S&P Global
Market Intelligence

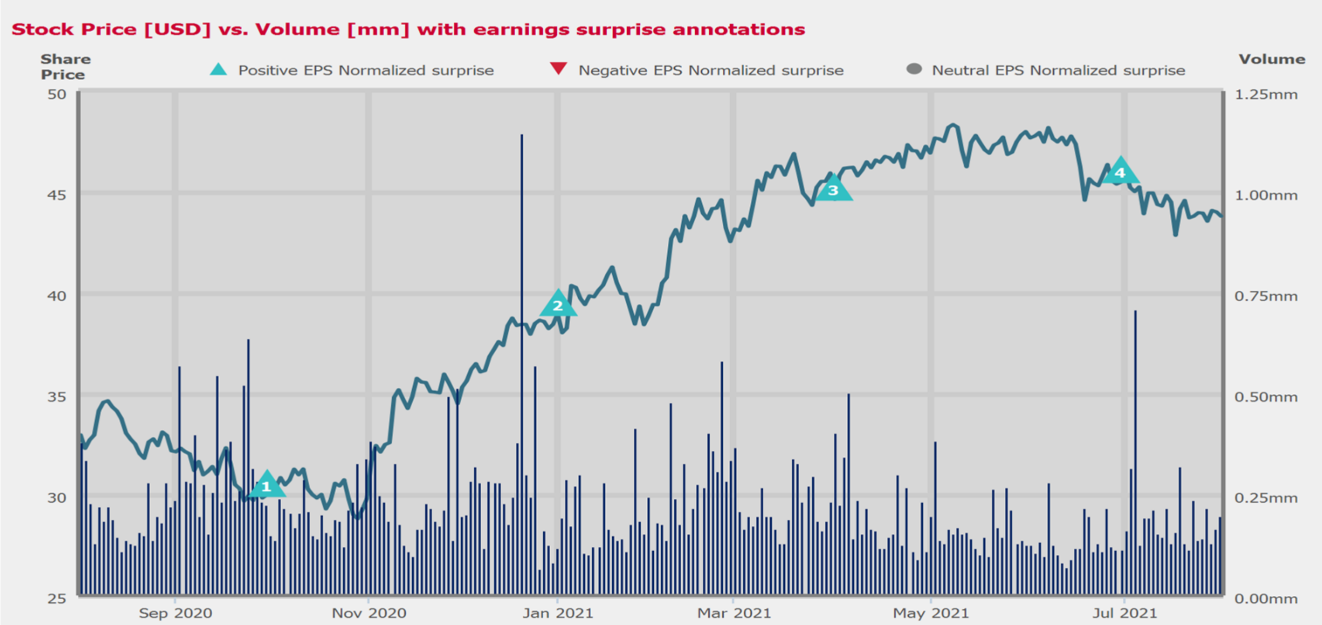
CNA Financial Corporation NYSE:CNA
FQ2 2021 Earnings Call Transcripts

Monday, August 02, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.12	1.25	▲11.61	0.98	4.08	NA
Revenue (mm)	NA	NA	NA	NA	8134.00	NA

Currency: USD
Consensus as of Aug-02-2021 9:01 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.60	0.71	▲1 18.33 %
FQ4 2020	1.00	1.23	▲2 23.00 %
FQ1 2021	0.93	0.96	▲3 3.23 %
FQ2 2021	1.12	1.25	▲4 11.61 %

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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

Joshua David Shanker
BofA Securities, Research Division

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

Presentation

Operator

Good morning, and welcome to CNA's discussion of its 2021 second quarter financial results. CNA's second quarter earnings release, presentation and financial supplement were released this morning and are available via its website at www.cna.com.

Speaking today will be Dino Robusto, CNA's Chairman and Chief Executive Officer; and Al Miralles, CNA's Chief Financial Officer. Following their prepared remarks, we will open the line for questions.

Today's call may include forward-looking statements 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 SEC filings. In addition, the forward-looking statements speak only as of today, Monday, August 2, 2021. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during the call. Regarding non-GAAP measures, reconciliations to most comparable GAAP measures and other information have been provided in the financial statement -- supplement.

