The Travelers Companies, Inc.

Third Quarter 2022 Results Teleconference

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CORPORATE PARTICIPANTS

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Operator
Good morning, ladies and gentlemen. Welcome to the Third Quarter Results Teleconference for Travelers.

We ask that you hold all questions until the completion of formal remarks, at which time you will be given instructions for the Question & Answer session. As a reminder, this conference is being recorded on October 19, 2022.

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 Goldstein
Thank you. Good morning, and welcome to Travelers' discussion of our third 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 three 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.

Now, I'd like to turn the call over to Alan Schnitzer.

Alan Schnitzer
Thank you, Abbe. Good morning everyone and thank you for joining us today.

I'd like to start by acknowledging the devastation and loss of life caused by Hurricanes Ian and Fiona. We're thinking of all those who have been impacted and are supporting the Red Cross's disaster relief efforts. In addition, as always after events like these, we're focused on taking care of our customers. We're on track to meet our objective of resolving 90% of our property claims arising out of the storms within 30 days. My thanks to all our Claim colleagues who are working hard to make that happen.

Moving to our results, we're pleased to report this morning a solid bottom line for the quarter, particularly in light of the significant industry-wide catastrophe losses, strong and improved underwriting profitability in our commercial business segments, progress addressing the environmental headwinds facing the Personal Insurance industry, a meaningful contribution from net investment income, including positive returns from our alternative investment portfolio notwithstanding the challenging equity market, very strong production in all three of our business segments resulting in strong growth in net written premiums, and another quarter of successful execution on a number of important strategic initiatives.

Core income for the quarter was $526 million or $2.20 per diluted share, generating core return on equity of 7.9%. These results benefited from record net earned premiums of $8.6 billion, up 10% over the prior year quarter, and a solid underlying combined ratio of 92.5%. For the nine months, core return on equity was 10.9%. Given the challenging environmental issues impacting the Personal Insurance industry, these consolidated results once again demonstrate the benefit of our diversified portfolio of businesses. We're particularly pleased with the continued strong underlying results in our commercial businesses. Looking at the two commercial segments together, the aggregate BI/BSI underlying combined ratio was an excellent 88% for the quarter.

As expected, results in Personal Insurance were impacted by elevated severity in both auto and home. As you'll hear from Michael, we're continuing to make progress addressing the environmental loss cost issues.

In terms of catastrophe losses, as I've described before, strategic efforts we have undertaken in recent years have enabled us to more effectively manage our exposure to catastrophes and more efficiently mobilize our claim response. And while there is always the potential for us to have outsized exposure to an event, those efforts contributed to losses for us from Hurricane Ian that, based on current estimates, are favorable relative to our corresponding market share. That's consistent with our experience over the past five years: our share of the industry's property cat losses over that period has been meaningfully lower than our corresponding market share. Our capabilities position us well for a trend of increasing frequency and severity of losses from natural catastrophes.

Turning to investments, our high-quality investment portfolio generated net investment income of $505 million after-tax for the quarter, reflecting higher returns from our fixed income portfolio and positive returns in our non-fixed income portfolio. Our strong operating results over the past few quarters together with our solid balance sheet enabled us to grow adjusted book value per share by 7% over the past year after making important investments in our business and continuing to return excess capital to shareholders. During the quarter, we returned $722 million of excess capital to our shareholders, including $501 million of share repurchases.

Turning to the top line, thanks 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 a record $9.2 billion.

In Business Insurance, net written premiums grew by 9%. Renewal premium change was very strong at a historically high 10.2% while pure renewal rate change of 5% was higher than in the first half of the year. Retention remained very strong at 86% and new business increased 9% from the prior year period. Underneath the headline numbers, execution in terms of rate and retention at a segmented level continues to be exceptional.

In Bond & Specialty Insurance, net written premiums increased by 8%, driven by excellent production in both our surety and management liability businesses. Surety net written premiums were up 18%. Management liability premiums were up 4% driven by renewal premium change of 9%, retention that increased to 89%, and 20% growth in new business.

In Personal Insurance, renewal premium change was meaningfully higher both year-over-year and sequentially as we continued to address the environmental headwinds.

You'll hear more shortly from Greg, Jeff and Michael about our segment results.

Before I turn the call over to Dan, I'd like to comment on a public policy issue. Hurricane Ian puts a spotlight on the troubled condition of the Florida insurance market. Other states may be headed for similar challenges. As policy makers consider how best to address the availability and affordability of insurance, we would urge them to consider the impacts of the unhealthy tort environment, fraud and abuse by a few that impact too many, and regulatory practices that undermine free market principles. I believe those factors are at least as consequential as the weather itself to the industry's ability to provide our communities with effective and efficient ways to manage risk. We're looking forward to being a participant in constructive conversations about solutions in the days ahead.

To sum things up, building on our strong results so far this year, we're confident about our outlook. Our commercial lines businesses are generating terrific results. We're achieving meaningful price increases in personal lines and our high-quality investment portfolio is poised to generate meaningfully higher levels of fixed income NII going forward. When we combine that and the success we've had with our Perform & Transform call to action, we're very confident in our ability to continue to create shareholder value over time.

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

Dan Frey
Thank you, Alan. Core income for the third quarter was $526 million and core return on equity was 7.9%. On a year-to-date basis, core ROE is a healthy 10.9%.

Our after-tax underlying underwriting gain of $478 million was once again very strong. We generated record earned premium and reported an underlying combined ratio of 92.5%. In both Business Insurance and Bond & Specialty, the underlying combined ratios were particularly good, and improved from the prior year quarter, while in Personal Insurance the underlying combined ratio was elevated. Greg, Jeff, and Michael will provide more detail on each segment's results in a few minutes.

The expense ratio for the quarter of 28.1% was our best-ever quarterly result, having improved 1.3 points from last year's third quarter. As a reminder, the expense ratio has improved even as we continue to increase our significant investment in strategic initiatives, with the improvement driven by our focus on productivity and efficiency coupled with strong top line growth. In our earnings call last quarter we told you that we expected the expense ratio to be around 29% for the full year, and with the year-to-date expense ratio at 28.7%, it looks like we'll do a little better than 29%.

