



# Travelers Sustainability Accounting Standards Board Report 2019



In addition to providing wide-ranging disclosure on our website regarding our approach to sustained value creation, which integrates environmental, social and governance factors, The Travelers Companies, Inc. (together with its consolidated subsidiaries, Travelers or the Company) is providing the following disclosures, which are aligned with the Sustainability Accounting Standards Board (SASB) standards for the insurance industry. Travelers is a leading provider of commercial, personal and specialty insurance products and services to businesses, government units, associations and individuals. Because Travelers is a property and casualty insurance company, this report does not address any metrics requesting information regarding other types of insurance products (e.g., life insurance).<sup>1</sup>

## I. SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

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<sup>1</sup>The inclusion of information in this report should not be construed as a characterization regarding the materiality or financial impact of that information. For a discussion of information that is material to Travelers, please see our [Annual Report on Form 10-K](#).

## II. ACTIVITY METRIC

CODE	ACTIVITY METRIC	PAGE REFERENCE
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## III. DISCUSSION AND EXPLANATIONS OF ACCOUNTING AND ACTIVITY METRICS

### Transparent Information & Fair Advice for Customers

#### FN-IN-270a.1

Total amount of monetary losses as a result of legal proceedings associated with marketing and communication of insurance product-related information to new and returning customers

In accordance with Securities and Exchange Commission (SEC) requirements, Travelers discloses all material legal proceedings, other than ordinary routine litigation incidental to the business, in its [Annual Reports on Form 10-K](#) and Quarterly Reports on Form 10-Q. In 2019, legal proceedings and/or losses, if any, associated with marketing and communication of insurance product-related information were de minimis.

#### FN-IN-270a.2

Complaints-to-claims ratio

Travelers provides a wide range of commercial and personal property and casualty insurance products primarily through its insurance subsidiaries. Our domestic insurance subsidiaries are subject to insurance regulation in the various states and jurisdictions where they transact business. Most state insurance departments provide consumer complaint data to the National Association of Insurance Commissioners (NAIC), and the NAIC produces several reports combining this data. Neither the NAIC nor Travelers, however, calculates a complaints-to-claims ratio. We do not believe a complaints-to-claims ratio is a meaningful metric for assessing a company's claim handling process. For example, companies may track open and closed claims differently, which could result in a comparison that is not meaningful.

Additionally, a complaint may be received years after a claim is closed, which could overstate a company's complaints-to-claims ratio for that reporting period. A complaints-to-claims ratio also would not account for variations in an underwriting company's concentration of lines of business or market share, which further diminishes the usefulness of the metric.

The NAIC does provide a resource for consumers about complaints through its Consumer Insurance Search (CIS) site, which receives complaint information from the state insurance departments. The NAIC provides a number of reports through CIS for complaint trends. As of the publication of this report, however, the NAIC has revised (1) its methodology in CIS for calculating the Company Complaint Index, which compares a company's performance (such as that of Travelers) to other companies in the market, and (2) the algorithm that calculates the National Complaint Index from which the Company Complaint Index is derived. With the National Complaint Index, the NAIC no longer uses a national median score which had normalized results for all companies based on the total number of complaints, market share and other factors in the NAIC's algorithm. We believe the NAIC's methodology may skew the index for an underwriting company with little or no written premium, for example, and a Company Complaint Index may appear to be higher than the industrywide National Complaint Index even when the Company received a minimal number of complaints. For this reason, we do not believe that CIS's current Company Complaint Indexes of Travelers' underwriting companies provide meaningful information for our investors or other stakeholders.

## FN-IN-270a.3

### Customer retention rate

We routinely monitor our customer retention rates for all lines of business, except for surety, as surety products are generally sold on a non-recurring, project specific basis.

We report our retention rates as part of our quarterly earnings webcast using a methodology that we believe is meaningful for our investors and other users of our financial information. Our methodology does not adjust the calculation for involuntarily

terminated customers as provided for by the SASB methodology; this generally results in a lower reported retention rate for our business than if we had adjusted for these customers in accordance with the SASB methodology. We also report select business groups in our Business Insurance and Bond & Specialty Insurance segments using customer relationship premium as our metric rather than policy counts, which are used for our Personal Insurance segment, as we believe this is a more meaningful measure with respect to business customers. This approach is consistent with our approach for financial reporting. The following provides a summary of our retention rates by relevant business group as reported as of December 31, 2019:

BUSINESS GROUP	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19
Domestic Business Insurance (excluding National Accounts)	86%	85%	86%	85%	86%	85%	84%	84%
Domestic Business Insurance: Select Accounts	83%	82%	82%	81%	83%	82%	82%	83%
Domestic Business Insurance: Middle Market	88%	88%	87%	87%	87%	87%	86%	86%
Domestic Bond & Specialty Insurance: Management Liability <sup>1</sup>	89%	90%	90%	89%	89%	90%	90%	89%
Domestic Personal Insurance: Agency Automobile <sup>2</sup>	83%	83%	84%	84%	84%	84%	84%	84%
Domestic Personal Insurance: Agency Homeowners & Other <sup>2</sup>	86%	86%	86%	86%	86%	85%	85%	86%
Total International Insurance <sup>1</sup>	84%	83%	83%	82%	80%	80%	78%	77%

<sup>1</sup>This ratio excludes surety and other products that are generally sold on a non-recurring, project specific basis.

<sup>2</sup>This ratio represents the expected number of renewal policies that will be retained throughout the annual policy period to the number of available renewal base policies. Excludes Direct to Consumer business.

Note: Statistics are in part dependent on the use of estimates and are therefore subject to change.

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## FN-IN-270a.4

### Description of approach to informing customers about products

Travelers provides a wide range of commercial and personal property and casualty insurance products and services to businesses, government units, associations and individuals. Travelers has established comprehensive policies and procedures designed to ensure that the information we provide to existing and potential customers is transparent, complete and easy to comprehend. The relevant business unit, Communications group and Legal department are all involved in the preparation and review of any communication disseminated to customers or prospective customers that describes Travelers' product offerings.

