S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

FQ4 2017 Earnings Call Transcripts

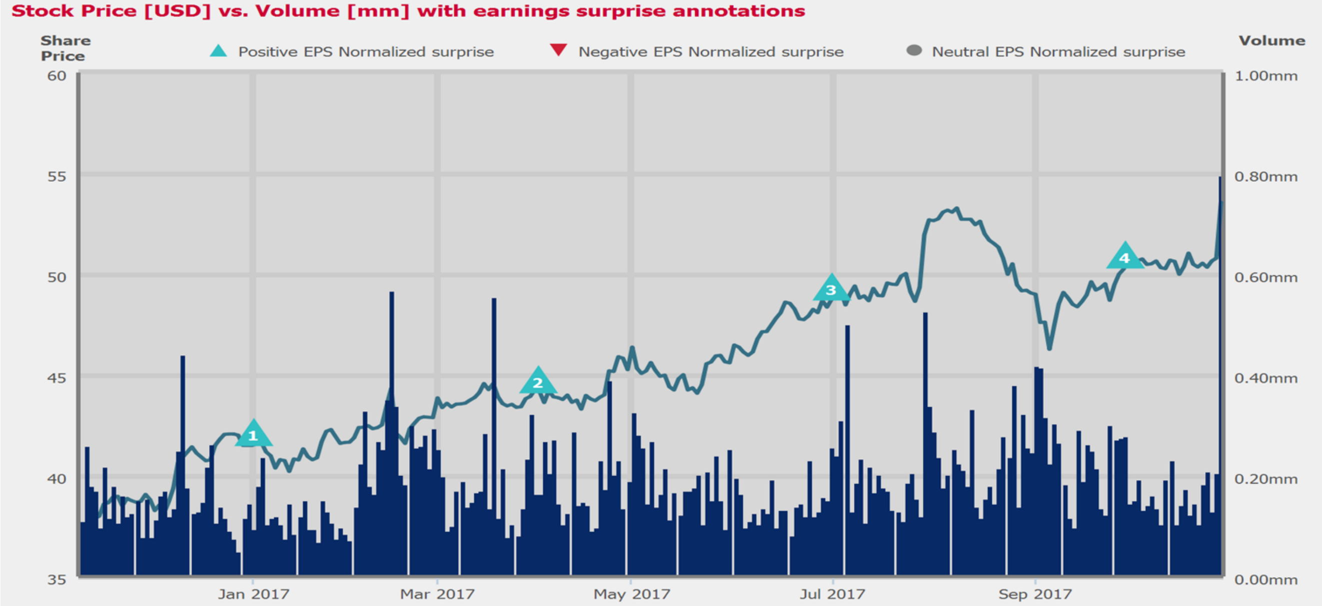
Monday, February 12, 2018 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.82	1.05	▲28.05	0.88	3.14	3.38
Revenue (mm)	1786.00	1601.00	▼(10.36 %)	1802.00	6971.00	6534.00

Currency: USD
Consensus as of Feb-12-2018 12:27 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.79	0.82	▲1 3.80 %
FQ1 2017	0.79	0.87	▲2 10.13 %
FQ2 2017	0.76	0.88	▲3 15.79 %
FQ3 2017	0.22	0.58	▲4 152.17 %

Call Participants

EXECUTIVES

Dino Ennio Robusto
Chairman & CEO

Donald Craig Mense
Executive VP & CFO

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

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Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, and welcome to the CNA Financial Corporation Quarterly Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. James Anderson. Please go ahead, sir.

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Thank you, Evan. Good morning, and welcome to CNA's discussion of our 2017 fourth quarter and full year financial results. By now, hopefully all of you have seen our earnings release, financial supplement and presentation slides. If not, you may access these documents on our website, www.cna.com.

With us on this morning's call are Dino Robusto, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. Following Dino's and Craig's remarks about our quarterly results, we will open it up for your questions.

Before turning it over to Dino, I would like to advise everyone that during this call, there may be forward-looking statements made and references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during the call. Information concerning those risks is contained in the earnings release and in CNA's most recent 10-Q and 10-K on file with the SEC. In addition, the forward-looking statements speak only as of today, Monday, February 12, 2018. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call. Regarding non-GAAP measures, reconciliations to the most comparable GAAP measures and other information have also been provided in the financial supplement.

This call is being recorded and webcast. During the week, the call may be accessed on CNA's website.

With that, I will turn the call over to CNA's Chairman and CEO, Dino Robusto.

Dino Ennio Robusto
Chairman & CEO

Thank you, James. Good morning, everyone. I'm pleased to share our fourth quarter results with you today, which continue to reflect our ongoing underwriting improvements. Our fourth quarter P&C underlying combined ratio was 2.5 points better than a year ago, driven by our improvement in our underlying accident year loss ratio. Our after-tax catastrophe losses of $24 million in a quarter that included significant industry losses due to the California wildfires is a good outcome. We had strong, favorable prior period loss development in the quarter, and the full year's impact was essentially the same as 2016. We are also encouraged by the trajectory of the price increases we were able to secure in the fourth quarter.

