

TRAVELERS COMPANIES, INC.

Form 10-Q

April 21, 2011

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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 March 31, 2011

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 x No o

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 x No o

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 <input type="checkbox"/> (Do not check if a smaller reporting company)	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 o No x

The number of shares of the Registrant's Common Stock, without par value, outstanding at April 15, 2011 was 418,872,308.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended March 31, 2011

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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)

For the three months ended March 31,	2011	2010
Revenues		
Premiums	\$ 5,371	\$ 5,230
Net investment income	779	753
Fee income	74	79
Net realized investment gains	20	25
Other revenues	34	32
Total revenues	6,278	6,119
Claims and expenses		
Claims and claim adjustment expenses	3,382	3,388
Amortization of deferred acquisition costs	948	929
General and administrative expenses	883	847
Interest expense	96	98
Total claims and expenses	5,309	5,262
Income before income taxes	969	857
Income tax expense	130	210
Net income	\$ 839	\$ 647
Net income per share		
Basic	\$ 1.94	\$ 1.26
Diluted	\$ 1.92	\$ 1.25
Weighted average number of common shares outstanding		
Basic	428.2	508.4
Diluted	434.4	515.1
For the three months ended March 31,		
Net Realized Investment Gains (Losses)		
Other-than-temporary impairment losses:		
Total gains (losses)	\$ 2	\$ (1)

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Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources	(6)	(9)
Other-than-temporary impairment losses	(4)	(10)
Other net realized investment gains	24	35
Net realized investment gains	\$ 20	\$ 25

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Fixed maturities, available for sale, at fair value (including \$164 and \$186 subject to securities lending) (amortized cost \$59,720 and \$60,170)	\$ 62,276	\$ 62,820
Equity securities, available for sale, at fair value (cost \$421 and \$372)	583	519
Real estate	866	838
Short-term securities	5,652	5,616
Other investments	3,014	2,929
Total investments	72,391	72,722
Cash	239	200
Investment income accrued	736	791
Premiums receivable	5,668	5,497
Reinsurance recoverables	11,786	11,994
Ceded unearned premiums	911	813
Deferred acquisition costs	1,801	1,782
Deferred tax asset	357	493
Contractholder receivables	5,271	5,343
Goodwill	3,365	3,365
Other intangible assets	482	502
Other assets	2,245	2,154
Total assets	\$ 105,252	\$ 105,656
Liabilities		
Claims and claim adjustment expense reserves	\$ 51,440	\$ 51,606
Unearned premium reserves	11,116	10,921
Contractholder payables	5,271	5,343
Payables for reinsurance premiums	513	407
Debt	6,611	6,611
Other liabilities	5,058	5,293
Total liabilities	80,009	80,181
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)	66	68
Common stock (1,748.6 shares authorized; 420.3 and 434.6 shares issued and outstanding)	20,370	20,162
Retained earnings	19,538	18,847
Accumulated other changes in equity from nonowner sources	1,272	1,255
Treasury stock, at cost (316.3 and 296.6 shares)	(16,003)	(14,857)
Total shareholders equity	25,243	25,475
Total liabilities and shareholders equity	\$ 105,252	\$ 105,656

See notes to consolidated financial statements (unaudited).

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

(in millions)

For the three months ended March 31,	2011	2010
Convertible preferred stock savings plan		
Balance, beginning of year	\$ 68	\$ 79
Redemptions during period	(2)	(2)
Balance, end of period	66	77
Common stock		
Balance, beginning of year	20,162	19,593
Employee share-based compensation	156	119
Compensation amortization under share-based plans and other changes	52	50
Balance, end of period	20,370	19,762
Retained earnings		
Balance, beginning of year	18,847	16,315
Net income	839	647
Dividends	(156)	(169)
Other	8	(1)
Balance, end of period	19,538	16,792
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	1,255	1,219
Change in net unrealized gain on investment securities:		
Having no credit losses recognized in the consolidated statement of income	(60)	54
Having credit losses recognized in the consolidated statement of income	18	23
Net change in unrealized foreign currency translation and other changes	59	(25)
Balance, end of period	1,272	1,271
Treasury stock (at cost)		
Balance, beginning of year	(14,857)	(9,791)
Treasury shares acquired share repurchase authorization	(1,100)	(1,400)
Net shares acquired related to employee share-based compensation plans	(46)	(40)
Balance, end of period	(16,003)	(11,231)
Total common shareholders equity	25,177	26,594
Total shareholders equity	\$ 25,243	\$ 26,671
Common shares outstanding		
Balance, beginning of year	434.6	520.3
Treasury shares acquired share repurchase authorization	(18.9)	(27.0)
Net shares issued under employee share-based compensation plans	4.6	3.7

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Balance, end of period		420.3		497.0
Summary of changes in equity from nonowner sources				
Net income		\$	839	\$ 647
Other changes in equity from nonowner sources, net of tax			17	52
Total changes in equity from nonowner sources		\$	856	\$ 699

See notes to consolidated financial statements (unaudited).

