The Travelers Companies, Inc.

Third Quarter 2024 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-and-answer session.

As a reminder, this conference is being recorded on October 17, 2024.

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 2024 results. We released our press release, financial supplement and webcast presentation earlier this morning. All of these materials can be found on our website at travelers.com under the Investors section.

Speaking today will be Alan Schnitzer, Chairman and CEO; Dan Frey, Chief Financial Officer; and our 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 prepared 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 our Investors section on our website.

And 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 caused by recent Hurricanes Helene and Milton. These were powerful storms, and our hearts go out to all those who have been impacted.

Of course we send our thoughts and prayers, but we're also sending claim resources.

From our National Catastrophe Center in Hartford, we're managing the deployment of hundreds of Travelers Claim professionals, along with mobile claim offices and quick response vehicles. We've activated thousands more cross-trained colleagues across the country to support our local response. Our catastrophe response model enables us to adjust virtually every claim with a Travelers Claim professional and without resorting to independent adjusters. That results in a better outcome for our customers and distribution partners.

Thanks to these efforts and the advanced analytics and geospatial tools that we leverage, we're on track this year to meet our objective of resolving 90% of our claims from natural catastrophes within 30 days. That can make the difference between whether a customer of ours is able to celebrate the holiday season in their living room instead of a hotel room.

I'd also like to express my deep gratitude to our Claim organization. The entire team tirelessly delivers exceptional technical expertise and support to our customers, demonstrating day-in and day-out the value of the Travelers Promise.

Turning to results, we are very pleased to have generated outstanding top- and bottom-line results this quarter.

Excellent underlying underwriting income, higher net investment income and net favorable prior year reserve development all contributed to core income of more than $1.2 billion, or $5.24 per diluted share, generating core return on equity of 16.6%.

Underlying underwriting income of $1.5 billion pre-tax was up 73% over the prior year quarter, driven by record net earned premiums of $10.7 billion, up 10%, and an underlying combined ratio that improved 5 points to an excellent 85.6%.

Both underwriting income and underlying margins were strong in all three of our segments.

The underlying combined ratio in our Business Insurance segment improved nearly 2 points to an excellent 87.9%, and our Bond & Specialty business delivered a very strong underlying combined ratio of 85.6%. The underlying combined ratio in Personal Insurance improved by 11.5 points to an exceptional 82.7%.

These terrific segment results contributed to a reported consolidated combined ratio that improved nearly 8 points to 93.2%.

Turning to investments, our high-quality investment portfolio continued to perform well, with after-tax net investment income up 16% to $742 million, driven by strong and reliable returns from our growing fixed income portfolio and higher returns from our non-fixed income portfolio.

Our underwriting and investment results, together with our strong balance sheet, enabled us to grow adjusted book value per share by 4% during the quarter. And that's after returning $496 million of excess capital to shareholders and continuing to make important investments in our business, as we notched another quarter of successful execution on a number of important strategic initiatives.

Turning to the top line. We grew net written premiums by 8% to $11.3 billion. The strong value proposition that we offer to our customers and distribution partners, along with outstanding execution by our colleagues in the field, contributed to our top-line success.

In Business Insurance, we grew net written premiums by 9% to more than $5.5 billion. Renewal premium change in the segment remained very strong, increasing to 10.5%, driven by strong contributions from the liability coverages. Renewal rate change accelerated to 7.3% in the quarter and was steady or higher in every product line. Even with the firm pricing environment, retention in the segment ticked up to 86%. The combination of strong pricing and excellent retention reflects our deliberate execution and a marketplace that is reacting in a generally disciplined way to the headwinds of social and economic inflation.

In Bond & Specialty Insurance, we grew net written premiums by 7% to a record $1.1 billion, driven by excellent retention of 90% in our high-quality Management Liability business and strong production in our market-leading Surety business. We grew Surety net written premiums by 7% from a very strong result in the prior year quarter.

We are very pleased to have generated terrific production results across our commercial segments, where margins continue to be attractive. That includes our E&S offerings, where we've grown net written premiums by 13% year to date.

In Personal Insurance, we were pleased to grow net written premiums by 7%, driven by strong renewal price change in both Auto and Home.