After 1 year at CNA, I like the progress that we have made across our value chain and the execution by our teams across the globe, which has built up a momentum that will continue to fuel improvement. For the full year, CNA produced $919 million of core income, the most since 2009. A year ago, I told you that our goal was to grow underwriting profit. And in 2017, our underlying underwriting profit more than doubled to $282 million and we produced the full year underlying combined ratio of 95.5%, the lowest for CNA in the past 10 years. These results reflect the actions CNA has taken over the past several years and strengthened by our heightened underwriting focus in 2017.

Attracting new talent to the organization and developing existing talent has been a major priority of mine, and I have commented on our success in past calls. These efforts are ongoing as we continue to attract the great new underwriting talent to CNA over the past 3 months, especially in our property and management liability teams, including Mike Nardiello to run our U.S. large property business unit.

You may have also seen our recent press releases announcing the hiring of Stuart Middleton as CEO of our new Luxembourg operation; the hiring of a new Chief Technology Officer, Bahr Omidfar, who has excellent expertise in emerging technologies and machine learning; and the expansion of responsibilities of Joyce Trimuel, one of our talented hires from 2017, to run our worldwide operations area. Bahr and Joyce will focus on improving our technology and processes to drive greater productivity and efficiency while improving the customer experience of our agents and brokers as well as our insurers. These recent hires, along with our previous hires in 2017, are ongoing evidence that talented people in the industry want to be a part of a reinvigorated CNA.

Another priority I have discussed in past calls is elevating our engagement with distribution to gain access to better-quality accounts, and we have seen good improvement throughout the year on this.

In the fourth quarter, net written premiums increased 3% even with last year's small business premium adjustment, which inflated 2017's fourth quarter growth to 5% as reported. Improving our risk selection was also a key priority as they stress the benefit of enhanced collaboration among underwriting, risk control, claims and actuarial, leading to institutionalized feedback loops that help all underwriters better articulate appetite in new business experiences through more formal and frequent sharing of expertise and lessons learned.

Another key priority has been to embed disciplined expense management into our culture. In doing that over the past year, it self-reduced our underwriting expenses by approximately $40 million against the backdrop of greater spend and investments in talent and technology. Of course, we recognize there is more we can and need to do if we want to be a top performer on a sustained basis, but the meaningful progress in 2017 has galvanized the company's confidence in achieving this goal.

Now I want to circle back to a topic I referenced at length in last quarter's call, was our efforts to increase training and leadership oversight to secure better pricing across the rate retention decisions our underwriters make every day. I said we believed there was a greater awareness and expectations by agents and brokers that insurance pricing would experience increases and we intended to achieve additional rate, but inflection points are hard to predict. And you learn more as you push for needed rate increases, which is why the entire underwriting leadership team has been deeply involved to ensure underwriters were supported in their efforts to push for rate.

Impact of our intensified focus on the rate retention dynamic can be seen in the fourth quarter production results. Retention was down 1 point, 85% from the third quarter, as we pushed for rate where it was most needed and we were willing to trade some retention. In the fourth quarter, rate overall was plus 1%, which is our highest level in the past 8 quarters.

While the improvement in overall rate is encouraging, what is important to understand is how we are achieving it. Craig will provide more detail on the results by business segment, but let me give some examples that illustrate what we are doing.

For health care in the fourth quarter, rate was up 4%, while retention decreased to 76% as our underwriters successfully bounced the rate retention dynamic in the areas that needed it the most such as professional E&O coverages for aging services and large hospitals. Importantly, the rate achievement for health care was higher in December at plus 8%, and we are encouraged by what we have seen in January. More specifically, we had 11 very large premium health care accounts up for renewal on December 31 and January 1 that needed significant rate. Our underwriters worked closely with our brokers, and they understood leadership was willing to let any account go that did not meet our profitability goals. Ultimately, we were successful in retaining 7 of the 11 accounts with an average rate increase of over 35%. We walked away from the other 4 accounts because we could not get the appropriate rate. This is precisely the right outcome, and we will continue to reward our underwriters for intelligent execution of the rate retention trade-off.

Other examples are in Commercial where the rate overall was plus 1%, the first positive rate in 2 years. And in our International segment, rate was plus 2% for Hardy, our Lloyd's syndicate. The first positive rate increase in over 4 years was driven by our property and marine products.

Moreover, in all these segments, the price increases we achieved in January were higher in the fourth quarter. We will continue to push for rate, and we expect an improving rate retention dynamic as we move through the year.

