S&P Global
Market Intelligence

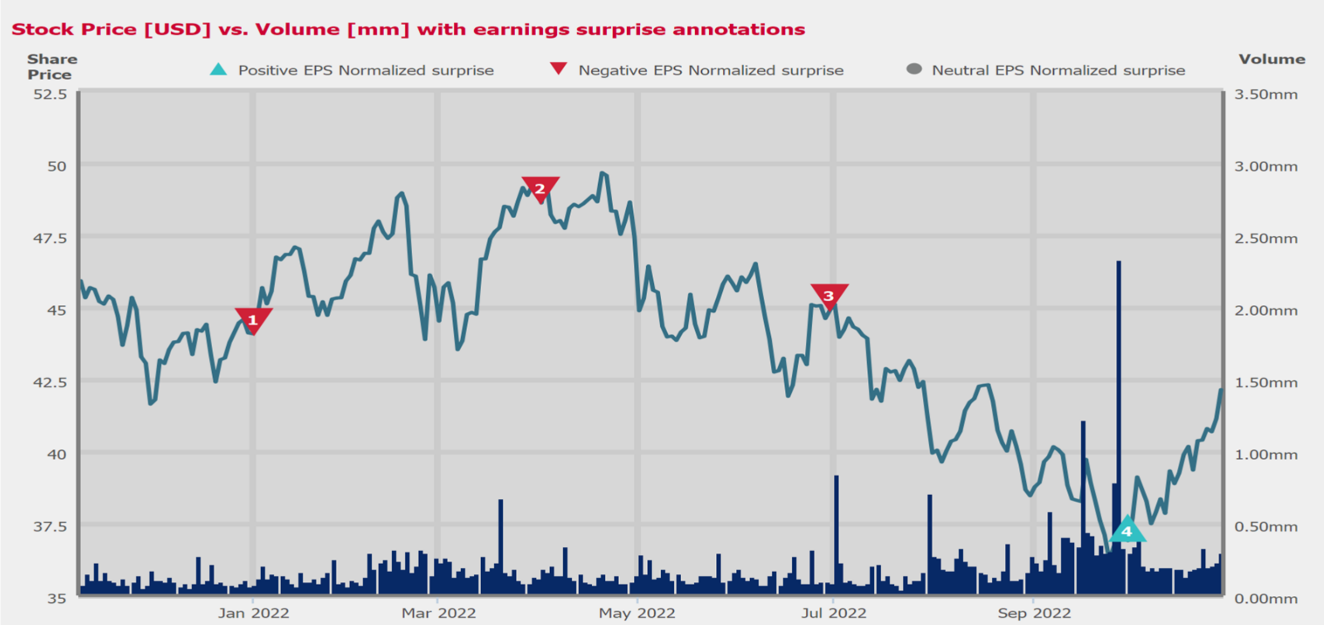
CNA Financial Corporation NYSE:CNA
FQ3 2022 Earnings Call Transcripts

Monday, October 31, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.59	0.78	▲32.20	0.98	3.77	NA
Revenue (mm)	NA	NA	NA	NA	NA	NA

Currency: USD
Consensus as of Oct-31-2022 2:40 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	1.00	0.97	▼1 (3.00 %)
FQ1 2022	1.22	1.16	▼2 (4.92 %)
FQ2 2022	1.03	0.90	▼3 (12.62 %)
FQ3 2022	0.59	0.78	▲4 32.20 %

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Call Participants

EXECUTIVES

Dino Ennio Robusto
Chairman & CEO

Ralitza Todorova
Assistant Vice President of Corporate Development

Scott Robert Lindquist
Executive VP & CFO

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Joshua David Shanker
BofA Securities, Research Division

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

Presentation

Dino Ennio Robusto
Chairman & CEO

[Technical Difficulty]

The underlying combined ratio of 90.7% is down 1.8 points compared to the prior year.