Since Travelers has a wide range of customers, this information is tailored to meet the needs of the particular customer (taking into account, for example, whether the customer is an individual or a business). The information we provide includes the specific product and policy scope, terms and conditions, and the suitability of the product for the customer's needs, as well as other relevant information. This information may also include industry- and exposure-related materials, risk management support and other general information about Travelers, our brand and/or our financial strength.

We communicate with our existing and potential customers directly through our employees and indirectly through our agent and broker partners, who are instrumental in providing information and advisory assistance to both existing and potential policyholders. We also use other channels to communicate with our existing and potential customers, such as: (1) direct mailings and email, (2) our website, [www.travelers.com](http://www.travelers.com), (3) social media and (4) advertising and promotional materials.

The following discussion summarizes how we communicate with our customers in each of our business segments: (1) Personal Insurance, (2) Business Insurance and (3) Bond & Specialty Insurance. In addition, we describe the communication approach of our Claim Services organization.

## Individual Customers

Our individual customers purchase products that are reported in our Personal Insurance segment. In Personal Insurance, we are focused on the end-to-end customer experience and strive to continually improve that experience. We believe that transparency is a fundamental element of a good customer experience and is accomplished by providing information in a manner that is as clear as possible for consumers who may not have insurance industry-specific knowledge.

We have invested, and continue to invest, in core capabilities that are designed to improve the level of transparency with our individual customers and will allow us to communicate with our customers in a more personalized fashion. Our investments include the following:

- **MyTravelers® Customer Portal.** *MyTravelers*, our customer portal, is available 24/7 and enables our customers to manage their insurance needs more quickly and conveniently. *MyTravelers* allows our customers to make payments, view or change policy information, report a claim and otherwise manage their insurance policies. In addition, through this robust digital experience, we provide our customers with explanations about our insurance products and coverage using plain language and, in some cases, video content.
- **Home Insurance Summary Page.** Travelers' new **Quantum Home 2.0®** insurance packages now include a new page designed to educate and inform customers about some of the basic terms and coverages included in their policies. The summary page features an illustration of a home and urges customers to explore their coverage in an engaging way. The page describes major coverages in easy-to-understand language. It also shows which discounts are currently applied to a policy and which discounts are not currently applied. In addition, the page provides a high-level view of what is typically covered and what is not typically covered by homeowners insurance.
- **Travelers Home Central™.** *Travelers Home Central* is a set of online tools and resources that provides content and information about moving, refinancing, buying and remodeling a home. The content is designed to protect our current and future customers and make them feel more secure about making difficult choices and understanding the risks involved with being a homeowner.

These digital experiences are offered to the majority of our customers regardless of how they bought their policies (i.e., direct, affinity relationship or independent agent).

- **Insurance Essentials: Your Questions Answered.**

As part of our commitment to customers, both existing and potential, the [Travelers Institute](#)<sup>®</sup> (the public policy division of Travelers) launched an initiative called *Insurance Essentials: Your Questions Answered* to help consumers make informed decisions about their personal insurance options. The initiative was introduced following Superstorm Sandy and other extreme weather events, which demonstrated that many consumers need, or want, more help understanding their insurance policies and options. This initiative includes an educational [Insurance Essentials Guide](#) that covers topics such as how insurance works; types of homeowners and auto insurance coverages; condominium and renters insurance; wedding insurance; flood insurance; limits and deductibles; and basic disaster preparedness. Further, the Travelers Institute partners with independent insurance agents to bring an educational symposium series to their communities, also addressing local issues such as wildfires and hurricanes.

## Business Customers

Our business customers purchase products that are reported in the Business Insurance or in the Bond & Specialty Insurance business segments. Business insurance products include more than insurance policies; business customers also purchase supplemental services, such as risk control and claim handling services.

Business customers have varying levels of sophistication and often have dedicated risk management teams or departments and legal representation when negotiating insurance contracts, reviewing insurance policies and terms and managing the insurance relationship once a policy is purchased. Our business customers are also typically represented by independent, professionally licensed insurance producers in the procurement of insurance coverage. As a result, the vast majority of our dealings in the negotiation of insurance contracts are with the insured's or potential insured's representative. This remains true after the sale of a policy, as well. The independent producer is also generally involved even when we directly communicate with an insured or prospective insured.

Our methods and channels of communication with our customers take into account their level of sophistication and the resources they have available and include:

- **Travelers.com Product-Specific Pages.** We have website pages that provide an overview of product offerings [by industry](#) and, where applicable, expanded [Insights & Expertise](#) content. The information provided includes explanations of industry-specific coverage available for each offered coverage, as well as ways to mitigate and manage the risk associated with these industries.
- **Travelers Risk Control Customer Portal.** The Travelers Risk Control Customer Portal includes safety tools and resources for our customers' risk management professionals to help them understand, mitigate and manage their risks.
- **MyTravelers<sup>®</sup> for Business.** *MyTravelers* for Business provides business insurance customers access to safety and risk mitigation resources, claim management capabilities, policy documents, payment options and other tools to manage their insurance needs.
- **Risk Management Information Services (e-CARMA<sup>®</sup>).** For our larger customers with more sophisticated or complex operations, we offer a comprehensive tool, *e-CARMA*, to give customers the ability to monitor and analyze their risk management information. In 2019, we completed several modernization efforts making accessing loss information faster and easier, helping customers make timely and informed decisions to keep their businesses running smoothly.
- **Webinars and Conference Educational Sessions.** We offer in-depth presentations that feature specialists or subject matter experts who explore topics and trends and provide ways to help mitigate risks. Further, the Travelers Institute convenes business owners across the country with industry experts to explore solutions to their everyday challenges, such as business continuity planning, access to capital and cybersecurity, through two dedicated symposium series, *Small Business – Big Opportunity<sup>®</sup>* and *Cyber: Prepare, Prevent, Mitigate, Restore<sup>®</sup>*.