Now regarding the lower corporate tax rate. We certainly welcome it and expect that it will add to our overall earnings. But by itself, it doesn't get us where we need to be. So our underwriters, all of whom have combined ratio targets as their primary goals, will not have their focus affected by the tax change as we didn't raise our combined ratio targets going into 2018. Instead, we will continue to push for underwriting improvement, including additional rate to achieve better returns.

The lower corporate tax rate will also provide real benefits to our customers, and many have already been experiencing an improving economy. We are seeing exposure growth increasing in key lines such as workers' compensation and general liability that use ratable basis of payroll and sales. The additional premium from this exposure growth [of their] expense ratio and together with rate increases offsets the impacts of long-run loss cost trends.

Let me end by giving you a few additional highlights for the quarter and then turn it over to Craig for the detail. Core income was $286 million or $1.05 per share in the fourth quarter of 2017 and $919 million or $3.38 per share for the full year. This full year result is nearly $100 million or 12% higher than 2016 despite after-tax catastrophe losses that were $148 million higher year-over-year. Core return on equity was 9.4% for the quarter and 7.5% for the full year.

Our P&C business generated a 94% combined ratio in the fourth quarter and 97.1% for the full year even with 6 points of catastrophe losses. Our underlying combined ratio for the quarter was 95.8%, a 2.5 point improvement from the prior year, and the full year underlying combined ratio improved 2.4 points to 95.5%. Both results were driven by lower underlying loss ratio.

Our full year expense ratio improved 0.7 points to 34.2%. In the fourth quarter, we had an incentive compensation adjustment that added 0.2 points to the full year, so we entered 2018 with a run rate expense ratio in the range around 34%, about 1 point less than 2016.

Our Life & Group segment had core income of $31 million for the quarter, driven by a favorable outcome in our annual long-term care disabled life reserve analysis completed during the quarter, which increased pretax core income by $42 million and was driven by favorable morbidity, both claim severity and frequency experience. We also completed our annual growth premium valuation on our active life reserve and long-term care, and the margin did not change materially. Craig will provide much more information on this. And finally, we are pleased to announce a regular quarterly dividend of $0.30 per share, along with a $2 per share special dividend.

And with that, I'll turn it over to Craig.

Donald Craig Mense
Executive VP & CFO

Thanks, Dino. Good morning, everyone. In the fourth quarter, we produced net income of $223 million, which included an $83 million charge related to the passage of the Tax Cuts and Job Act of 2017, a charge that results from revaluing our net deferred tax asset as of the enactment date using the new 21% tax rate. This chart is reflected on the tax expense line, increasing our effective tax rate from 25% to 46%. We are very optimistic about the long-term impact of corporate tax reform and believe it will be good for the economy, good for our policyholders and good for CNA. In recent years, our effective corporate tax rate has been running around 25%. We expect our effective tax will be somewhere in the mid to high teens in 2018.

Our Property & Casualty Operations produced core income of $263 million in the quarter, up 21% from the prior year quarter's $217 million. The improvement was underwriting-driven, with just over -- just under a 6 point improvement in the combined ratio, including a calendar year loss ratio of 58.9% that compares to 65% in Q4 a year ago. Our improving underwriting discipline is also evident in our P&C underwriting loss ratio of 60.7%, which is 2.7 points better than the fourth quarter of 2016. For the year, the underlying loss ratio improved 1.8 points to 61%. In addition, we benefited from $71 million of favorable prior period loss development in the fourth quarter. Each of our P&C operating segments contributed to this positive result.

Our net pretax catastrophe losses were $38 million, which included $44 million of pretax losses from the October and December wildfires, offset by $6 million of favorable movement in our loss estimates from the prior quarter cat events, predominantly from the Q3 hurricanes.

Our expense ratio in the fourth quarter was 34.6%, which included additional incentive compensation of 0.8 points accrued in the quarter based on full year 2017 performance, representing a catch-up for the full year. Adjusting for this, which affected each business unit similarly, our run rate expense ratio was around 34%, as Dino mentioned, which is roughly 1 point lower than the prior year's quarter.

Our Specialty segment's fourth quarter combined ratio was 89.6%, including almost 6 points of favorable development. The favorable development was largely driven by professional liability across accident years 2010 through 2016, where we've seen lower severities than expected and experienced favorable claim outcomes.

Specialty's underlying combined ratio for the quarter was 95%, a 1.1 point improvement over the prior year fourth quarter. The underlying loss ratio of 61.9% was 2.1 points lower than the prior year's quarter.

For the full year, Specialty generated a combined ratio of 88%, 3 points higher than 2016, reflecting a little over 7.5 points of favorable development as compared to over 10.5 points of favorable development in the prior year. Importantly, Specialty's full year underlying combined ratio of 93.8% is 1.3 points better than 2016's results, driven by underlying loss ratio improvement. Expense ratio was consistent year-over-year.