International gross written premiums grew 4% and 12%, excluding currency fluctuation. Net written premiums grew 1% or 8% excluding currency fluctuation. Renewal premium change in international was plus 12% with rate and exposure, both up 6%. Retention was also strong at 82%. We are very pleased with our international operation as it increasingly contributes to the success of the overall company.

And with that, I will turn it over to Scott.

Scott Robert Lindquist
Executive VP & CFO

Thank you, Dino, and good morning, everyone. As Dino noted, we are pleased with our third quarter results, highlighted by a 95.8% combined ratio with outstanding underlying fundamentals, coupled with strong gross written premium ex captives growth of 9%.

Before providing more information on the financials, I will first discuss Life & Group. As you know, each year in the third quarter, we undertake our annual reserve reviews for the Life & Group segment. These reviews include the annual review of assumptions underlying our long-term care active life reserves, which we also refer to as the gross premium valuation, or GPV, as well as our long-term care and structured settlements claim reserves.

I would like to point you to Slides 12 through 14 in our earnings presentation. Slide 12 contains key demographic information about both our individual and group long-term care blocks. As a reminder, both blocks are closed with no new policies issued for individual since 2004 and no new group certificates since 2016. As a result, the average attained age for the individual block is 81 years old and the group block is 68.

While the group block is less mature in age, you can see from the table in the top right of Slide 12 that the benefits features on average for the group block are considerably narrower than the features for the individual block. As we have discussed in past calls, we have proactively reduced risk in both blocks over the years while obtaining meaningful rate increases and using a prudent approach in setting assumptions in our reserve analyses both for active life and claim reserves.

One clear result of our efforts is the 38% reduction in policy count since 2015, which is shown on the bottom left graph on Slide 12. As we continue to file for rate increases, we also offer benefit reduction options to our policyholders as a means to mitigate the impact of rate increases. This reduces the cost of future claims while providing a viable option for our policyholders.

Starting with the GPV analysis, the results of which are shown on Slide 13. Our efforts involved a thorough review of all of our reserving assumptions, including economic, morbidity, persistency and rate increase assumptions. The key result is that we did not have an unlocking event and we have increased the margin on our GAAP-carried reserves from $72 million in 2021 to $125 million at the end of the third quarter.

Economic assumptions are comprised of discount rate assumptions as well as cost of care inflation assumptions. Our approach to setting the discount rates remain unchanged. The discount rate reflects the current LTC investment portfolio yields and assumes future investment yields. In setting the future yield assumptions, we grade to a normative risk-free rate over a 10-year period following the forward curve for the first 3 years. Our normative assumption for the 10-year treasury rate is 2.75%, which is consistent with last year.

The investment portfolio actions taken in both the second and third quarter of this year, which I will speak to -- which I will speak more to in a few moments, together with the higher forward curve beneficially impacted reserve margin. We also updated our cost of care inflation assumptions in recognition of the current elevated inflation environment. In doing so, we were guided by the PCE, or personal consumption expenditures, inflation index, and we increased near-term inflation expectations.

It is our view that the current elevated inflation is temporary in nature and that over the longer term, inflation will revert to more historic levels. This view is informed by the stated objectives and the aggressive actions taken to date by the Fed and is also shared by the market, as evidenced by an approximate 2.5% 10-year breakeven inflation rate that is published by the Federal Reserve Bank of

St. Louis, which is the expected average inflation rate over the next 10 years. Overall, the changes to the economic assumptions drove margin deterioration of $130 million.

I would characterize our updates to both morbidity and persistency as relatively neutral. For morbidity, we refined our claim frequency and severity assumptions, specifically those related to utilization rates and home care versus facility care mix, which resulted in margin deterioration of $30 million.

With respect to persistency, the key assumption change was a small refinement to healthy life mortality. This resulted in a margin improvement of $40 million.