Our third quarter results include $512 million of pre-tax catastrophe losses with $326 million related to Hurricane Ian. We hold ourselves accountable for managing our cat exposures over time, and Ian is another illustration of our industry-leading expertise. As you heard from Alan, based on available industry estimates for Ian, Travelers' share of losses looks to be well below our weighted average market share in the affected states. The investments we've made in talent, technology and sophisticated peril-by-peril modeling are paying off in terms of risk selection, pricing segmentation, risk mitigation and our industry-leading claim response capabilities.

Regarding cat losses and reinsurance, on a year-to-date basis through September 30, we have accumulated $1.4 billion of qualifying losses toward the aggregate retention of $2 billion on our Property Aggregate Catastrophe XOL treaty. A couple of additional comments on reinsurance: based on what we're hearing from the reinsurance community, it sounds like the market is in for higher pricing and capacity constraints. In terms of primary carriers, that's going to impact some much more than others. For two reasons, we would expect to be less impacted than others.

First, as a disciplined, gross line underwriter, we just don't buy that much reinsurance compared to many others. Second, we have a long track record of strong underwriting performance, consistently outperforming the industry. The upshot of those factors is that we generally expect to be able to obtain the reinsurance coverage we need at acceptable prices. Also, because we're less reliant on reinsurance, we should be less affected by price increases and capacity constraints. With less of an impact on our cost structure, we should have the option to expand our margin advantage or to reflect that cost advantage in our pricing, making us more competitive for attractive new business opportunities.

Turning to prior year reserve development, we had total net favorable development of $20 million pre-tax in the third quarter. In Business Insurance, net unfavorable PYD of $61 million was driven by a $212 million charge related to our annual asbestos review, largely offset by better-than-expected loss experience in workers' comp across a number of accident years as well as favorable development in property. In Bond & Specialty, net favorable PYD of $63 million was driven by better-than-expected results in fidelity and surety as well as the management liability book. Personal Insurance had $18 million dollars of net favorable PYD with modest movements in both auto and home.

One additional comment on asbestos: loss activity and the level of deaths related to mesothelioma did moderate somewhat in the most recent data available for review, but not to the degree we had projected. Nonetheless, the long-term trend is that mesothelioma mortality rates are declining.

After-tax net investment income decreased by 22% from the prior year quarter to $505 million. As expected, returns in our non-fixed income portfolio were below last year's excellent result, although we were pleased that the alternative portfolio generated positive income despite the significant downturn in the broader equity markets. Fixed maturity NII was higher than in the prior year quarter, reflecting both the higher level of invested assets and the impact of higher yields.

With interest rates having moved higher during the third quarter, we are again raising our outlook for fixed income NII, including earnings from short-term securities, to approximately $500 million after-tax in the fourth quarter and approximately $540 million on average per quarter in 2023 with an estimated $515 million in the first quarter growing to an estimated $570 million in the fourth quarter.

New money rates as of September 30 were about 150 basis points higher than what is embedded in the portfolio, and with rates having moved up again in October, that difference is now around 200 basis points. As it relates to our non-fixed income investments, let me take this opportunity to remind you that results for our private equities, real estate partnerships and hedge funds are generally reported to us on a one quarter lag. Since our non-fixed income returns tend to directionally follow the broader equity markets, we expect the downturn experienced by the broader market in the third quarter to impact our fourth quarter results.

Turning to capital management, operating cash flows for the quarter of $2.5 billion were again very strong, all our capital ratios were at or better than our target levels, and we ended the quarter with holding company liquidity of more than $1.4 billion.

Interest rates increased and spreads continued to widen during the quarter, and as a result our net unrealized investment loss increased from $3.8 billion after-tax at June 30 to $6.3 billion after-tax at September 30. As we've discussed in prior quarters, the changes in unrealized investment gains and losses generally do not impact how we manage our investment portfolio. We regularly hold fixed income investments to maturity, the quality of our fixed income portfolio is as always very high, and changes in unrealized gains and losses have little impact on the expected cash flow from those investments, our statutory surplus, or regulatory capital requirements.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $111.90 at quarter end, up 2% from year end and up 7% from a year ago.

We returned $722 million of capital to our shareholders this quarter, comprising share repurchases of $501 million and dividends of $221 million. We have approximately $2.5 billion of capacity remaining under the most recent share repurchase authorization from our Board of Directors.

To sum it all up, we had another very good quarter in light of the impact from Ian with strong premium growth in all three segments, terrific underlying underwriting profitability in our commercial businesses, and further improvement to our outlook for fixed income NII. All of that combined with another quarter of progress on important strategic initiatives has us well positioned to continue to grow at attractive returns.

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

Greg Toczydlowski
Thanks Dan. Business Insurance had an excellent quarter with segment income of $471 million.

We're particularly pleased with our exceptional underlying combined ratio, which improved to 90% for the quarter. This result is a testament to our execution and focus on achieving our target returns.

The underlying loss ratio increased by about a point as the benefit of earned pricing was more than offset by the comparison to both a low level of property losses and the favorable impact associated with the pandemic in the prior year quarter. 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 of $4.4 billion were up 9% over the prior year quarter with growth in all domestic markets and lines of business. Premiums benefited from strong renewal premium change and retention, both of which were once again historically high, as well as higher levels of new business.

Turning to domestic production for the quarter, renewal premium change of 10.2% was once again exceptionally strong. RPC included renewal rate change of 5%, a tick-up from the second quarter, and strong exposure growth. Retention remained very strong at 86% and new business premium was more than $500 million, up 9% over the prior 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 and improvements in terms and conditions, we're thrilled to continue to produce historically strong retention levels. The rate 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, sub-limits and exclusions to maintain profitable growth.

As for the individual businesses:

In Select, renewal premium change remains healthy at 10.6% while retention of 83% was up 2 points from the prior year quarter. New business was up 8% from the prior year quarter driven by the continued success of our BOP 2.0 product.
In Middle Market, renewal premium change remained very strong at over 9% while retention was higher year-over-year and sequentially at an excellent 89%. New business premium of $271 million was up 5% over the prior year.