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

(in millions)

For the three months ended March 31,	2011	2010
Cash flows from operating activities		
Net income	\$ 839	\$ 647
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	(20)	(25)
Depreciation and amortization	208	216
Deferred federal income tax expense	153	76
Amortization of deferred acquisition costs	948	929
Equity in income from other investments	(122)	(45)
Premiums receivable	(167)	(97)
Reinsurance recoverables	218	86
Deferred acquisition costs	(964)	(939)
Claims and claim adjustment expense reserves	(251)	(224)
Unearned premium reserves	175	86
Other	(384)	(179)
Net cash provided by operating activities	633	531
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	1,849	1,229
Proceeds from sales of investments:		
Fixed maturities	490	1,646
Equity securities	8	19
Real estate		9
Other investments	161	114
Purchases of investments:		
Fixed maturities	(1,824)	(2,175)
Equity securities	(51)	(5)
Real estate	(30)	(3)
Other investments	(107)	(104)
Net (purchases) sales of short-term securities	(31)	202
Securities transactions in course of settlement	134	95
Other	(69)	(75)
Net cash provided by investing activities	530	952
Cash flows from financing activities		
Dividends paid to shareholders	(155)	(168)
Issuance of common stock employee share options	168	123
Treasury stock acquired share repurchase authorization	(1,104)	(1,407)
Treasury stock acquired net employee share-based compensation	(44)	(38)
Excess tax benefits from share-based payment arrangements	7	4
Net cash used in financing activities	(1,128)	(1,486)
Effect of exchange rate changes on cash	4	(1)

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Net increase (decrease) in cash		39		(4)
Cash at beginning of year		200		255
Cash at end of period	\$	239	\$	251
Supplemental disclosure of cash flow information				
Income taxes paid	\$	112	\$	44
Interest paid	\$	35	\$	63

See notes to consolidated financial statements (unaudited).

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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. Certain reclassifications have been made to the 2010 consolidated financial statements and notes to conform to the 2011 presentation. 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 2010 Annual Report on Form 10-K.

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.

Adoption of Accounting Standards Updates

Intangibles - Goodwill and Other

In December 2010, the Financial Accounting Standards Board (FASB) issued updated guidance that modifies the goodwill impairment test. Under the updated guidance, goodwill is tested for impairment using a two-step process. The first step is to identify potential impairments by comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeds the estimated fair value, a second step is performed to measure the amount of impairment, if any. The second step is to determine the implied fair value of the reporting unit's goodwill, measured in the same manner as goodwill is recognized in a business combination, and compare the implied fair value with the carrying amount of the goodwill. If the carrying amount exceeds the implied fair value of the reporting unit's goodwill, an impairment loss is recognized in an amount equal to that excess.

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The updated guidance requires that, if the carrying amount of a reporting unit becomes zero or negative, the second step of the impairment test must be performed when it is more likely than not that a goodwill impairment loss exists. In considering whether it is more likely than not that an impairment loss exists, a company is required to evaluate qualitative factors, including the factors presented in existing guidance that trigger an interim impairment test of goodwill (e.g., a significant adverse change in business climate or an anticipated sale of a reporting unit). The provisions of the guidance were effective for annual and interim periods beginning after December 15, 2010. The adoption of this guidance in January 2011 did not have any effect on the Company's results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued updated guidance to address diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs.

The updated guidance is effective for periods beginning after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company's results of operations, financial position or liquidity.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Unaudited), Continued

Creditors' Evaluation of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the FASB issued updated guidance to clarify whether a modification or restructuring of a receivable is considered a troubled debt restructuring, i.e., whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. A modification or restructuring that is considered a troubled debt restructuring will result in the creditor having to account for the receivable as being impaired and will also result in additional disclosure of the creditors' troubled debt restructuring activities. The updated guidance is effective for the first interim period beginning on or after June 15, 2011 and is to be applied on a retrospective basis to the beginning of the annual period of adoption.

The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or liquidity.

Nature of Operations

The Company is organized into three reportable business segments: Business Insurance; Financial, Professional & International 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. The specific business segments are as follows:

Business Insurance

The Business Insurance segment offers a broad array of property and casualty insurance and insurance-related services to its clients primarily in the United States. Business Insurance is organized into the following six groups, which collectively comprise Business Insurance Core operations: Select Accounts; Commercial Accounts; National Accounts; Industry-Focused Underwriting; Target Risk Underwriting; and Specialized Distribution.

Business Insurance also includes the Special Liability Group (which manages the Company's asbestos and environmental liabilities) and the assumed reinsurance and certain international and other runoff operations, which collectively are referred to as Business Insurance Other.

Financial, Professional & International Insurance

The Financial, Professional & International Insurance segment includes surety and financial liability coverages, which primarily use credit-based underwriting processes, as well as property and casualty products that are primarily marketed on a domestic basis in the United Kingdom, Canada and the Republic of Ireland, and on an international basis through Lloyd's. The segment includes Bond & Financial Products as well as International.