This call is being recorded and webcast. During the next week, the call may be accessed on CNA's website. If you are reading the transcript of the 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 statements.

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

Dino Ennio Robusto
Chairman & CEO

Thank you, Rochelle. Good morning, everyone. In the second quarter, we produced record core income, resulting from improvement in our underlying combined ratio along with strong investment income and a much lower level of catastrophe losses compared to the prior year quarter. Core income was $341 million or $1.25 per share. Net income for the quarter was $368 million or $1.35 per share.

As we reported last quarter, we sustained a sophisticated cybersecurity incident in late March. Notwithstanding that this resulted in a complete shutdown of our systems for the early part of the quarter and impacted our transactional capability, we quickly regained momentum and finished the quarter with a very strong June. This, in turn, allowed us to achieve gross written premium growth ex captives of 8% in the quarter, which was consistent with the first quarter. In addition, new business grew 10% to $393 million, consistent with the first quarter and amongst the highest quarterly new business volume since 2004.

Of particular note, we achieved a plus-10% rate increase for the quarter, only 1 point lower than the prior quarter and the fifth consecutive quarter of double-digit rate increase. And importantly, earned rate is now just shy of 12% and long-run loss cost trend is running about 4.5% after we increased it roughly 0.5 point in the first quarter, which portends a meaningful margin growth. And based on 4 quarters of double-digit written rate increases, margin should continue to build into 2022, all else equal.

The all-in combined ratio was 94%, 15.2 points lower than the second quarter a year ago. The improvement is largely due to a significant reduction in cat losses. In the second quarter of 2021, pretax catastrophe losses were $54 million or 2.8 points of the combined ratio. During the second quarter of 2020, pretax catastrophe losses were $301 million or 17.5 points.

The P&C underlying combined ratio was 91.4%, a 1.8-point improvement over last year's second quarter result. Adjusted for the impacts of COVID in last year's second quarter, the improvement is 2.2 points. The underlying loss ratio improved 0.7 points, and the expense ratio improved 1.5 points. Importantly, each of our 3 business units improved their underlying performance in the quarter.

As we have articulated repeatedly, over the last 4.5 years, we have been laser-focused on improving our underlying combined ratio by institutionalizing an expert underwriting culture throughout the organization, which included shedding business when we could not achieve an excellent path and expedient path to profitability. This included the re-underwriting of our Lloyd's portfolio over the last 18 months. It also involved building our talent base, increasingly specializing our target market focus in commercial as we had historically done in Specialty, sharpening our expense management and building an optimal reinsurance program to allow us to be increasingly opportunistic in the marketplace while reducing volatility.

This quarter, we took another step in optimizing our reinsurance program and strengthened our overall property protection by adding a property quota share treaty. Currently, property lines represent less than 20% of our overall portfolio because of our heavy concentration in professional liability and other casualty lines. After multiple years of strong rate increases, there is an opportunity for us to further grow the property portfolio at very favorable terms and conditions. And like we have done before, when we opportunistically expanded lines of business like management liability and umbrella, we do so initially with some proportional reinsurance. And then over time, as the book matures, we revisit our reinsurance structures.

In addition to sharing dollar one protection for attritional losses, we achieved the same for both critical cat perils and other cats created by convective storms and wildfires. And given the average catastrophe levels in the last 4 years do not appear to be reverting to historical means, the additional protection allows us to maximize underwriting returns and reduce volatility as we grow the portfolio.

All of the efforts to improve our underwriting performance has steadily paid off. Our underlying combined ratio has decreased in each of the last 4 years from 97.9% at year-end 2016 to our current 91.4%, which includes a relatively modest benefit from our implied margin build through this hardened market.

The underlying loss ratio in the second quarter of 2021 was 59.5%, representing 0.6 points of improvement from the first quarter of this year. The underlying loss ratio was 0.2 points higher than the second quarter of 2020. However, the prior year loss ratio reflected a COVID frequency benefit of 0.9 points. The improvement in our underlying loss ratio this quarter, excluding the COVID impacts, is due to earned premium growth and recognizing some modest earned rate above our long-run loss cost trend assumptions.