Specialty's net written premiums were flat in the quarter. Growth in surety was offset by a reduction in health care. Renewal premium change was positive 1.6%, with the rate essentially flat. Overall, Specialty retention was 85%, and new business grew $7 million to $64 million.

Our Commercial segment generated a fourth quarter combined ratio of 97.4%, including almost 4.5 points of catastrophe losses and a little over 2 points of favorable loss development. This result was a significant improvement to the prior year quarter. The favorable development of $21 million was driven by workers' compensation for accident years 2013 through 2016 as we continued to see favorable frequency and severity trends relative to our expectations.

Commercial's underlying combined ratio was 95.2%, over 5.5 points better than the prior year's quarter. The underlying loss ratio of 59.4% was over 4.5 points better than last year's fourth quarter.

For the full year, Commercial's combined ratio was 103.7%, including 9.5 points of catastrophe losses, driven by the elevated cat activity in the third quarter, and nearly 2 points of favorable development. The underlying combined ratio of the full year was 96% and over 3 point improvement as compared to 2016, driven by both the underlying loss ratio, which improved nearly 2 points to 60.2%, and the expense ratio.

Commercial's net written premiums were up 7% versus the prior year's quarter. Net written premium in Q4 '16, however, was negatively affected by the premium adjustment in our small business unit. Normalizing for this, net written premiums still increased 2%. The primary driver of the growth was a higher level of new business as Commercial generated $130 million of new business, up $28 million from 2016. This was driven largely by our successes in middle markets' target industry segments.

Retention remained strong at just under 86%. Renewal premium change was 2.4%, consistent with our loss cost trends. Rate was a positive 1%, and exposure growth was approximately 1.5%. Rate varied by coverage, with the largest increases in auto and excess liability, while workers' compensation had a rate decrease. Exposure growth was highest in workers' compensation, particularly in our preferred industry segments like technology and financial services.

Our International segment generated fourth quarter combined ratio of 96.7%, including 5.5 points of favorable development and 1.5 points of catastrophe losses. The favorable development was primarily due to lower severity in our Canadian property and marine book and lower frequency claims in our Canadian health care and technology businesses for accident years '14 through '16. The underlying combined ratio for the quarter was 100.7%, and the underlying loss ratio was 61.2%.

For the full year, International's underlying combined ratio was 99.6%, down 3.3 points in the prior year, driven by 3 points of improvement in the underlying loss ratio.

International's net written premiums were up 18%, or 13% excluding currency fluctuations. This growth was broad based, with larger contributions from Canada and Europe. Retention was strong and renewal premium change was 3.3%, including rate of 1 point. Hardy generated rate of 2 points, nearly 4 points higher than the third quarter rate achievement, providing good momentum going into 2018.

Dino already mentioned [the favorable] outcome of our disabled life or claim reserves review for our long-term care business. I would remind you that we also saw similar favorable changes in our claim reserves in 2016.

Let me devote my time to a discussion of the analysis of our active life reserve gross premium valuation in long-term care, which we completed in the fourth quarter. You may want to reference Slide 13 of our earnings presentation, which details the changes in key components of our GPV.

Let's start with morbidity, where we recognize favorable changes in both the underlying frequency and severity assumptions, driven by the claim outcomes we've experienced in the 2 years since our reserve unlocking in 2015 and additional insights from a greater level of granularity in our analyses.

As discussed on previous calls, we have made significant investments in our claims management model as well as our data and analytics capabilities. Our focus on active claim management and increasing insights into our claim results better informed our assumption on future claims and claim costs.

For severity, we have observed the trend of shorter claim duration, which was driven by higher disabled life mortality and higher claim recoveries. In recent years, we have also observed meaningfully lower utilization ratios, which measure the amount of available benefits a claimant uses. For frequency, you will recall that we experienced a higher incidence of claims over the several years leading up to our 2015 reserve review, a period during which we were implementing significant rate increases on our individual block. In response to this experience, we strengthened our morbidity assumptions in our 2015 reserve review, specifically for periods following rate increases. With additional time and experience and our increased granularity of data, we are now observing that the higher frequency of claims following premium rate increases moderates more quickly and falls to a lower level post-rate increases than we had previously assumed. As a result, we lowered our future frequency assumptions specifically for periods following significant rate increases, in line with the experience we have seen the past 2 years.

The favorable improvement in margin from rate increases reflects greater achievement of approved rate increases than we had previously anticipated. We continue to only include the impact of already initiated or near-term plan rate increase programs in the calculation.