The strong production results across our three segments are a reflection of our view, that in order to achieve our objective of industry-leading returns over time, we need an effective strategy to grow profitably over time.

As we've shared before, we seek to achieve profitable growth by investing in franchise value – making sure that we offer the products, services and experiences that our customers want to buy and our distribution partners want to sell.

Also central to our growth strategy is our very granular approach to risk selection, underwriting and pricing, which we've discussed many times. As a result of that approach, and investments we've made over decades in leading data and analytics, our growth in insured exposures correlates to returns. In other words, generally speaking, the more attractive the returns in a business, the more we've been growing insured exposures in that business.

All of which is to say, Travelers' unique combination of franchise value and execution yields very effective capital deployment high-quality, profitable growth.

The numbers speak for themselves. Over the last four years, we've grown our premium base by more than $13 billion – nearly a 50% increase – while simultaneously improving our underwriting margins. The result is that we've more than doubled our underlying underwriting income and increased our total underwriting income by more than 80%.

The combination of strong underwriting income and the reliable investment income from our substantial and growing investment portfolio, makes for a powerful earnings engine. That's what's driving our strong results this quarter and year to date, and that's what's driving our core return on equity of 15.9% over the last 12 months. And that's what gives us great confidence in the outlook for our business into 2025 and beyond.

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

Dan Frey
Thank you, Alan. I'm pleased to provide some additional color on an exceptionally strong quarter.

Core income for the third quarter was $1.2 billion and core return on equity was 16.6%, as we delivered another quarter of excellent underlying underwriting results, net favorable prior year reserve development and strong investment income.

We're pleased to have once again generated record levels of earned premium this quarter and an excellent combined ratio of 93.2%, an improvement of nearly 8 points. Inside of that, our underlying combined ratio improved 5 full points from last year's strong result. This combination of premium growth and underlying margin improvement led to our best-ever underlying underwriting gain of $1.2 billion after-tax, up $503 million – or 74% – from the prior year quarter.

The expense ratio for the third quarter was 28.4% and reflects the benefits of our continued focus on productivity and efficiency, coupled with strong top line growth. That brings the year-to-date expense ratio to 28.6%, in line with our expectations.

Our third quarter results include $939 million of pre-tax catastrophe losses, more than half of which relates to Hurricane Helene, a devastating storm which made landfall in the last few days of the quarter. For Travelers, the financial impact of Helene was greater in Georgia and the Carolinas than in Florida.

Turning to prior year reserve development, we had total net favorable development of $126 million pre-tax. In Business Insurance, the annual asbestos review resulted in a charge of $242 million. Ex asbestos, Business Insurance had net favorable PYD of $151 million, driven by favorability in Workers Comp. In Bond & Specialty, net favorable PYD of $36 million was driven by another quarter of better-than-expected results in Fidelity and Surety. Personal Insurance had $181 million of net favorable PYD, with favorability in both Home and Auto.

After-tax net investment income of $742 million was up 16% from the prior year quarter. Fixed maturity NII was again higher than the prior year quarter and in line with our previously shared outlook, reflecting the benefit of both higher average yields and significant growth in the portfolio. Returns in the non-fixed income portfolio were also above the prior year quarter.

In terms of our outlook for fixed income NII – including earnings from short-term securities – we now expect approximately $700 million after-tax for the fourth quarter. For 2025, we expect approximately $2.9 billion after-tax – our highest level ever – beginning with approximately $700 million in the first quarter of 2025 and growing to approximately $760 million for the fourth quarter.

Turning to capital management, we generated our strongest-ever level of quarterly operating cash flows at $3.9 billion, bringing the year-to-date figure above $7 billion, also our strongest-ever September year-to-date result.

Interest rates decreased during the quarter, and as a result our net unrealized investment loss decreased from $4 billion after-tax at June 30 to $2.1 billion after tax at September 30.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $131.30 at quarter-end, up 7% from year-end and up 13% from a year ago.

We returned $496 million of excess capital to our shareholders this quarter, comprising share repurchases of $253 million and dividends of $243 million. We have approximately $5.3 billion of capacity remaining under the share repurchase authorization from our Board of Directors.

While it obviously did not impact our third quarter results, let me make a quick comment on Hurricane Milton. It's still early days in terms of assessing our ultimate losses, but at this point we have a preliminary range of between $75 and $175 million of pre-tax losses, net of reinsurance.