On November 3, 2010, an indirect subsidiary of the Company entered into a definitive agreement to commence a joint venture with J. Malucelli Participações em Seguros e Resseguros S.A, a Brazilian company (J. Malucelli), through the acquisition of approximately 43% of J. Malucelli's common stock. J. Malucelli is currently the market leader in surety in Brazil based on market share. The transaction is subject to customary closing conditions and is expected to be finalized in the second quarter of 2011.

Personal Insurance

The Personal Insurance segment writes virtually all types of property and casualty insurance covering personal risks. The primary coverages in Personal Insurance are automobile and homeowners insurance sold to individuals.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. SEGMENT INFORMATION**

The following tables summarize the components of the Company's revenues, operating income and total assets by reportable business segments:

(for the three months ended March 31, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2011				
Premiums	\$ 2,745	\$ 773	\$ 1,853	\$ 5,371
Net investment income	556	106	117	779
Fee income	74			74
Other revenues	9	7	18	34
Total operating revenues (1)	\$ 3,384	\$ 886	\$ 1,988	\$ 6,258
Operating income (1)	\$ 604	\$ 120	\$ 170	\$ 894
2010				
Premiums	\$ 2,628	\$ 824	\$ 1,778	\$ 5,230
Net investment income	528	111	114	753
Fee income	79			79
Other revenues	6	6	20	32
Total operating revenues (1)	\$ 3,241	\$ 941	\$ 1,912	\$ 6,094
Operating income (1)	\$ 567	\$ 86	\$ 59	\$ 712

(1) Operating revenues for reportable business segments exclude net realized investment gains (losses). Operating income for reportable business segments equals net income excluding the after-tax impact of net realized investment gains (losses).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended March 31,	
	2011	2010
Revenue reconciliation		
Earned premiums		
Business Insurance:		
Workers compensation	\$ 680	\$ 600
Commercial automobile	473	471
Property	401	423
General liability	428	425
Commercial multi-peril	762	710
Other	1	(1)
Total Business Insurance	2,745	2,628
Financial, Professional & International Insurance:		
Fidelity and surety	234	247
General liability	208	226
International	298	318
Other	33	33
Total Financial, Professional & International Insurance	773	824
Personal Insurance:		
Automobile	915	904
Homeowners and other	938	874
Total Personal Insurance	1,853	1,778
Total earned premiums	5,371	5,230
Net investment income	779	753
Fee income	74	79
Other revenues	34	32
Total operating revenues for reportable segments	6,258	6,094
Net realized investment gains	20	25
Total consolidated revenues	\$ 6,278	\$ 6,119

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Income reconciliation, net of tax			
Total operating income for reportable segments	\$	894	\$ 712
Interest Expense and Other (1)		(68)	(81)
Total operating income		826	631
Net realized investment gains		13	16
Total consolidated net income	\$	839	\$ 647

(1) The primary component of Interest Expense and Other is after-tax interest expense of \$62 million and \$64 million for the three months ended March 31, 2011 and 2010, respectively.

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(in millions)	March 31, 2011	December 31, 2010
Asset reconciliation:		
Business Insurance	\$ 77,687	\$ 78,165
Financial, Professional & International Insurance	13,702	13,461
Personal Insurance	13,271	13,423
Total assets for reportable segments	104,660	105,049
Other assets (1)	592	607
Total consolidated assets	\$ 105,252	\$ 105,656

(1) The primary components of other assets at both dates were other intangible assets and deferred tax assets.

3. INVESTMENTS**Fixed Maturities**

The amortized cost and fair value of investments in fixed maturities classified as available for sale were as follows:

(at March 31, 2011, in millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	\$ 2,112	\$ 82	\$	\$ 2,194
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	6,678	490	1	7,167
All other	30,831	1,079	129	31,781
Total obligations of states, municipalities and political subdivisions	37,509	1,569	130	38,948
Debt securities issued by foreign governments	2,013	42	6	2,049

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Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,701	240	12	3,929
All other corporate bonds	14,352	822	54	15,120
Redeemable preferred stock	33	3		36
Total	\$ 59,720	\$ 2,758	\$ 202	\$ 62,276

(at December 31, 2010, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	\$ 1,914	\$ 94	\$	\$ 2,008
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	6,787	505	1	7,291
All other	31,277	1,121	154	32,244
Total obligations of states, municipalities and political subdivisions	38,064	1,626	155	39,535
Debt securities issued by foreign governments	2,156	50	4	2,202
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,952	248	36	4,164
All other corporate bonds	14,051	876	51	14,876
Redeemable preferred stock	33	2		35
Total	\$ 60,170	\$ 2,896	\$ 246	\$ 62,820

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Pre-refunded bonds of \$7.17 billion and \$7.29 billion at March 31, 2011 and December 31, 2010, respectively, were bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest.

Equity Securities

The cost and fair value of investments in equity securities were as follows:

(at March 31, 2011, in millions)	Cost		Gross Unrealized			Fair Value		
			Gains	Losses				
Common stock	\$	247	\$	116	\$	3	\$	363
Non-redeemable preferred stock		174		49		3		220
Total	\$	421	\$	165	\$	3	\$	583
				Gross Unrealized				Fair