S&P Global
Market Intelligence

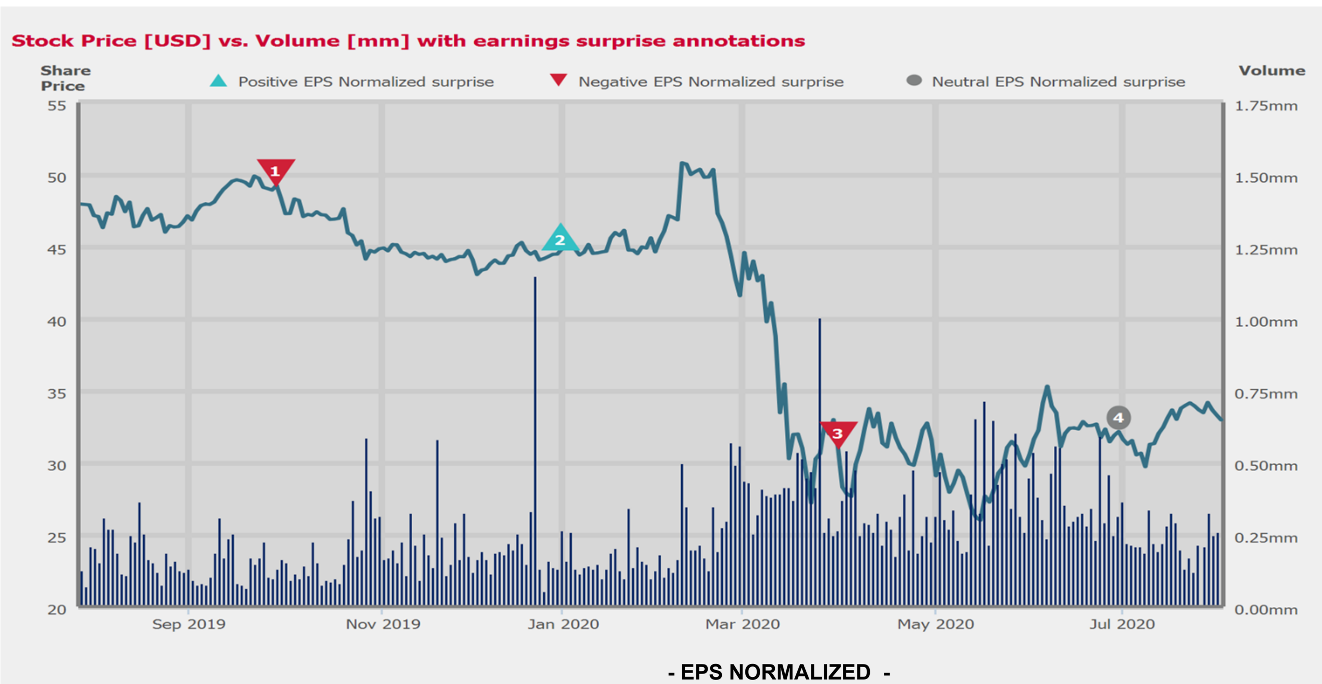
CNA Financial Corporation NYSE:CNA
FQ2 2020 Earnings Call Transcripts

Monday, August 03, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.36	0.36	0.00	0.82	2.55	3.83
Revenue (mm)	1927.00	1930.00	0.16	1925.00	7641.00	7871.00

Currency: USD
Consensus as of Jul-16-2020 1:50 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	1.02	0.37	1 (63.73 %)
FQ4 2019	0.93	0.97	2 4.30 %
FQ1 2020	0.56	0.40	3 (28.57 %)
FQ2 2020	0.36	0.36	4 0.00 %

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Call Participants

EXECUTIVES

Albert Joseph Miralles
Executive VP & CFO

Dino Ennio Robusto
Chairman & CEO

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

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

Joshua David Shanker
BofA Merrill Lynch, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning, and welcome to CNA's Discussion of its 2020 Second Quarter Financial Results. CNA's second quarter earnings release, presentation and financial supplement were released this morning and are available via its website, www.cna.com.