- **Videos.** We offer short-form content that provides visual examples and information, primarily related to our products and/or loss prevention; topics covered include, for example, the Travelers Early Severity Predictor<sup>®</sup>, trends in manufacturing and risks in crane operations.
- **Newsletters.** Our industry-specific newsletters educate our customers regarding how to manage their risks.
- **Product and Marketing Materials.** Our electronic and printed materials detail specific product offerings and include product highlight sheets, coverage checklists, policy added-value benefits, risk scenarios and thought leadership white papers.

## Claim Services

Whether an insurance policy is sold to an individual or to a business, the policy represents a promise to indemnify the customer in the event of a covered loss. Our claim process includes timely identification and communication of all applicable coverages and limits, and our overarching imperative is to pay what we owe. Informing our customers about the scope of their coverage is an important part of our claim process. We communicate with our customers through a variety of channels, including: our website, [www.travelers.com](http://www.travelers.com); our application and customer portal, MyTravelers<sup>®</sup>; letters; emails; and text messages and telephone conversations with Claim professionals. In addition, for certain claim types, Travelers loss consultants are available to provide our customers with information about coverage, deductibles and probable impact to loss history before a claim is filed to help them make an informed decision that is in their best interest.

We continue to expand the availability of digital tools that provide claim status updates and facilitate communication with Claim and medical professionals throughout the claim process. These tools provide access to medical and physical damage reports and payments issued and allow for secure communications with Claim and medical professionals.

Each Claim professional is trained regarding payment processes and accountable for explaining those processes to customers along with any relevant informational documentation. Customers may dispute the resolution of their claim at any time, following which we will conduct a review of the file to ensure that the claim was properly handled.

# Incorporation of Environmental, Social & Governance Factors in Investment Management

## FN-IN-410a.1

### Total invested assets by industry and asset class

The primary purpose of our investment portfolio is to fund the payment of future claims. Accordingly, we employ a thoughtful investment philosophy that focuses on appropriate risk-adjusted returns. At December 31, 2019, approximately 94% of our investment portfolio was invested in fixed maturity and short-term investments. As of that date, the weighted average credit quality of our fixed maturity portfolio, both including and excluding U.S. Treasury securities, was “Aa2.”

Information regarding our investments is included for our lead insurers (i.e., The Travelers Indemnity Company, St. Paul Fire and Marine Insurance Company, Travelers Casualty and Surety Company, and The Standard Fire Insurance Company) in our [Annual Statutory Statements](#), available on our website.

We also include detailed information on the investments held by investment type, country and credit rating where applicable in the Summary Investment Schedule (Exhibit 2 for the Travelers Combined Pool Audit; Exhibit 1 for the other non-pooled entities audits) and Supplemental Investment Risks Interrogatories (Exhibit 3 for the Travelers Combined Pool Audit; Exhibit 2 for the other non-pooled entities audits) in our audited statutory financial statements that we file with our regulators. These [schedules and interrogatories](#) are available on our website.

Additionally, for a discussion of our investment portfolio, please see Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investment Portfolio in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2019.

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## **FN-IN-410a.2**

Description of approach to incorporation of environmental, social and governance (ESG) factors in investment management processes and strategies

Insurance companies are subject to significant regulatory investment requirements that place limitations on the types of investments insurers may make, as well as limitations on concentrations of credit and equity risk. These requirements have the primary objective of ensuring that insurers have sufficient liquidity to pay claims as they are presented. As a result, insurers do not have the flexibility that other segments of the financial sector may have with regard to investments. Property and casualty insurers frequently have large fixed income portfolios. As disclosed in our [Annual Report on Form 10-K](#), a significant majority of our funds available for investment are deployed in a widely diversified portfolio of high quality, liquid U.S. government, U.S. municipal, corporate and U.S. agency mortgage-backed bonds.

Working within this regulatory framework, Travelers has established an Investment Policy, which has been approved by the Board of Directors, that provides limits on eligible investments by asset class, industry, issuer and rating to ensure adequate diversification of risks and compliance with regulatory requirements. As reflected in our Investment Policy, we consider relevant environmental, social and governance factors, among other factors, along with these regulatory requirements. For example, in our fixed income investments, we emphasize high quality securities to support payment of policyholder obligations and the generation of reliable net investment income. Travelers invests in fixed income securities using a variety of qualitative and quantitative criteria. The investment process evaluates investments by taking into account both expected returns and risks, including interest rate, credit, prepayment and other risks. For securities exposed to credit risk, we invest primarily using a fundamental investment process that considers all material sources of credit risk to our investment position and weighs, on an appropriate basis, financial statement data, management information, third-party research, relevant environmental, social and governance factors and other information.

# Policies Designed to Incentivize Responsible Behavior

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## **FN-IN-410b.1**

Net premiums written related to energy efficiency and low carbon technology

Travelers notes that the separate identification of premiums related to energy efficiency and low carbon technology risks is dependent on whether those risks are separately rated (and priced) from the other risks included in a policyholder's total coverage. Currently, we do not capture premium data based on energy efficiency and low carbon technology. We currently capture premium data by line of business and by state, as required by our insurance regulators.

We believe Travelers is positioned to benefit from the increased economic activity related to renewable energy by insuring more offshore wind projects globally, including offshore wind projects in the North Sea and the first U.S. offshore wind farm project, Block Island Wind Farm. Our Global Renewable Energy Practice — domestically and internationally — grew its gross written premiums by nearly 30% year over year.

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## **FN-IN-410b.2**

Discussion of products and/or product features that incentivize health, safety, and/or environmentally responsible actions and/or behaviors

Travelers offers several products and services with features that are designed to incentivize health and safety and/or environmentally responsible actions or behaviors.

### **Health & Safety**

As a leading workers compensation carrier, we offer various products and services designed to maximize employee health, ensure workplace safety and, when work-related injuries do occur, enable injured employees to return to work as soon as medically appropriate. We also have products and services in our other commercial and personal insurance lines to incentivize the safety of our customers and our customers' employees.