The underlying combined ratio for Specialty was 89.2%, a 2.9-point improvement compared to last year. This is the lowest underlying combined ratio in 3 years. The expense ratio improved by 2 points year-over-year to 30%, and the loss ratio improved by 0.9 points to 59%.

The underlying combined ratio for Commercial was 93%, comparable to last year but favorable by almost 1 point, excluding the COVID impacts that lowered the loss ratio in 2020. The loss ratio and expense ratio each improved about 0.5 point year-over-year excluding the COVID impacts.

The underlying combined ratio for International was 92.5% this quarter, which is the lowest since International was first presented as a separate segment in 2014. The expense ratio dropped to 33.5% from 36.7% last year due to significant earned premium growth and our strategies to reduce some poor-performing Lloyd's program business, which carried higher acquisition costs.

The loss ratio of 59% is down 0.9 points compared to last year. I am particularly pleased with our re-underwriting execution that has generated these improved results, which now allows us to turn our focus to growing the International portfolio. And you can see this in the quarter as well as the first half of this year, with gross written premium growth of 22% in the quarter and 17% year-to-date or 13% excluding currency fluctuation in the quarter and 9% year-to-date.

In Specialty, we also had strong growth. In the quarter, gross written premium excluding our captive business grew by 11%, and new business was up 26%. Retention dropped slightly in our medical malpractice business as we continue to impose the necessary terms and conditions to achieve our required rates of return and as you have evidence that's consistently doing. If we can't achieve the proper terms and conditions, we will walk away.

We have made a lot of progress, but additional rate is still needed. And in the quarter, we achieved 13 points of rate. And we believe that Med Mal price increases will persist at the double-digit level through year-end.

Turning to Commercial. Gross written premium ex captives grew plus 2% in the quarter, which was disproportionately impacted by the cyber incident that began on March 21. Through the tremendous work of our employees and the steadfast support of our agents and brokers, we continue to underwrite and pay our claims throughout the incident. But the limited transactional capability slowed down our production in the early part of the quarter. The impact was most notable in Commercial, in particular middle market, because the underwriters are primarily based in our branch offices where they focus on local agent and broker relationships they typically handle, a high volume of smaller and midsized accounts as well as the smaller end of our construction business segment. This is in contrast to public D&O underwriters or large national account underwriters and are more centralized in key cities like New York, dealing with fewer but larger accounts.

Middle-market retention and new business levels were both impacted, which lowered growth. In addition, middle market and National Accounts retention were also impacted by some targeted re-underwriting in the quarter. Importantly, however, we saw significant increases in momentum throughout the quarter, and retention for the month of June increased to 82% for middle market.

Broadly, during the month of May, we pivoted from using transactional workarounds to an increasingly normal state of technology and operations, which allowed us to improve our production statistics.

Our overall P&C gross written premium growth in June jumped to 13%, fueled by new business growth of 32% and overall retention of 82%. And this momentum has continued into the month of July. So we are confident that we can continue to leverage the favorable marketplace in the latter half of the year as we have effectively done since the start of the hardening market. Overall, for the quarter, net written premium growth for P&C was down 1%, which was distorted by the onetime unearned premium catch-up associated with the new property quota share treaty we purchased effective June 1. Excluding the effect of the onetime catch-up, net written premiums grew 5%. For P&C overall, prior period development was favorable in the quarter by 0.2 points on the combined ratio. Al will provide more detail later.

But before I turn it over to Al, I'll make a few comments on how I think about the pricing environment at this point in the cycle. As I mentioned last quarter, written rate changes began to exceed long-run loss cost trends 8 quarters ago, and earned rates have exceeded long-run loss cost trends for 6 quarters after being below long-run loss cost trends for 5 straight years. More rate is therefore still needed. And notwithstanding a 1-point moderation in price increases in the first and second quarters, we are securing strong written rate increases where needed most.

By way of example, in the quarter, aging services professional liability pricing was up 23%. Umbrella was up 16%. Financial and management liability was up 17%. Auto was up 13% and property up 11%. Importantly, earned rate changes in 2021 are running close to 12%, and our long-run loss cost trend assumption is about 4.5% in the aggregate with variations by class. That portends well for meaningful underlying margin improvement, all else equal.