Speaking today will be Dino Robusto, CNA's Chairman and Chief Executive Officer; and Al Miralles, CNA's Chief Financial Officer.

[Operator Instructions]

Today's call may include forward-looking statements and references to non-GAAP financial measure. 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 SEC filing. In addition, the forward-looking statements speak only as of today, Monday, August 3, 2020. 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 been provided in its financial supplement. This call is being recorded and webcast.

During the next week, the call may be accessed on CNA's website. If you're reading the transcript of this call, please note that the transcript may not be reviewed for accuracy thus it may contain transcription errors that could materially alter the intent or meaning of the statement.

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

Dino Ennio Robusto
Chairman & CEO

Thank you, Diana. Good morning. It is very good to be with you today, and I hope you and your families are coping well in these unprecedented times. The second quarter has been a challenging one as the pandemic continues to impact the lives of all of us. For CNA, those challenges have been multifaceted and have impacted our underwriting results considerably, as we disclosed in our preannouncement on July 15.

Before Al and I provide more detail on the impacts of COVID-19 and other catastrophes in the quarter, I wanted to start by commenting on our underlying business, which performed extremely well in the quarter.

Starting with pricing, rate increases continued to accelerate as we achieved plus 11% in P&C overall, up 3 points from the first quarter, and the 11% is inclusive of workers' comp, which had slightly negative rate. Importantly, increases were broad-based as each business unit achieved higher rate.

In light of our written rate increases over the last 4 quarters, our earned rate increases are now 7%, they're clearly above our long-run loss cost trends of around 4%. But as I have said before, we need to sustain this gap over several more quarters before we would favorably adjust our current accident year selections because we experienced almost 4 years of rate changes below long-run loss cost trends prior to this hardening market. And as I have highlighted on prior calls, we experienced rising severity trends during that period in several product lines like aging services and primary and excess auto liability.

In terms of growth, gross written premium ex captives grew 7%, while net written premium growth was 3%, includes the International results that are still impacted by our reunderwriting in our London operations. In the U.S., gross written premium growth ex captives was 8% for the second quarter, consistent with Q1. We achieved this level of growth, even though exposure on our renewal business was minus 1% in the quarter versus plus 2% in last year's second quarter, a swing of almost 3 points due to the economic disruption.

New business growth, while modestly up 1% over the prior year quarter, is actually a very good result as we were able to write essentially the same amount of new business as we did last year despite the disruptive events in this year's quarter.

We were also able to increase our retention by 1 point from the first quarter to 83%, while we achieved stronger rate increases.

All the efforts we invested in to strengthen our agent and broker relationships over the last few years have been a key driver in our ability to continue to effectively meet their new business needs. The second quarter, it often involved responding to shorter time frames on submissions as they dealt with the disruption of converting to a remote work environment and contending with an increasingly hardening market.

Our underlying combined ratio in the quarter when we set aside the various COVID-19 impacts, which I will detail shortly, improved by 0.8 points from a year ago. This consists of half a point improvement in the underlying loss ratio and 0.3-points improvement in the expense ratio. When compared to the first quarter of this year, the expense ratio excluding the impact of COVID is flat.

Now we obviously did have less travel and entertainment expenses, but we also made additional investments in technology as well as operations staff to ensure our servicing capabilities transitioned seamlessly to a remote work environment. After all, it could still be a while before we fully return to a pre-COVID office work environment, and we are well prepared for this.

Turning to the impact of COVID-19. Our catastrophe losses due to the pandemic were $182 million pretax as we preannounced in mid-July. This number reflects our best estimate of ultimate insurance losses, including anticipated legal expenses from events that occurred through the second quarter from which we believe claims will eventually emerge. Thus, the charge in the quarter is almost entirely IBNR.

The projections are also broad-based upon the various legal statutes that have already been put in place through June 30, whether workers' comp presumption or state health care immunity. In addition to the direct COVID-19 losses of $182 million, we accrued for future audit return premiums based upon the pattern of lower exposures we saw in the policies renewing during the quarter. This accrual adversely impacted our underlying combined ratio for the quarter. But it was offset by improvement in our underlying loss ratio due to favorable frequency in several of our commercial casualty product lines due to the shelter-in-place policies.