To sum things up, our third quarter and year-to-date results illustrate the fundamental earnings power that has resulted from our multi-year focus on growth at attractive margins and our rock-solid balance sheet. In addition to best-ever levels of net written premium and net earned premium, our diversified portfolio of businesses delivered a terrific underwriting result, thanks to our best-ever underlying combined ratio, clearly demonstrating that we are positioned for success even during periods of weather volatility like we and the industry have experienced. In fact, despite having absorbed the highest-ever level of catastrophe losses for the first nine months of the year, our September year-to-date core earnings per share of $12.43 is a record high.

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

Greg Toczydlowski
Thanks Dan. Business Insurance had another strong quarter in terms of both top- and bottom-line results. Segment income for the third quarter was $698 million, up about 50% from the prior year quarter driven by improved prior year development and higher underlying underwriting income. The combined ratio of 95.8% was strong and improved from the prior year quarter by more than 3 points.

Similar to the past several quarters, we're extremely pleased with the quarter's exceptionally strong underlying combined ratio of 87.9%, which improved by about 2 points from the prior year quarter primarily reflecting the benefit of earned pricing. This was our best third quarter underlying result ever.

Turning to the top line, we grew net written premiums by 9% to an all-time third quarter high of more than $5.5 billion. Renewal premium change was once again historically high at 10.5%, with renewal rate change that increased nearly a point sequentially to 7.3% driving the majority of the strong pricing. Retention remained excellent at 86% and new business of $680 million was the second highest third quarter result ever, just slightly trailing last year's record third quarter.

In terms of pricing, we're pleased to sustain strong levels of renewal premium change, which increased sequentially from the second quarter. The strong pricing was broad based with renewal premium change at or close to double digits in every line other than Workers Comp. With respect to pure renewal rate change, we're pleased that the exceptional granular execution by our field organization reflects and appropriately balances the current return profile and environmental trends for each line. Umbrella and Auto continued to lead the way with rate increases well into double digits. In terms of sequential renewal rate change, every line was at or higher than the second quarter. Even with these strong pricing levels, retention remained strong as I mentioned earlier, a reflection of marketplace discipline in the face of industry headwinds.

As for the individual businesses, in Select, renewal premium change remained strong at 12.3%, up almost 2.5 points from the third quarter of last year. Renewal rate change of 5.5% was up sequentially from the second quarter and up more than 2.5 points from last year's third quarter. Retention ticked down as we continued to intentionally optimize our CMP risk/return profile in a couple of targeted geographies. New business was healthy and near historical highs. Overall, we remain pleased with the granular pricing and underwriting execution driving profitable growth in Select.

In Middle Market, renewal premium change was exceptionally strong at 10.6%, about a point higher than the second quarter driven by renewal rate change which reached 8%. The rate increases were broad based with more than three quarters of our Middle Market accounts achieving positive rate change. And at the same time, the granular execution was excellent with meaningful spread from our best performing accounts to our lower performing accounts. We're pleased that retention also remained exceptional even with these levels of price increases. Lastly, new business of $364 million was our highest-ever third quarter result and we're pleased with the risk selection and the strength of pricing on the accounts we added to the portfolio.

To sum up, Business Insurance had another terrific quarter. We're pleased with our execution in driving strong financial and production 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 posted another strong quarter on both the top and bottom lines.

We generated segment income of $222 million and an excellent combined ratio of 82.5%.

We also delivered a very strong 85.6% underlying combined ratio in the quarter. The increase of 4.9 points from last year's quarter reflects a modestly elevated expense ratio primarily related to the Corvus acquisition and the impact of earned pricing. We expect the expense ratio to remain elevated for a few more quarters as we integrate Corvus' operation, and as we ramp up and earn-in premiums from its attractive book of business.

Turning to the top line, we grew net written premiums by 7% in the quarter to a record high $1.1 billion.

In our high-quality domestic Management Liability business, we again delivered excellent retention of 90%, with positive renewal premium change that reflects terrific execution by our field organization and our focus on retaining our profitable book of business. We are pleased that we grew new business by over 80% from the prior year quarter to a record $113 million, driven by Corvus.

