The Travelers Companies, Inc.

Third Quarter 2023 Results Teleconference

October 18, 2023, 9:00 a.m. ET

CORPORATE PARTICIPANTS

Alan Schnitzer – *Chairman and Chief Executive Officer*

Dan Frey – *Executive Vice President and Chief Financial Officer*

Greg Toczydlowski – *Executive Vice President and President of Business Insurance*

Jeff Klenk – *Executive Vice President and President of Bond & Specialty Insurance*

Michael Klein – *Executive Vice President and President of Personal Insurance*

Abbe Goldstein – *Senior Vice President of Investor Relations*

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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 18, 2023. At this time, I would like to turn the conference over to Ms. Abbe Goldstein, Senior Vice President of Investor Relations. Ms. Goldstein, you may begin.

Abbe Goldstein
Thank you. Good morning, and welcome to Travelers' discussion of our third quarter 2023 results. We released our press release, financial statement – supplement, sorry, 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 questions.

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

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

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

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

Core income of $454 million for the quarter benefited from very strong underlying underwriting results and net investment income but was also impacted by elevated catastrophe losses and net unfavorable prior year reserve development. Michael will provide more context on the catastrophe losses.

The unfavorable prior year reserve development was driven by the results of our annual asbestos review in our runoff book. The reserves in the ongoing businesses of all three segments developed favorably. We are very pleased with the underlying fundamentals of our business. Underlying underwriting income of $868 million pretax was up more than 40% over the prior year quarter, driven by record net earned premiums of $9.7 billion and a consolidated underlying combined ratio which improved almost two points to an excellent 90.6%. The underlying combined ratios in our commercial segments remained excellent. Our Business Insurance segment once again delivered very strong results with an underlying combined ratio of 89.7%. The underlying combined ratio in our Bond & Specialty business was also excellent at 80.7%.

Looking at the two commercial segments together, the aggregate BI/BSI underlying combined ratio was 88.3% for the quarter, among our best ever.

In our Personal Insurance segment, the underlying combined ratio improved more than 5 points to 94.2% as a strong written rate from prior quarters is earning in. Our underlying results in Personal Insurance are improving and heading in the right direction.

Turning to investments, our high-quality investment portfolio continued to perform extremely well, generating after-tax net investment income of $640 million, reflecting strong and reliable returns from our growing fixed income portfolio and solid returns from our non-fixed income portfolio.

In terms of production, thanks to great execution by our colleagues in the field and the strong franchise value they have to sell, we grew net written premiums by $1.3 billion or 14% to a record $10.5 billion.
In Business Insurance, we grew net written premiums by 16% to $5.1 billion. Renewal premium change in the segment was very strong at 12.9%, driven by renewal rate change, which accelerated year-over-year and sequentially to 7.9%. Renewal rate change was higher sequentially in every line other than Workers Comp, where overall renewal premium change remains positive and appropriate given returns in the line.

For the segment, even with higher pricing at record levels, retention remained very strong at 87%, a reflection of a rational market. New business was strong and higher broadly across the segment.

In Bond & Specialty Insurance, we grew net written premiums to a record $1 billion, achieved 91% retention of our high-quality Management Liability business and grew net written premiums in our industry-leading Surety business by 13%. Given the attractive returns, we are very pleased with the strong production results in both of our commercial business segments.

In Personal Insurance, top line growth of 14% was driven by higher pricing. Renewal premium change was 19.4% in our Homeowners & Other business and increased to a record high 18.2% in our Auto business. Another quarter of strong production across the board positions us well for the rest of the year and into 2024. We'll hear more shortly from Greg, Jeff and Michael about our segment results.

With the end of the year in sight and 2024 on the horizon and coming into focus, we feel very well positioned for what's ahead and quite confident. In our Business Insurance segment, written margins are expanding. Pricing has been strong and the components of core goods inflation that impact our loss costs are moderating. Medical inflation, in particular, remains benign. Nonetheless, given the duration of relevant liabilities, we continue to incorporate medical inflation in our loss costs based on the higher, longer-term trends.

In terms of the top line of Business Insurance, we're pleased that economic output and consumption so far remain robust. Given our leading Workers Compensation business, we benefit in particular from the near 50-year low in unemployment, the prime-age labor participation rate, which is at its highest level since 2007, and ongoing wage inflation, which contributes to premium growth and margins.

As a result of strong pricing in recent years and higher fixed income NII, returns in the segment are currently attractive. Nonetheless, given the uncertainty generally in terms of weather volatility, economic and social inflation, the hardening reinsurance market and the geopolitical landscape, we plan to continue pursuing strong price increases in both the property and casualty lines to achieve our overtime return objectives.

Turning to our industry-leading Bond & Specialty business, we just reached a milestone $1 billion in net written premiums and returns are terrific. And as you've heard, results in our Personal Insurance business are headed in the right direction. Earned margins are improving and additional price increases will earn in from here. We're very pleased with our targeted marketplace execution. At same time, inflationary pressures are moderating.

In terms of the investment portfolio, with interest rates at their highest levels in recent memory and most indications suggesting higher for longer, we are extremely well positioned. In the last five years, we've grown our very high-quality investment portfolio by nearly $19 billion or about 25% to more than $90 billion. 93% of the portfolio is allocated to fixed income.