As mentioned in our earnings preannouncement, the lower frequency benefit was muted because a substantial portion of our insureds are in essential industries, such as health care, construction and manufacturing, which were not subject to shelter-in-place restrictions and so saw little frequency reduction. In addition, in casualty lines like auto and general liability, the potential for higher severity compels us to be prudent and let this evolve longer before reacting too favorably.

Taken together, the combined impact of the reduced net earned premium and the lower frequency of losses decreased our second quarter underlying combined ratio, an additional 0.4 points beyond the 0.8 point improvement I referenced without the COVID-19 impacts to the reported 93.4%. The underlying loss ratio decreased an additional 0.9 points, partially offset by a 0.5 point increase in the expense ratio from the accrued audit return premiums, reducing the earned premium and a moderate increase in bad debt expense.

As we also indicated in our preannouncement, we incurred $61 million of catastrophe losses due to the civil unrest events. In addition, we had $58 million of losses due to the severe weather storms. On a combined basis, these 3 categories of catastrophes added 17.5 points to our second quarter loss ratio. Our prior period development in the quarter increased our combined ratio by 1.4 points. This includes the impact of the $50 million of adverse development from recognition of potential losses due primarily to the New York reviver statute that we also preannounced. The estimated losses were developed as part of our annual mass tort review, which we completed in the second quarter.

Excluding the mass tort charge, we had favorable prior period development of $25 million. Including the impacts of catastrophes and prior period development, the total combined ratio for the quarter was 112.3%.

Moving to investments, the overall portfolio fared well in the second quarter with the unrealized gain position increasing significantly as fixed income markets stabilized, as well net investment income was strong, driven by real-time LP positions and common stock investments. Our Life & Group segment produced $14 million of core income in the quarter, driven by better-than-expected persistency experience. As usual, Al will provide more detail on the investment portfolio and long-term care.

Finally, our core income for the second quarter was $99 million or $0.36 per share, and net income was $151 million or $0.55 per share.

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

Albert Joseph Miralles
Executive VP & CFO

Thank you, Dino. Good morning to everyone. As Dino indicated, I will now provide details of our core results by business segment.

Starting with Specialty, the combined ratio was 104.2% this quarter. The combined ratio includes favorable prior period development of 2.9 points and 15 points from catastrophe losses, the latter essentially all due to COVID-19. The favorable prior period development was largely driven by favorable outcomes in professional management liability, predominantly for accident years 2017 and 2018.

The underlying combined ratio for Specialty was 92.1% this quarter, 1.1 points of improvement compared to second quarter 2019. The underlying loss ratio was 59.9%, and the expense ratio was 32%. The expense ratio has improved by 1.1 points compared to second quarter 2019 due to both growth in net earned premium and lower expenses. The gross written premium growth ex captives was 7% in Specialty for the quarter and was 4% on a net written premium basis. Rates continue to increase at 12%, up from 9% last quarter. Retention was 85% this quarter, which was up a point compared to last quarter. New business volume was at the same level as the prior year's quarter.

The combined ratio for Commercial was 118.5% this quarter. This is 18.8 points higher than the second quarter 2019 and included 19 points of catastrophe loss and 6 points of unfavorable prior period development. The cat losses include 7.7 points due to civil unrest, 5.9 points from weather-related events and 5.4 points attributable to COVID-19.

As previously disclosed, prior period development included a charge for mass tort, primarily due to New York reviver statute-related claims. Excluding mass tort, commercial prior period development was $2 million favorable with favorable workers' compensation development across multiple accident years prior to 2019, offset by adverse development in property for accident year 2019 and auto liability for accident years 2017 through 2019. The auto development was due to higher severity than expected.

The underlying results were very strong for Commercial with an underlying combined ratio of 93.5% this quarter, 1.4 points of improvement from second quarter 2019. The underlying loss ratio was 59% compared to 61.7% and benefited somewhat from lower loss frequency. The expense ratio at 33.9% compares to 32.6% in second quarter 2019 and was adversely impacted by the decrease in estimated audit premiums in the second quarter. Excluding the COVID-19 impacts on favorable claim frequency and additional return premiums, the underlying combined improved by 0.7 points, driven by the loss ratio.