Our discount rate was lowered to reflect the impact of a lower interest rate environment that we anticipated at the end of last year. The discount rate was more significantly affected by the change in the corporate tax rate from 35% to 21% due to the reduction in the tax benefit derived from tax-exempt municipal bonds in the asset portfolios supporting long-term care. This lowered the tax equivalent yield of the portfolio and the discount rate by approximately 70 basis points.

As we have periodically done in the past, this year, we engaged an outside firm to do an independent review of our long-term care reserves, which they completed in the quarter. Their review not only validated the overall conclusions of our internal analysis but also produced a more favorable outcome, driven primarily by their more favorable view of morbidity assumptions.

Pretax net investment income was $505 million in the fourth quarter compared with $527 million in the prior year quarter. Pretax income from our fixed income portfolio was $453 million this quarter, consistent with the prior 3 quarters of 2017 but lower than the $469 million in the prior year quarter.

Our limited partnership portfolio had a steady quarter producing $50 million of pretax income, a 2.2% return compared with $58 million of pretax income in the prior year quarter. Our full year return from our LP portfolio was 9.1%.

Our investment portfolio's net unrealized gain was $3.3 billion at quarter end. The composition of our investment portfolio was relatively unchanged.

Average credit quality of our fixed portfolio remained at A. Assets that support our traditional P&C liabilities had an effective duration of 4.4 years at quarter end, in line with portfolio target. The effective duration of the assets to support our long-duration life and group liabilities was 8.4 years at quarter end.

At December 31, 2017, shareholders' equity and shareholders' equity excluding AOCI were both $12.2 billion.

Book value per share ex AOCI was $45.02 a share. In the fourth quarter, operating cash flow was $360 million.

We continue to maintain a very conservative capital structure. All our capital adequacy and credit metrics are well above our internal targets and current ratings.

With that, I will turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thanks, Craig. Before we move to the question-and-answer portion of the call, let me leave you with some summary thoughts on the year's performance.

Our 2017 core income of $919 million was 12% higher than 2016 despite the significant industry catastrophe losses. The full year underlying combined ratio of 95.5% improved 2.4 points from 2016 and is the best in a decade. We had favorable prior period loss development of $308 million on a pretax basis, which was slightly higher than 2016. Our long-term care business has margin in the active life reserves consistent with the prior year. Our 2017 core return on equity is 7.5%. We increased our regular quarterly dividend during the year to $0.30 per share, and we once again declared a special dividend of $2 per share, returning $840 million in dividends to our shareholders.

I am encouraged by the trajectory of our pricing achievement and anticipate increasingly effective rate retention dynamics throughout the year.
With that, we will be glad to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I was interested in your commentary about rate. You talked about how Lloyd's was up on the back of property and marine. Can you talk a little bit what's going on longer-tail lines and how you think that dovetails with the potential for a higher interest rate environment, whether you think we're actually going to see increased pricing over time for the industry in casualty?

Dino Ennio Robusto
Chairman & CEO

So as I indicated, Josh, right, property was the big issue on -- in our Hardy portfolio, and that's what we had anticipated. First, just -- I'll get to your casualty in a second, and just to give a little bit more detail on the property. As we had expected, sort of broke itself off, right, and what was cat exposed and had losses, what was cat exposed and didn't have losses. So the -- cat exposed with loss was about 20% up; cat exposed, no losses, about 10% flat for not cat exposed. On the casualty, we did start to see a little bit of movement on casualty, although flat to just slightly up. But there's a lot more talk about casualty in the London marketplace, including from reinsurers. So we're going to continue doing what we're doing, push pretty hard on the rate retention trade-off, and it's clearly not only focused on property, right? We're going to do pretty well on every line. The health care examples I gave you, right, we saw on the professional E&O. And even if you take a look broader, sort of -- you'd ask Hardy, but just a little bit more detail, E&O -- D&O in the quarter for us overall was down sort of low single digits, but they went to flat in January. So look, good signs, but as I say, it's the rate retention trade-off issue and the underwriters make these decisions. And I think we saw some good action on the part of the underwriters on how to trade off. We support them. And so we think we'll be able to effectively take advantage of the market going forward throughout '18 and pretty well outlined.

Joshua David Shanker
Deutsche Bank AG, Research Division

And can you just add a layer on that on the interest rate outlook and what that means for pricing?

Donald Craig Mense
Executive VP & CFO

I think that -- this is Craig, Josh. I think you just need to parse the difference between interest rates and inflation, right? So what we're most focused on is inflation. There is some correlation, obviously, but we have -- and we've seen some improvement in -- you say in exposures, but we haven't seen any pickup in underwriting loss cost inflation. So that's the bigger -- that's really the bigger issue. And we are watching it carefully. We've actually stepped up the frequency of our reviews for inflation to make sure we're not missing an inflection point.

Joshua David Shanker
Deutsche Bank AG, Research Division

And you mentioned the seasonally high expenses due to incentive compensation. Can you remind us what that seasonal pickup was in 4Q '16?