As we look ahead to 2024, we expect our after-tax fixed income NII will be more than $2.6 billion. To ensure that our competitive advantages continue to distinguish us and fuel our performance, we will continue to invest in our ambitious and focused innovation priorities. We're spending more than $1.5 billion this year on technology, inside an excellent expense ratio and with a higher proportion allocated to strategic technology investments. We're confident that we're working on the right priorities, executing effectively and that we'll see the benefits play out in growth at attractive returns going forward.

Lastly, I'll share that we're recently back from one of the year's largest industry conferences where we met with many of our distribution partners. We left confident that we have the pole position with distribution in the United States and that we're positioned to support each other's strategic and marketplace priorities. We're committed to being their best partner and to offering the products and services that best serve our mutual customers.

To sum it up, we remain very confident in the outlook for our business. I couldn't be more grateful to my 30,000 colleagues who show up every day committed to our culture, to our standard of excellence and to fulfilling our mission of creating shareholder value and our purpose of taking care of the people we're privileged to serve.

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

Dan Frey
Thank you, Alan.

Core income for the third quarter was $454 million and core return on equity was 6.9% as heavy cat activity impacted our results. We're pleased to have once again generated record levels of earned premium this quarter and an excellent underlying combined ratio of 90.6%, a 1.9-point improvement from last year's strong results.

This combination of growth and underlying margin improvement led to a very strong underlying underwriting gain of $684 million after tax, up $206 million or 43% from the prior year quarter. The expense ratio for the third quarter improved 10 basis points from last year's quarter to an excellent 28% and continues to reflect the benefits of our focus on productivity and efficiency, coupled with strong top line growth.

Our third quarter results include $850 million of pre-tax catastrophe losses, resulting from another quarter of both frequency and severity of weather across North America.

Turning to prior year reserve development, we had total net unfavorable development of $154 million pre-tax. In Business Insurance, net unfavorable PYD of $263 million was driven by charges in our runoff business, including $284 million related to our annual asbestos review, as well as increased reserves for abuse and molestation resulting from the volume of claims related to the closing of the reviver window in California. This year's asbestos charge includes an additional increase to strengthen our carried reserve position relative to the range of outcomes.

Outside of runoff in our ongoing businesses, Business Insurance had $132 million of net favorable PYD driven by favorability in Workers Comp that was partially offset by unfavorability in Commercial Auto. In Bond & Specialty, net favorable PYD of $72 million was driven by another quarter of better-than-expected results in both Surety and Management Liability. Personal Insurance had $37 million of net favorable PYD driven by Homeowners & Other.

After-tax net investment income of $640 million was up 27% from the prior year quarter. Fixed maturity NII was again higher than the prior year quarter, reflecting both the benefit of higher average yields and the significant growth in our portfolio of invested assets. Returns in the non-fixed income portfolio were also above the prior year quarter. 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 $615 million after tax for the fourth quarter.

For 2024, we now expect more than $2.6 billion after tax, our highest level ever, beginning with approximately $630 million in the first quarter of 2024 and growing to approximately $690 million for the fourth quarter. New money rates as of September 30 are about 180 basis points higher than what is embedded in the portfolio.

Turning to capital management, operating cash flows for the quarter of more than $3 billion were an all-time record. All our capital ratios were at or better than our target levels and we ended the quarter with holding company liquidity of approximately $1.7 billion. Interest rates increased and spreads widened during the quarter, and as a result, our net unrealized investment loss increased from $4.6 billion after tax at June 30 to $6.5 billion after tax at September 30.

As we've discussed previously, the changes in unrealized investment gains and losses generally did not impact how we manage our investment portfolio. We generally hold fixed income investments to maturity. The quality of our fixed income portfolio remains very high and changes in unrealized gains and losses have little impact on our cash flows, statutory surplus or regulatory capital requirements.

Adjusted book value per share, which excludes net unrealized investment gains and losses, was $115.78 at quarter end, up 2% from year-end and up 3% from a year ago. We returned $333 million of capital to our shareholders this quarter, comprising share repurchases of $101 million and dividends of $232 million. We have approximately $6.1 billion of capacity remaining under the share repurchase authorization from our Board of Directors.

Similar to my comments on last quarter's call, a significant level of catastrophe losses we've experienced this year resulted in lower year-to-date earnings than we expected, so share repurchases in the fourth quarter will likely be lower than the quarterly share repurchases made in the first half of the year.

To sum things up, while our third quarter earnings were adversely impacted by elevated catastrophe losses, we're pleased to post another quarter of double-digit premium growth, an improved and very strong underlying combined ratio and further improvement in our outlook for fixed income NII, all of which bodes well for our business results going forward.

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

Greg Toczydlowski
Thanks, Dan.

Segment income for the third quarter was $468 million, with strong underlying underwriting and investment income as well as favorable prior year development in our ongoing book, offset by reserve charges in our runoff book, mostly related to asbestos. We're particularly pleased with our exceptional underlying combined ratio of 89.7% for the quarter, which was a 30-basis-point improvement year-over-year and an all-time best third quarter result.

The benefit of earned pricing was offset by normal variability in loss activity, all in netting to an excellent result. Net written premiums increased 16% to a record third quarter of $5.1 billion, driven by very strong renewal premium change of 12.9%, historically high retention of 87% and new business of $695 million. Underneath RPC, as you heard from Alan, renewal rate change accelerated sequentially from the second quarter to 7.9% with all lines other than Workers Comp being higher. We're thrilled with these production results and our field's continued superior execution in the marketplace.

