

TRAVELERS COMPANIES, INC.

Form 10-Q

October 20, 2015

[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2015

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-0518860
(I.R.S. Employer
Identification No.)

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes NO

Edgar Filing: TRAVELERS COMPANIES, INC. - Form 10-Q

The number of shares of the Registrant's Common Stock, without par value, outstanding at October 16, 2015 was 304,218,796.

Table of Contents

The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended September 30, 2015

TABLE OF CONTENTS

	Page
<u>Part I – Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements:</u>	
<u>Consolidated Statement of Income (Unaudited) – Three Months and Nine Months Ended September 30, 2015 and 2014</u>	3
<u>Consolidated Statement of Comprehensive Income (Unaudited) – Three Months and Nine Months Ended September 30, 2015 and 2014</u>	4
<u>Consolidated Balance Sheet – September 30, 2015 (Unaudited) and December 31, 2014</u>	5
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) – Nine Months Ended September 30, 2015 and 2014</u>	6
<u>Consolidated Statement of Cash Flows (Unaudited) – Nine Months Ended September 30, 2015 and 2014</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	73
<u>Item 4.</u>	
<u>Controls and Procedures</u>	73
<u>Part II – Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	73
<u>Item 1A.</u>	
<u>Risk Factors</u>	74
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	74

<u>Item 5.</u>	<u>Other Information</u>	74
<u>Item 6.</u>	<u>Exhibits</u>	75
	<u>SIGNATURES</u>	75
	<u>EXHIBIT INDEX</u>	76

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME (Unaudited)**

(in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Premiums	\$ 6,032	\$ 5,983	\$ 17,851	\$ 17,734
Net investment income	614	719	1,838	2,150
Fee income	112	110	334	329
Net realized investment gains (1)	15	40	35	57
Other revenues	21	34	68	109
Total revenues	6,794	6,886	20,126	20,379
Claims and expenses				
Claims and claim adjustment expenses	3,382	3,520	10,360	10,661
Amortization of deferred acquisition costs	987	984	2,913	2,899
General and administrative expenses	1,024	1,031	3,044	2,913
Interest expense	94	93	278	277
Total claims and expenses	5,487	5,628	16,595	16,750
Income before income taxes	1,307	1,258	3,531	3,629
Income tax expense	379	339	958	975
Net income	\$ 928	\$ 919	\$ 2,573	\$ 2,654
Net income per share				
Basic	\$ 3.00	\$ 2.72	\$ 8.13	\$ 7.68
Diluted	\$ 2.97	\$ 2.69	\$ 8.04	\$ 7.60
Weighted average number of common shares outstanding				
Basic	307.6	335.1	314.3	342.9
Diluted	311.0	338.9	317.7	346.5
Cash dividends declared per common share	\$ 0.61	\$ 0.55	\$ 1.77	\$ 1.60

(1) Total other-than-temporary impairment (OTTI) losses were \$(14) million and \$(8) million for the three months ended September 30, 2015 and 2014, respectively, and \$(26) million and \$(16) million for the nine months ended September 30, 2015 and 2014, respectively. Of total OTTI, credit losses of \$(14) million and \$(10) million for the

three months ended September 30, 2015 and 2014, respectively, and \$(23) million and \$(20) million for the nine months ended September 30, 2015 and 2014, respectively, were recognized in net realized investment gains. In addition, unrealized gains (losses) from other changes in total OTTI of \$0 million and \$2 million for the three months ended September 30, 2015 and 2014, respectively, and \$(3) million and \$4 million for the nine months ended September 30, 2015 and 2014, respectively, were recognized in other comprehensive income (loss) as part of changes in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 928	\$ 919	\$ 2,573	\$ 2,654
Other comprehensive income (loss):				
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	67	(154)	(829)	901
Having credit losses recognized in the consolidated statement of income	(3)	1	(13)	4
Net changes in benefit plan assets and obligations	24	15	71	45
Net changes in unrealized foreign currency translation	(227)	(203)	(407)	(149)
Other comprehensive income (loss) before income taxes	(139)	(341)	(1,178)	801
Income tax expense (benefit)	(2)	(79)	(330)	311
Other comprehensive income (loss), net of taxes	(137)	(262)	(848)	490
Comprehensive income	\$ 791	\$ 657	\$ 1,725	\$ 3,144