Donald Craig Mense
Executive VP & CFO

It was an added 0.8 points to the expense ratio in the fourth quarter for P&C overall.

Dino Ennio Robusto
Chairman & CEO

Fourth quarter...

Donald Craig Mense
Executive VP & CFO

Yes, the fourth quarter...

Dino Ennio Robusto
Chairman & CEO

Of '16.

Donald Craig Mense
Executive VP & CFO

Yes -- oh, I'm sorry. Are you asking about...

Dino Ennio Robusto
Chairman & CEO

Fourth quarter '16, I believe, right, Josh, which was 0.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes, that's right. I'm trying to compare...

Dino Ennio Robusto
Chairman & CEO

That was, yes, 0.

Donald Craig Mense
Executive VP & CFO

0 in '16. Sorry. Misunderstood.

Operator

Our next question comes from Bob Glasspiegel from Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I would -- curious how your results on your long-term care review are so much favorable than what GE said. Obviously, you have more actuaries in primary, but maybe you could highlight just the difference between what they're saying and what you're seeing.

Donald Craig Mense
Executive VP & CFO

Bob, I appreciate the question, but we don't really have any insight into GE's long-term care book other than what we understand from their disclosures that it's predominantly a reinsurance book. Remember, ours is a primary book, so we directly manage the claims and we directly manage the decisions to produce -- pursue policyholder rate increases.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Yes. I'm aware of both of those, but just wondered if you could comment further but sounds like no. Second question is did you go with the outside, more conservative -- more liberal or more favorable analysis of reserves and LTC, or stick with your own?

Donald Craig Mense
Executive VP & CFO

We stuck with our own.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And last question, what's your average age of cover in your LTC book?

Donald Craig Mense
Executive VP & CFO

Well, that would be different by individual and group. So the average age of the individuals is in the high 70s, like 78, 79. And the groups are in the mid-50s.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. So weighted average overall would be in the 60s somewhere?

Donald Craig Mense
Executive VP & CFO

Probably. But I wouldn't -- yes, I think that -- I wouldn't be -- don't be distracted by that because those are 2 different books, 2 different policy benefit levels, a lot different durations. I think it's much more important to look at the 2 separately than try to come with some composite numbers. I just caution you against that.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Appreciate all the cautions. One last question. Do you think you're -- with the current pricing environment, you're in a position to be able to achieve moderate premium growth in 2018? Would you be inclined to maybe start to grow a little bit faster with -- or are rates not quite where they need to be?

Dino Ennio Robusto
Chairman & CEO

Yes. So it's a good question, Bob. And as I said on prior calls and I think I -- also in the -- some of the prepared remarks, clearly, our engagement with the distribution network throughout the year has consistently improved. Obviously, fourth quarter was a little bit higher, and in fact, January was a good month for us in growth and new business production. So when you combine all our efforts with the fact that we're getting some pricing and we're getting some exposure increases so that renewal premium change is in -- is a couple of points, I think it's all right pointing in the right direction for some growth in 2018.

Operator

Our next question comes from Jeff Schmitt from William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

The -- looking at the health care book, retention was down quite a bit to 76%. Was that all from -- and it sounds like -- was it 4 out of 11? Is it large accounts that needed quite a bit of rate that you had lost? Was that the main driver there?

Dino Ennio Robusto
Chairman & CEO

I mean, those were large. All 11 of them were very large, right? So I used that example because they were all large, right? And that's a meaningful rate retention decision when you're going after big rate increases and prepared to let go -- sort of 7-figure accounts. That affects it. But there were smaller accounts of the same E&O exposures, which we also had rate retention, but those were significant.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

And is E&O, the [indiscernible] what's in there, that's sort of the most competitive and needs the most rate? Or is there other lines as well?

Dino Ennio Robusto
Chairman & CEO

Yes, and there's -- it's combined [E&O] sort of GL on aging services, hospital. So it's that combination of the primary. So yes, that's mainly it.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And then looking at both the Commercial and Specialty, obviously, underlying loss ratios were down quite a bit for the year, and it seems, I mean, there wasn't a big change in rate of retention. So could you maybe speak to that? And is it related to that much better frequency severity that you're seeing there?

Donald Craig Mense
Executive VP & CFO

So it's just what -- that's really underwriting-driven, Jeff, underwriting-driven improvements. Recall that we are -- so it's not just rate driven, we are getting rate in areas, like Dino was saying, where we needed it. Recall what I said in my remarks that we're getting very good rate in auto and excess liabilities. So we're getting rate kind of consistent with the trends we're seeing, but I would say it's really more an underwriting risk retention, risk selection-driven, continuous improvement that you're seeing across both Specialty and Commercial and International.

Dino Ennio Robusto
Chairman & CEO

And renewal and new business.