To sum up, Business Insurance had another terrific quarter. We're pleased with our execution in driving strong financial results, while continuing to invest in the business for long term profitable growth.

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

Jeff Klenk
Thanks Greg. Bond & Specialty had an outstanding quarter on both the top and bottom lines.

Segment income was $242 million, up 39% from the prior year quarter driven by record underlying underwriting income and a higher level of net favorable prior year reserve development. The underlying combined ratio was a terrific 78.4%, an improvement of 5 points from the prior year quarter reflecting both the benefit of earned pricing and about a 2 points impact from the favorable re-estimation of losses for the first two quarters of 2022.

Turning to the top line, net written premiums grew 8% in the quarter to a record high, with contributions from all our businesses.

Domestic surety grew an outstanding 18% in the quarter driven by larger average bond premiums.

In domestic management liability, renewal premium change remained strong at 9% while we improved retention by a point to a terrific 89%. We are also pleased that we increased new business 20% from the prior year quarter as we leverage the investments we've made and continue to make in our competitive advantages to grow these profitable businesses.

So, both top and bottom line results for Bond & Specialty were again terrific this quarter, reflecting continued excellent execution across our business and the value of our market-leading products and services to our customers and distribution partners.

Now, I'll turn the call over to Michael.

Michael Klein
Thanks Jeff, and good morning, everyone. For the third quarter, Personal Insurance reported a combined ratio of 107.2%, up approximately 2.5 points compared to the prior year quarter, primarily driven by a higher underlying combined ratio.

The four-point increase in the underlying combined ratio reflects the continuing environmental challenge of elevated loss severity in both automobile and homeowners. The loss impacts were partially offset by a 2 points reduction in the expense ratio.

For the quarter, catastrophe losses were $285 million and included losses from Hurricane Ian, most of which are Florida automobile losses. Catastrophes were 2 points lower than the prior year quarter, which included Hurricane Ida.

Net written premiums for the quarter grew 13% primarily driven by very strong price increases in both domestic automobile and homeowners and other.

In Automobile, the third quarter combined ratio was 112.2%, including nearly 8 points of catastrophe losses. The underlying combined ratio was 103.9%, an increase of 6.9 points relative to the prior year quarter. The increase reflects another quarter of elevated vehicle replacement and repair costs, and to a lesser extent the continued return toward pre-pandemic driving and claim frequency levels.

Our primary response to these environmental challenges is higher pricing. We are pleased with our progress this quarter, building on our actions to increase rates over the past few quarters. While pricing continues to gain momentum, it will still take some time for rate actions to fully earn into our results.

In Homeowners & Other, the third quarter combined ratio was 102.3%, an improvement relative to the third quarter of 2021 as catastrophe losses in property were lower. The underlying combined ratio of 94.9% increased about a point and a half from the prior year quarter. We continued to experience higher loss severity related to a combination of labor and material price increases in the quarter, but that loss pressure was largely offset by the current quarter benefit of earned pricing, lower non-catastrophe weather losses, and a lower expense ratio.

Turning to quarterly production, we continue to make excellent progress in achieving pricing increases. I'll discuss Homeowners & Other production first this morning before spending a bit more time on Automobile.

For Domestic Homeowners & Other, renewal premium change increased to 14.1% and retention decreased slightly to 83%, both consistent with our expectations. We expect renewal premium change to continue at these levels for the remainder of 2022. Looking ahead to 2023, we expect renewal premium change to increase above these already very strong levels as we implement additional insured value increases.

For Domestic Automobile, renewal premium change increased to 8.1% while retention was 83%, also consistent with our expectations.

During the quarter, we implemented price increases in 26 states at an average of about 8.5%. We expect that domestic automobile renewal premium change will get into double digits in the fourth quarter and be in the mid-teens throughout 2023.

Written pricing should reach adequacy in most states representing the majority of our business between now and mid-2023, and that pricing will earn into our results over time.

In addition to increased pricing, we're also implementing additional non-rate actions including further tightening underwriting criteria, restricting binding authority for certain agents in certain states, and removing our auto product from comparative raters in California and Florida. These actions will help us manage growth and improve profitability.

Personal Insurance has a strong track record of financial performance, demonstrated by our over 40% net written premium growth and 97% combined ratio for the five-year period 2017 to 2021. While we and the industry continue to face near term environmental headwinds, we remain confident in our ability to deliver attractive returns over time while continuing to build the business for the future.

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

Abbe Goldstein
Thank you, and we are ready to open up for Q&A.

Operator
Your first question comes from the line of Greg Peters from Raymond James. Your line is open.

Greg Peters
Good morning, everyone. Thanks for taking my questions. I'm going to start out with the expense ratio improvement. Dan, you talked about it being a combination of top line, productivity and efficiency, and now the target is a little bit below 29% for the year. Maybe you could give us a breakdown of where the improvements are coming from and, more importantly, it seems like the trend is going to continue, the trend of improvement should continue beyond just this year. Maybe you could comment a little bit on that?

Dan Frey
Sure, Greg. It's pretty broad-based and it's sort of the continuation of the theme that we've seen really now for the past three or four, or even five years of making important investments in strategic initiatives at the same time we focus on productivity and efficiency and grow the top line in all three segments. What you see is just a consistent pattern of expense increases at a rate that's well below the rate that we're growing the top line.

In terms of whether we expect that to continue or providing outlook going forward, we'd said probably a year and a half ago or so that we'd gotten down to 30 and we were pretty comfortable at that level, then we said we got down to 29 and we were going to be pretty comfortable at that level. At 28.7 on a year-to-date basis, I'd still put that in the around-29 bucket.

As Alan's talked about many times, what we like about our focus on productivity and efficiency and expenses is it gives us optionality. We can continue to make important investments, which we will. We could let it drop to the bottom line, we could reflect it in more competitive pricing, and there's no reason for us, and we're not going to declare at this point what we think that's going to look like next year or a year or two out.

Suffice it to say that the 29 neighborhood is a number that we're still pretty comfortable with, and 28.7 through the first nine months feels really good.