Regarding future premium rate increases, our actual rate achievement over the past year exceeded our assumptions in last year's analysis, contributing $190 million to the favorable margin increase. As you may recall, our prudent approach is to include rate increases that have been approved, filed but not yet approved or that we plan to file in the near term as a part of the current rate increase program. As a result, the weighted average duration of future rate increase approvals assumed in the reserves is less than 2 years.

As you can see on Slide 13, the cumulative impact of these changes, including a slight margin deterioration of $17 million from operating expenses, resulted in a reserve margin of $125 million in our carried reserves while continuing to use a prudent set of reserve assumptions. The result was no unlocking event, and we remain confident in the adequacy of these reserves.

In addition to the GPV, we completed our annual long-term care claims reserve review, which is a review of the sufficiency of our reserves for current claims. The impact from this review, which flows through to our bottom line, was a $25 million pretax reduction in long-term care reserves. This was driven by a $107 million favorable impact from the release of the remaining IBNR reserves established during 2020 and 2021 in response to the COVID-19 pandemic, partially offset by an $82 million unfavorable impact from higher-than-anticipated claim severity, including utilization and cost of care inflation. In addition, there was a $5 million pretax reduction in the structured settlement claim reserves due to discount rate assumption changes.

While we are on the topic of Life & Group, I'd like to give a brief update as to the approaching change in GAAP accounting methodology related to long-duration targeted improvements, otherwise known as LDTI, that will apply in our long-term care business. As a reminder, we will be adopting this change effective January 1, 2023, but will apply it as of January 1, 2021. 2 years of adjusted financial results will therefore be included in our 2023 financial statements.

The estimated impact of adopting LDTI will be a $2.3 billion decrease of stockholders' equity as of the transition date of January 1, 2021. Assuming September 30, 2022, interest rates were in place on January 1, 2021, we estimate an immaterial transition impact to stockholders' equity as corporate single A rates were substantially higher at September 30, 2022, than at January 1, 2021.

It's important to note that under LDTI, there remains the requirement to review and update, if there is a change, cash flow assumptions at least annually, and any such update is expected to change the pattern of earnings being recognized. Under current accounting guidance, and as I just discussed, our third quarter 2022 gross premium valuation assessment indicated a pretax reserve margin of $125 million with no unlocking event.

However, under the new guidance, the effect of changes in cash flow assumptions from the company's assessment would be recorded in the company's results of operations, except for discount rate changes, which will be recorded quarterly through accumulated other comprehensive income. As we have noted in prior calls, I'd like to emphasize this change in accounting has no impact at all to the underlying economics of CNA's business.

Turning to Slide 14. Our overall Life & Group segment produced a core loss of $22 million in the third quarter, which compares to a Q3 2021 income of $41 million. Limited partnership results for Q3 2022 were $54 million unfavorable to the prior year quarter as well as a favorable impact from the annual LTC claims review that I just discussed.

Turning to investments. Total pretax net investment income was $422 million in the third quarter compared with $513 million in the prior year quarter. The decrease was driven by our limited partnership and common stock results, which returned a $44 million loss in the current quarter compared to a $77 million gain in the prior year quarter. The current quarter results reflect losses in our private equity limited partnerships of $36 million and common stock portfolios of $9 million, directionally in line with recent equity market performance.

Our hedge fund portfolio was fairly flat for the quarter. The gain in the prior year quarter reflected particularly strong results from our private equity portfolio. As a reminder, private equity funds, which now represent 75% of our limited partnership portfolio, generally report to us on a 3-month lag so results this quarter were primarily reflective of performance from Q2 2022. Given the continued difficult public equity markets, which have been down for 3 consecutive quarters, we expect pressure on private equity valuations to continue into the next quarter.

Hedge funds represent less than 25% of our limited partnership portfolio and predominantly report results on a real-time basis. You can find additional details of our limited partnership holdings and income by the private equity and hedge fund strategies on Pages 10 through 14 of our financial supplement.