Of course, things are rarely equal. Recall that we increased our long-run loss cost trends by about 2 points over the last couple of years in response to clear increases due to social inflation. And we won't know the true impact of social inflation on these accident years until they develop over time. For now, we are not allowing that perceived margin to have a significant impact on our accident year loss ratio picks or it overly benefiting prior year reserves until we have greater clarity on the impacts of social inflation in light of the shelter-in-place mandates obfuscating those trends.

Of course, this is all playing out against a substantial gap of roughly 7 points between earned rates and long-run loss cost trends. So even if we assume an increase in long-run loss cost trends of another 0.5 point at year-end and rates moderate as they did across the last 2 quarters roughly 1 point a quarter, the strong written rate in the last year will continue to generate earned rate increases around 8% to 9% at year-end 2021, still well above even potentially elevated long-run loss cost trends, and likely, still fueling some margin expansion into the first half of 2022, all else equal.

Just as important to the favorable pricing environment are the improved terms and conditions we have been able to achieve over the last couple of years, which, as I have mentioned before, tend to persist longer than the end of the favorable pricing environment. And when you combine that with the strong improvement in our portfolio from our re-underwriting actions over the last several years, as evidenced in our International portfolio, it should further serve to stave off upward pressure on the loss ratio even when rates eventually fall below loss cost trends sometime in the future.

In light of the disproportionate number of years, rates tend to fall below long-run loss cost trends versus the years it exceeds them across an underwriting cycle, combined with the very real headwinds that persist, such as social inflation, low interest rate environment and elevated catastrophe activity that hasn't reverted to the 10-year mean, I believe price increase discipline will persist for several more quarters. This is appropriate because determining what these headwinds will do and when in terms of improving or deteriorating is difficult to predict and makes the conversation on rate adequacy less certain, in my opinion. I believe discipline and prudence remain the order of the day.

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

Albert Joseph Miralles
Executive VP & CFO

Thanks, Dino, and good morning to everyone. Starting with the financial results. Core income for the quarter was $341 million compared to $99 million for the prior year quarter. With a core ROE of 11.3% for the period, clearly, we continue to make great progress. A meaningful component of our underwriting progress comes from our expense ratio. To that end, our second quarter expense ratio of 31.6% reflects 2 points of improvement versus the prior year quarter and 0.4 of improvement from the fourth quarter of 2020. As you will recall, the prior year quarter reflected a 0.5-point adverse impact associated with COVID-19.

The expense ratio improvement was again achieved in all 3 of our P&C's business segments. As I have said previously, the expectation was that written premium growth would ultimately translate into earned growth, and expense ratio would benefit from this as we maintain discipline in our expense spend. And while the timing of our discretionary investments in talent, technology and analytics will lead to some volatility in our expense ratio from quarter-to-quarter, over time, we would expect to sustain our progress.

Turning to net prior period development and reserves. For the second quarter overall, P&C net prior period development was 0.2 point favorable compared to 1.5 points favorable in the prior year quarter. Favorable development in Specialty during the quarter was driven by the Surety business, somewhat offset by management and professional liability. In the Commercial segment, favorable development in workers' compensation was offset by unfavorable development in commercial auto.

In terms of our COVID reserves, we made no changes to our catastrophe loss estimates during the quarter. We continually review our COVID reserves, and our previously established estimate of ultimate loss remains appropriate, and our loss estimate is still virtually all in IBNR.

As Dino mentioned, on June 1, we renewed several treaties associated with our property reinsurance program. As part of this effort, we added a quota share treaty, which covers policies written during the treaty term as well as policies that were in force as of June 1. As a result of our decision to have all in-force policies benefit from this new treaty and from the onset of hurricane season, we ceded $122 million of premium as a onetime catch-up of unearned premium on policies previously written as of the treaty inception. This directly impacted net written premium for the quarter.