Greg Peters
Thanks for the answer. The second question will be just on reinsurance. I know you're pretty upfront in your record of being a gross line underwriter stands by itself, so I guess when I think about the treaties you do have in place, like the aggregate XOL treaty, and whatever excess loss property cover you have in place, you mentioned that pricing is probably going to change for the market next year.

What are you hearing about how those particular programs for Travelers might evolve? What I'm getting at is should we expect increased retentions for Travelers in '23 and '24 as a result?

Dan Frey
I think, Greg, too early to say. We'll talk about the 1/1 renewals when we know how things turned out, which we'll do probably at the end of fourth quarter call. I think the point of the comments today were really to just reinforce for folks that, one, we're not a big user of reinsurance, especially relative to some other parts of the market, and two, our track record and our long tenure with a lot of our trading partners has us pretty confident that we're going to be able to place what we want to place at appropriate prices.

You know, the cat aggregate XOL treaty specifically, I think we've said every year we had it, we'd either buy it or not depending on what we thought the pricing level relative to our own appetite, and you've seen us place anywhere from 55% of that treaty to 85% of that treaty, depending on the pricing environment, and if there's a year where we decide to not place any of it, we'll be perfectly fine with that, but that's a decision we'll make as we go through the renewal process.

Alan Schnitzer
Greg, it's Alan. I would just add to that, to Dan's point, whether retentions go up or they don't go up, who knows? But I think the important point is given the strategic way we think about reinsurance and given the strength of our underwriting, we're going to have the flexibility to make the right decision for our business.

Greg Peters
Makes sense, thanks Alan.

Alan Schnitzer
Thank you.

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

Elyse Greenspan
Hi, thanks. Good morning.

My first question, so Hurricane Ian seems like it's going to be a pretty large event. I know you talked about below market share, but insured losses, probably $50 to $60 billion, which I think really has the impact to move pricing, so was hoping to get your view there, Alan, and then if you can tie that back, you did make a comment about being a little less reliant on what's happening in the reinsurance market so you can be more competitive on the pricing front, so how do you think price plays out given this large event and the reinsurance dynamic as well?

Alan Schnitzer
Yes, good morning, Elyse, and thank you. Just to start with basics, pricing is a function of rate adequacy, and given what we all expect to happen to reinsurance, there's going to be a rate need. On top of that, certainly as it relates to property, there's going to be capacity constraints that will be significant, I expect, across the market, and I think on top of those things, which are probably largely quantifiable, it was just a big storm maybe rivaling Katrina, and that's just going to impact the way the market thinks about risk.

We would expect that constellation of factors to put certainly upward pressure on property pricing and potentially extend into other aspects of the market as well - we'll see, but certainly as it relates to property, we would expect there to be upward pressure on pricing.

Elyse Greenspan
Thanks, and then my second question, you called out the impact of the favorable accident year adjustment within management liability. Could you give us more details on what drove that, the specific lines, and was that better frequency or severity driven?

Dan Frey
Yes Elyse, it's Dan. I don't think we're going to parse it out finer than that. We have a loss pick at the start of the year, we'll look at it as we get to the midpoint of the year and then each of the back couple of quarters of the year. The short answer is things have just come in a little better than we would have expected based on the plan, and so that's what we're reflecting in this quarter's results.

Elyse Greenspan
Thank you.

Dan Frey
Thanks Elyse.

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

Ryan Tunis
Thanks. Just a couple from me.

Dan, you were talking about the NII guidance and how rates have moved since 9/30. Is that guide trued up for where we are today in terms of rates, or is that just as of where new money was at 9/30?

Dan Frey
You're getting a little fine there, Ryan, in terms of whether we're going to change it every two weeks. We've seen rates move up and down a little bit. It's been fairly volatile in the last 30 days. I would say generally speaking, it's reflective of the current environment and I wouldn't put a specific date on it.

Ryan Tunis
Okay, and then the cat number in auto was higher than we've seen. How much of that $133 million auto cat is from Ian, and I'm just curious how certain is that estimate at this time? Is that pretty much a ground-up loss or is a lot of that IBNR, based off of an industry view, if that makes sense?

Dan Frey
Sure, so it's Dan. I'll start and Michael can chime in if he wants.

I think we feel pretty good about that number. We watched it very closely and very carefully, as you would imagine, given the unfortunate timing not only the unfortunate event itself, but the unfortunate timing for those of us who are accountants and actuaries trying to come up with an estimate at the end of the quarter. But we watched it all the way through the first week of October, made our best estimate. At this point, a lot of it is unpaid. We look at the data, the way it continued to develop all the way through, frankly, the time we were getting ready to push the button on reporting earnings, and what came in was pretty consistent with what we'd expected before.

But to be clear, we're doing it based on what we think our exposure is in the footprint of the event and the way claims have actually come in, in the couple of weeks since then. It's not the blunt instrument of just taking an industry estimate and our expected market share.

Michael Klein
Yes, and Ryan, it's Michael. I would just add, you know, part of the question might be the number relative to some of the external estimates that have been floating around for auto, and frankly given our footprint inside Florida, we weren't surprised. I mean, strategically we for a while have been avoiding southern Florida, so that means you're going to push your market share to a more, a higher level than your state-wide average in the places that you're still writing, so in the context of that and our local market share and our strategy in Florida, the number is not surprising.

Operator
Your next question comes from the line of David Motemaden from Evercore ISI. Your line is open.

David Motemaden
Hi, thanks. Good morning. I wanted to focus on the Business Insurance underlying loss ratio. There was definitely some noise in last year's quarter, so just wondering if you could clarify if we look at the underlying loss ratio in Business Insurance, how much of a benefit earned pricing was during the quarter, and then maybe just talk about your view of that going forward. I know, Alan, you mentioned some uncertainty in the environment, so maybe just some high-level comments around that as well.

Dan Frey
Sure David, it's Dan. I'll start. As Greg gave you in his script, last year there was some good news from non-cat property losses and a little bit of what we felt was favorable impact related to the COVID environment, so we don't have that in this year. We do have some benefit of price versus trend. As you've seen over the last year or so, the written rate number had come down. That number has trended down, it's now something less than a point. We're not really going to put an outlook projection on it, but you can see what rates and exposure have done in the last few quarters, and that's been pretty steady.