And given our high-quality book as well as several years of meaningful price increases and improvements in terms and conditions, we're very pleased to continue to produce historically strong retention levels.

Lastly, we're encouraged that new business was higher than the prior year quarter broadly across the segment. While the comparison of new business to the prior year quarter benefited from a relatively modest prior year result as well as higher pricing on new business this year, we're also pleased with the impact that our strategic investments are having on our production results.

As for the individual businesses, in Select, renewal premium change remained strong at 10.3%, while retention of 85% was up two points from the prior year quarter. New business was up $46 million from the prior year quarter, driven in large part by the continued success of our BOP 2.0 product. We're also encouraged with the early performance of our new state-of-the-art Commercial Auto product, which has been rolled out in 12 states.

In Middle Market, renewal premium change remained very strong at 10.6%, while retention remained excellent at 89%. New business was a strong $352 million. We're pleased with the quality of the submission flow from our distribution partners during the quarter and our responsiveness in quoting and closing accounts that align with our appetite. As always, we remain vigilant around risk selection, underwriting and pricing.

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 posted terrific top- and bottom-line results for the quarter. Segment income was a record $265 million, up 10% from the very strong prior year quarter. The underlying combined ratio was an outstanding 80.7%.

Turning to the top line, we're pleased to have delivered record net written premiums of over $1 billion. In Domestic Management Liability, we again delivered record-level retention of 91%, up two points from the third quarter of 2022, while continuing to achieve positive renewal premium change. This result reflects the attractive returns of our high-quality book of business.

Record Surety net written premiums reflect strong broad-based demand for surety bonds and higher premium from large construction projects. So we're pleased to have once again delivered terrific top- and bottom-line results this quarter, driven by our continued underwriting and risk management diligence, excellent execution by our field organization and the benefits from our value-added approach and market-leading competitive advantages.

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

Michael Klein
Thanks Jeff, and good morning, everyone.

In Personal Insurance, the third quarter segment loss of $193 million was significantly impacted by catastrophe losses. We experienced elevated losses from weather activity, specifically related to wind and hail events. This was another active quarter for severe convective storms across the U.S. There were 19 designated PCS events specifically related to wind, hail and tornado activity in the quarter, nearly twice the 10-year average and the highest number for a third quarter in more than a decade.

On a more positive note, the underlying combined ratio of 94.2% improved 5.1 points compared to the prior year quarter, reflecting an improvement in both Automobile and Homeowners. Net written premiums for the quarter grew 14%, driven by high teens renewal premium change in both Domestic Automobile and Homeowners & Other.

In Automobile, the third quarter combined ratio was 103.5%. This was 8.7 points lower than the prior year quarter, which included catastrophe losses resulting from Hurricane Ian. The underlying combined ratio of 100.6% and improved 3.3 points compared to the prior year quarter, driven by the impact of earned pricing in excess of loss trend.

The quarter-over-quarter improvement in our results clearly reflects the growing impact of our pricing and non-rate actions. Underlying results in Auto are headed in the right direction as the benefit of earned pricing continues to accelerate and as vehicle repair and replacement trends are moderating.

Looking ahead to the fourth quarter of 2023, it's important to remember that the fourth quarter Auto underlying loss ratio has historically been 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 116.2% increased 13.9 points due to the catastrophe losses that I mentioned earlier. The underlying combined ratio of 88% improved 6.9 points, primarily due to the impact of earned pricing, a benefit from the favorable re-estimation of prior quarters in the current year and a lower expense ratio.

Turning to production, our results continue to demonstrate our disciplined market execution in a challenging marketplace. Beginning with Domestic Homeowners & Other, renewal premium change of 19.4% was very strong. The lack of growth in policies in force reflects our continued actions to further balance rate adequacy, catastrophe risk and regulatory risk.

We expect renewal premium change in Homeowners to remain consistent through year-end. Looking ahead to 2024, we expect renewal premium change to remain elevated, but moderate into low double-digits as our automatic increase in limit factors returned to more normal levels in line with stabilizing industry estimates of replacement costs.

In Domestic Automobile, renewal premium change of 18.2% increased two points compared to the second quarter of 2023. Auto policies in force declined slightly, reflecting our continued efforts to manage growth while improving profitability. Going forward, we expect renewal premium change in auto to remain very strong but begin to move down from here as more of the book reaches rate adequacy on a written basis.

I'm proud of the way our team continues to respond to the dynamic environment. We are consistently evolving pricing, segmentation, underwriting and terms and conditions, while managing new business flow to ensure we deploy capacity thoughtfully in the face of market dislocation. At the same time, we're sustaining our investments and capabilities to build our business for the future. With our leading talent, capabilities and strong distribution relationships, we are confident in our ability to generate leading returns over time.

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

Abbe Goldstein
Thanks, Michael. And operator, we're ready to start questions.

Operator
If you would like to ask a question, please press star, followed by the number one on your telephone keypad, and we ask that you limit to one question and one follow-up. Your first question comes from the line of Greg Peters from Raymond James. Please go ahead.

Greg Peters
Well, good morning, everyone. I guess my first question will focus on Business Insurance. I think you guys have now reported something like 14 consecutive quarters of year-over-year improvement in the underlying combined ratio.