- **Early Severity Predictor®.** By analyzing claim data, Travelers created the *Early Severity Predictor* model that can help predict which injured employees are most at risk for chronic pain. By adjusting medical care and resources, the *Early Severity Predictor* model can help address potential drivers of chronic pain, a condition that is largely treated with opioids or other painkillers. Since its inception in 2015, our *Early Severity Predictor* model has benefited more than 65,000 injured employees. We estimate that this has resulted in loss costs savings of more than \$150 million due to a substantial reduction in surgeries performed and opioids prescribed and a more rapid return to work by impacted employees. Today, we apply this model to 100% of the workers compensation lost-time claims that we receive.
- **Injured Employee Portal.** Responding to the evolving needs of our customers and their injured employees, we have made numerous investments in our workers compensation claim handling model, *TravComp®*. To that end, we introduced our self-service workers compensation claim portal, *MyTravelers®* for Injured Employees. Through this innovative platform, injured employees are empowered to engage in their return-to-work journey and interact with us digitally throughout the claim process. In-portal claim notifications, messaging with Claim and medical professionals, two-way document sharing and tailored digital content help ensure we get the right claim information in the hands of injured employees quickly.
- **Helping Injured Employees Return to Work.** When an employee gets injured at work, navigating the claim process can be challenging. A one-on-one connection between a nurse and the injured employee, pioneered by the Travelers *ConciergeCLAIM®* Nurse program, helps injured employees find access to quality health care, stay engaged in the workforce and return to work as soon as medically appropriate. By placing nurse case managers in local health care clinics across the country, the Travelers *ConciergeCLAIM* Nurse program has reduced days out of work by 35%.

This program can also pair a Spanish-speaking injured employee with a Spanish-speaking nurse who shares a cultural background, helping to build trust and improve outcomes for everyone. On average, when we provide Spanish-language workers compensation Claim and medical professionals, we see a reduction in lost time and claim, legal and medical expenses, with improved medical and return-to-work outcomes.

Workers compensation claims handled by culturally and linguistically aligned Claim professionals through our Cultural Advantage program saw a 20% improvement in return to work within 30 days (2014–2019 accident years, Southern California Claim Center). Given the results, we have since expanded our Cultural Advantage program to include other offices, languages and claim processes.

Employers can also help injured employees avoid opioid dependency and other barriers to a successful return to work by implementing a post-injury management strategy. This is a key part of the Travelers *Corridor of Care®* process, which takes a systematic and positive approach to handling employee injuries.

- **Digital Tools Orthopaedic Injury Pilot.** We are collaborating with Cedars-Sinai, Samsung Electronics America, Bayer and appliedVR to explore the effectiveness of a digital pain-reduction kit that uses therapeutic virtual reality (VR) and wearable technology as a nonpharmacological supplement to managing pain associated with acute orthopaedic injuries of the lower back and extremities.
- **Industrial Hygiene Laboratory.** The Travelers Industrial Hygiene (IH) Laboratory, nationally accredited by the American Industrial Hygiene Association (AIHA), provides specialized services to our commercial customers to assess their employees' exposures and help prevent occupational illnesses. The IH Laboratory supports our field organization and offers a wide array of sampling and analysis protocols based on Occupational Safety and Health Administration (OSHA) and National Institute of Occupational Safety and Health (NIOSH) methodologies. The IH Laboratory, equipped to analyze more than 500 different chemicals, performs more than 50,000 analyses on approximately 34,000 samples annually for respirable dust and chemical exposures, helping customers identify and minimize workplace exposures. The experienced staff develops innovative analytical methods and recommends products and services to monitor workplace environments to help customers improve the health and safety of their employees.
- **Ergonomics Initiative.** An effective ergonomics program can help companies identify those job tasks and workplace factors that may put employees at risk of developing musculoskeletal disorders (MSDs). Our staff of dedicated certified ergonomists focus on helping customers identify and reduce ergonomic risk factors in the workplace.

They have specialized knowledge and experience working with businesses in the manufacturing, logistics, financial services, health care and service industries. Our core consulting services include:

- Ergonomic assessments to identify the “vital few” tasks with the highest potential for reducing employee injuries;
- Ergonomic Job Improvement Process (EJIP), our four-phase process to help customers self-identify and address key ergonomic issues using a team approach with the goal of reducing the frequency of MSDs; and
- Ergonomic task force development assistance to train teams on ergonomic basics and solve ergonomic issues through employee engagement.

In addition to our on-site services, our ergonomic specialists can provide on-demand virtual consulting with customers to help them assess their risks and help provide solutions.

- **Construction Safety.** The Travelers Construction unit has announced a collaboration with Gilbane, one of the country’s largest contractors, and Triax Technologies, a leader in Internet of Things (IoT) construction technology, to explore potential safety benefits of wearable devices for construction workers. We believe these pilot projects will help Travelers gain valuable data-driven insights to identify the best uses for wearable technology with the goal of improving outcomes and construction safety. With real-time data and notifications, as well as visibility into what is occurring on the jobsites, wearable technology has the potential to transform safety and risk management practices in one of the most hazardous environments.

For instance, the crane is one of the most dangerous and expensive pieces of equipment found on construction jobsites. When a crane fails, workers and bystanders can be seriously injured or killed, property can be damaged and production deadlines and budgets can be negatively impacted. Having a knowledgeable crane operations team that is well versed in crane safety is critical. Travelers has numerous crane safety training programs to help contractors and their staff learn how to operate cranes safely. Travelers has trained more than 10,000 professionals in crane safety.

- **Fire Protection System Impairment Management Tool.** Available on both our secure Risk Control website and our Risk Toolworks™ mobile app, this tool is designed to help customers record and communicate to Travelers when a sprinkler system, fire pump, special extinguishing system or other fire protection system components are out of service. Customers can track impairments at multiple properties and get reminder emails to help ensure the system is back to service in a timely manner, protecting their business and employees.