Gross written premium growth ex captives was 9% in Commercial for the quarter, and net was 4%. The rate change of 9% was up 1 point from the last quarter. Retention was a healthy 83%. New business growth strong again this quarter at 10% despite the events in the quarter, was again broadly distributed across our target market segments.

The combined ratio for International was 115.3% this quarter compared to 97.5% in the second quarter 2019. The combined ratio reflects 19.9 points of catastrophe losses for the quarter, substantially due to COVID 19. The underlying combined ratio for International was 96.6% this quarter, an improvement of 0.8 points compared to prior year quarter. The underlying loss ratio was 59.9%, and the expense ratio was 36.7%. The expense ratio compares to 37.3% at second quarter 2019 and reflects continued improvement in both acquisition and underwriting expense levels. The gross written premium declined 3% in International for the quarter. Net written premium declined 4%. Rate change of 13% was up 5 points from Q1. Retention was 74% this quarter, which is slightly higher than in 2019 and reflective of the progression of our reunderwriting strategy.

As Dino indicated, our Life & Group segment produced $14 million of core income in the quarter. These results were moderately favorable to our expectations and were primarily driven by persistency experience. I will also note that amid the pandemic, we've experienced a decline in new claim frequency, an increase in claim terminations, the slowdown in claimant transitions from home health care to long-term care facilities.

We would attribute this to policyholders choosing to avoid these facilities where possible out of fear of contracting COVID-19. Given the immature nature of these trends, we did not recognize this favorable morbidity experience in the second quarter. As we expect to conclude our annual long-term care reserve review in the third quarter, we would intend to evaluate these trends in more detail and address in the context of this process. Our corporate segment produced a core loss of $11 million in the second quarter. Pretax net investment income was $534 million in the second quarter compared with $515 million in the prior year quarter. The results reflected favorable returns from our limited partnership and common equity portfolios, which produced pretax income of $84 million compared to $43 million during the same period last year. I should note that the results from our limited partnership investments reflect the current period favorable impact and recovery in value of our real-time investments, somewhat offset by negative first quarter returns from our investments on a lagged basis.

We would anticipate that these investments on a lagged reporting basis should have a favorable impact on the third quarter income given positive market returns in the second quarter. Pretax net investment income from our fixed income portfolio was $440 million this quarter compared to $465 million in the prior year quarter. The pretax effective yield on our fixed income holdings was 4.6% for the period. Pretax net investment gains for the quarter were $69 million compared to a loss of $18 million in the prior year quarter. The gains was primarily driven by recovery of the mark-to-market on our nonredeemable preferred investments.

Our unrealized gain position on our fixed income portfolio stood at $4.4 billion, up from $2.1 billion at first quarter. The change in unrealized during the quarter was driven by the tightening of credit spreads across the market, reflecting the recovery and stabilization of the fixed income markets. Fixed income assets that support our P&C liabilities had an effective duration of 4.1 years at quarter end, in line with portfolio targets. The effective duration of the fixed income assets that support our Life & Group liabilities was 8.8 years at quarter end.

Slides 14 and 15 of the earnings presentation will provide you with additional details of the investment results and the composition of our investment portfolio. Our balance sheet continues to be extremely strong. At quarter end, shareholders' equity was $11.6 billion or $42.91 per share, reflective of the increase in our unrealized gain position during the quarter. Shareholders' equity, excluding accumulated other comprehensive income, was $11.5 billion or $42.34 per share. We continue to maintain a conservative capital structure with a low leverage ratio and a well-balanced debt maturity schedule. At quarter end, all of our capital adequacy and credit metrics remain above target levels supporting our credit ratings.

In the second quarter, operating cash flow was $438 million. In addition to our positive operating cash flow, we continue to maintain liquidity in the form of cash and short-term investments and have sufficient liquidity holdings to meet obligations and withstand significant business variability.