Nine months following the closing of our Corvus acquisition, we continue to feel terrific about the talent, capabilities and business that we've added to our Cyber portfolio. We're deploying Corvus' proprietary underwriting and risk control capabilities across our Cyber book, helping our customers remediate vulnerabilities and avoid Cyber losses. Our distribution partners have endorsed our go-to-market strategy which includes both admitted and excess & surplus lines Cyber offerings. And, realizing the benefit of our high-quality Travelers paper and brand, we've considerably improved Corvus' legacy renewal retention. In short, we couldn't be more pleased with the addition of the Corvus team to the Travelers family.

Turning to our market leading Surety business, we grew net written premiums by 7% from a very strong level in the prior year quarter. This growth reflects a robust construction environment, continued strong demand for our Surety products and services, and outstanding execution by our team in growing our high credit quality portfolio.

So, we're pleased to have once again delivered strong top and bottom line results this quarter in Bond & Specialty Insurance.

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

Michael Klein
Thanks Jeff, and good morning, everyone.

In Personal Insurance, we are very pleased with our third quarter results, which continue to reflect the positive impact of our rate and non-rate actions across the portfolio. In the quarter, we delivered significantly improved segment income of $384 million and a combined ratio of 92.5%, driven by an excellent underlying underwriting result and strong net favorable prior year reserve development.

The underlying combined ratio of 82.7% reflects an 11.5 point improvement compared to the prior year quarter, primarily driven by the benefit of earned pricing in both Auto and Home as well as favorable non-catastrophe weather.

Continued strong price increases drove 7% growth in net written premiums as we continue our focus on improving profitability in Property while seeking profitable growth in Auto.

In Auto, we are pleased with another quarter of improved profitability. The third quarter combined ratio was very strong at 93.4%, despite 4.9 points of catastrophe losses, primarily related to Hurricane Helene.

The underlying combined ratio of 91.2% improved 9.4 points compared to the prior year quarter. The improvement continues to be driven by the benefit of higher earned pricing and lower losses from physical damage coverages. This quarter's underlying result also included a 2-point benefit related to the re-estimation of prior quarters in the current year.

Taking a step back, the year-to-date underlying combined ratio of 93.7% reflects considerable progress and is compelling evidence of our return to profitability in Auto.

Looking ahead to the fourth quarter of 2024, it is important to remember that the fourth quarter Auto underlying loss ratio has historically been about six to seven points above the average for the first three quarters, because of winter weather and holiday driving.

In Homeowners & Other, the third quarter combined ratio of 91.5% improved by nearly 25 points compared to the prior year quarter, primarily as result of a lower underlying combined ratio, as well as lower catastrophe losses and higher favorable prior year development.

Hurricane Helene and a severe convective storm in July drove catastrophe losses in the quarter.

The underlying combined ratio of 74.4% improved 13.6 points compared to the prior year quarter. Approximately three quarters of the year-over-year favorability was related to non-catastrophe weather and non-weather losses. The benefit of earned pricing also contributed to the improvement.

Turning to production, our results reflect our ongoing efforts to balance profitability and growth across the portfolio. We are pleased with our progress as we execute a very granular state-by-state strategy.

In Domestic Auto, retention of 83% remained strong. Renewal premium change of 12.8% continued to moderate, as intended. Renewal premium change will continue to decline reflective of improved Auto profitability.

Auto new business premiums continue to reflect our success in achieving positive auto growth in many states. While Auto new business premium was down slightly in total, the decline reflects our focus on Auto profitability in a few remaining challenging states, and the crossline impact of our actions to manage Property exposure in high-risk cat geographies.

We are comfortable with this trade-off in the near term and remain confident in our ability to profitably grow our portfolio over time.

In Homeowners & Other, retention of 85% and renewal premium change of 14.6% remained strong and consistent with recent quarters. We expect renewal premium change to generally remain at this level in the fourth quarter.

As we intended, Homeowners' new business premium and policies-in-force continued to decline compared to the prior year quarter. Also, as we intended, the decline was most significant in high-risk catastrophe geographies reflecting continued actions to reduce exposure and mitigate volatility, through improved risk selection, restricted binding authority, tightened eligibility requirements and higher deductibles.