- **Safe Driving.** Our Risk Control staff works with our customers to help them manage employee drivers of all types of vehicles to improve their on-the-road safety performance. Our staff also provides safety resources to personal and business drivers to help them become safer, more aware drivers. Travelers Risk Control also promotes safe driving through: (1) our dedicated staff of transportation safety specialists, (2) customer outreach with our [Lives@Risk](#) program, which is designed to build awareness of common distractions that can affect a driver’s ability to focus on the task of driving and (3) supporting enterprisewide education efforts such as the Travelers Institute’s [Every Second Matters](#)™ education campaign to combat distracted driving.

We also incentivize safe driving behavior for our customers through the 90-day driving program called [IntelliDrive](#)®, which is available in most states. Travelers Personal Auto customers can use a smartphone app to capture data and score how safely they drive. *IntelliDrive* captures information about driving habits, such as braking, acceleration, speed and time of day. New Travelers customers who enroll could save up to 5% on their policy’s first term. When their policy renews, safe driving habits can lead to savings of up to 20%, while riskier driving habits can result in a higher premium.

- **Everyday Safety.** Travelers Risk Control supports the general population by providing risk management information applicable to a wide variety of everyday concerns. In a typical day, many people will drive a car, use a stove or the internet, or purchase something with a credit card, each of which has its own associated risks. Risk Control helps explain the risks we may face in our daily lives and provides practical insights on how to reduce exposure to personal injury or property damage. Understanding everyday risks enables us to take actions to avoid or manage them.

In 2019, Travelers continued to work with Amazon to offer discounted smart home products and valuable insurance and risk management information through the insurance industry’s first digital storefront: [Amazon.com/Travelers](#). The smart home offers are designed to help homeowners increase awareness of the events occurring within their homes and help mitigate risks from some of the most common causes of loss: water damage, fire and theft. We continued to expand our free Amazon Echo Dot offer from 2018, which helps customers integrate their smart home devices for ease of use and enables Travelers voice-controlled skills on the Alexa platform. Eligible Travelers home insurance customers can receive a discount on their policies with the usage of eligible smart home devices.

## Environmental Responsibility

As a core part of our business, we continually monitor, assess and respond not only to the risks but also to the opportunities posed by changing climate conditions. As a result, we have identified several business opportunities associated with more environmentally friendly trends and provide products and product features that address our customers' evolving needs and incentivize responsible environmental behavior, while being priced to meet our long-term financial objectives.

- **Discounts.** One of the ways in which Travelers encourages environmentally responsible behaviors is by offering relevant discounts. For example, customers in Personal Insurance can save up to 5% if their home is a certified “green home” by Leadership in Energy and Environmental Design (LEED). We also offer Personal Insurance customers a Hybrid/Electric Vehicle Discount if they own or lease a hybrid car.
- **Mitigation Discounts for Homes Designed as FORTIFIED by IBHS.** Travelers sponsors the Insurance Institute for Business & Home Safety (IBHS), the BuildStrong Coalition, Habitat for Humanity®, SBP and the Wharton Risk Center to promote stronger and more resilient building codes and influence industry standards and best practices.

IBHS is a full-scale research testing facility capable of producing wind speeds up to 130 mph, rainfall rates up to 8 inches per hour, hail impact testing via ice cannons and flying ember testing for wildfire risk and mitigation. Better science, testing and understanding lead to improved building codes and standards. The IBHS FORTIFIED building code standards were developed based on full-scale performance testing in the laboratory. At Travelers, mitigation discounts are available in many states for homes designated as FORTIFIED by IBHS.

- **Green Building Coverages.** For our Business Insurance customers, Travelers offers multiple options for green building coverages. One example, Travelers Deluxe® property insurance, offers “Green Building Alternatives – Increased Cost” coverage to pay for additional costs incurred to repair or replace damaged buildings using “green” products and materials.
- **Global Renewable Energy Practice.** Our dedicated Global Renewable Energy Practice provides insurance solutions for the life span of a renewable energy business, from research and development and manufacturing to permanent operations, as well as for onshore and offshore wind, solar and biopower operations. As the renewable energy industry domestically and internationally continues

to expand, this practice analyzes industry trends, market data and loss trends to design and develop insurance products tailored to the specific needs of renewable energy businesses. For example, our proprietary WindPak® and SolarPak® insurance products respond to unique coverage issues for the wind and solar industries.

- **Educational Resources and Real-Time Tips.** Through the [Prepare & Prevent](#) section of our corporate website, we provide customers, agents and brokers and the general public with extensive educational resources to help them plan for, stay safe during and recover from natural disasters of all types. This site and our secure Risk Control Customer Portal give customers, agents and brokers access to over 1,250 resources to help them better understand risk, mitigate exposures and prevent losses. We also provide real-time weather alerts, bulletins and mitigation tips to our clients prior to and during events.

## Environmental Risk Exposure

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### FN-IN-450a.1

#### Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes

We use various analyses and methods, including proprietary and third-party computer modeling processes, to make underwriting and reinsurance decisions designed to manage our exposure to catastrophic events. There are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

We actively monitor and evaluate changes in third-party models and, when necessary, calibrate the catastrophe risk model estimates delivered via our own proprietary modeling processes. We consider historical loss experience, recent events, underwriting practices, market share analyses, external scientific analyses and various other factors, including non-modeled losses, to refine our proprietary view of catastrophe risk. These proprietary models are updated regularly as new information and techniques emerge.

The table below sets forth the probabilities that estimated losses, comprising claims and allocated claim adjustment expenses (but excluding unallocated claim adjustment expenses), from a single event occurring in a one-year timeframe will equal or exceed the indicated loss amounts (expressed in dollars, net of tax, and as a percentage of the Company's common equity), based on the proprietary and third-party computer models utilized by the Company at December 31, 2019. For example, on the basis described below the table, the Company estimates that there is a one percent chance that the Company's loss from a single U.S. and Canadian hurricane in a one-year timeframe would equal or exceed \$1.6 billion, or 7% of the Company's common equity at December 31, 2019.