The only other comment I'd make related to that is while there was noise in last year's quarter, we don't think there's a lot of noise in this year's quarter, so that's why Greg didn't really call anything out as unusual in terms of what's in this year's underlying loss ratio.

David Motemaden
Got it, thanks. Then maybe if you could just talk about, Alan and maybe Greg, just talk about how your view of the rate environment in BI has changed over the last three months. I know you guys don't typically do this, but I'm wondering if you could just give some color around rate movement by line, sort of high level. I know, Alan, you just spoke about on the property side, but maybe just wondering some of the other lines and sort of how you're thinking about that going forward. Do you think we continue to see an acceleration here?

Alan Schnitzer
Yes David, let me start and then I'll look to Greg to add anything he'd like to add.

I would describe the pricing environment as strong. Overall commercial pricing is near record levels. The breadth of the pricing gains are very good. We always look at retention to give us a sign on the strength of pricing. Retention, really it hasn't budged, it's hanging in there at very high numbers. The strong pricing led by Property, Auto, Umbrella, Primary GL, so it's broad-based and at overall pricing levels that we would say are near records.

You know, you heard me say that from here, we would expect there to be some upward pressure on pricing and property. At the other end of the spectrum, you've got Workers' Comp where we'd expect more of the same, and the other lines will fall in between those two, reflecting the two factors that Greg mentioned. On the one hand, we continue to have headwinds from inflation and supply chain disruption and weather, social inflation, reinsurance and etc., and on the other hand we've had pretty good pricing for a number of years that has improved the overall returns of the portfolio. I would say those other lines in between will reflect the balance of those two dynamics.

David Motemaden
Got it, thank you.

Alan Schnitzer
Thank you.

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

Mike Zaremski
Great, good morning. First question regarding capital management, if I look at year-to-date dividends and repurchases, it looks like you have given back 100%-ish of operating income despite very strong top line growth. I feel like I recall, maybe it was a year ago or more, you talked about making us take into account that you needed to support that strong top line growth, which has continued to accelerate, so any thoughts there on whether you can continue to buy back at such a high ratio?

Dan Frey
Mike, it's Dan. Thank you very much for listening to me two years ago, appreciate it.

That's still the theme, I think, that we'll follow here. We're going to be very strongly capitalized; nonetheless, the business does continue to generate excess capital. We'll look to deploy that excess capital if we can in a way that generates attractive returns, and when we think we've exhausted all those opportunities, we're going to do what we've done for the last 15 years and continue to give it back to shareholders.

It is hard to look at any one year or, in this case, less than a year and do the ratio of buybacks and dividends relative to core income and draw a conclusion. We have said historically, and I would repeat here, it will not and cannot be 100% going forward. We are going to need to hold onto some capital to support the business growth. What we've done this year is partly a function of where we ended 2021 with really strong performance, especially in the third and fourth quarters of 2021 that put us in the position that we started the year with probably a very robust capital position.

Mike Zaremski
Okay, that's helpful. My last question is back to David's question and your remarks on just the overall competitive environment. How does Travelers think about the dynamic of meaningfully improved new money rates on investment income? I mean, does that allow you, Travelers, or maybe the industry to allow to let the foot off the gas on pricing, or is it just rates have been so volatile over the last many years, including today that it's tough to bake in the expectation that rates stay so high at current levels? Any thoughts there? Thanks.

Alan Schnitzer
Sure, so the rate levels do impact our view of the outlook for net investment income, which you hear from Dan and you know, there is some judgment involved in how much of that we put into our pricing model, but there's two things you've got to keep in mind in terms of the impact of interest rates on pricing. One is that earns in over time into the investment portfolio because you've got such a small portion of it turning over in any one year; and two, our, what we've got, mid-teens return on equity objective over time, when we think about the near term, it's really we think about it as a margin over the risk-free rate, and so as those interest rates go up, certainly as a function of the risk-free rate, we're also increasing our return objectives. It's just not as simple as looking at it and saying, investment income is going up, pricing is coming down. It's a little bit more of a complicated assessment, and I would say the takeaway is certainly in the short term, we wouldn't expect a very significant impact.

Mike Zaremski
Thank you.

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

Brian Meredith
Yes, thanks. A couple of them, here. First Michael, I'm just curious, in your comments you talked about you know, it sounds like reducing your appetite on the personal auto line of business by getting off of some comparative raters, etc., etc. Is that what you were alluding to, because I look at your PIF growth continued to grow in personal auto. Should that, do you think, reverse trend here as you really focus on getting profitability back in that area, that line?

Michael Klein
Sure Brian, thanks for the question. I think what I would say is, again, we're really focused on improving profitability. We're working to manage growth as we do that. That said, in the majority of jurisdictions, we have a pretty good line of sight to rate adequacy, and so in those jurisdictions, while we're renewing accounts and writing new business, for the most part we're comfortable with what's going on.

The couple jurisdictions that I did spike out are a little bit challenging in that regard. In Florida, there's currently a moratorium on file and use for price increases, which is a change in their regulatory approach to rate filings, and in California, the Department of Insurance is still not considering Auto rate increases, and so in those two states in particular, that really was what drove our decision to come off the comparative raters.

Other than that, most of those actions are things that we do in the normal course, that we're being a bit more aggressive on in places where profitability is challenged. But again, in most jurisdictions, we're comfortable. We're either getting or going to get the rate we think we need and focused on that, and letting the growth come through. So, that's really what I was trying to reflect there, if that makes sense.

Brian Meredith
Got you. Yes, that makes sense. Then Alan, a bigger picture question. I may have asked this before, but just to maybe remind us, Travelers is obviously a phenomenal standard commercial lines carrier, but just looking at what happened with Hurricane Ian and the complexities of risk that continue to emerge, give us your thoughts on whether Travelers needs to be a more active or in the excess and surplus lines market, if there's opportunities for you all there to maybe grow or do something.