To sum up, for the Personal Insurance segment overall, this was a great quarter, reflecting disciplined execution by our team and further progress toward delivering a profitable, growing portfolio of personal lines business over time.

Now I will turn the call back over to Abbe.

Abbe Goldstein
Thanks, Michael. We're happy to open up for your questions.

Operator
Thank you. We will now begin the question-and-answer session. If you would like to ask a question, please press star-one on your telephone keypad to raise your hand and join the queue. We ask that you please limit yourself to one question and one follow-up.

Your first question comes from the line of Gregory Peters from Raymond James.

Gregory Peters
OK, good morning, everyone. So I guess for the first question, I'll focus on domestic Business Insurance, and the renewal premium change, which continues to be quite strong even through the third quarter. I guess where I'm going with this is, given the strong improvement in the underlying results, at what point will that renewal premium change begin to moderate?

Alan Schnitzer
Hey, Greg, good morning, it's Alan. Thanks for the question. We're not going to try to forecast what that's going to be. But I would say there are headwinds out there in terms of inflation. There's uncertainty out there in terms of the political and regulatory environment, the geopolitical environment, so on and so forth. So I'll share that with you as the kind of things we think the market is reacting to, but we're not going to project it.

Gregory Peters
Okay. Fair enough. I thought I'd give it a shot. I guess the other question, listening to the comments about the strong results, the best third quarter ever in Business Insurance, et cetera, and the free cash flow. I guess I want to pivot back to capital management. I know you're not going to disclose M&A on the call, but it seems like a balanced approach, including capital return to shareholders and M&A or investment in organic is a high likelihood that it could happen. But considering the cash flow numbers, should we just plow that all in the share repurchase? Or what are you thinking?

Alan Schnitzer
Yes, Greg, I'll just tell you philosophically, for every single dollar of capital that we generate, our first priority is to invest it back in the business in whatever way we can do that to create shareholder value, whether that's organic growth, investing in talent or capabilities, products, et cetera, or whether it's inorganic. So that's our first objective, and we try to do that. But it's not our capital. It's investor capital, and we try to be very, very good stewards of shareholders' capital.

And so we've got a pretty high bar for what we do with that capital, and if we don't think we can generate it back in the business and create a return, we're going to return it to shareholders.

Gregory Peters
Okay. Congrats on the results.

Alan Schnitzer
Thanks Greg.

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

David Motemaden
Thanks. Good morning. I sort of had a follow-up on the prior question on the BI renewal rate change. So it's good to see the acceleration quarter-over-quarter after it's decelerated the past three quarters. I guess I'm just wondering, Alan, if you could comment on how sustainable you feel like this rate environment is. And if you think the hurricanes over the last few weeks will change the trajectory on the Property side, which I know has kind of been a standout a drag on that RRC recently. And then just relatedly, how that impacts your appetite for growth within Property, but also in Liability lines where it's still an uncertain environment.

Alan Schnitzer
Yes. So there's a lot there, David, let me start. And if I don't get to it, follow up. But in terms of pricing, I would say that we expect renewal price change to continue to be positive and strong for all the reasons I shared in response to Greg's question. Now whether that means it goes up a little bit from here or down a little bit from here, I don't really know. But I think the message we would give you for all those reasons is positive and strong. You mentioned the comment about Property and that price weighing. I guess I would say you got to take that Property pricing together in connection with the returns in the Property line. So it's not like the returns are struggling and the price is falling. The price change in Property is a reflection of the returns in that line. So it's totally rational and totally appropriate. We're not going to share our Property pricing strategy, and we all just have to wait and see where the market goes on that. But clearly, these storms are a reminder of the potential volatility and the things that we've all got to be thoughtful about in committing capital to risk.

Did I get that, David, anything I missed?

David Motemaden
And then just on the – it sounds like the Liability lines in Auto and Umbrella rates, it sounded like they accelerated a bit sequentially in the quarter. And just wondering, I guess, you guys have made the reserve changes last quarter. It didn't sound like there was any noise this quarter from post that. But just your comfort level in terms of leaning into growth in some of those lines.