Our fixed income portfolio continues to provide consistent net investment income, which has been steadily increasing over the last several quarters. We continue to benefit from a higher invested asset base driven by continued strong P&C underwriting results. As a point of reference, our average book value has increased $1 billion from the prior year quarter. Additionally, we are pleased to note that the average effective income yield in our P&C portfolio was 3.8% in the third quarter, an increase from 3.7% in the second quarter and 3.6% in the first quarter.

The consolidated CNA portfolio yield was 4.4% for the third quarter as compared to 4.3% for the second and first quarters of this year, reflecting the higher P&C yields with the Life & Group portfolio yield about flat in the current year -- current quarter as compared to the first 2 quarters of this year.

As of the end of the third quarter, reinvestment rates were about 125 to 150 basis points above our P&C effective yield and are up even further thus far in the fourth quarter. Life & Group current reinvestment rates are about flat to our effective yield given the long-duration nature of our Life & Group portfolio.

Fixed income invested assets that support our P&C liabilities and Life & Group liabilities had the effective durations of 4.8 years and 9.8 years, respectively, at quarter end. The increase in Life & Group duration from 8.9 to 9.8 years during the last 2 quarters is reflective of strategic actions taken to simultaneously reduce reinvestment risk by selling short-dated holdings projected to roll off in the near term while also extending duration by redeploying the proceeds into longer-dated high-quality securities at yields exceeding our long-term assumptions.

In total, over $2.7 billion of long-dated fixed income securities were acquired in the Life & Group portfolio over the last 2 quarters with an average yield of 4.9% and an average rating of A+. Meanwhile, the $2.6 billion in mostly tax-exempt securities in that period -- sold in that period as part of this repositioning generated $26 million of pretax investment gains.

While higher rates are positively impacting the outlook for investment income, from a balance sheet perspective, they have continued to adversely impact our net unrealized investment position, which ended the quarter at a $4.1 billion loss, down from a $4.4 billion gain at the end of last year. The investment portfolio credit quality remains strong with a weighted average rating of A, with very little in credit impairments. Accordingly, we tend to look through interest rate-driven fluctuations in market values as we have the ability and general intent to hold our fixed income securities to maturity.

Notwithstanding the decrease in our net unrealized position, our balance sheet continues to be very solid. At quarter end, stockholders' equity including (sic) [excluding] AOCI was $12.2 billion or $45.16 per share, an increase of 5% from year-end adjusting for dividends. Stockholders' equity including AOCI, which reflects our investment portfolio moving further into a net unrealized position loss during the quarter, was $8.1 billion or $29.88 per share.

We continue to maintain a conservative capital structure with a leverage ratio of 19%, excluding AOCI, and our capital remains strong with financial strength ratings of A from A.M. Best and A+ from Fitch having just been affirmed during the third quarter, both with stable outlooks.

Finally, net investment losses were $85 million in the third quarter compared with net investment gains of $19 million in the prior year quarter. The current quarter results include $41 million of after-tax net losses in our fixed maturity security portfolio, reflecting portfolio repositioning, and a $35 million noneconomic loss related to the expected novation of a coinsurance agreement in our Life & Group segment and associated funds withheld embedded derivative.

Operating cash flow was strong once again this past quarter at $737 million, and it was a result of solid underwriting and investment cash flows. In addition to strong operating cash flows, we continue to maintain liquidity in the form of cash and short-term investments. And together, they provide ample liquidity to meet obligations and withstand significant business variability.

Finally, we are pleased to confirm our regular quarterly dividend of $0.40 per share, which will be payable on December 1 to shareholders of record on November 15.

With that, I will turn it back to Dino.

Ralitza Todorova
Assistant Vice President of Corporate Development

Hello. We understand there were some technical difficulties for those who are joining via the webcast. So to make sure that you are all able to hear Dino's remarks, he will repeat his opening remarks now.

Dino Ennio Robusto
Chairman & CEO

Thank you, Ralitza, and good morning all. Take 2.