I guess what I'm – where I'm going with this is what is your longer-term target with your UCR, especially in light of what we're seeing in the accelerating renewal rate trend? And – maybe if you don't want to answer it that way, maybe you can triangulate for us just how the renewal rate change, which is accelerating, matches up with your inflation expectations and your insurance to value initiatives?

Alan Schnitzer
A lot in that question, Greg. Good morning, it's Alan, there's a lot in that question. I think you're right for starters. I don't think we're going to give you our targets or objectives. I think it gets too close to something that's' competitively sensitive in terms of our pricing strategies. But I guess I'd point you toward where renewal premium change is, which is at record levels.

And frankly, I always hate to get into the commentary on loss trend because as I've shared before, to take a single metric to define what's going on across billions of dollars of premium implies a level of precision that doesn't exist. Every line has got its own dynamics, so on and so forth. But there wasn't a lot of change in sort of the profile of loss activity this past quarter. So we continue to have a pretty meaningful gap between where renewal premium changes and where loss trends are. And so I think that gives you a sense. It's why we are – it's easy enough in my prepared remarks to share that written margins are expanding.

Greg Peters
Right.

Operator
Your next question comes from the line of David Motemaden from Evercore ISI. Please go ahead.

David Motemaden
Hi, good morning. Just a follow-up question on the BI underlying loss ratio. Greg, you had said that the benefit of earned pricing was offset by normal variability in loss activity. I was wondering if you could just size those components, and it sounded like non-cat weather was maybe a little bit elevated relative to normal expectations, but wondering if you could just break that down for us.

Dan Frey
David, it's Dan. I think we're not going to go any further. I think what Greg said is really the way to think about it, which is, as Alan just mentioned, we've been getting a good level of written price increase, that's earning its way through. So there is still definitely a benefit from earned pricing.

In any given quarter, you got a handful of things that are going to go one way or the other that could be small weather, that could be base year, it could be mix changes, it could be just variability from one quarter to next. There were some good guys and some bad guys, nothing particularly significant and net result just about offset the benefit from earned price. And again, all inside of an underlying combined ratio that we're really happy with it sub-90%.

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

Elyse Greenspan
Hi, thanks, good morning. I was hoping to get more color on the reserve development that you guys called out in your ongoing businesses within Business Insurance. You could tell us about the Workers Comp favorability. And then I think you called out Commercial Auto developed adversely. Could we get the numbers there, and then are there any other lines in your ongoing business that moved materially in the quarter?

Dan Frey
Yes, Elyse, it's Dan. So sorry, I'll disappoint you there, we're not going to do the line by line. But Comp has been pretty strongly favorable, it was pretty strongly favorable again this quarter. In our remarks, we try to call out the lines that had noteworthy movement. This quarter, Commercial Auto did have some noteworthy movement. It wasn't dramatic, particularly in the scope of – you think about the size of the reserves for the Commercial Auto book.

And what we saw in Commercial Auto this quarter is a little bit of a lengthening of the development patterns, not a terrifically new theme, but every quarter, we're looking at all the data that comes in. This gave us an indication that maybe reserves should be carried a little higher than we were, and we're just trying to react to that in real time as quickly as possible. Those were – there were some movements in the other lines, some good guys and some bad guys, nothing particularly noteworthy, but those were the two main drivers.

Elyse Greenspan
And then you guys – you called out higher cats in the third quarter as well as other quarters this year. Are you guys contemplating making any changes to your reinsurance program heading into 2024? How do you think, I guess, changes you made over the past year could have led to higher cats this year?

Dan Frey
So I don't think that the changes we made would have had much of a difference. Obviously, the last few years, we've had that underlying cat aggregate treaty. We didn't attach it at all in 2023, we didn't renew it in 2024.

We get that question a couple of times. Just to remind you, in 2023, when we had that underlying cat ag treaty, we placed ...

Alan Schnitzer
2022.

Dan Frey
Sorry, 2022. I'm a year into the future already. So 2022, we didn't attach it. We didn't renew it in 2023.

Even when we had it last time in '22, we placed about 50% of a $500 million layer, so it couldn't have been more than $250 million of recovery and it cost us a lot to have that policy. Rate online was very high for that coverage. We said it at July 1, that we'd enter into a new PI-specific coastal reinsurance treaty. I think we'll just continue to evaluate our position and what's available to us in the marketplace from a reinsurance perspective as we look forward to 2024.

But I'd say what we sort of regularly say, which is we're really pleased with our risk selection. We think we do a great job of segmentation and pricing. We're going to probably keep more net than many of our peers because at the end of the day, we like our underwriting.

Operator
Your next question comes from the line of Ryan Tunis from Autonomous Research. Please go ahead.

Ryan Tunis
Hi, thanks. First question is just from Michael. In terms of Homeowners, that clearly seems like a line that probably needs more rate, not less, just given where cat trends have been.

But you mentioned in your prepared remarks that we might see some premium growth deceleration because of what you referred to as automatic increase in limits. It sounded like that might have been about half of renewal premium growth. Can you just, I guess, mechanically help us understand a little bit more what that increase in limits is tied to? And in the absence of that, what are some other means by which you can get more price in that line?

Michael Klein
Sure, Ryan. Thanks for the question. So just unpacking it for a second, right, so inside RPC in Homeowners, there's really two primary components. There's rate and then there's exposure or other RPC, which primarily is the additional premium we collect due to the coverage A limit, the dwelling limit on the home going up.