Alan Schnitzer
Yes. So I think we shared last quarter that even after the charge we took on Umbrella, we were comfortable with the returns in Umbrella even last quarter, and we remain comfortable with the returns. And again, we're going to execute on a very granular account-by-account basis. But given where the returns are, given – we've shared before, and we talked a lot about this last quarter, there's a real advantage to reacting quickly to loss cost trends and getting your view of pricing in order. And that gives us real confidence with the way we're executing in the marketplace today. So we do think in terms of both growth and profitability, there is a huge advantage to reacting quickly to loss trend.

David Motemaden
Great. Thank you.

Alan Schnitzer
Thanks David.

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

Mike Zaremski
Hey, thanks, good morning. It might be an easy answer, but I don't think I heard any call out of maybe one-time items helping the underlying in Business Insurance, the underlying loss ratio.

Dan Frey
Hey Mike, it's Dan. That's right. It's pretty clean, pretty straightforward quarter. And really, we wouldn't call out anything that you need to adjust for.

Mike Zaremski
Okay. Got it. Okay. For my follow-up, so I guess my follow-up will be on Personal Lines. You have said in your prepared remarks that you are, I think, making some changes to deductibles, I believe. I guess from a – some of the super regionals are talking about kind of trying to overhaul their roofing, basically the deductibles in a major way, increasing deductibles and maybe roof depreciation schedules or just a higher percentage deductible for roof replacement. Are you – is Travelers taking more of a slower approach to that? Or are you making any kind of meaningful changes to your terms and conditions in Personal Lines in certain geographies?

Michael Klein
Sure, Mike. It's Michael. I would say, yes, we're very active in making meaningful changes to our terms and conditions for Property, particularly in cat-exposed geographies. It's really what I was referring to when I talked about what one of the drivers of the shrink in Property is. And specifically to your question about deductibles, we have moved – in some states, we have deductibles that are dollar-denominated. In other states, we have deductibles that are percentage. But we've made significant moves, particularly in cat-exposed states in the Midwest along those lines, again, among the other things I mentioned, which are restricting eligibility, doing quite a bit of re-underwriting of the portfolio to really try to manage that exposure.

Mike Zaremski
Okay. And I guess that would maybe change the way we need to think about modeling this maybe the loss ratio versus the cat ratio. But I guess I'll follow up offline. Thank you.

Michael Klein
Thank you.

Operator
Your next question comes from the line of Rob Cox from Goldman Sachs. Your line is open.

Robert Cox
Hey, thanks for taking my question. So obviously, on the renewal premium change, great numbers overall. I did just want to ask on Select. It looks like there was a little pressure on a little bit lower new business growth and retention, if I look back relative to a few quarters ago. I just want to ask on that.

Greg Toczydlowski
Morning, Rob, this is Greg. Yes, as I shared with you in my comments, we're constantly optimizing our book of business in terms of getting the right equation between risk and reward. When you look at the webcast, first of all, 2023, we had some historical high retention number throughout that period. And we are – similar to the question Mike just asked around deductibles, that's driven based on severe convective storm and a new peril that's been very dynamic and much more of a frequent weather event. And so like Michael and his team, our team in Small Commercial has also been fine-tuning that particular peril and the coverage associated with that. And that's why we saw a little bit of the tick down in retention. I called that out in my prepared comments for you.

Robert Cox
Got it, thank you. And then I just wanted to ask as a follow-up on just thinking about catastrophe losses. I don't think you guys provide an explicit guidance on this, but I was just curious if you guys could give us any help in thinking about how we could size your annual expected catastrophe load? Any color or thoughts you could provide would be helpful.

Alan Schnitzer
Yeah. Rob, good morning, it's Alan. In our proxy statement, we do give it admittedly for the prior year. So I won't give you our current year view, but you can see the prior year. And one thing we've shared is we've had a couple of years now of pretty heavy cat losses is that we continue to factor those more recent years into our thought process, and we continue to weigh more recent years more heavily. And so that influences the way we think about cat loads going forward. We haven't yet given an outlook for cats.

Robert Cox
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, I think it kind of was addressed in one of the earlier questions, but can you just confirm, I guess, that no reserving action was taken within GL in the quarter? You didn't call it out. So it sounds like there was nothing, but I just want to confirm that.

Dan Frey
Yes, Elyse, it's Dan. So I'll reiterate what I said, which was – so ex asbestos in BI, we were favorable about $151 million. That was driven by Workers' Comp. It wasn't entirely Workers' Comp. So there were some other lines that moved, but they were small amounts and the net of that was a good guy as well.