So before beginning my remarks on our third quarter results, I'd like to take a moment to acknowledge the terrible impact of Hurricane Ian on so many lives and businesses. All of us at CNA are saddened by the devastation, and our thoughts are with those that lost loved ones in the communities that suffered and are working to recover.

Turning to results. Despite the elevated industry catastrophes, including the effects of Ian and pressure on equity markets, CNA recorded impressive third quarter results. The P&C all-in combined ratio improved to 95.8% from 100% in the third quarter of last year, and we achieved continued strong production performance, including 9% gross written premium ex captives growth and 10% excluding currency fluctuations.

Our core income declined by $24 million to $213 million. On a pretax basis, in the quarter, limited partnerships and common equity returns were lower by $121 million year-over-year, which was largely offset by an increase in the P&C underwriting gain of $85 million and an increase in income from fixed income portfolio of $28 million due to an increase in yield and a higher asset base.

In the third quarter, the P&C all-in combined ratio of 95.8% is 4.2 points lower year-over-year, reflecting a stable underlying combined ratio, lower catastrophe losses and increased favorable prior period development. Pretax catastrophe losses were $114 million or 5.5 points of the combined ratio compared to $178 million or 9.2 points in the prior year period. Hurricane Ian pretax catastrophe losses were $87 million of the total.

Our disciplined re-underwriting and portfolio management strategies that we have referenced over the last several years helped mitigate our losses from yet another elevated industry cat quarter. For P&C overall, prior period development was favorable 0.8 points compared to 0.3 points favorable in the third quarter of 2021. Our P&C underlying combined ratio of 91.1% continues to perform in line with record levels over the last 6 quarters. The underlying loss ratio of 59.9% was lower by 0.3 points compared to the prior year quarter, and the expense ratio of 30.8% was in line with the third quarter of 2021 and the fifth consecutive quarter at or below 31%.

In Life & Group, we conducted our annual gross premium valuation analysis. There was no unlocking of the assumptions, and GAAP margin on the active life reserves was strengthened by $53 million to $125 million. In addition, the annual claim reserve review resulted in favorable development of $30 million on a pretax basis. Scott went through the Life & Group reserve analysis just before.

Drilling down on P&C production overall, net written premium growth was 8% and 9%, excluding currency fluctuation. New business grew by 12% this quarter, and pricing as well as overall terms and conditions remain consistent with our renewals. Retention was 85% this quarter and is also 85% on a year-to-date basis, which is 3 points greater than our 9-month results last year.

The P&C renewal premium change in the third quarter was 8%, consistent with the second quarter, comprised of 5 points of rate increase and 3 points of exposure increase, of which half acts like rate. We are seeing stronger exposure premium from inflation-sensitive lines like work comp, property and general liability. So we feel good about the renewal dynamics as we continued to cover our long run loss cost trends, which remained stable at 6% in the third quarter.

On an earned basis for P&C overall, rate in the quarter was 7%, and earned rate is a little over 8% when we include the portion of exposure change that acts like rate.

Now let me provide a little more detail on our 3 business units. The all-in combined ratio for Specialty was 88.7% in the third quarter, which is now the ninth consecutive quarter below 90%. The underlying combined ratio was 90.4%, up 0.8 points compared to last year. The underlying loss ratio improved 0.7 points to a record low 58.4% as we have reflected some margin improvement.

The expense ratio of 31.7% was higher by 1.1 points, largely due to higher underwriting expenses driven by investments in technology and talent. Gross written premium ex captives and net written premium for Specialty each grew by 2% in the third quarter. Growth was lower this quarter due to less new business partially from fewer IPOs and M&A opportunities that impacted our D&O line and program growth as well as a 2-point moderation in price increases.

We achieved rate increases of 5% and earned rate of 9% for the quarter. Within Specialty, rates were down in management liability lines where, in particular, cyber increases have come off of the almost triple-digit increases we experienced over the last year and now are more in the mid-double-digit range. At plus 6% written rate increase in the quarter, management liability is keeping pace with loss cost trends and earned rates continue to be well above.

