

TRAVELERS COMPANIES, INC.

Form 10-Q

July 21, 2016

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended June 30, 2016

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

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## 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 ☒

Accelerated filer ☐

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The number of shares of the Registrant's Common Stock, without par value, outstanding at July 18, 2016 was 288,281,317.

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**The Travelers Companies, Inc.**

**Quarterly Report on Form 10-Q**

**For Quarterly Period Ended June 30, 2016**

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(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Premiums	\$ 6,067	\$ 5,931	\$ 12,048	\$ 11,819
Net investment income	549	632	1,093	1,224
Fee income	119	115	236	229
Net realized investment gains (1)	19	10	10	20
Other revenues	31	22	84	47
<b>Total revenues</b>	<b>6,785</b>	<b>6,710</b>	<b>13,471</b>	<b>13,339</b>
<b>Claims and expenses</b>				
Claims and claim adjustment expenses	3,762	3,547	7,474	6,978
Amortization of deferred acquisition costs	989	963	1,960	1,926
General and administrative expenses	1,054	1,032	2,049	2,027
Interest expense	93	92	184	184
<b>Total claims and expenses</b>	<b>5,898</b>	<b>5,634</b>	<b>11,667</b>	<b>11,115</b>
<b>Income before income taxes</b>	<b>887</b>	<b>1,076</b>	<b>1,804</b>	<b>2,224</b>
Income tax expense	223	264	449	579
<b>Net income</b>	<b>\$ 664</b>	<b>\$ 812</b>	<b>\$ 1,355</b>	<b>\$ 1,645</b>
<b>Net income per share</b>				
Basic	\$ 2.27	\$ 2.56	\$ 4.60	\$ 5.14
Diluted	\$ 2.24	\$ 2.53	\$ 4.55	\$ 5.08
<b>Weighted average number of common shares outstanding</b>				
Basic	290.1	314.8	292.1	317.7
Diluted	293.6	318.0	295.6	321.2
<b>Cash dividends declared per common share</b>	<b>\$ 0.67</b>	<b>\$ 0.61</b>	<b>\$ 1.28</b>	<b>\$ 1.16</b>

(1) Total other-than-temporary impairment (OTTI) losses were \$(4) million and \$(8) million for the three months ended June 30, 2016 and 2015, respectively, and \$(32) million and \$(12) million for the six months ended June 30, 2016 and 2015, respectively. Of total OTTI, credit losses of \$(4) million and \$(6) million for the three months ended

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June 30, 2016 and 2015, respectively, and \$(22) million and \$(9) million for the six months ended June 30, 2016 and 2015, 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 June 30, 2016 and 2015, respectively, and \$(10) million and \$(3) million for the six months ended June 30, 2016 and 2015, 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.

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

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net income</b>	<b>\$ 664</b>	<b>\$ 812</b>	<b>\$ 1,355</b>	<b>\$ 1,645</b>
<b>Other comprehensive income (loss):</b>				
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	<b>879</b>	<b>(1,065)</b>	<b>1,593</b>	<b>(896)</b>
Having credit losses recognized in the consolidated statement of income	<b>12</b>	<b>(5)</b>	<b>17</b>	<b>(10)</b>
Net changes in benefit plan assets and obligations	<b>18</b>	<b>23</b>	<b>34</b>	<b>47</b>
Net changes in unrealized foreign currency translation	<b>(35)</b>	<b>94</b>	<b>68</b>	<b>(180)</b>
<b>Other comprehensive income (loss) before income taxes</b>	<b>874</b>	<b>(953)</b>	<b>1,712</b>	<b>(1,039)</b>
Income tax expense (benefit)	<b>323</b>	<b>(353)</b>	<b>590</b>	<b>(328)</b>
<b>Other comprehensive income (loss), net of taxes</b>	<b>551</b>	<b>(600)</b>	<b>1,122</b>	<b>(711)</b>
<b>Comprehensive income</b>	<b>\$ 1,215</b>	<b>\$ 212</b>	<b>\$ 2,477</b>	<b>\$ 934</b>

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



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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

(in millions)

	June 30, 2016 (Unaudited)	December 31, 2015
<b>Assets</b>		
Fixed maturities, available for sale, at fair value (amortized cost \$59,975 and \$58,878)	\$ 63,311	\$ 60,658
Equity securities, available for sale, at fair value (cost \$525 and \$528)	752	705
Real estate investments	929	989
Short-term securities	3,988	4,671
Other investments	3,490	3,447
<b>Total investments</b>	<b>72,470</b>	<b>70,470</b>
Cash	265	380
Investment income accrued	627	642
Premiums receivable	7,014	6,437
Reinsurance recoverables	8,603	8,910
Ceded unearned premiums	726	656
Deferred acquisition costs	1,954	1,849
Deferred taxes		296
Contractholder receivables	4,541	4,374
Goodwill	3,588	3,573
Other intangible assets	274	279
Other assets	2,384	2,318
<b>Total assets</b>	<b>\$ 102,446</b>	<b>\$ 100,184</b>
<b>Liabilities</b>		
Claims and claim adjustment expense reserves	\$ 47,953	\$ 48,295
Unearned premium reserves	12,520	11,971
Contractholder payables	4,541	4,374
Payables for reinsurance premiums	401	296
Deferred taxes	370	
Debt	6,436	6,344
Other liabilities	5,511	5,306
<b>Total liabilities</b>	<b>77,732</b>	<b>76,586</b>
<b>Shareholders' equity</b>		
Common stock (1,750.0 shares authorized; 288.3 and 295.9 shares issued and outstanding)	22,349	22,172
Retained earnings	30,921	29,945
Accumulated other comprehensive income (loss)	965	(157)
Treasury stock, at cost (478.1 and 467.6 shares)	(29,521)	(28,362)
<b>Total shareholders' equity</b>	<b>24,714</b>	<b>23,598</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 102,446</b>	<b>\$ 100,184</b>

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



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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**

(in millions)

For the six months ended June 30,	2016	2015
<b>Common stock</b>		
Balance, beginning of year	\$ 22,172	\$ 21,843
Employee share-based compensation	95	87
Compensation amortization under share-based plans and other changes	82	109
Balance, end of period	22,349	22,039
<b>Retained earnings</b>		
Balance, beginning of year		