And over the past two years, we've increased coverage A amounts significantly to keep up with higher replacement cost trends that have been occurring sort of across the industry. And given those outsized increases in coverage A amounts over the last couple of years, as we take a look at our external data and information about where replacement costs are today and where trends are, we are largely caught up with that increase. And so we don't see a need for coverage A amounts to move dramatically north from here in the near term.

So that premium that we would – that we have been collecting because coverages As have been rising, won't be as nearly as big an element of renewal premium change in '24 as it was in '22 and '23.

That said, to your point, clearly, the Homeowners line continues to need rate. It continues to need profit improvement, and we will continue to seek higher rate in Homeowners even though the limit increases will be subsiding.

The other thing I'd point to is, part of the answer in Home is pricing. Another big piece of the answer is non-rate actions. And we've been very active in the marketplace across risk selection, peril by peril pricing, tighter eligibility, stricter terms and conditions to drive profit improvement in the property line as well.

Ryan Tunis
Got it. And then just a follow-up on just Business Insurance retention. It's interesting, how robust that's been. Clearly, we're seeing personal lines retention come off as I would think you'd expect when you're taking rate. Just – what do you guys make of that? Why has retention been still robust, I guess, despite so many rounds of rate increases?

Greg Toczydlowski
Good morning, Ryan, this is Greg. I think we start every month with retaining our high-quality book of business. So it's been very much an intentional strategy of ours to make sure that we're being thoughtful on our terms and conditions, our pricing and all the changes that we're making to continuously improve margins. But given the quality of that book, it's not a surprise for us.

It also is an indicator of just how rational the marketplace is right now and the need for improved margins across the entire industry based on all those headwinds that Alan talked about. So we're not surprised by it, we're very pleased with it and we're very focused on it.

Operator
Your next question comes from the line of Jimmy Bhullar from JPMorgan. Please go ahead.

Jimmy Bhullar
Hi, good morning. So first, I just had a question on Commercial Auto. And if you could just give us a little bit more insight into what's driving the adverse development there. Some of your peers have seen that as well, and I think there are some concerns that this could be sort of the beginning of a trend given what's gone on in Personal Auto over the past two years or so?

Dan Frey
Hi Jimmy, it's Dan again. So yes, as we said a little while ago, Commercial Auto is really just a modification based on the most recent data that's come in, in terms of the development of claims in Commercial Auto, particularly bodily injury claims. This is something that we've commented on and off probably over the last three or four quarters. Numbers have been pretty modest, the themes are not inconsistent with what we anticipated, but to get a new set of data and the data looks a little bit different than your prior estimation, and so the magnitude of some of the changes that we anticipated is a little higher.

Really the focus of this most recent strengthening is the continued sort of longer development of – or, said inversely, the slower closing of claims in Commercial Auto. So as that continues to lag historical closure patterns, we're making an adjustment to reflect the most recent data.

Jimmy Bhullar
And that's just a function of repairs taking longer or something else?

Dan Frey
This is more in the bodily injury side of Commercial Auto, so it's not so much repairs themselves, although that's been a factor in both Michael's business and, a smaller degree, in Greg's business, bodily injury, it's more of the settlement of the injury client.

Jimmy Bhullar
And then in Personal Auto, where are you in terms of rate adequacy on a written basis? Your discount has been sort of flattish. Are competitors being fairly rational and you're seeing price increases across the board, or are there some companies that are not adjusting due to higher loss trend?

Michael Klein
Thanks, Jimmy. It's Michael. I would say that when you look at our – taking the second part of the question first – when you look at our production statistics, retention is down a bit, but it's actually been pretty resilient in the face of the rate we've been driving through the book, particularly given the magnitude of those numbers. And so I think that that's indicative of a fairly rational market and the fact that these are, again, industry-wide pressures that most competitors are dealing with.

In terms of written rate adequacy, again, last quarter, I said we'd get there in the coming quarters. Relative to the comments last quarter, we feel a little bit better sitting here today than we did 90 days ago. Given the record level of RPC that we achieved in the third quarter and the fact that we're seeing loss trends stabilize, and that's coming through in our underlying combined ratio.

That said, I would also say that written rate adequacy still depends on the same list of things we talked about last quarter, right? It's the price we get. It's how quickly loss trends moderate and how much they continue to moderate the regulatory process for getting rate approvals and our actual loss experience. But it is, at this point, very much a state-by-state conversation and we're working each state individually and adjusting our actions accordingly.

Operator
Your next question comes from the line of Brian Meredith from UBS Financial. Please go ahead.

Brian Meredith
Thanks. A couple of them here. First, I'd let Jeff answer some questions here. Jeff, on the Management Liability business, I think you mentioned in the quarter that there was some favorable current year development. Maybe we can quantify that and what's going on there with the Management Liability business that you're seeing this favorable development?

Dan Frey
Hi Brian, it's Dan. So I think we're not going to put a number – not a significant deal. The only point Jeff was trying to make is sort of when you do the comparison year-over-year, there was some favorable CYPQ, which we called out last year in the third quarter, there was some favorable CYPQ this year as well, just not as much. So the year-over-year is unfavorable given less of a good guy.

