on the upper end of the mid-90s is actually, I think, what we've talked about historically. Certainly, investment yields are better than they were when we talked about that. But I think, broadly speaking, you can think of that range as where we're trying to get to. And again, as I described last quarter and reiterated this quarter, we think that written pricing will get to adequacy on the majority of the business by midyear. So again, that's a leading indicator of what you're going to see in GAAP results, right?

So I've also talked about the price we're taking will earn its way into our results over time. This morning, I said you'll see the benefit sort of throughout '23 and beyond. I think what's important to note is the comment we made this morning about the growing impact of earned rate on the auto results this quarter that impact will grow through 2023 as we've taken -- you see more and more written RPC in the book of business as the year goes forward this year. We've talked about higher levels of written RPC in 2023 that paves the way for increased earned rate impacting the book of business quarter-over-quarter-over-quarter as you go into 2023.

So I think those are the breadcrumbs we're trying to give you in terms of how to lay out your expectations for next year. Obviously, the million-dollar question for everybody in '23 is what happens to loss experience and where the loss trends go from here? And that's the -- if you sort of lay out your own view of the earned rate versus what's going to happen to loss trend that will sort of help you figure where you think the lines are going to cross.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Michael, maybe picking up on your last comment, I mean, you say that you guys are going to reach within rate adequacy in personal auto. So what are you guys assuming for frequency and severity from here when you make that comment?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes, Elyse, I think we're not going to get into specifics on frequency and severity assumptions for next year. I think what we have talked about pretty consistently is we have been booking to the loss experience that we've seen, those booked trends remain double digit as we talk -- as we sit here today, talking about the fourth quarter. And again, we've pretty consistently talked about observing double-digit severity trends in the book. Frankly, that's a property comment and an auto comment. And is the severity and loss pressure that we are contending with. And we've also said that we have been factoring those increased costs into our expectations, both in terms of the actual experience and our outlook. But I don't think we're going to put a number on the forecast severity and frequency trends beyond that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Then on the reinsurance program, can you give us a sense of -- an absolute sense of how much your reinsurance costs went up? And then on the capital side, as you guys have added more volatility right by retaining additional cat losses in '23, how could that affect your capital allocation? Should we expect lower buyback in the second and third quarter? And could this even impact the excess capital that you would have for new business growth?

Daniel Stephen Frey
Executive VP & CFO

So a couple of things, Elyse, it's Dan. We're not going to go into the details of reinsurance pricing. What I was trying to communicate in my comments was when we consider the pricing that we're getting on the direct business that we're writing in our management and terms and conditions, we don't expect the higher pricing for reinsurance to have much of an impact on our margins. And again, the change in the overall treaty, I don't think it's going to have a significant impact on our capital position. I really think of it as sort of business as usual. We made the comment that the attachment [indiscernible] increase sort of in line with our increase in property premiums. So the attachment point went up 16% or 17%. Our premium volume in 2022 compared to 2021 was up 15% or 16% or 17% in both business insurance and personal insurance. I don't think it's going to have a dramatic impact on -- it does not have a significant impact on our view of capital adequacy now, and I don't think it's going to have a significant impact on the way you see us behave from a capital perspective in 2023.

Operator

[Operator Instructions] Our next question comes from Meyer Shields from [ABW].

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

A quick question on, I guess, the quota share arrangement. Can you talk about -- and I'm putting this as binary, and it's probably not. But can you talk about why is going through sort of quota share arrangements to capitalize on the hard property market as opposed to your own excess and [indiscernible] paper?

Alan David Schnitzer
Chairman & CEO

Yes, Meyer, it's -- we've got all the flexibility in our property business and in our other businesses with E&S paper and otherwise to do whatever it is we want to do. This was an opportunity for us to work a little bit more closely with Fidelis. We think they're interesting in what they do and wanted to understand it a little bit better. And they're in some businesses that we just haven't historically been in. And so in cases like that, it's not the only place we've done it. But in cases like that, we look to leverage the capabilities of other talented underwriters and this is just one of those opportunities.

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

Okay. No, that makes sense. And then a quick question for Michael. You talked a little bit about, I think, unquantified the impact of accident year ['22] loss take increases in the fourth quarter, did that change have a meaningful impact on the indicated rate need?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure, Meyer. Again, I would say every quarter of additional experience where we see double-digit loss increased experience impacts our rate need and impacts our loss experience. The good news is it factors into the evidence we have to go to regulators to ask for rate increases. So it certainly, the additional quarter of sort of double-digit severity, did put additional upward pressure on our rate indications and that's what we're factoring into the indications were taken to the department in early 2023.

Operator

Our next question comes from Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

I had one follow-up on the personal auto. We saw a peer of yours that's had severity sort of picking up maybe faster than they even were expecting earlier in the year and as well as bodily injury that's sort of being settled at this point. Just wanted to see, is that something you've looked at harder in your book? How confident are you that you're fully capturing the severity in the way you're reserving on the auto. Do you feel comfortable with where that is headed into 2023 and the starting point here?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Sure. This is Michael. Maybe I'll start and Dan can speak to the reserving element of it. Certainly, as I talked about the prior period comparison in auto, we're seeing severity across auto physical damage coverages and bodily injury coverages. We've talked about both auto physical damage and bodily injury and either prepared remarks or Q&A sort of throughout the year. We've certainly spent more time talking about auto physical damage but bodily injury severity trends have been elevated throughout the year. I think we've talked about them being elevated but consistent with our expectations. They were a little worse in Q4, which is why we call them out.