And we are pleased to announce our regular quarterly dividend of $0.37 per share. With that, I will turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thanks, Al. Before we move to the question-and-answer portion of the call, I want to provide some perspective on the hardening market landscape. Clearly, the unprecedented events of the second quarter hurt our underwriting results overall. However, the good news from our engagement in the quarter is that I am even more bullish that the hardening market conditions will persist well into 2021. All of the dynamics that have been broadly expressed by industry participants, namely, an even lower interest rate environment, several years of pricing below long-run loss cost trends, social inflation, elevated catastrophe losses and, of course, the impacts of this unprecedented pandemic are currently well appreciated by the brokers, as evidenced by their articulation of the dynamics in their quarterly calls, which means that insureds are being effectively educated in the need for higher pricing.

And we see evidence of that through our conversations with our insureds. These hard market conditions, similar to only a few historically, will enable us to drive for the needed improvements in policy terms and conditions, achieve stronger pricing across the portfolio and secure more high-quality new business. Our second quarter execution evidenced that we are well positioned to take full advantage of the hard market, and I could not be more proud of all the CNA employees for all their efforts during these unprecedented times.
And with that, we'll be glad to take your questions.

Question and Answer

Operator

[Operator Instructions] We will take our first question from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Tough times, tough times. But can you talk a little bit about the expense ratio? You mentioned no T&E spending. I mean, you're not a big T&E company, and I know you're very focused on expenses, but there really wasn't any loss -- expense ratio improvement compared to 1Q '20 and in 2Q '19. Can you talk about how premiums are factoring into that? What you think the impact of T&E savings was? And how we should think about that going forward?

Dino Ennio Robusto
Chairman & CEO

Josh, I'll -- it's Dino. I'll start and if Al wants to add any comments. Yes, as I mentioned, it didn't move from the first quarter. And some of it, as you point out, a function of the denominator earned premium. But with the strong written premium that we've had in the last few quarters, we anticipate the earned premium to catch up. And so that'll help going forward. And as I said, we did invest a little extra in making sure that we could handle all of this servicing from a remote environment, some technology, some additional operations staff, and that also elevated the numerator.

But the -- so if you look at it against the first quarter at about 33%, 33.1%, I think, in and around 33% is the run rate, give or take a point up, a point down based on how earned premium plays out, probably a run rate to think about, Josh, going forward.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Okay. And then two, you talked about how there were some lines like construction that were not impacted by the COVID and others. If I'm looking at paid-to-incurred ratio in the 60s, which is obviously phenomenally low, can you talk about the idea that maybe there were some claims that have yet to be -- that were delayed in terms of filing and so you're putting up some extra IBNR there? Can you talk about if there's any issues of paying claims? It does seem to me with a paid-to-incurred ratio in the 60s that there maybe should have been lower incurred -- I don't know, that's shockingly low number. Can we talk about, I guess, paid trends and then what the impact of COVID are on paid trends and why it's temporary?

Dino Ennio Robusto
Chairman & CEO

Okay. So Josh, let me -- and then, Al, you could jump in. Let me just get to the point about COVID claims and filings. As we indicated, the vast majority of the charge was clearly IBNR. So -- and as I indicated, a good portion of it, we have it for the health care area.

So let me give you an example of how we look at it and how we looked at it, in particular, with aging services. We've got, relatively speaking, a small number of claim notices. However, we also have access to the public information about deaths that have occurred in aging services facilities around the United States. We can knock it against our own insureds. And what we then do is use our experience and our expertise to try to figure out well, how many of those might turn in to claim notices, and what might then be potential claims that emerge from that and our legal costs and indemnity dollars.

And so it is, as you suggested, mostly IBNR, and we estimate relatively low claims notices and filings, and then we took our estimates from there based on our experience, based on what we saw from it, what we have an exposure, what we saw from some of the external information. I'm not sure Al, if you want to say or add anything else?

Joshua David Shanker
BofA Merrill Lynch, Research Division

Can I just ask something before Al answers?

Albert Joseph Miralles

Executive VP & CFO

Yes.