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in millions)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Fixed maturities, available for sale, at fair value (amortized cost \$59,688 and \$60,801)	\$ 61,671	\$ 63,474
Equity securities, available for sale, at fair value (cost \$553 and \$579)	719	899
Real estate investments	1,011	938
Short-term securities	5,128	4,364
Other investments	3,530	3,586
Total investments	72,059	73,261
Cash	344	374
Investment income accrued	613	685
Premiums receivable	6,559	6,298
Reinsurance recoverables	8,949	9,260
Ceded unearned premiums	789	678
Deferred acquisition costs	1,904	1,835
Deferred taxes	241	33
Contractholder receivables	4,390	4,362
Goodwill	3,579	3,611
Other intangible assets	280	304
Other assets	2,403	2,377
Total assets	\$ 102,110	\$ 103,078
Liabilities		
Claims and claim adjustment expense reserves	\$ 48,596	\$ 49,850
Unearned premium reserves	12,284	11,839
Contractholder payables	4,390	4,362
Payables for reinsurance premiums	439	336
Debt	6,743	6,349
Other liabilities	5,625	5,506
Total liabilities	78,077	78,242
Shareholders equity		
Common stock (1,750.0 shares authorized; 304.2 and 322.2 shares issued and outstanding)	22,099	21,843
Retained earnings	29,263	27,251
Accumulated other comprehensive income	32	880
Treasury stock, at cost (458.8 and 437.3 shares)	(27,361)	(25,138)
Total shareholders equity	24,033	24,836
Total liabilities and shareholders equity	\$ 102,110	\$ 103,078

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

(in millions)

For the nine months ended September 30,	2015	2014
Common stock		
Balance, beginning of year	\$ 21,843	\$ 21,500
Employee share-based compensation	105	120
Compensation amortization under share-based plans and other changes	151	144
Balance, end of period	22,099	21,764
Retained earnings		
Balance, beginning of year	27,251	24,291
Net income	2,573	2,654
Dividends	(561)	(553)
Other	2	2
Balance, end of period	29,263	26,394
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	880	810
Other comprehensive income (loss)	(848)	490
Balance, end of period	32	1,300
Treasury stock, at cost		
Balance, beginning of year	(25,138)	(21,805)
Treasury stock acquired share repurchase authorization	(2,150)	(2,275)
Net shares acquired related to employee share-based compensation plans	(73)	(57)
Balance, end of period	(27,361)	(24,137)
Total shareholders equity	\$ 24,033	\$ 25,321
Common shares outstanding		
Balance, beginning of year	322.2	353.5
Treasury stock acquired share repurchase authorization	(20.8)	(25.4)
Net shares issued under employee share-based compensation plans	2.8	3.3
Balance, end of period	304.2	331.4

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the nine months ended September 30,	2015	2014
Cash flows from operating activities		
Net income	\$ 2,573	\$ 2,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	(35)	(57)
Depreciation and amortization	620	653
Deferred federal income tax expense	105	93
Amortization of deferred acquisition costs	2,913	2,899
Equity in income from other investments	(214)	(412)
Premiums receivable	(300)	(334)
Reinsurance recoverables	247	403
Deferred acquisition costs	(2,998)	(2,993)
Claims and claim adjustment expense reserves	(874)	(298)
Unearned premium reserves	542	379
Other	95	181
Net cash provided by operating activities	2,674	3,168
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	8,805	7,975
Proceeds from sales of investments:		
Fixed maturities	1,555	927
Equity securities	38	128
Real estate investments	15	5
Other investments	505	612
Purchases of investments:		
Fixed maturities	(9,972)	(8,237)
Equity securities	(31)	(47)
Real estate investments	(116)	(41)
Other investments	(389)	(406)
Net purchases of short-term securities	(782)	(1,163)
Securities transactions in course of settlement	103	119
Acquisition, net of cash acquired		(12)
Other	(222)	(262)
Net cash used in investing activities	(491)	(402)
Cash flows from financing activities		
Issuance of debt	392	
Treasury stock acquired share repurchase authorization	(2,150)	(2,275)
Treasury stock acquired net employee share-based compensation	(73)	(56)
Dividends paid to shareholders	(557)	(549)
Issuance of common stock employee share options	142	154
Excess tax benefits from share-based payment arrangements	42	38
Net cash used in financing activities	(2,204)	(2,688)
Effect of exchange rate changes on cash	(9)	(5)
Net increase (decrease) in cash	(30)	73
Cash at beginning of year	374	294
Cash at end of period	\$ 344	\$ 367

Supplemental disclosure of cash flow information

Income taxes paid	\$	882	\$	785
Interest paid	\$	217	\$	217

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company's management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the Company's 2014 Annual Report).

The preparation of the interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

Adoption of Accounting Standards Updates

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board (FASB) issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance was effective for the quarter ending March 31, 2015. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

Amendments to the Consolidation Analysis

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The updated guidance is consistent with the Company's accounting policy and its adoption will not have any effect on the Company's results of operations, financial position or liquidity.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for annual and interim periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Additional Accounting Standards Not Yet Adopted

Revenue from Contracts with Customers

In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

For additional information regarding *Revenue from Contracts with Customers* and other accounting standards that the Company has not yet adopted, see the Accounting Standards Not Yet Adopted section of note 1 of notes to the consolidated financial statements in the Company's 2014 Annual Report.

Nature of Operations

The Company is organized into three reportable business segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance. These segments reflect the manner in which the Company's businesses are currently managed and represent an aggregation of products and services based on type of customer, how the business is marketed and the manner in which risks are underwritten. For more information regarding the Company's nature of operations, see the "Nature of Operations" section of note 1 of notes to the consolidated financial statements in the Company's 2014 Annual Report.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION

The following tables summarize the components of the Company's revenues, operating income and