Elyse Greenspan
Thank you. And then my follow-up, my second question is on Personal Auto. When you guys – the 93.7 year-to-date and recognizing, right? There is some seasonality in the Q4, but this puts you guys right in a good spot relative to kind of mid-90s, which is kind of what folks typically target on the Auto side. So is this like the sustainable run rate margin as we think about the business with rates slowing and just your view of overall loss trends within Personal Auto?

Michael Klein
Sure, Elyse. It's Michael. I would say, certainly, the year-to-date result points you to a view that across the book, we're rate adequate. We're very pleased with the results and the returns. I shared that reminder again because it's pretty dramatic seasonality inside the book, and I just wanted to make sure that folks were aware of it. But broadly speaking, again, pleased with and really rate adequate across the book in Auto at this point.

Elyse Greenspan
Thank you.

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

Brian Meredith
Yes, thanks. Michael, I'm going to just follow up on that one. If you're rate adequate across your book, should we start to expect that policy count is going to grow here in the near future?

Michael Klein
Great question, Brian. It's Michael. We are hard at it, right? I tried to give you the pieces impacting Auto growth as we sit here today. And again, in states where we don't have some of the other complications, we are seeing new business growth. And again, that's many states across the country. We're working hard at it – at the states where we don't yet have adequate rates, and we're making progress. But obviously, we're subject to those rates getting filed and approved before those flip into that category. But again, we're hard at work on that.

And then the other element is the cross-line impact of our work to improve property risk reward. That will take some more time. But again, we're making strong progress there. And so again, as I've said, the last couple of quarters, our focus in Auto is to profitably grow it. Our focus in Home is to improve profitability. Given our focus on portfolio business, those two things kind of go hand-in-hand. And that's what I mean when I say we're trying to balance growth and profitability across the book, but it's definitely a strong focus of ours.

Brian Meredith
Appreciate it, thank you. And then one for Greg. I'm just curious, Greg, any kind of insight into what Workers' Comp pricing might look like going forward? I think we've heard that maybe a state or so you might get some positive stuff out of ratings bureaus?

Greg Toczydlowski
Yes, Brian, this is Greg. If I look at Workers' Comp as a portfolio, I think we're going to see a continuation of what we're seeing right now, and that really is driven based on the strong experience on the line, and we certainly, as leaders in that line have demonstrated that. And so when you look at the bureaus, NCCI being the largest one, what we're looking at for a forecast in 2025 for loss cost recommendation, it's very similar to what we saw in 2024. Of course, that doesn't apply to every individual account, we'll have e-mods and et cetera, on the individual account. But I think it's going to kind of stay with the levels that it's at right now.

Brian Meredith
Thanks, appreciate it.

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

Josh Shanker
Yes. More questions for Michael, you're very popular today. I wanted to talk a little bit about first, the favorable development in the Personal Lines segment. What years were throwing off favorable development? And does that mean to some extent you may have overreacted on pricing in some states?

Dan Frey
Hey Josh, it's Dan. So I'll start with the PYD story. Part of the PYD story, remember, the end of 2023 was really favorable in Personal Insurance. And it was also brand new. The fourth quarter was terrifically strong from a profit perspective. It wasn't fully developed. We posted a really good number in the fourth quarter last year, but we were allowing for the uncertainty that were some of those claims going to come later, were some of the ones that did come going to come with more severity, nine months further on, we're just more confident. But if I look at the spread of accident years in Personal Insurance, favorable prior year reserve development, there is favorability in recent years. But if I look at the last 10 years, there is favorability in each and every one of the last 10 years. And I'll leave the pricing question for Michael.

Michael Klein
Yeah, and Josh, I would say in terms of did we overreact on pricing, again, I would reiterate the comment I made in response to Elyse, which is as we look across the book, we're rate adequate. And I'd also point you to the combined ratio for the year-to-date, if you add back prior year development to try to get to an accident year type number, that number is 97.4. So I don't think that would be an indication that we've overshot.