Brian Meredith
Got you. Okay. That's helpful. And the next question, I'm just curious, bigger picture in Business Insurance. Exposure growth continues to be pretty healthy. Maybe you can give us a little context around what kind of drives that exposure growth. And we think that with the economy moderating some here that exposure will – growth will start to slow here.

Greg Toczydlowski
Yes, Brian, we watch for that all the time. And as you can see in the webcast in the blue lines we give you, you can see it's been very stable across the Select business, in the Middle Market. And obviously, those add to the total BI business. And so it really is a function of nominal GDP economic growth and the overall inflation levels. And clearly, we've seen the consumer type inflation correct somewhat from the peak of mid-2022.

Where we're really encouraged when we also look at our audit premium, which is more of a going backward view in our core Middle Market business, we continue to have real strong audit premium also. So, both backwards and forward, we're encouraged with how exposure is playing out in the business, and we'll continue to report out what we see with that line.

Operator
Your next question comes from the line of Michael Zaremski from BMO Capital Markets. Please go ahead.

Michael Zaremski
First, on Business Insurance segment, we heard loud and clear the comments about written margins expanding. Does the definition of written margins include reserve changes? Because I'm just trying to – when we look at the loss ratio, maybe, I guess, ex-cat, we clearly see that in BI reserve releases or additions or whatever, right, are worse year-over-year, clearly, margins are good. I'm just trying to – are you trying to – does written margins mean – are you looking kind of forward-looking or backward-looking? Any color there? Thanks.

Dan Frey
Mike, it's Dan. So just to clarify for you – so when we're talking about margin and that context, we're talking about the underlying combined ratio, so leaving to the side catastrophe losses and leaving to the side prior year reserve development.

The only other comment I'd make in that regard is when we do see changes in prior year development, we do roll forward our thinking in terms of does that impact our view of current year loss and go-forward loss. But PYD itself, as it's booked, whether it's favorable or unfavorable, is outside of that concept where we're talking about underlying margins.

Michael Zaremski
Okay. Understood. And just a quick follow-up then. Have you changed your view of forward-looking loss after this quarter? And you also called out the topping off of the asbestos and environmental that – I think you used the words "topping off" – you kind of called out an additional add. And I don't know if you want to call out specifically what that dollar amount was.

Dan Frey
Yes. So I don't think we'll split the asbestos charge beyond that. But what we wanted to get across was we did our sort of traditional deep dive in the third quarter that resulted in a figure for which we would have strengthened the asbestos reserve. We chose also, you can think about it in simple terms as moving higher in the range of possible outcomes for asbestos, and so we put some money on top of what the analysis otherwise would have told you for the quarter.

And then in terms of the first part of the question, we're looking at all the factors that go into loss trend every quarter, including favorable or unfavorable PYD, there are generally small puts and takes on a pretty regular basis, nothing terribly significant in this quarter in terms of our view of loss trend.

Operator
Your next question comes from the line of Yaron Kinar from Jefferies. Please go ahead.

Yaron Kinar
Thank you and good morning. I guess my first question is on Workers Comp. So we saw a premium decline there year-over-year. Are there any one-time items there? Or is it just an indication of market conditions and then maybe rate compression? And maybe you can tie that into how you're viewing this line of business and your thoughts about that into 2024.

Greg Toczydlowski
Yes, good morning Yaron. Yes, I think you're referencing the slight down in the net written premium for the quarter. I would point to you that year-to-date, it is just up 2%, so it wasn't a meaningful change for the particular quarter. And obviously, where you're seeing not the level of net written premium growth on the other product lines that we're seeing in Workers Comp is clearly the rate pressure that the entire industry is seeing there. That rate pressure is driven based on the bureau's loss cost recommendations that continue to put minuses across the industry, and that's just an indication of the health of the line. We're the largest Workers Comp writer in the country. And on a calendar year basis, we feel terrific about the results of that, and that's basically what's driving some of that net written premium change that you've mentioned.

Alan Schnitzer
Just to be clear, we feel great about the Workers Comp line. We feel great about our results this quarter this year, and we feel great about the outlook.

Yaron Kinar
Got it, thank you. And then my second question, also on BI – do you have any CYPQ there? Because I did notice that the underlying loss ratio was flat year-over-year. Just given the rate commentary and RPC commentary, I would have thought maybe we'd see a little bit of improvement there.

Dan Frey
Yes, Yaron, it's Dan. So a little earlier in the call and in Greg's comments, we called out that, we did see some benefit from earned price. But half a dozen other things that would happen in any quarter, could be some good guys, could be some bad guys, could be mix, could be base share, could be non-cat weather. There were some favorable and some unfavorable netted to a modest unfavorable to offset the pricing benefit, but nothing significant there.

Operator
Your next question comes from the line of Paul Newsome from Piper Sandler. Please go ahead.

Paul Newsome
Hi, good morning, thanks for the call. I wanted to ask if you could help me think more about the cat load prospectively, and one of the things I was wondering about – this may go to the definition of you think about cats – and importantly if inflation is effectively pushing losses that otherwise in the past, we've not have been cat losses into the cat designation. And that may be – how much of that may be part of why the cat load may need to go up? Just any thoughts on that would be great.

Dan Frey
Sure, Paul, it's Dan, I'll start. I think the sort of second piece of the question, the answer would be yes to the degree that some of what we've seen in higher cat losses is the impact of inflation over the last several years and just the value of those claims going up.