Specifically, P&C net written premium was down 1% relative to the second quarter of 2020. Excluding the effect of the unearned premium onetime catch-up, net written premiums grew 5% relative to the prior year period. Specific to Commercial, net written premium was down 12% relative to the second quarter of 2020. Excluding the effect of the unearned premium onetime catch-up, net written premiums contracted 1% relative to the prior year period. As this treaty was effective 6/1, the impact of earned premium for the quarter was modest.

Now turning to Life & Group. The segment produced core income of $43 million in the quarter. This compares to Q2 2020 income of $14 million. The core income for the Life & Group segment in the quarter was largely driven by favorable net investment income, predominantly from the performance of our limited partnership investments. In addition, morbidity experience was moderately favorable for the quarter, while persistency experience was slightly unfavorable.

As a reminder, we will perform our Life & Group annual reserve reviews in the third quarter of this year. As always, we will take a close look at all of our reserving assumptions, including critical factors related to morbidity, persistency, rate increases and our discount rate. Please recall, last year, we moved meaningfully on our discount rate assumption, setting the normative rate for the 10-year treasury at 2.75% with a 10-year grade-in period. While current interest rates are higher than 1 year today, they remain low on an absolute basis, further validating the prudent actions we took last year.

Our Corporate segment produced a core loss of $53 million in the second quarter compared to a $40 million loss in the prior year. We conducted a review of our legacy mass tort reserves during the second quarter. As a result of this review, the segment includes a $40 million pretax charge related to unfavorable prior period development. The increase in reserves largely is associated with abuse claims.

Turning to investments. Total pretax net investment income was $591 million in the second quarter compared with $534 million in the prior year quarter. The results included income of $156 million from our limited partnership and common stock portfolios as compared to $84 million on these investments from the prior year quarter. The strong limited partnership returns for the quarter across both the P&C and Life & Group segments were significantly driven by private equity investments and the effect of lag results from the first quarter. As a reminder, our private equity funds primarily report results on a 3-month-or-greater lags basis, whereas our hedge funds primarily report results on a real-time basis.

Our fixed income portfolio continues to provide consistent net investment earnings, stable relative to the last few quarters and modestly down relative to the prior year quarter. The year-over-year decrease reflects the effect of lower reinvestment yields, substantially offset by the favorable effect of a higher investment base as strong operating cash flows have fueled portfolio growth. The pretax effective yield on our fixed income holdings is 4.3% at Q2 2021 compared to 4.6% as of Q2 2020.

The decline in our portfolio yield over this time reflects the cumulative effect of the persistently low interest rate environment, which continues to be a headwind. At the same time, the book value of our fixed-income portfolio has grown by $1.6 billion over the last year, mitigating the decline in reinvestment yields.

From a balance sheet perspective, the recent decline in interest rates during the quarter resulted in the increase in the unrealized gain position of our fixed-income portfolio to $5.1 billion at quarter end, up from $4.3 billion at first quarter. Fixed income invested assets that support our P&C liabilities had an effective duration of 4.9 years at quarter end. The effective duration of the fixed income assets that support our Life & Group liabilities was 9.3 years at quarter end.

As usual, slides from our 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 very solid. At quarter end, shareholders' equity rose to $12.7 billion or $46.69 per share, reflective of our net income and the increase in our unrealized gain position during the quarter. Shareholders' equity, excluding accumulated other comprehensive income, was $12.2 billion or $44.81 per share. We have a conservative capital structure with a leverage ratio of 18% and continue to maintain capital above target levels in support of our ratings.

In the second quarter, operating cash flow was strong at $603 million compared to $438 million at Q2 2020 and driven by the improvement in our current accident year underwriting profitability and a lower level of paid losses. This lower level of paid losses is also reflected in our lower P&C paid-to-incurred ratio, which was 73% for the quarter. In addition to consistent net operating cash flows, 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. Finally, we are pleased to announce our regularly quarterly dividend of $0.38.