Alan Schnitzer
Yes, thanks, Brian. Two different questions. Do we need to be? No. I think we've got all the tools in the toolkit to be successful, so it's not something we need to do there. Is it an opportunity? Sure, it could be, and I would just start by saying we already have meaningful E&S capabilities, so we've got our Northfield business, we've got a Lloyd's franchise, we've got E&S capabilities in our core business, we probably write a quarter of our National Property business on E&S paper. We're doing a lot in our Management Liability business through E&S, so we've got a lot of E&S capability, and the ability to be creative inside many of our admitted products too, so we've got a lot of flexibility to do what we want to do.

You know, often if we lose an opportunity to the E&S market, it's often because we don't like the risk-reward equation, not because we can't do it. Having said that, over time could there be opportunities for us to strategically expand in E&S? Sure, there could be. It's not anything that we feel like we can't be successful in creating shareholder value. We've got a terrific business model and we're very comfortable with it, but sure, there could be more opportunity.

Brian Meredith
Thanks.

Alan Schnitzer
Thank you.

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

Josh Shanker
Yes, changing gears a little bit, maybe a question for David and Daniel. Are there any thoughts about crystallizing some investment losses for an opportunity of redeploying the capital at a higher yield? Is there any penalty for doing that? How do you think about redeployment, prematurely selling a bond at this point in time?

Dan Frey
Josh, it's Dan, and I think Dave Rowland is on the line, and Dave can jump in as well. Other than really selectively selling individual securities that we think are at a position where it would make sense to sell them and we could redeploy the money in a new preferable instrument, that's not really been part of our strategy. We're taking a long-term view of how we manage a very high-quality asset portfolio. Again, the unrealized loss doesn't cause us any concern. If we think there was significant economic value available, that's where you're going to see us make some trades, but for us, that's a very small percentage of the portfolio. I would simply say, don't expect to see us make a wholesale turnover of the portfolio to realize a bunch of losses and then take higher yields on the money going forward. I think economically, that's sort of a wash, and we're looking at what's best for the company from an economic perspective.

Josh Shanker
All right. Another easy question, historically you guys have done a wonderful job of being fairly conservative about your catastrophe picks early on, and they've generally matured favorably as time has gone on. When you have prior year favorable reserve development on a catastrophe, does that show up in your P&L as a negative cat or as prior year development?

Dan Frey
It shows as prior year reserve development.

Josh Shanker
Okay, that's it. Thank you very much.

Dan Frey
Thanks Josh.

Alan Schnitzer
Thanks Josh.

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

Meyer Shields
Great, thanks. Good morning. My first question, I think is for Michael, where you've talked about states where you're either at adequacy or you have line of sight. When you talk about anticipating double-digit premium increases in 2023 and we combine that with the policy-in-force growth that we've seen so far this year, can we infer that you'll underwrite business that's not adequately priced now if there is line of sight to adequate pricing?

Michael Klein
Yes, thanks Meyer, good question. I think the way I would just describe it, let me parse it out, right. You're looking at our RPC numbers in the production highlights that reflect the written impact of the rate that we've taken on the renewal book as the policies renew, and so the first point I'd make is when you're looking at those numbers, they're a bit of a lagging indicator of the price that we've actually gotten filed and approved with the departments of insurance. When I describe the outlook that says that we believe we're going to be adequate in most states that reflect the majority of our business by midyear next year, I'm talking about that written price level at the point in time we'd get that rate approval.

Again, what I would say is if we're confident that we're going to get the rates to where we want them to be, then yes, we'll renew business in the ordinary course and we'll continue to be open for new business, again in most jurisdictions where we have that confidence. By the way, in most jurisdictions, that next rate increase is a single digit number. So, it's not that we're talking about a significant number of places where we're double-digit rate away from adequacy. In fact, the 8.5% increase in the 26 states, that average increase across 26 states that I talked about this quarter, most of those states are additional increases on top of increases we've already gotten.

Hopefully that gives you a little bit of a flavor for both our philosophy but also in places where we aren't necessarily adequate, for how far away we think we are.

Meyer Shields
No, that was very thorough, very helpful. Thank you. Then a question for Alan. I know it's early in the process of Florida getting its act together. Is there any receptivity to having the legislative reform that you've talked about?

Alan Schnitzer
Receptivity in the State of Florida?

Meyer Shields
Yes, among the legislature?

Alan Schnitzer
I'm probably not the right person to speak on behalf of the Florida legislature. I do think that there is recognition that there is an issue there, and in recent months they have made some progress, I think probably not enough. But I suspect they're getting to a point where something's got to give, but I certainly shouldn't speak on behalf of them.

Meyer Shields
Okay no, asking from your perspective, but I understand. Thank you.

Alan Schnitzer
The answer is, I hope so.

Meyer Shields
Okay. I share that.

Alan Schnitzer
Thanks Meyer.

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

Tracy Benguigui
Thank you, good morning. Dan, following up on your comments about reinsurance pricing and capacity constraints, so on a cedant perspective when you were choosing reinsurance partners, I assume you're looking at balance sheet strength. In doing so, are you excluding unrealized losses on investments, or are you looking through that as you determine who participates on your panel, and also to determine their related participation?

Dan Frey
I would say, Tracy, we're looking at the long term economic viability of our trading partners and the likelihood and confidence that we're going to get collected, so to the degree that if someone else is in an unrealized loss position for a similar reason that we're in an unrealized loss position, meaning it is not credit driven, it is not investment portfolio quality driven, it is nothing other than a function of the change in interest rates, which will, definitively will, reverse itself over time, then from an economic value perspective, I think for the most part, we're going to look through that.

Tracy Benguigui
Very helpful. You know, when I first heard of your objective of closing 90% of your property claims within 30 days, I was thinking, that could really contain loss creep. But is there anything on the litigation side or the regulatory side in Florida, given Alan, your public policy announcement, that could impede your ability to meet that objective as it relates to Ian specifically?

Alan Schnitzer
I think right now, Tracy, we feel pretty good about our ability to get to that level, and in fact we've had that objective in place for several years and we're routinely successful in meeting that objective. There's always litigation of one sort or another, so I don't I would expect that we'll get there. We're not there yet, so who knows, but I would expect we'll get there.

Tracy Benguigui
Thank you.

Alan Schnitzer
Thank you.