Dino Ennio Robusto
Chairman & CEO

Sorry, go ahead. Sorry, Josh.

Joshua David Shanker
BofA Merrill Lynch, Research Division

I am talking sort of the non-COVID claims during COVID. Even if I take all the COVID claims and I back them out, we're still in, I guess, the low to mid-70s in paid to incurred. I'm wanting payment patterns of claims in general, not necessarily COVID claims, but the impact of COVID on claims payment and on, I guess, how you think about incurred losses. It's a very, very low quarter even for non-COVID claims.

Dino Ennio Robusto
Chairman & CEO

Okay.

Albert Joseph Miralles
Executive VP & CFO

Yes, and I can jump in here, Josh real quick. I would say we're not seeing anything extraordinary in terms of on claim payments. I think there's probably a bit of a timing effect, and you're seeing a little bit of that from a paid-to-incurred perspective as well as it's showing up a bit in our operating cash flow, but we believe that, that will balance out with some time.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Okay. And if I can sneak one more. Can you help me a little bit on shadow adjustments in long-term care? It's a little complicated just as little [teach-in], and it jumped up a bit in the quarter and how to think about that?

Albert Joseph Miralles
Executive VP & CFO

Yes. So just a reminder, Josh, and this is Al, that in the Life & Group segments, the shadow reserve is intended to largely parallel movement in unrealized. And the concept there is that given that you've got investments in the Life & Group that we purchased a book yield higher than prevailing rates, so our unrealized goes up. And it's essentially protecting against to the extent you sold those investments and that book yield went away, that it could lead to a reserve event. So what you'll see in the quarter really is that the change in unrealized in our Life & Group segment pretty much kind of was in lockstep with the change in the shadow reserve.

Operator

We will now take our next question from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Dino, in prepared comments, you talked about a loss trend of around 4%, and I think I want to say about 1.5 points higher than prior commentary. I was hoping you could explain, first of all, what's driving the difference? And second of all, is that an accident year 2020 issue? Or is that now embedded in prior year reserves as well?

Dino Ennio Robusto
Chairman & CEO

Okay. So Meyer, that's an important question, actually. So if you look at our long-run loss cost trends, all up, and we include the Affinity programs, then actually, it's closer to what we have suggested in the past at about 3.5%, potentially slightly less than 3.5%. The 4% that I quoted is excluding the Affinity programs, and I wanted to clarify that. So that is the difference because as we've indicated before, if you look at our long-run loss cost trends for Affinity programs, it's very low. Does that help?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

It does. Yes. I am curious on a related note, is the Affinity program subject to social inflation?

Dino Ennio Robusto
Chairman & CEO

A lot of the Affinity program are individual practitioners. As I've indicated before, there's nurse practitioners, there's dentists, but there's physiotherapists, et cetera. And as from a -- and there's literally hundreds of thousands of these policies for individual practitioners. And so you just don't see it. You don't see it there. And also on some of these individual practitioners, they're also excess over any other underlying policy. So because of the nature of a lot of individuals, there's really not and there's no medical cost in the nonmedical part of the sort of professional E&O book also, so the architects and engineers, et cetera.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I'm sorry. I didn't mean to cut you off.

Dino Ennio Robusto
Chairman & CEO

No, no, no. I was just going to say, because you have also in the Affinity programs, you have architects and engineers, right, where you don't have any other medical costs. And so that's why it's much lower. And I don't really think it's impacted by social inflation like the rest of our health care portfolio.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That is very helpful. And then one final question. I was just hoping you could update us broadly on what you're seeing in -- what you're seeing and what you're booking in terms of Surety because that's generally seen as an economically sensitive line.

Dino Ennio Robusto
Chairman & CEO

Yes. Actually, well, just to remind you, Meyer, of our portfolio, it's balanced, right, between about 50-50 among contract Surety, the larger contract Surety business. But then we also have that smaller commercial bond operation. Both of them actually have continued to perform very well. Now when you look at COVID, and we included it in our overall charge, and what we're seeing there is you could have some potential bankruptcies of some of the smaller contractors based on the pressure they experienced in the second quarter. But overall, against the total IBNR charge, it was very small for Surety. So for us, they both -- both ends -- both operations continue doing well, perform well.