And with that, we'll turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thanks, Al. We are pleased with our production execution, especially considering the transactional challenges we experienced early in the quarter. We produced the lowest quarterly underlying combined ratio and record core income. Price increases are earning through at a double-digit level, and we continue to opportunistically grow our new business at record levels. We believe the favorable market conditions will persist throughout the year, and we are well positioned to capitalize on the many opportunities.
And with that, we are ready to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question, we'll hear from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I thank you for the comments on the market, Dino. That was helpful. But I wanted to talk about that a little bit more. I was just thinking about the impact of inflation generally. And granted, the CPI doesn't really correlate with social inflation, but it might indirectly over time. And you mentioned that the -- your long-term loss cost trend is 4.5, maybe it will be 5. But I look at all these inflation inflationary pressures and wonder if it might turn out to be 6 or 7, and we don't really realize it for a while. And I wondered if you could just comment on that kind of scenario or how the market might react to that emergence of a worse trend.

Dino Ennio Robusto
Chairman & CEO

Yes. Thanks, Gary. Clearly, that's the important question. I mean, can it go up higher than 0.5 point? It's possible. And it is mainly the social inflation. As you indicated, right, CPI does impact it. We see it a little bit on the property. Obviously, you'll probably see it in demand surge if you have a large cat. But it reveals itself quickly. You put it in your loss picks quickly. And in your reserving, the medical inflation, typically, been -- or at least for the last several years, really hasn't impacted work comp. The reforms continue to play out.

So it's mainly the other casualty lines. It's social inflation. It has gone up, as I indicated, over 2 points in the last couple of years. And we have been quite transparent in what lines. It was, obviously, the medical malpractice. It was commercial auto liability and excess umbrella. So that's why I think we continue to be prudent both in the accident year pick and how we look at reserves in prior accident years.

So I was playing out the math at 1 point a quarter coming down on rates. And say it goes up another 0.5 point, it might go up higher in 2022. And I think this is why you still see the difference in pricing in these lines still in big double digit, and I think they'll stay up there.

As the shelter in place plays out and -- or diminishes and you start to see the trends, I think the market will have those rates persist. So maybe the math still plays out the way I suggested. But it is possible. It's why a little bit less definitive or -- on the issue of rate adequacy and it being sort of a moving target somewhat.

So it's possible. We'll keep an eye on it. And I think you can use the math. And if you play a different number, and it will then depend whether the rate continues to moderate in those lines or it stays flatter. So that's really all I can say, Gary. I wish I had a better insight. So we just monitor it and stay -- shall I say, disciplined and prudent.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Just one more level of that. And when I think about what happens in court, sometimes medical cost trends are the baseline for pain and suffering additions or multipliers. And have you seen -- you mentioned you haven't seen it very much in workers' comp, but has that played any role so far that has been visible in any of the liability lines or the injury cases?

Dino Ennio Robusto
Chairman & CEO

I mean, clearly, injury cases that impact individuals and the health of individuals are going to have some impact. But if you look at the medical trends outside of work comp, we really haven't seen it. It's been still fairly stable. There hasn't big -- the gyrations that are more representative of the overall social inflation. So it's more than the medical. It's all of the things that people comment on relative to social inflation and sentiment, corporate -- anti-corporate sentiment, et cetera, et cetera.

Gary Kent Ransom
Dowling & Partners Securities, LLC

If I could just change subjects, too. I wanted to ask about the cyber impact. Just wondering if you -- in hindsight, was there anything that you're now doing differently or just from a high level, things that you may have changed that will either help or prevent future things like that?

Dino Ennio Robusto
Chairman & CEO

Yes. I mean I think you're going to -- it's a little bit akin to an arms race. Whether it happened to us or whether you see it happening, the ransomware, across the industry, you're going to react. As they get more sophisticated, you're going to elevate your own security. We clearly are elevating our own security. I'd like to believe we would have continued had it not been directly impacting us because it's just -- it's a function of what happens to us but what's happening out there. And it's getting, clearly, much better publicized. And so you just got to keep on going with it. And you'll -- I'll probably say the same thing in a year from now and probably say the same thing 5 years from now, Gary. So -- but clearly, we have made additional changes and investments.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Has this affected how you might underwrite cyber exposure as well, just your experience with it?