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

Paul Newsome
Good morning, thanks for taking my questions. I guess a little color on the Bond & Specialty outlook would be wonderful. Is there any reason why, either business mix changed or anything that's changing that business, that the underwriting performance shouldn't somewhat track economic and credit quality? I think of that as a credit business, but many things have changed.

Jeff Klenk
Yes, this is Jeff, Paul. Thanks for the question. You know, we don't give a lot of outlook relative to the Bond & Specialty business, but I would re-emphasize what you said it is a credit business. We feel really good about the underlying profitability of both the surety and the management liability components of that business, and we continue to invest for growth, so I'd probably leave it at that. Thanks for the question.

Alan Schnitzer
I guess, Paul, the other thing I would add is you could go back to the 2008 financial crisis, you could go back to the pandemic I mean, this portfolio has been challenged in other difficult credit environments and it's performed extraordinarily well. It's the same underwriting philosophy, it's the same tools, it's the same etc., and if you're thinking we could be in for bumpy economic times ahead, we agree with that, but we're confident in this business and the way we manage it.

Paul Newsome
I agree it's an extraordinary track record, I'm just wondering in an era for profitability that is unique even for what Travelers has seen in the past, so I'm not actually suggesting that it could be a formal quarter, I'm just thinking whether or not the current sustained extraordinary profitability is sustainable.

But second question, I wanted to ask about just cat exposures in general. I was looking back over many years, and it looks like there was you know, it looks like there might have been a reduction in your general view of exposures of cats and what you want to take on, relative to your business in total, but there's been so much noise in the last three years that it's hard to tell if that's really the case. Obviously, we have to have sort of an expectation of a normalized cat load, but are you essentially not changing this stuff that is your appetite for cat exposure? I really want to talk not just next quarter but over years, has the appetite changed at all at Travelers?

Alan Schnitzer
Not really, Paul. When we think about our, I mean, we write plenty of cat exposed business and there hasn't been a really significant overall portfolio level shift. I mean, certainly we found some geographies more attractive than others and we've moved capital around from that perspective, but we haven't in a meaningful wholesale way withdrawn from cat exposure, nor do we feel the need to do that going forward.

We've been, I think going back probably five years, taking a very thoughtful approach to taking a step back and we've put dedicated teams in place for every peril, and our objective was to be the leader in understanding the science behind that peril and the underwriting around that peril, and also to develop extraordinary claim handling capabilities for those events. I think that's really what's paid off for us. I don't think it's been a meaningful withdrawal from the exposure.

Paul Newsome
Great, thanks guys. Congrats on the quarter.

Alan Schnitzer
Thanks Paul.

Operator
Your next question comes from the line of Michael Phillips from Morgan Stanley. Your line is open.

Michael Phillips
Thanks, good morning. Thanks for fitting me in. I guess this question, given all the comments that Dan made in the opening comments about property cat and reinsurance pricing, maybe answers here would be more of an industry level, what you think the industry does, but if you want to put in what you do, that's fine too. But you know, theoretically if we're paying more for a property cat reinsurance, will that translate into us charging more for our BI casualty business? Is it no because they're separate businesses, that's the cost of doing business, or is there some threshold that maybe that spills over into our casualty primary book and what we charge there? I know you downplayed the impact on property cat reinsurance for you guys, but maybe your own views there or what you think the industry might do there.

Alan Schnitzer
I'm looking at Greg. I do think that every product and exposure sort of stands on its own, but at the same time, I think there's an overall psyche in the market and a reaction to the overall level of risk that we perceive in the marketplace, and so is there some of that that carries over and you know, to what extent the reinsurance pricing carries over, we'll find out, but it may be that that's a contributor to casualty pricing moving up a little bit. But I think on the whole, I would expect these lines to stand on their own. Greg?

Greg Toczydlowski
Yes, I think that's the case also, Alan, and that really will be reinsurer by reinsurer if they think about account pricing or individual line. But to Alan's point, I think most are so disciplined, they're going to be looking at the line; and just as a reminder, casualty has its own headwinds with social inflation, and the reinsurers certainly have been addressing some of that incremental risk, as we have, on the gross side also.

Alan Schnitzer
That's a good point, Greg.

Michael Phillips
Okay, thanks. That makes sense. Second, there's been so much talk, obviously, on the headlines from Personal Auto, but I guess could you say what you're seeing on the Commercial side for Auto in terms of just loss trends there and where rate adequacy is today?

Greg Toczydlowski
Yes, sure Michael. We're making good progress overall on the Auto. In terms of your question relative to Personal Auto, we're certainly not immune from some of the severity challenges Michael and his team are experiencing. You can think of two cohorts of vehicles on commercial private passenger light vehicles, think light trucks, vans and that sort; and then you have the heavy vehicles, and so we're seeing a little more of that severity pressure on that first cohort, that has some of the same supply and demand dynamics that Michael's feeling. But we're continuing to make good progress on pricing and underwriting, and as I shared at the recent Investor Day, we're bringing out a new Auto product that we think is going to be really segmented and help us with our prospects even more.

Michael Phillips
Okay, great. Thank you.

Operator
Your next question comes from the line of Alex Scott from Goldman Sachs. Your line is open.

Alex Scott
Hey, thanks for fitting me in here. First one I have for you is just a high-level question on loss cost. I was just interested in your updated views on how you know, what we're seeing in CPI inflation and how that translates to actual insurance claims inflation for the Business Insurance business. Just as that's evolving, things like medical cost inflation, not running away from us or something but beginning to tick up a little more. Are you having to evolve your view of those things in a bigger way, or do you still view that as CPI prints getting worse, not really fully translating to insurance claims costs?

Alan Schnitzer
Yes Alex, we are always evaluating that, practically on a daily basis, and we did increase our severity trend assumptions back in the first quarter, and when we did that, we did that with a degree of caution knowing that there was a fair amount of uncertainty out there. What we've seen subsequent to that in the second quarter and again this quarter was consistent with those expectations. So, it's not that we're not seeing or feeling that severity coming through, we are, but it's within the expectations that we established back in the first quarter.

Now as it relates to medical inflation, you can't really focus on the medical CPI because Workers' Comp is different, right. We're treating workplace injuries, we're not treating chronic diseases. So, the components of medical inflation that impact Workers' Comp are probably inflating it at a lower rate than the overall medical CPI, and my comment on overall Workers' Comp loss trend is that it continues to be benign.