Operator

Next question comes from Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess a follow-up on that last question. In the fourth quarter, was there any sort of current year catch-up in those loss ratios that may have made that look a little bit better than you might have expected on its own?

Donald Craig Mense
Executive VP & CFO

No.

Dino Ennio Robusto
Chairman & CEO

No.

Donald Craig Mense
Executive VP & CFO

There's variability quarter-to-quarter like we talked to you before, but no catch-ups in the fourth quarter.

Operator

The next question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask a question on investment strategy with the tax law change, whether you are planning or thinking about or analyzing how you might restructure the portfolio with the new tax rate.

Donald Craig Mense
Executive VP & CFO

Gary, Craig. So we're making relative value adjustments, of course, all the time. I would tell you that the [tax exempt immunity has been] a big part of our portfolio because not only the tax equivalent yields have been attractive on a relative basis there, but also the duration and the credit quality of that portfolio. So as we're moving -- as we move forward, given all those characteristics, I would -- you shouldn't expect we're going to make any abrupt changes in our portfolio, particularly long-term care. Now as we move along the continuum, we're going to continue to look at that relative value dynamic. We'll also be factoring in, as I said, duration and credit quality. So the outcomes could be slightly different in our long-term care portfolio as the P&C portfolio as we move forward, but nothing abrupt, and I guess -- if that's responsive to what you're asking.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes, I think that is, that is. I just wanted to see if there's going to be any changes this year, for example. It sounds like it will be gradual, if any.

Donald Craig Mense
Executive VP & CFO

Yes.

Gary Kent Ransom
Dowling & Partners Securities, LLC

The -- I wanted to ask about another thing in the corporate and other, and maybe you said something on your prepared remarks, but there is this $8 million shift in unallocated loss adjustment expenses. What is that?

Donald Craig Mense
Executive VP & CFO

That's just a reduction in the expenses. We have $200 million of P&C runoff reserves in the corporate and other related mainly to the old CNA Re and a few other little discontinued businesses. And our expenses are running it off for much less than we had originally anticipated. So that's what that's related to.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So it's just generally the runoff. It's getting smaller, so it's getting less...

Donald Craig Mense
Executive VP & CFO

Yes. Yes.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Got it. Okay. And then -- and one more on the example, Dino, that you gave about the health care. So you lost some of these accounts. The ones you kept had 35% rate increase, the ones you lost presumably had something similar. Is it a reasonable conclusion that these ones you lost could not understand why they needed a big rate increase? Or did they find something else? I mean, they went somewhere, presumably. But I'm just trying to understand what's the difference in -- what's going on between the 2 groups.

Dino Ennio Robusto
Chairman & CEO

Yes. I think, in all of them, the case is essentially the same. I mean, obviously, each one has its own nuances, management control, historical loss ratios, but all of them needed significant rate. And some of them, I think it was 3 of them, were able to find competitive quotes that were sort of close to expiring. One was actually lower. So look, that's going to happen in a competitive marketplace. The more important aspect of it, which I know you know, Gary, is so how do we react to that. And our reaction is, look, it's got to go. We work closely with the brokers, and they understand. And sometimes client is going to make a decision if they can get relatively substantial. I mean, I think it had been close, it wouldn't have, but when you're going in at about 35%, some are at expiring. One, as I said, was even less than expiring. It just happens. And so it's what we do about it in the face of that which is really critical. And so I used it because we watch these things and support the underwriters. This is what we want them to learn.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. That's a great example. One last thing, on the engagement with the agents. Do you have any metrics that measure where you stand in the agents or whether this engagement has kind of moved you up in the -- in how you're allocated inside the agencies?

Dino Ennio Robusto
Chairman & CEO

Yes, yes. Sure. I mean, we don't -- you can't see the inside. You just ask them, right? And they're more than happy to tell you whether you're in a top 3 or in the top 5, you're in the top 10. I mean, you're going to be in -- clearly, in the sort of top 10, but in -- there are some brokers for which a lot of the type of business we want, and those you want to go from a top 10 to sort of a top 5. Now look, to make those kinds of movements, it's going to take some time. So what you first try to understand is, are you getting access to some of the better business that's in their offices? And that's the first sign and that's the first step that you need. We can tell that a host of different ways. I think I may have referenced it even in the past. It's 3 ways essentially, right? You have risk control that's being used more prospectively. We've engaged in a significant upgrade to our auditing process of new business because we knew we were going to be engaging. We knew we were going to see more. So you want to try to track the [quality until] the audit process picks it up. And then the other parties -- when you hire talent from the industry -- I've been in the industry, in different companies for many years. They've seen business. They know. And as I've said and I believe I may have actually said to you, Gary, this is for -- it is an efficient marketplace, the P&C marketplace, in that people know which ones are the best accounts, and the best accounts are the ones that get the best terms and conditions. And so we see the flow in general relatively the same, which is good. I didn't -- we weren't out there to just get flow. In other words, the [mission flow], it's more about the quality. And I think if we look across those 3, we're happier, we're going to continue to push on it, and clearly, we do want to move up in importance in some of these key middle market-type brokers and happy to continue to talk about it over time and tell you whether we are moving.