Dino Ennio Robusto
Chairman & CEO

Yes. That's a great point. I don't know if it's really because of our own other than when you look at our portfolio and you look at the frequency of ransomware, in particular claims over the last 24 months, right, we knew we had to take substantial action. Now look, in our book, it only represents a little less than 5% of our Specialty book. But nevertheless, we have taken substantial action, and it's much more strict underwriting controls now both on new business and renewals with respect to the security protocols that our insureds have.

And then, like many others have commented, we've clearly lowered our average limits. We've increased our deductibles in coinsurance. We got about 59, 60 points of rate in the second quarter. But also, we have good reinsurance, right? So we have a quota share treaty on individual cases, Gary -- individual losses rather. And we have an aggregate stop loss to protect us against a more catastrophic-type scenario where it hits multiple insureds.

So I think we're doing all the right things, a lot more -- if you take out rate, a lot less growth. And so we're going to continue to be stringent in our underwriting in light of the activity.

Operator

And next, we'll move to Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

So I really don't want to get in the habit of -- you did talk about June production numbers on, I think it was a net or maybe it was gross premium written. Can we talk a little about maybe March, April, May, June, just to understand the trajectory of how the attack suppressed your underwriting? And give us, I guess, a better sense of how we can project that. And maybe if you can layer in on that, just talk about 2Q '20, which obviously had depressed writings because of the pandemic, and maybe there was a boost here in 2Q '21 because of easy comps. So I guess there's a lot in there, but maybe there's a bit more detail that we can get to and understand better your trend.

Dino Ennio Robusto
Chairman & CEO

Well, so, Josh, I think -- you think about the trend as the cyber incident is behind us, right? So it happened on March 21. Our systems were totally locked down for 3 weeks. And so obviously, that limits your transactional ability. When you get up and running, it takes a little bit of time to do some of the catch-up. So we said it was -- gross written premium was 13% in June, 8% for the quarter. So you do the math, it's pretty simple what sort of April and May was, considerably lower and not surprising. The question is, is that -- it's sort of a disjointed right, in the sense that now we are back up and running, and we had a good June and continuing sort of along the path that we had before the cyber incident. And as I said, it continued in July. So I think it's behind us, and it will move forward as it did in the absence of the cyber event. I don't know if that helps, Josh. I mean...

Joshua David Shanker
BofA Securities, Research Division

Yes. I mean answering -- can we say that the first 2 weeks of April, your production was down 40%? I mean like just trying to understand just how -- when the cyberattack happened, I mean, did it cut things off to 0? I mean I know you had workarounds and whatnot, but in the peak of the cyberattack, what was happening with production?

Dino Ennio Robusto
Chairman & CEO

I think the way to think about it -- I mean, listen Josh, it's hard to know exactly what you say, what it would have been had it not been there. I think -- look, the way to simply think about it is that the number of submissions had been down in April and parts of May, maybe about 20%. But those are submissions, right? You then have a quote ratio. You then have a hit ratio. What you would have gotten had you didn't have it versus you had it, difficult to say, right? So we wanted to be as transparent as we can be by sort of telling you what the quarter is, what June is and the net effect of April and May. And that's about the best detail, honestly, I could provide and be accurate at the same time.

Joshua David Shanker
BofA Securities, Research Division

Absolutely fair. Absolutely fair. And just -- you made the very smart comments about not wanting to interpolate pandemic or frequency into your loss picks yet because you still don't know what's going to happen maybe down the line. It is going to be a great windfall for the insurance companies, maybe it's not. But can you talk about the loss in the context of how much conservatism in -- with these peers? There's the broader inflation theme and then there's the pandemic frequency. To what extent -- when would we see you be more comfortable making a decision on how to interpret the loss picks based on your current concerns about inflation and whatnot? Are we going to have to wait a number of years before you'd be willing to interpolate current information into your loss picks?

Dino Ennio Robusto
Chairman & CEO

Yes. That's such a great -- that's a great question, Josh. And hard -- as you can tell, by the way, I commented in the prepared remarks along the issue of rate adequacy, right? In my opinion, it just remains -- I remain a little bit uncertain about it. And so I think it depends how this evolves right now, COVID, how the Delta variant plays out, whether it protracts, the obfuscation or not, hopefully not.