Alex Scott
Got it, that's helpful. A follow-up question I had is on the unit exposure increases. I'd imagine that the sort of real unit exposure increases as the economy strengthens maybe helps you a little more just the insured value and inflation sort of impact as I think through price, rate acting or the unit exposure acting as rate. I mean, can you help me think, as we approach periods of time where you're lapping pretty strong economic growth, do the benefits that you get from unit exposure increases begin to erode, and is that still far enough out in the future that it's not a concern for now as we head into next year, or is that something we need to think harder about as we get to 1Q, 2Q next year?

Alan Schnitzer
I'm not sure that I exactly get the question, Alex, but I'll make a few comments, and if I don't get to the answer that you're looking for, let me know. But, as we've shared many times over more than a decade, exposure growth does contribute to margins, and there's really two types of exposure growth. There's true unit growth, and then there's inflation, and in particular the inflation side of exposure is a more meaningful contributor to margin than true unit growth, because that unit growth does come with some risk content.

I do think unit growth also contributes to margins, by the way, but not at the same level that inflation does, and so to the extent that continues to come in, and we'll see what happens with the economy and we'll see what happens to exposure over time, but to the extent that does come in, it will continue to contribute to margins. Is that helpful?

Alex Scott
Yes, that does clarify it. Thank you for entertaining the question. Appreciate it.

Alan Schnitzer
Thank you.

Operator
Your final question comes from the line of Michael Ward from Citi. Your line is open.

Michael Ward
Thanks. Just last one on Workers' Comp, growth tailed off a bit in 3Q. Just wondering if there was anything to read into there from a macro perspective. I guess wondering along those lines, to what extent would you say mix contributed to your rate acceleration in 3Q? Thanks.

Greg Toczydlowski
Michael, Greg. Yes, there wasn't really any material change in Workers' Comp for this quarter across Business Insurance. As Alan said, it has continued to be the laggard in terms of pricing, but again driven based on industry and certainly Travelers' profitability of that line, so no real material change there. Obviously, we're getting some strong exposure growth, and that's why you're getting an overall lift in written premium there, so nothing to look into other than where the run rate has been.

Alan Schnitzer
On your last question, the overall mix was not a contributor in any meaningful way to the overall rate number. It was broad-based.

Michael Ward
Thank you, guys.

Alan Schnitzer
Thank you.

Operator
This brings us to the end of our Question & Answer session. I will now turn the call back over to Abbie Goldstein for some final closing remarks.

Abbe Goldstein
Thank you all very much. We appreciate your time this morning, and as always, if there's any follow-up, please reach out directly to Investor Relations. Have a good day.

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

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Forward-Looking Statements

This transcript contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "believes," "views," "estimates" and similar expressions are used to identify these forward-looking statements. These statements include, among other things, the Company's statements about:

• the Company's outlook, the impact of trends on its business and its future results of operations and financial condition;
• the impact of COVID-19 and related economic conditions;
• the impact of legislative or regulatory actions or court decisions;
• share repurchase plans;
• future pension plan contributions;
• the sufficiency of the Company's asbestos and other reserves;
• the impact of emerging claims issues as well as other insurance and non-insurance litigation;
• the cost and availability of reinsurance coverage;
• catastrophe losses and modeling;
• the impact of investment, economic and underwriting market conditions, including interest rates and inflation;
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• strategic and operational initiatives to improve profitability and competitiveness;
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• new product offerings;
• the impact of developments in the tort environment; and
• the impact of developments in the geopolitical environment.

The Company cautions investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company's control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some of the factors that could cause actual results to differ include, but are not limited to, the following:

Insurance-Related Risks

• high levels of catastrophe losses;
• actual claims may exceed the Company's claims and claim adjustment expense reserves, or the estimated level of claims and claim adjustment expense reserves may increase, including as a result of, among other things, changes in the legal/tort, regulatory and economic environments, including increased inflation;
• the Company's potential exposure to asbestos and environmental claims and related litigation;
• the Company is exposed to, and may face adverse developments involving, mass tort claims; and
• the effects of emerging claim and coverage issues on the Company's business are uncertain, and court decisions or legislative changes that take place after the Company issues its policies can result in an unexpected increase in the number of claims.

Financial, Economic and Credit Risks

• a period of financial market disruption or an economic downturn;
• the Company's investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses;
• the Company is exposed to credit risk related to reinsurance and structured settlements, and reinsurance coverage may not be available to the Company;
• the Company is exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that it has with third parties;
• a downgrade in the Company's claims-paying and financial strength ratings; and
• the Company's insurance subsidiaries may be unable to pay dividends to the Company's holding company in sufficient amounts.

Business and Operational Risks

• the ongoing impact of COVID-19 and related risks, including with respect to revenues, claims and claim adjustment expenses, general and administrative expenses, investments, inflation, adverse legislative and/or regulatory action, operational disruptions and heightened cyber security risks;
• the intense competition that the Company faces, including with respect to attracting and retaining employees, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which it operates;
• disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape;
• the Company's efforts to develop new products or services, expand in targeted markets, improve business processes and workflows or make acquisitions may not be successful and may create enhanced risks;
• the Company's pricing and capital models may provide materially different indications than actual results;
• loss of or significant restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of the Company's products; and
• the Company is subject to additional risks associated with its business outside the United States.

Technology and Intellectual Property Risks

• as a result of cyber attacks (the risk of which could be exacerbated by geopolitical tensions) or otherwise, the Company may experience difficulties with technology, data and network security or outsourcing relationships;
• the Company's dependence on effective information technology systems and on continuing to develop and implement improvements in technology; and
• the Company may be unable to protect and enforce its own intellectual property or may be subject to claims for infringing the intellectual property of others.

Regulatory and Compliance Risks

• changes in regulation, including higher tax rates; and
• the Company's compliance controls may not be effective.

In addition, the Company's share repurchase plans depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels appropriate for the Company's business operations, changes in levels of written premiums, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions, changes in tax laws (including the Inflation Reduction Act) and other factors.

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