Specialty retention improved by 2 full points to 87%, the strongest level since 2019, and particularly benefited from higher retention in our health care segment as our underwriting actions over the last several years and cumulative rate increases have improved the performance of the portfolio.

Turning to Commercial. The all-in combined ratio improved to 101.9% from 111.6% in the third quarter of last year with cats representing 10 points versus 18.6 points last year. The underlying combined ratio was a record 91.9% and 0.6 points lower than last year. The underlying loss ratio of 61.5% is consistent with the prior year quarter. The expense ratio improved by 0.5 points to 29.9%, which is our lowest level since 2008.

Commercial gross written premiums ex captives grew by 18% this quarter, and the net written premium growth was 16%. In the quarter, Commercial renewal premium change was 8%, up 1 point from the second quarter, which includes 4 points of exposure and 4 points of rate, about 0.5 point lower than the second quarter before rounding. This was primarily driven by work comp where rate was down 1 point from the second quarter but is still in the low single-digit negative range. In areas such as general liability and marine, rate was up slightly compared to the second quarter, and national accounts property remained strong in the low double-digit range.

Finally, earned rate in the quarter, inclusive of the portion of exposure change that acts like rate, is closer to 7%. Commercial retention was 84%, down from the second quarter but remains higher than the full year 2021 as the underwriters continue to effectively balance the rate retention dynamics in this favorable market environment.

For International, the all-in combined ratio was 94.4% this quarter, a 1-point improvement over last year. The underlying combined ratio was 90.3%, the lowest on record, reflecting 0.7 points of improvement from the prior year quarter. The underlying loss ratio of 58.6% is lower by 0.3 points, reflecting some margin improvement. The expense ratio of 31.7% is down 0.4 points compared to last year. On a year-to-date basis, the underlying combined ratio of 90.7% is down 1.8 points compared to the prior year.

International gross written premiums grew 4% and 12%, excluding currency fluctuation. Net written premiums grew 1% or 8%, excluding currency fluctuation. Renewal premium change in International was plus 12% with rate and exposure both up 6%. Retention was also strong at 82%. We are very pleased with our International operation as it increasingly contributes to the success of the overall company.

So to recap, in the face of continued disruption in the equity markets and another quarter of elevated catastrophes for the industry, we are very pleased with our third quarter performance. We are confident that all the work we have done over the past several years has resulted in a high-performing core underlying portfolio. In addition, our disciplined cat management continues to meaningfully improve our all-in P&C performance, which is evident in our third quarter results.

Renewal premium change was stable at 8% as exposure growth continues to increase, benefiting from lines of business with inflation-sensitive rating basis. And we think we will see a new level of price hardening in the property lines based on early commentary from the reinsurers going into 2023. We believe these dynamics will allow us to continue to cover our loss cost trends, all else being equal, and to offer additional new business opportunities.

Finally, as reflected in our third quarter results, we can already see the effect of the higher interest rate environment in our fixed income investment results, and we expect this to be a meaningful tailwind for us going forward in 2023.

And with that, we'll be happy to take your questions.

Ralitza Todorova
Assistant Vice President of Corporate Development

Just before taking questions, I would like to repeat that 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 press release and in CNA's most recent SEC filings.

In addition to the forward looking -- in addition, the forward-looking statements speak only as of today, Monday, October 31, 2022. 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 our earnings press release, financial supplement and other filings with the SEC. This call is being recorded and webcast. A replay of the call may be accessed on our website.

If you are reading a 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 statements.
And now we'll be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Well, I like the second time better, for what it's worth.

Dino Ennio Robusto
Chairman & CEO

Thank you, Josh. Greatly appreciate it.