Listen, I think in 3 to 4 quarters, you'll have a better sense, unless, of course, the situation gets worse, and then it might protract it a little bit longer. So what we are trying to do is move when we actually know it and see it and are comfortable with it. And if we're not, we'll just tell you we're not. We'll tell you what the spread is, and then you can interpret it as you like, Josh. But I mean that is -- okay. That's the bottom line. That's what we're trying to figure out, and I understand your question.

Joshua David Shanker
BofA Securities, Research Division

All right. And one more, if I can. Can we talk about the -- how hotly competitive the market is? Obviously, you lost some business because of the cyberattack. But -- and your new business production was good. That means you took business from somebody else. But I assume others also have taken some business from you. And so where rates are right now, is the market competitive? Is there anybody who's willing to -- is underpricing in this moment happening? I know there's a lot of say, hey, we think price increases are going to be sustained. But at the same time, your retention isn't as strong in this environment as sometimes it has been. So I mean, can you talk about -- like what does that mean for the competitive environment?

Dino Ennio Robusto
Chairman & CEO

Yes. Yes. Okay. This is all -- there's a lot there. The way I would describe the marketplace, I still think it's disciplined. So if you take the lines subjected to the largest or most pronounced long-run loss cost trends, I think there's still strong rate.

Take middle market -- in our middle market, which in our portfolio, Josh, is much more -- more than half of it is professional services, financial institutions, tech, life science as opposed to heavy manufacturing, very profitable business. Middle market, at the high watermark. Let's say, the high watermark was Q4. I think everyone is solidifying around Q4. We never got over 8%. A year ago, it was only 7%. And so that has always stayed a little bit more competitive.

What may be happening a little bit now is it appears insurance companies are at different positions in their rate adequacy. Some suggesting they are there. So they may want to be a little bit more aggressive. And so I think, in general, though, I consider it to be and remain a disciplined market. And that's the way I'd categorize it. It is hotly competitive for many, many, many years in a cycle, and that's not what I would suggest at this point.

Operator

[Operator Instructions] Next, I'll move to Meyer Shields with KBW.

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

I'm pretty sure I've asked this question in the past, but Al mentioned continued adverse reserve development in commercial auto. And I wanted to dig into that a little bit because it just seems like the industry continues to struggle with a line of business where there's not that much innovation. I mean this isn't cyber where the nature of losses should be shocking. And I was hoping to get your thoughts on what's driving that sort of difficulty in terms of getting ahead of the losses and what your outlook is for the line over the next year or so?

Dino Ennio Robusto
Chairman & CEO

It's a great question, Meyer. There's no doubt that we are chasing increasing long-run loss cost trends. In auto, even though the book overall maybe a little over 4.5, the reality is auto, it's closer to sort of 8%. And that has been consistently going up. And you think you have a good handle on it, and then the effects of social inflation are really bearing down on auto.

Now the good news is now our rates -- rather than high single digits, what we saw last year, we're at 13 points of rate. On the commercial, obviously, because of commercial fleets, we have an ability to impact the pricing more in the short term. But this has been a little bit of chasing the long-run loss cost trends. And I think sometimes auto gets packaged in and you look at it overall. The reality is this is a line of business that continues to need a lot of pricing focus. And if you were to remove the price increases from our portfolio, you'd see relatively flat, slightly negative growth.

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

Okay. No, that's helpful. Switching gears, just in terms of understanding things. Did the transfer of earned premiums under the property quota share have any impact on the loss ratio in the quarter? In other words, is there an adjustment prior period?

Albert Joseph Miralles
Executive VP & CFO

Meyer, this is Al. No, it would not have had a material impact. Remember, as I said, the effective date for this was 6/1. So I talked about that unearned adjustment. That's really a reflection of looking back at written policies and the unearned components of that. But given the effective date of 6/1, no really meaningful impact on earned expense ratio or loss ratio.

Operator

And there are no further questions at this time. I will turn the call back over to Dino Robusto for any additional or closing remarks.

Dino Ennio Robusto
Chairman & CEO

Thank you, everyone. We look forward to next quarter, in chatting with you. Bye now.

Operator
And that will conclude today's call. We thank you for your participation.