So yes, over time, more things would fall into what would get designated as "catastrophes" given the threshold. Other than that, thinking about cats, we're looking at long-term weather trends, medium-term weather trends, near-term weather trends, we're putting more weight on nearer-term weather trends. And, as both Greg and Michael have talked about, trying to react with very strong pricing changes in terms and conditions and risk selection where we think it's appropriate.

There is also clearly an uptick in catastrophe activity this year. So last year, I think last quarter, I think, Alan maybe gave the statistics that in the 91 days of the quarter, there were 88 days in which there was a PCS event occurring. In the third quarter, there were 92 days in the quarter. On 91 of those 92 days, there was a PCS event occurring. So the increase in catastrophes is the combination of several factors. One is, there do seem to be more storms more frequently. Two, more people have moved into harm's way in terms of where the demographic spread of risk is. And three, inflation has resulted in the impact of those costs being higher.

Paul Newsome
Is there any way to think about whether or not that would have an impact on the underlying combined ratio? Should you essentially move the same claim to the cat designation from the underlying?

Alan Schnitzer
Paul, sometimes we do see that in a quarter where it's bucketing, where things will spill over to a cat number that would have otherwise been an underlying – that was not a big factor this quarter. It's not like there were a bunch of close calls because of inflation spilled over into a cat designation. This was a significantly high number of severe convective storms for the third quarter that created a bunch of catastrophes. So this was not a definitional bucketing close call issue. That does happen sometimes. It didn't happen this quarter.

Operator
Your next question comes from the line of Michael Ward from Citi. Please go ahead.

Michael Ward
Thanks guys, good morning. I was curious about Personal Auto. Just wondering if there was an impact from current year reserves on the underlying result. And if you could maybe expand on the frequency and severity trends.

Michael Klein
Sure, Michael. It's Michael. In terms of CYPQ, not a significant amount. I mean, we called out the earned impact of pricing that really is the driver of the improvement in underlying. And then, as respects frequency and severity, frequency largely coming in, in line with expectations. If you look at external indices, miles driven is up 2% to 3%. It's pretty consistent with the trend it's been on. And so not a lot to

talk about on the frequency side and then really the moderating trends that I described are really coming from severity as we continue to see, in particular, physical damage severity moderate quarter-over-quarter-over-quarter as we go through 2023.

Michael Ward
Thanks. And then on commercial property, just wondering – how should we think about the impact of the growth on BI margins? And could it – if there's more volatility in non-cat property, might that affect your growth appetite next year?

Dan Frey
Mike, it's Dan. So I think we're very aware and cognizant of the amount of property that we're putting on the books, where we're putting it on the books and what that's doing to our total exposures, we price property with the risk load, given the uncertainty and variability that can come with it. In terms of the margin from how much property you're writing, there can be a mix change over time, if you think about the relative loss ratios of the lines, and some of that's driven by the duration of the liability in the lines, property historically tends to run a lower underlying loss ratio than, for example, Workers Comp. So, you could get a mix change over time. Tell me if that's not responsive to your question.

Greg Toczydlowski
The one thing I'd add to that also is when you look at our property growth, the thrust of that growth really is being driven based on rate and exposure change. We're being active and very selective on the new business front, but when you look at what's driving the net written premium change, it does start with rate and exposure change.

Alan Schnitzer
And strong retention.

Operator
Your next question comes from the line of Meyer Shields from KBW. Please go ahead.

Meyer Shields
Great, thanks. So, a question to start for Jeff. We've seen G&A expenses rise significantly faster than written premium every quarter this year, and I'm hoping you could talk to what's going on there.

Jeff Klenk
Absolutely. This is Jeff. Thanks, Meyer. The question on expenses is, we're definitely making strategic investments to support our future success. And broadly speaking, I'd give you two buckets – it's employees and it's also technology investments and think platform. But I remind you, all in the context of while we're delivering attractive returns.

Meyer Shields
Yes, that's fair. No, that's very helpful. Second question, and I'm obviously shooting a little bit in the dark, but it looks like last year and this year, the run rate of Workers 'Compensation reserve releases was a lot higher than preceding years. And I was hoping you could talk through what that change is – is it just COVID-related frequency benefit or are there other factors?

Dan Frey
Yes, Meyer, it's Dan. Comp has been pretty consistently, for a number of years, a pretty favorable development story. And when it is, it's across a number of accident years. That's continued to be the case in 2022 and 2023. We're really just reacting to – we've had this conversation before. You've got to be really careful with your assumption around medical cost trend given the duration of the liability, quarter goes by a bunch of claims close. You see what actually happened in terms of severity relative to what you had previously allowed for, and you make an adjustment. And we're really just following the numbers in that regard. We have – we've certainly not become any more aggressive in the way we're reserving for Workers Comp. It's just the mathematical output of the changes that we've seen.

Operator
Your next question comes from the line of Alex Scott from Goldman Sachs. Please go ahead.

Alex Scott
Hi, good morning. First one I have for you is on casualty. And specifically, I wanted to ask you about some of the comments that have come out of the larger reinsurance companies. I mean, it sounds like they've gotten a bit more cautious in their stance on U.S. casualty in general and I guess the social inflation trends and so forth. And certainly, you guys – it sounds like you saw a little bit of that in general liability and commercial lines. But I just wanted to see if you could provide a perspective on, how big of an issue do you really think that is for the industry at this point? And is there anything unique about your exposure that sort of insulates you, whether it's the size of business that you tend to write and that kind of thing.