Joshua David Shanker
BofA Securities, Research Division

Yes. So in terms of the -- thinking about the upcoming year of renewals and whatnot, can you talk a little about your net cat exposure versus your gross cat exposure and how pricing of reinsurance changes might affect you? You've been a great cat manager for a number of years. And is that because you're a successful buyer of reinsurance or that's because you're a successful risk manager on what risk is coming out of the book on a gross basis?

Dino Ennio Robusto
Chairman & CEO

So I'd make a couple of observations, Josh. We're not going to go through the gross to net. I mean we got some benefit from our quota share relative to Hurricane Ian, and so we benefited from some of that.

But as we have highlighted in the past, we've also done a considerable amount of work on our cat management strategy. We started off, if you recall, with our syndicate Hardy that was principally a cat syndicate, both on primary and reinsurance. And whenever we would have large U.S. events, you would see a considerable contribution from the syndicate, which you clearly did not see.

We also, over the course of the last roughly 18 months, had exited from our property exposures on our aging services portfolio because that had a heavy coastal footprint and one that we just didn't think we could get the right returns on based on the terms and conditions that were out there. So honestly, I think it is a function of a lot of the discipline, and we did get a little bit of benefit from our quota share treaty.

Now our property treaties renew June 1. So we'll see how the 1/1s play out. But what I would say is that based on the discipline, I think it's fair to say that we and our reinsurers did well from a property standpoint, and we expect that to be reflected in how they treat our renewal.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then I'm not asking for a forecast for CNA in particular. But do you expect 1 year from today, given all the pressures in the market that ultimately, we're talking about a reacceleration of pricing from the current position we're in right now or that the rate of rate increases will hold somewhat steady?

Dino Ennio Robusto
Chairman & CEO

I mean I can only go by what you're hearing also, Josh, right, from the reinsurers. And clearly, it would appear that we'll see some additional acceleration on the property lines. It's difficult to know how that affects the other lines. I guess I can intuit an argument that says they may take a much more broad-brush approach as they attempt to mitigate the fixed from the elevated cat activity over the last 5-plus years. But I don't know. We'll just have to wait and see how that plays out. But I think it's fair to assume you'll see an acceleration on the property side.

Joshua David Shanker
BofA Securities, Research Division

And in terms of the positioning of the company. And obviously, the -- there's admitted and there's nonadmitted papers. There's regulation. When we think about the Specialty book, I assume almost everything is in a nonadmitted sort of way and that you can price at what you think is an effective price immediately. Is there any lag on you getting pricing through the commercial book to mitigate higher reinsurance costs?

Dino Ennio Robusto
Chairman & CEO

So just to clarify, so some of our professional liability programs clearly are in the surplus lines. And we've also began to expand in E&S sort of from a more traditional property and casualty but still relatively modest volume. And I think like you've seen over the course of the hard market, we should be able to take advantage of what might be some additional acceleration in pricing through the course of the year.

Operator

The next question comes from the line of Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask about -- on the investment income, the new money rate and how that is likely to flow forward. And just helping us with our models, is there anything unusual about how the portfolio is rolling over? Is this kind of a uniform roll? Or is there more -- is it a barbell? Is there anything we should be considering when we -- in this 150 basis point increase that you're talking about?

Scott Robert Lindquist
Executive VP & CFO

Gary, it's Scott. Thanks for the question. So as I said in my remarks, on the P&C side, new money is about 125 to 150 basis points higher than book yield. It's actually higher now as we sit here today end of October, and it's about flat with Life & Group. So I think the best thing I could point you to is really the average duration of our portfolio. The P&C is 4.8. Right now, Life & Group is considerably longer, in the high 9s right now. So that's going to be a much longer turn in that portfolio relative to the P&C.

I don't really have anything to point you to as any particular lumpiness or barbell nature of our cash flows. I think that's probably the best guidance I could give you right now, is just looking at the durations.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. You also mentioned about the expense ratio in Specialty going up, and I wanted to -- you did mention in the prepared remarks a little bit of what that is. But can you give us a little more color about what technology and what kind of talent you're adding there or if there's particular areas that you're targeting?