Operator

We will now take our next question from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to dig in a little deeper on the overall trends in pricing. And we know -- we knew ahead of time that rates were going up. They've been inadequate for a long time. There was social inflation. We have lower interest rates. And now we throw in COVID, which isn't quite as clear or consistent of a force across the lines of business. And I just wondered if you could help us understand or give your thoughts on where you think COVID has accelerated the rate impact the most and where it might have tempered those trends.

Dino Ennio Robusto
Chairman & CEO

Gary, it's Dino. I think it's a little bit like the straw that breaks the proverbial camel's back. I mean I think the uncertainty around COVID just impacted overall view that we're going to need a hardening market, probably faster and longer and I think in certain areas, clearly, more than others. When you think about health care for us, we have been getting significant rate increases and in the quarter. Particular on professional liability, for aging services, our rate increase was 40 points.

But what's interesting is also our retention went up a little bit. So -- and what we can see that others are starting to react more like we have been reacting for the last couple of years. So I do think there's some direct causality there. And just in general, I think it adds uncertainty. But there's nothing to lead me to believe that post-COVID, social inflation isn't going to continue to do what it was doing. And the question is does COVID exacerbate social inflation? And I think we just need to let time tell us more. But it's added just a sense or level of uncertainty, that I think has put additional pressure and clearly, in certain places, as I indicated, like in health care for our portfolio.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Thank you, that's helpful. I also just wanted to ask about workers' comp. And actually, maybe the question is more about what can happen in the future on COVID. So we have certain things that you may not have been able to reserve for, like the workers' comp presumption change. And maybe there're some other things that can happen in professional liability line later. Could you just help us understand what you think might -- what are the things that could happen in the future that might trigger some additional COVID comps?

Dino Ennio Robusto
Chairman & CEO

Yes. Okay. Let me start with comp because interestingly, Gary, when it was back in March, and the first sort of thought and reaction, and I believe I mentioned it also on the first quarter call, was less of this being an issue for workers' comp, again, a function of not having the first responders and frontline health care providers.

But then presumption, notwithstanding the fact that it does have some guardrails, there is -- as of June 30, which is all we could go by at the time, we have 15 states with presumption. And 5 of them with a very broad definition of employees. And you can sense that presumption is something of interest in potentially other states. And so we can only take it to 15 states when we chose our IBNR effective of June 30, which is what we did.

And I guess one can say if you end up with a lot more states with presumption, you can be faced probably with some more. It's hard to say because it's not an exact science. The amount we put in for the 15 states, if you look at the amount we've already paid, it's actually very small, and the averages on severity, Gary, are in line with what the Work Comp Rating Bureau has been saying, down about 40%. Why? Because the COVID cases are usually mild, has no hospitalization. So you look at the claims count, we took a number based on the presumption if it's conservative, if it plays out to be conservative, then even if you have some additional space with presumption, it might subsume it, so it's hard to know exactly.

I give you the same thought on aging services. As I was saying before, when answering Josh's question -- or part of this question, we look at the claim notices we had received, and it's relatively limited so what we did was because there's reliable external information on deaths that occur in various communities and we can map our aging services facility. We then took all of those, even though we didn't have claim notices, and we made a decision about what might turn into claim notices and what then might emerge as payments or even legal costs.

So here, now, if you have a tremendous second wave, well, potentially, you're going to be faced with more. If you have a moderate increase, same point I made on workers' comp. You may -- the number we took, it's not an exact science, may subsume that increase. We tried to be conservative based on the information we have as of June 30, but I think those are the kinds of dynamics that can play out, if that helps.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. That is very helpful.

Operator

Our next question comes from Jeff Schmitt with William Blair.

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

Could you mention what -- rate increases were 9% overall in the Commercial book. Did you mention what that was without workers' comp, I presume workers' comp is still negative?

Dino Ennio Robusto
Chairman & CEO

Yes. Yes. It's about a negative 1, so that the overall of the 11 included the negative 1. So that's sort of its impact on the Commercial. So it was up pretty much over the first quarter.