Alan Schnitzer
Yes. Alex, it's Alan. We think that commentary is well placed. And frankly, we've been on that bandwagon since, I don't know, 2018 or something like that. So we think we rang that bell very, very early. We think we've reacted to it consistently even during the pandemic when you might have looked at the data and thought that things were improving. We've said consistently, we don't believe it. We think it's here. We think it's at higher levels. We think it's inflating faster.

And so what we've seen is inside the underlying – the combined ratios that we're reporting in Business Insurance. So we do think that it continues to be an important issue to watch. And we've taken a lot of price and – in part in response to that. So, it's an issue and we think we're on top of it.

Alex Scott
Got it, thank you. And a follow-up I had is on the Auto Insurance specifically. You all obviously showed a good amount of improvement, which is great to see. How much of that is driven by the severity beginning to calm down or stabilizing, at least? I mean, any color you can provide on those trends and maybe specifically even repair and what you're seeing there?

Michael Klein
Sure, Alex, it's Michael. I'll just clarify a couple of things I said earlier. So it really is the acceleration of earned pricing earning through and driving that underlying improvement. But when you think about the external trends, and external cost, it definitely is also a result of those external trends moderating. And we had been talking about double-digit loss cost trends, particularly in the physical damage space, for quarter upon quarter upon quarter, those trends moved into the single digit this quarter. So it was really both the earned pricing and the moderating trends driving that improvement.

Operator
Your next question comes from the line of Scott Heleniak from RBC Capital Markets. Please go ahead.

Scott Heleniak
Yes, good morning. Just wondering if you could comment on the recent proposed reforms in the state of California really to keep private insurers from – in the state from leaving the state. Do you think that initiatives there are appropriate? Do you think they're enough? And does that impact your strategy there either way in either direction – just any overall kind of first views on some of the proposals out there?

Michael Klein
Sure, Scott. It's Michael. I'll share a couple of thoughts. First of all, the idea of regulatory reform in California is positive news. That said, I really don't think there are enough details available to evaluate. You've got a framework that the governor has asked the commissioner to take action on, but the details underneath that framework and how it's going to be implemented have yet to be defined.

And so, deciding whether it's a net positive or not and what actions to take as a result – there just really aren't enough details yet to evaluate that further. But we certainly are encouraged by the fact that California is considering regulatory reform, and we think it's long overdue.

Scott Heleniak
Okay, understood. Thanks.

Operator
And we have time for one more question, Bob Huang from Morgan Stanley. Please go ahead.

Bob Huang
Thank you, thank you. Most of my questions were answered, but maybe just one thing. You mentioned on the prepared remarks about tech investments. Can you possibly unpack that a little bit – what are the key technological aspect that you're focusing on in terms of investment? I'm assuming cloud is always going to be a big part of your investment, just given that there is a consumption-based expense model. But are there other IT capabilities that you would like to call out?

Alan Schnitzer
Yes. So, Bob, good morning, it's Alan. Thank you for the question. We would be really happy to take this offline with you. We've talked really extensively about this over a long period of time. But broadly, the investments that we're making across the organization fall into three buckets: one, extending our lead in risk expertise; two, providing great experiences to our customers, agents, brokers and employees; and three, optimizing productivity and efficiency.

And that happens in a lot of different ways at the enterprise level, and it happens segment by segment. But at the enterprise, broadly speaking, it's digitizing the value chain. Digitizing the customer journey, modernizing the foundation, advanced analytics, automation, faster speed to market, getting the right price on the risk, things like that.

And in terms of what's going on in the businesses, it's partner integration, sales and service, better front end for customers. It's on and on. It's focused and it's ambitious, but it also covers a lot of ground. So we've talked a lot about it extensively, and we'd be happy to meet with you and share more.

Bob Huang
Okay. And maybe just a follow-up on Workers Comp – and apologies for belaboring the point on this – is it possible to maybe unpack a little bit in terms of how the loss ratio looks like for Workers Comp versus other parts of Business Insurance? I'm assuming this does not impact your loss cost trend of 5.5% to 6%, but just curious as to if you can give a little bit of detail there.

Alan Schnitzer
Yes, we're not going to break out the losses by product line, but it certainly is wrapped in the overall number that we've talked about historically.

Bob Huang
Okay, thank you.

Alan Schnitzer
Thank you.

Operator
And thank you. Ms. Abbe Goldstein, I will turn the call back over to you.

Abbe Goldstein
Great. Thanks, everyone. We appreciate your joining us today for our call. And as usual, if there's any follow-up, please feel free to reach out to Investor Relations. Have a good day.

Operator
This concludes today's conference call. Thank you for your participation, and 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," "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, such as the impact of elevated industrywide loss costs in Personal Insurance, 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 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, inflation and disruption in the banking and commercial real estate sectors;
• the Company's approach to managing its investment portfolio;
• the impact of changing climate conditions;
• strategic and operational initiatives to improve 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 a U.S. government shutdown.

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 (including as a result of a failure to raise the "debt ceiling");
• 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.

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 18, 2023, and in our most recent annual report on Form 10-K filed with the SEC on February 16, 2023, in each case as updated by our periodic filings with the SEC.