LIKELIHOOD OF EXCEEDANCE <sup>1</sup>	DOLLARS (IN BILLIONS)		PERCENTAGE OF COMMON EQUITY <sup>2</sup>	
	SINGLE U.S. AND CANADIAN HURRICANE	SINGLE U.S. AND CANADIAN EARTHQUAKE	SINGLE U.S. AND CANADIAN HURRICANE	SINGLE U.S. AND CANADIAN EARTHQUAKE
2.0% (1-in-50)	\$1.3	\$0.5	5%	2%
1.0% (1-in-100)	\$1.6	\$0.7	7%	3%
0.4% (1-in-250)	\$2.2	\$1.2	9%	5%
0.1% (1-in-1,000)	\$4.9	\$1.9	21%	8%

<sup>1</sup>An event that has, for example, a 2% likelihood of exceedance is sometimes described as a "1-in-50 year event." As noted above, however, the probabilities in the table represent the likelihood of losses from a single event equaling or exceeding the indicated threshold loss amount in a one-year timeframe, not over a multi-year timeframe. Also, because the probabilities relate to a single event, the probabilities do not address the likelihood of more than one event occurring in a particular period, and, therefore, the amounts do not address potential aggregate catastrophe losses occurring in a one-year timeframe.

<sup>2</sup>The percentage of common equity is calculated by dividing (a) indicated loss amounts in dollars by (b) total common equity excluding net unrealized investment gains and losses, net of taxes, included in shareholders' equity. Net unrealized investment gains and losses can be significantly impacted by both discretionary and other economic factors and are not necessarily indicative of operating trends. Accordingly, the Company's management uses the percentage of common equity calculated on this basis as a metric to evaluate the potential impact of a single hurricane or single earthquake on the Company's financial position for purposes of making underwriting and reinsurance decisions.

The threshold loss amounts in the table above, which are based on the Company's in-force portfolio at December 31, 2019 and catastrophe reinsurance program at January 1, 2020, are net of reinsurance, after-tax and exclude unallocated claim adjustment expenses, which historically have been less than 10% of loss estimates. For further information regarding the Company's reinsurance, see "Item 1—Business—Reinsurance" in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2019. The amounts for hurricanes reflect U.S. and Canadian exposures and include property exposures, property residual market exposures and an adjustment for certain non-property exposures. The hurricane loss amounts are based on the Company's catastrophe risk model estimates and include losses from the hurricane hazards of wind and storm surge. The amounts for earthquakes reflect U.S. and Canadian property and workers compensation exposures. The Company does not believe that the inclusion of hurricane or earthquake losses arising from other geographical areas or other exposures would materially change the estimated threshold loss amounts.

Catastrophe modeling relies upon inputs based on experience, science, engineering and history. These inputs reflect a significant amount of judgment and are subject to changes which may result in volatility in the modeled output. Catastrophe modeling output may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseeable. Catastrophe modeling assumptions include, among others, the portion of purchased reinsurance that is collectible after a catastrophic event, which may prove to be materially incorrect. Consequently, catastrophe modeling estimates are subject to significant uncertainty. In the table above, the uncertainty associated with the estimated threshold loss amounts increases significantly as the likelihood of exceedance decreases. In other words, in the case of a relatively more remote event (e.g., 1-in-1,000), the estimated threshold loss amount is relatively less reliable. Actual losses from an event could materially exceed the indicated threshold loss amount. In addition, more than one such event could occur in any period.

Moreover, Travelers is exposed to the risk of material losses from other than property and workers compensation coverages arising out of hurricanes and earthquakes, and it is exposed to catastrophe losses from perils other than hurricanes and earthquakes, such as tornadoes and other windstorms, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions, solar flares and other naturally occurring events.

For more information about Travelers' exposure to catastrophe losses, see our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2019, under "Item 1A—Risk Factors—High levels of catastrophe losses, including as a result of factors such as increased concentrations of insured exposures in catastrophe-prone areas, could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance" and "Item 1A—Risk Factors—We may be adversely affected if our pricing and capital models provide materially different indications than actual results."

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## **FN-IN-450a.2**

### Total amount of monetary losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)

We do not separately identify our losses by modeled and non-modeled catastrophes as we do not believe this categorization is meaningful to our business. We do not view catastrophe peril modeling as binary (modeled versus non-modeled). Available models have widely varying levels of maturity and sophistication, making it impossible to determine when a particular process is developed enough to qualify as a model or, conversely, is too immature to qualify as a model.

Our approach to evaluating catastrophe risk takes into account "models" along the entire continuum, from the most mature and sophisticated models to those that are in the earliest stage of development. In each case, we also utilize our own data and analytics and apply our informed judgment and expertise in our underwriting, pricing and capital management decisions.

Travelers defines a "catastrophe" as an event:

- That is designated a catastrophe by internationally recognized organizations that track and report on insured losses resulting from catastrophic events, such as Property Claim Services (PCS) for events in the United States and Canada; and
- For which the Company's estimates of its ultimate losses before reinsurance and taxes exceed a pre-established dollar threshold.

Our threshold for disclosing catastrophes is primarily determined at the reportable segment level. If a threshold for one segment or a combination thereof is exceeded and other segments have losses from the same event, losses from the event are identified as catastrophe losses in the segment results and for the consolidated results of Travelers. Additionally, an aggregate threshold is applied for International business across all reportable segments. The threshold for 2019 ranged from approximately \$19 million to \$30 million of losses before reinsurance and taxes.

The following table presents the amount of losses recorded by Travelers for significant catastrophes that occurred in 2019, 2018 and 2017, the amount of net unfavorable (favorable) prior year reserve development recognized in 2019 and 2018 for catastrophes that occurred in 2018 and 2017, and the estimate of ultimate losses for those catastrophes at December 31, 2019, 2018 and 2017. For purposes of the table, a significant catastrophe is an event for which we estimate our ultimate losses will be \$100 million or more after reinsurance and before taxes.