Operator

[Operator Instructions] Our next question comes from Christopher Campbell from KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

I guess my first question is just going back to the active life reserve review. I think -- Craig, thanks for all the extra details, very -- makes a lot of sense, the change in morbidity. But if I was just looking at the premium rate actions, that was about $350 million. It was boosting the margin last year, and then that's down by about $200 million. Can we get some color on what's happening with the rates that you expect to achieve in that book?

Donald Craig Mense
Executive VP & CFO

The additional that you see this year-end is simply -- we are getting additional rate on top of what we assumed last year. So there are really no new programs we've -- well, we launched one new program in '17, but those -- and those are playing out more positively than we thought. So I don't look at it as a relative comparison. It really is just an additional boost from what our expectations were. Maybe if I go on, just to remind you that we only -- we have active programs underway with pretty much every piece of our long-term care book. Some of them, like the group, started in '15. Some of them, like most recent, individuals, started in '17. They usually go through somewhere between 2 or 3 separate rounds as we're moving forward through them, and then we're launching new ones as we kind of come to the end. So we'll probably be launching a new group one sometime in the next couple of years, and we continue to working those others. So that's all just more positive.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So it would be better to look at this as an incremental $157 million beyond what you thought you were going to get last year.

Donald Craig Mense
Executive VP & CFO

That's exactly right. And I think maybe it's also worth pointing out that state regulators are more and more receptive, and they do recognize a need for rate increases in long-term care. And many of the states that have been recalcitrant and reluctant to get in the path have given us rate increases over the past year and of significant amounts. So I think all that momentum on the rate side is a pretty large positive.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then I think, Craig, this is another one for you, I think. The -- I think you had mentioned in your Specialty script about CNA release in professional liability reserves, and it sounded like some of those included more recent years like accident year '16. Can we just get some actual color on why CNA feels comfortable to leasing such a -- those -- such a recent accident year so early in the development?

Donald Craig Mense
Executive VP & CFO

Really just because those are -- we're seeing much lower frequency. We're seeing much lower severity, which is driven by legal costs and legal expenses. So it's a continuation of the trends before. Maybe I'll also remind you that when doing reserve reviews, we're comparing the actuals against to our longer-term assumptions all the time, and it's just so -- and we don't always change our long-term assumptions, which may be more conservative. So this is just a comparison to what actually is coming through against longer term, which is a continuation of that favorable trend we've been mentioning about professional for some time now.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then just kind of backing up a high-level question. So -- and I think there was a slide in the presentation that shows all the core loss ratios. I mean, they improved significantly year-over-year across all segments. How much runway do you think from where you're at now? How low can those ratios go in terms of like -- I know you can't specifically give a target, but like, have we reached that kind of lower bound that they can go? Or do you see more opportunity?

Dino Ennio Robusto
Chairman & CEO

Look, I mean, I'd say -- look, it's an important question, but it's also sort of hard to be able to know exactly where that can go. I think I can only reiterate what we've been saying during the course of the year. Let's take it back, right? We set a target. We said you want to be against our competitors' top quartile, that implied about the combined ratio of couple, 3 points loss ratio; a couple, 3 points expense ratio. Now the underlying loss ratio at 61% is relatively strong. But keep in mind, the target we were using, that's a multiyear average. So you got to sustain that strong result. So I think what you can count on is that we're going to remain really vigilant in building this sort of enduring culture, and we think that we'll continue to positively impact the performance. An expense ratio, down about 1 point in the year, it's good progress given the fact that we continue to make investments in talent and tech. But we see additional operational efficiencies that we're going to take advantage of as we continue to make some investments while we talk about that expense ratio over time. But when you combine with some of the other things we just said, like the engagement in marketplace execution, seeing some momentum on that growth, you add with it a little bit of the pricing, a little bit of the exposure increases, you're going to get the denominator now starting to help you out on the expense ratio also. So I think we are going to stick with how we look at that goal on a relative basis, and we're going to continue to work on and are optimistic about continuing to improve that combined ratio. That's really, honestly, the best we can say. It isn't an attempt to try to sort of stay away from a specific number.

Operator

There appears to be no other questions at this time. I would like to turn it back over to our management for any additional or closing remarks.

Dino Ennio Robusto
Chairman & CEO

Great. Thank you. We'll see you next quarter.

Operator
This does conclude our conference for today. Thank you for your participation. You may disconnect.