But we've booked to that in our Q4 results. They were also an element of the prior period -- current year prior quarter development that I called out in the prepared remarks as well. So they're in the loss estimates that we booked for the quarter and the full year.

Daniel Stephen Frey
Executive VP & CFO

Alex, it's Dan. Just in terms of the balance sheet, I think we made this comment last quarter as well, we were pretty consistent in 2020 and 2021 in saying that we felt we were being appropriately cautious in allowing for the elevated level of uncertainty in the environment at that time when we were making our loss picks, including in personal insurance. And I think that's continued to proven to hold up. As Michael said, our expectation was always that bodily injury severity, not only was elevated, but the trend slope was upward moving on that. And so I think when you take into consideration the fact that we were sort of intentionally reflecting an elevated level of uncertainty in '20 and '21 and trying to continuously react to the most recent data as it comes in to this point all the way through the end of 2022, our reserves for prior years have held up just fine.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

That's really helpful. And then my follow-up is on workers' comp actually. We were just looking at some of the NCCI stuff out there. I mean, it looks like in '23, maybe there's a bit more pressure on workers' comp pricing than even in the recent years. I appreciate though that there's also an improving starting point for ultimate loss ratios just based on the way that the development has been trending. So when I think about all those things, I mean, can you help me think through what that means for accident year loss ratios in '23, just at a high level and whether we should be thinking about that as a pressure point?

Alan David Schnitzer
Chairman & CEO

Yes. Alex, let me start, and I look at Greg, if I missed something here. So renewal price change was mid-single digits positive, as you heard from Greg. Given the durations of the liability, we take a pretty cautious view on how we think about loss trend and the outlook for that. And so you'd say pricing is a little bit positive, you'd say loss trends negative. And the net of those 2 things would probably be a little bit negative, but as we think about next year, I think the question is going to be what's loss trend going to do because it has -- over the last few years or more than that surprised us to the benign side. And so we'll just have to see where the losses come in and then take a look at the calendar year results. But Again, I would just say workers' comp has been a fantastic line for us. And we think the outlook for it is positive as well.

Operator

Our next question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, just going back to the cat load. So I think we're seeing a nonrenewal of the property ad cover, a shift up in XOL retention, maybe some additional cat coming in from Fidelis the quota share as well. How should we think about that kind of in aggregate as we think about 2023, does that essentially mean that we should think about maybe a lower aggregate loss ratio but maybe some additional volatility?

Daniel Stephen Frey
Executive VP & CFO

I don't think that's where I would go, Yaron. I'm not -- tell me what you would look at that would lead you to look for a lower aggregate loss ratio?

Yaron Joseph Kinar
Jefferies LLC, Research Division

Well, I would think that more cat-exposed business would have a lower attritional loss ratio coming with it -- prior retention rates, we have a lower return [indiscernible] as well.

Daniel Stephen Frey
Executive VP & CFO

Yes. I think you're really talking on the margins. I don't think we're very -- we're significantly changing the mix of the property book we write in terms of what its cat-exposed profile is. Fidelis, again, at those levels and a portion of what they write is going to be cat-exposed. But at that level, that's going to have a very small impact on our overall base of premiums. We look at the cat results over the last few years. And I think like everyone sort of continually update our view of -- and for us, it's importantly -- it's weather losses, not just what falls into the catastrophe bucket, right, because we've got sort of a more restrictive definition of what CAT is than most other folks.

But it's really not a significant change. So we don't see a significant change in the relative percentage of the book that's cat exposed. We don't see a significant change despite some changes in reinsurance, I would describe those changes in reinsurance relative to the property book as a whole as pretty modest. So I don't think it dramatically changes our cat profile. So I don't really think it's going to have a significant impact on the way we think about the property book going forward.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. That's very helpful. And then maybe shifting to Michael's world. Were there any entry year catch-ups in personal auto this quarter?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes, it's Michael. I think to your question, we did have a modest impact from reestimation of prior quarters. And I talked about the auto physical damage, the frequency and the bodily injury as the drivers of the period-to-period change, there was really some prior year reestimation sort of across a number of factors in the book, but again, it was modest.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And is it something you can quantify or not at this time?

Michael Frederick Klein
Executive VP & President of Personal Insurance

Yes. I mean it was, I'd say, about 1 point, 1 point or 2 kind of -- and again, it varied a little bit by coverage, but call it around 1 point or so.

Operator

That concludes the Q&A session. I now turn the call over to Ms. Goldstein.

Abbe F. Goldstein
Senior Vice President of Investor Relations
Thank you very much. I appreciate your time this morning. I know there were several people left in queue. So as usual, please feel free to follow up after. Thanks so much. Have a good day.