(IN MILLIONS, PRE-TAX AND NET OF REINSURANCE) <sup>1</sup>	LOSSES INCURRED / UNFAVORABLE (FAVORABLE) PRIOR YEAR RESERVE DEVELOPMENT FOR THE YEAR ENDED DECEMBER 31,			ESTIMATED ULTIMATE LOSSES AT DECEMBER 31,		
	2019	2018	2017	2019	2018	2017
<b>2017</b>						
<b>PCS Serial Number:</b>						
22 – Severe wind and hail storms	\$ (2)	\$ (2)	\$ 111	\$ 107	\$ 109	\$ 111
32 – Severe wind and hail storms	6	19	210	235	229	210
43 – Hurricane Harvey	(14)	(24)	254	216	230	254
44 – Hurricane Irma	(12)	(28)	187	147	159	187
48 – California wildfire – Tubbs fire	(5)	1	507	503	508	507
<b>2018</b>						
<b>PCS Serial Number:</b>						
15 – Winter storm	(4)	144	n/a	140	144	n/a
17 – Severe wind and hail storms	(6)	111	n/a	105	111	n/a
33 – Severe wind and hail storms	2	117	n/a	119	117	n/a
52 – Hurricane Florence	(18)	106	n/a	88	106	n/a
57 – Hurricane Michael	2	158	n/a	160	158	n/a
59 – California wildfire – Camp fire	2	334	n/a	336	334	n/a
60 – California wildfire – Woolsey fire	10	119	n/a	129	119	n/a
<b>2019</b>						
<b>PCS Serial Number:</b>						
33 – Severe wind storms	250	n/a	n/a	250	n/a	n/a
61 – Severe wind storms and tornadoes	109	n/a	n/a	109	n/a	n/a

<sup>1</sup>Amounts are reported pre-tax and net of recoveries under all applicable reinsurance treaties, except for the Underlying Property Aggregate Catastrophe Excess-of-Loss Treaty, the terms of which are described in “Part I—Item 1—Business” of our [Annual Report on Form 10-K](#). That treaty covers the accumulation of certain property losses arising from one or multiple occurrences (both catastrophe and non-catastrophe events) for the period January 1, 2019 through and including December 31, 2019. As a result, the benefit from that treaty is not included in the table above as the allocation of the treaty’s benefit to each identified catastrophe changes each time there are additional events or changes in estimated losses from any covered event.

n/a=not applicable

Travelers does not have geographic segments and, therefore, does not break down policy losses and benefits expenses by geographic segment. The following table, however, summarizes the geographic distribution of our consolidated direct written premiums for the year ended December 31, 2019:

LOCATION	% OF TOTAL
<b>Domestic:</b>	
California	10.0%
New York	9.6%
Texas	8.0%
Pennsylvania	4.4%
Florida	4.1%
New Jersey	3.9%
Illinois	3.8%
Georgia	3.5%
All other domestic <sup>1</sup>	46.3%
<b>Total Domestic</b>	<b>93.6%</b>
<b>International:</b>	
Canada	4.3%
All other international <sup>1</sup>	2.1%
<b>Total International</b>	<b>6.4%</b>
<b>Consolidated total</b>	<b>100.0%</b>

<sup>1</sup>No other single state or country accounted for 3.0% or more of the Company's consolidated direct written premiums written in 2019.

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### **FN-IN-450a.3**

Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of firm-level risks and capital adequacy

For information responsive to FN-IN-450a.3, please see our [2019 TCFD Report](#).

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## **Systemic Risk Management**

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### **FN-IN-550a.1**

Exposure to derivative instruments by category: (1) total potential exposure to non-centrally cleared derivatives, (2) total fair value of acceptable collateral posted with the Central Clearinghouse and (3) total potential exposure to centrally cleared derivatives

#### **Market Risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates (inclusive of credit spreads), foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of our primary market risk exposures and how those exposures are managed as of December 31, 2019. Our market risk sensitive instruments, including derivatives, are primarily entered into for purposes other than trading.

The carrying value of our investment portfolio at December 31, 2019 and 2018 was \$77.88 billion and \$72.28 billion, respectively, of which 87% and 88% was invested in fixed maturity securities, respectively. At December 31, 2019 and 2018, approximately 6.6% and 6.7%, respectively, of our invested assets were denominated in foreign currencies. Our exposure to equity price risk is not significant. Travelers has no direct commodity risk and is not a party to any credit default swaps.

The primary market risks to the investment portfolio are interest rate risk and credit risk associated with investments in fixed maturity securities. The portfolio duration is primarily managed through cash market transactions and treasury futures transactions.

The primary market risk for all of our debt is interest rate risk at the time of refinancing. Travelers monitors the interest rate environment and evaluates refinancing opportunities as maturity dates approach.

Our foreign exchange market risk exposure is concentrated in our invested assets, insurance reserves and shareholders' equity denominated in foreign currencies. Cash flows from our foreign operations are the primary source of funds for the purchase of investments denominated in foreign currencies. Travelers purchases these investments primarily to fund insurance reserves and other liabilities denominated in the same currency, effectively reducing its foreign currency exchange rate exposure. Invested assets denominated in the Canadian dollar comprised approximately 4.2% and 4.1% of the total invested assets at December 31, 2019 and 2018, respectively. Invested assets denominated in the British Pound Sterling comprised approximately 1.7% and 1.9% of total invested assets at December 31, 2019 and 2018, respectively. Invested assets denominated in other currencies at December 31, 2019 and 2018 were not material.

There were no significant changes in our primary market risk exposures or in how those exposures were managed for the year ended December 31, 2019 compared to the year ended December 31, 2018. Travelers does not currently anticipate significant changes in its primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

#### **Derivative Financial Instruments**

From time to time, Travelers enters into U.S. Treasury note futures contracts to modify the effective duration of specific assets within the investment portfolio.

U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At December 31, 2019 and 2018, Travelers had no open U.S. Treasury futures contracts. Net realized investment gains and losses related to U.S. Treasury futures contracts in 2019, 2018 and 2017 were not significant.



Travelers has a put/call option that was entered into in connection with a business acquisition that allows the Company to acquire the remaining shares of the acquired company at a future date. Net realized investment gains and losses related to this put/call option in 2019 and 2018 were not significant.