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

Okay. And then commercial policyholder retention...

Dino Ennio Robusto
Chairman & CEO

Sorry, a little over 10 -- sorry, just -- so a little over 10, right, because of the 9 and the minus 1. I'm sorry, go ahead.

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

Okay. Yes. And just looking at policyholder retention in the Commercial segment, trending down a fair amount. I mean, it looks to be particularly middle market. Obviously, you're getting a lot more rate there, but the market overall is 2. Could you speak to that and why that's trending down as much as it is?

Dino Ennio Robusto
Chairman & CEO

Yes. That's a good question because when we just look at the number. And really, the market, obviously, we're able to get rate. And obviously, we're also able to retain the accounts even with strong rate. But in middle market, in our manufacturing segment, specifically, we decided that we needed to reunderwrite a couple of few FIC codes within the manufacturing. And so that's just a decision we made to reunderwrite some of the segments within manufacturing, in middle market. And that's all that is. In the absence of that, you can get the rate and you can get the increase in retention.

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

Okay. And then looking at the International book. Where do you stand in that reunderwriting process? As rates now are up in the almost mid-teens, when should we expect that growth to turn positive?

Dino Ennio Robusto
Chairman & CEO

That's a great question. As I've been commenting on prior calls, the reunderwriting is, substantially, over by the end of the third quarter. So I think going into 2021, we expect to be able to turn positive growth on the International. And the good news is, if you look at the underlying loss ratio in the quarter, if you look at the underlying loss ratio in the first half, so that the trend now more in line with the rest of our portfolio. So a long process, but it's had the effect, and we expect to see positive growth in 2021.

Operator

And we will now take a follow-up question from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Two quick ones. One -- maybe one's not so quick. But just what do you think is the state of the reserve situation for the industry right now in P&C? We really haven't seen that much unfavorable development in the face of social inflation. Is this waiting to come?

Dino Ennio Robusto
Chairman & CEO

Josh, I'm not -- I don't think I'm qualified. I can tell you how we feel about our portfolio. And we've been transparent in the quarters to talk about what we have seen, what we saw on severity trends, we talk about when we raised our long-run loss cost trends in certain lines, even multiple times like aging services. And I think I'd have to leave it at just commenting on CNA.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Okay. All right, I guess. And then one other question about Loews has been buying in a lot of stock. I think we've spoken in the past about how part of the reason for the stock being floating is remuneration of employees through shares. Are there -- is there any impact of this ongoing buy into the stock on how you guys think about your capital situation and whatnot?

Dino Ennio Robusto
Chairman & CEO

I don't know, Al, if you want to make any comments? And also, obviously, Josh, you'd get an opportunity to talk to Loews too after this.

Albert Joseph Miralles
Executive VP & CFO

Josh, yes, this is Al. No, I wouldn't say there's any significant impact. Obviously, there was a bit of buying there. And as well, obviously, we had some activity just refilling our treasury stock, but not significant impact on our overall capital management strategy.

Joshua David Shanker
BofA Merrill Lynch, Research Division

All right. That makes sense. All right.

Albert Joseph Miralles
Executive VP & CFO

And Josh, just one quick follow-up on your question on paid to incurred. So for the quarter, our overall paid to incurred, and you'll see this obviously in our filed documents, was about 78%. And that was 81% on Commercial. So a bit different there. And again, kind of...

Joshua David Shanker
BofA Merrill Lynch, Research Division

Can you repeat those numbers again?

Albert Joseph Miralles
Executive VP & CFO

There's certainly some [lines] -- yes, 78% and 81% for Commercial. And obviously, there's some variability across different lines, right, because we have some longer tailed and shorter tailed. But -- again, but nothing really extraordinary.

Operator

As there are no further questions at this time, I would like to turn the call back to our host, Dino Robusto, for any additional or closing remarks.

Dino Ennio Robusto
Chairman & CEO

Okay. Thank you, everyone, and thanks for listening in and your questions, and we look forward to talking to you again in the quarter. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.