Josh Shanker
That makes sense. And so we've had two quarters now with about $170 million, $180 million of prior year favorable development in the Personal Lines segment. A lot of times, there's a certain trend and when that trend deviates, it throws off favorable development. But are these discrete things that you've noticed that make this degree of favorable development probably less likely to be sustainable if the trends continue? Or could we continue to see hundreds of million dollars of favorable development if just the trends keep playing out? I hope I'm asking the question appropriately.

Dan Frey
Yeah, Josh, it's Dan. I think I get it, and I'm glad you asked it. I mean, I think if there's two words that I would not put in a sense together, it's prior year reserve development and trend or run rate. And I think we tell you this pretty consistently. We look at all the data as it comes in every quarter. We do thorough reviews of every line every quarter. We're just trying to get it right. What you've seen probably in the last couple of years when loss costs were elevated in '22 and '23, we said we want to get it right. But in getting it right, we want to acknowledge the fact that if there's an elevated level of uncertainty, we're going to contemplate that in our reserves. And now as you've seen some of the inflationary pressures come back down to a more normal level, some of those years have matured and aged out. That's sort of what you're seeing. So I – you may or may not believe it. I literally don't have a view of whether prior year reserve development is going to be higher, lower or sideways in PI in the next several quarters, but that's the way we think about it.

Josh Shanker
Thank you for the answers – appreciate it.

Alan Schnitzer
Thanks Josh.

Operator
And we have one more question, and that question comes from the line of Michael Phillips from Oppenheimer. Your line is open.

Michael Phillips
Thanks, good morning, everybody. I'm going to go back to the BI, Casualty, renewal price changes for a second. From another side, when you have gotten more rate today than last quarter, and then I hear your answers, Alan, about uncertainty and geopolitical risk and social and economic – we've talked about stuff for years. I guess when you're getting more rate today than last quarter with such strong current core margins, does it mean, Alan, that your concerns on those things that you answered are more today than they were last year or the year before when you started talking about them?

Alan Schnitzer
Does it mean that we're more concerned about it? No, I...

Michael Phillips
The answer that you gave. Okay. That's the answer. That's the question. Are you more concerned today than maybe you were last year?

Alan Schnitzer
I wouldn't say that we're more concerned today. You can't really think about this sort of static at a point in time. We're thinking about this looking out the windshield at the future and loss trend is certainly positive, and we'd like pricing to keep up with that. But I would not say that we're more concerned today. And I do think one thing you get with Travelers is pretty early detection and reaction to changes in loss activity.

And so I don't know where it's going to go, but we feel pretty good about the actions that we've taken so far this year.

Michael Phillips
Okay, thanks. A quick one maybe for Jeff, perhaps. Any updates you can share with, I guess, loss trends in the Management Liability section?

Jeff Klenk
Not specific to loss trend, no. I called out in the script for you, and again, this is Jeff Klenk. We said that the earn pricing had an unfavorable impact on the underlying combined ratio. I'd point out, though, that the pricing strategy is a function of rate adequacy. The returns in the business have been excellent. Our renewal pricing reflects deliberate execution, and I feel great about the renewal retention percentage at 90%. Thanks for the question.

Michael Phillips
Okay.

Operator
And that concludes our question-and-answer session. I will now turn the call back over to Abbe Goldstein for some final closing remarks.

Abbe Goldstein
Thank you. Thank you all for joining us this morning. Appreciate the questions. And as always, if there's any follow-up, please get in touch with 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," "probably," "anticipates," "expects," "intends," "plans," "projects," "believes," "views," "ensures," "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 legislative or regulatory actions or court decisions;
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company's reserves, including asbestos;
- 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;
- the Company's approach to managing its investment portfolio;
- the impact of changing climate conditions;
- strategic and operational initiatives to improve growth, profitability and competitiveness;
- the Company's competitive advantages and innovation agenda;
- new product offerings;
- the impact of developments in the tort environment;
- the impact of developments in the geopolitical environment; and
- The impact of the Company's acquisition of Corvus insurance Holdings, Inc.

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 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;
- the Company is subject to additional risks associated with its business outside the United States; and
- future pandemics (including new variants of COVID-19).

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.

Our forward-looking statements speak only as of the date of this press release or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Forward Looking Statements" in the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on October 17, 2024, and in our most recent annual report on Form 10-K filed with the SEC on February 15, 2024, in each case as updated by our periodic filings with the SEC.