Travelers also sells a small amount of U.S. equity index put option contracts that are settled for cash upon their expiration or when they are rolled over. Net realized investment gains and losses related to these derivatives in 2019, 2018 and 2017 were not significant.

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### **FN-IN-550a.2**

#### Total fair value of securities lending collateral assets

Travelers has, from time to time, engaged in securities lending activities from which it generates net investment income by lending certain of its investments to other institutions for short periods of time. At December 31, 2019 and 2018, Travelers had \$404 million and \$367 million of securities on loan, respectively, as part of a tri-party lending agreement. The average monthly balance of securities on loan during 2019 and 2018 was \$368 million and \$319 million, respectively.

Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued interest. We did not incur any investment losses in our securities lending program for the years ended December 31, 2019 and 2018.

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### **FN-IN-550a.3**

#### Description of approach to managing capital- and liquidity-related risks associated with systemic non-insurance activities

There are five types of non-insurance entities at Travelers, and they are included in our Enterprise Risk Management (ERM) framework. However, these entities all relate to the insurance operations and are not considered to be material sources of risk to the enterprise.

The five types are: (1) the ultimate parent holding company and the intermediate holding companies, (2) the servicing companies for the group's operational activities, (3) providers of insurance-related services, (4) managing general agents for certain of our insurance entities and (5) investment holding companies.

As a large property and casualty insurance enterprise, we are exposed to many risks. These risks are a function of the products we write and the environments within which Travelers operates. Since certain risks can be correlated with other risks, an event or a series of events can impact multiple areas of Travelers simultaneously and have a material effect on our results of operations, financial position and/or liquidity. These exposures require an entitywide view of risk and an understanding of the potential impact on all aspects of our operations. They also require Travelers to manage our risk-taking to be within our risk appetite in a prudent and balanced effort to create and preserve value for all of our stakeholders. This approach to companywide risk evaluation and management is commonly called Enterprise Risk Management. ERM activities involve both the identification and assessment of a broad range of risks and the execution of synchronized strategies to effectively manage such risks. Effective ERM also includes the determination of our risk capital needs, which takes into account regulatory requirements and credit rating considerations, in addition to economic and other factors.

ERM at Travelers is an integral part of our business operations. All senior corporate leaders and the Board of Directors are engaged in ERM. ERM involves risk-based analytics, as well as reporting and feedback throughout the enterprise, in support of our long-term financial strategies and objectives.

Travelers uses various analyses and methods, including proprietary and third-party modeling processes, to make underwriting and reinsurance decisions designed to manage the Company's exposure to catastrophic events.

In addition to catastrophe modeling and analysis, Travelers also models and analyzes the Company's exposure to other extreme events. We also utilize proprietary and third-party modeling processes to evaluate capital adequacy. These analytical techniques are an integral component of our ERM process and further support our long-term financial strategies and objectives.

# Activity Metric

## **FN-IN-000.A**

### Number of policies in force, by segment

We report selected policies-in-force data on a quarterly basis for our Personal Insurance Domestic Agency Automobile and our Personal Insurance Domestic Agency Homeowners and Other lines. Information regarding our policies in force for 2018 and 2019 is disclosed in the tables below.

<b>PERSONAL INSURANCE: DOMESTIC AGENCY AUTOMOBILE<sup>1</sup></b>	<b>1Q'18</b>	<b>2Q'18</b>	<b>3Q'18</b>	<b>4Q'18</b>	<b>1Q'19</b>	<b>2Q'19</b>	<b>3Q'19</b>	<b>4Q'19</b>
Policies in force (in thousands)	2,519	2,517	2,518	2,518	2,516	2,517	2,524	2,532
Change from prior year quarter	1.5%	0.1%	(0.4)%	(0.4)%	(0.1)%	—%	0.2%	0.6%
Change from prior quarter	(0.4)%	(0.1)%	—%	—%	(0.1)%	—%	0.3%	0.3%

<sup>1</sup>Represents Automobile policies sold through agents, brokers and other intermediaries, and excludes direct to consumer.

<b>PERSONAL INSURANCE: DOMESTIC AGENCY HOMEOWNERS AND OTHER LINES<sup>1</sup></b>	<b>1Q'18</b>	<b>2Q'18</b>	<b>3Q'18</b>	<b>4Q'18</b>	<b>1Q'19</b>	<b>2Q'19</b>	<b>3Q'19</b>	<b>4Q'19</b>
Policies in force (in thousands)	4,453	4,530	4,601	4,652	4,726	4,825	4,927	5,016
Change from prior year quarter	5.5%	5.8%	5.7%	5.7%	6.1%	6.5%	7.1%	7.8%
Change from prior quarter	1.2%	1.7%	1.6%	1.1%	1.6%	2.1%	2.1%	1.8%

<sup>1</sup>Represents Homeowners and Other Lines policies sold through agents, brokers and other intermediaries, and excludes direct to consumer.

The number of policies in force is not an activity metric we use for the insurance coverages we sell to businesses, as this measure is not a meaningful metric for coverages that are sold and managed on an account or customer relationship basis. Instead, we provide data regarding our retention, renewal premium change and new business statistics for our relevant business groups.

We do not use policies in force for our Business Insurance and certain Bond & Specialty Insurance customers, as we manage these relationships on an account basis. Additionally, we do not provide policies-in-force statistics for our surety business as surety products are generally sold on a non-recurring, project specific basis.

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## Important Legal Information

This report contains information about Travelers. Travelers disclaims any duty or obligation to update such information. Any “forward-looking statement” is made only as of the date such information was originally prepared by Travelers and is intended to fall within the safe harbor for forward-looking information provided in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as “may,” “will,” “should,” “likely,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates” and similar expressions are used to identify these forward-looking statements. These statements include, among other things, statements about our investment portfolio, new product offerings, climate-related risks and opportunities, catastrophe losses and modeling and market risk. Results may differ materially from those expressed or implied by forward-looking statements. Factors that can cause results to differ materially include those described under “Forward Looking Statements” in the Corporation’s most recent Form 10-K and Form 10-Qs filed with the SEC and available on our website.

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