Scott Robert Lindquist
Executive VP & CFO

Sure, Gary. It's Scott again. So I would say really, and we've been talking about this for a while, we've been making substantial investments in technology, not only overall infrastructure but specific technology that enhances our ability to underwrite profitable -- or business, particularly in the Specialty area and to serve our customers significant investment in the analytics side, really getting a lot more granular, analytical data around supporting our underwriting decisions.

And then talent, we've been very successful and aggressive in the marketplace at attracting and retaining underwriting talent, and that's certainly playing out in what you're seeing in the Specialty expense ratio.

Dino Ennio Robusto
Chairman & CEO

And that's why, Gary, just to add on Scott's point, which is why we have said -- because we're going to continue to make these investments. And I think investment is really -- the way to take a look at it is that probably in and around 31% is a fair sort of run rate on the expense ratio. And presuming we made the right investments, it'll pay off for us going forward, as I think it has over the last several years with our expense ratio coming down.

Gary Kent Ransom

Dowling & Partners Securities, LLC

All right. And then I do want to ask the bigger picture inflation question too, and we've had this, call it, unexpected inflation for over a year. And it seems to be hitting different things at different times, and I wanted to focus in on the medical trends that might have an impact on liability lines where there seems to be somewhat more of a lag and perhaps there's a risk that those costs might trend higher.

And I know everyone thinks rate is ahead of loss trend, but that might not be true in all cases. And I just wondered if there are areas or lines where you think there is a little bit greater risk that the loss cost trends might accelerate further.

Dino Ennio Robusto
Chairman & CEO

I mean, Gary, when we look at -- I mean, clearly, you see the medical CPI, and that is up. But I think we need to be a little careful. And I believe I mentioned that at length also last quarter, right? It's not really a great proxy for severity trends, in particular, relative to comp, but for other areas. So we pay attention to the subcomponents, physicians, hospital services. Those have been up less than the overall CPI. And I think the reforms also, when you look at comp in terms of the fee schedules, that also has dampened volatility, giving you a little bit more predictability.

So look, I mean, I think it's clearly something we'll watch. And we have acted quite proactively on all forms of inflationary pressures in the past, both social and economic. And as we watch it closely, we'd act -- if it starts to escalate more than the components that impact our portfolio, then we'll act. But for now, still relatively benign.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. I guess I'm just thinking about how the -- you talked about acceleration of rate potential for property that, that could be -- there could be some other forces that might cause some acceleration in rate in casualty. And I just wondered if you're thinking about that as well.

Dino Ennio Robusto
Chairman & CEO

Well, like we said about social inflation, right, it's about 6% in our book, but it has doubled, as I've indicated before, over the last 3 years. COVID probably only obfuscated the dynamics, probably still some lingering obfuscation or dockets not all fully backed. So there's always a potential that it can increase. It is the driving force behind our decision to be prudent and not taking down -- taking the margin from the earned rates being above loss cost trends. So we're probably not far apart, you and us.

Operator

The next question comes from the line of Meyer Shields from KBW.

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

Dino, this is, I guess, a follow-up on Josh's question. I just want to understand sort of bottom line, what's CNA's appetite for expanding its exposure in catastrophe-exposed property if, as you expect and I expect, pricing improves fairly significantly?

Dino Ennio Robusto
Chairman & CEO

Unfortunately, I didn't get that. So if one of you here...

Scott Robert Lindquist
Executive VP & CFO

Cat exposure expanding -- exposure -- if he could repeat it [could we write more] just repeat it.

Dino Ennio Robusto
Chairman & CEO

Yes. Can you repeat it? We're just sort of trying to -- we all sort of strained over and I apologize, Meyer...

Meyer Shields

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

No, I'm happy to yell. I'm just trying to understand bottom line. If we see significant rate increases in catastrophe-exposed property, how does -- what's CNA's appetite for actually growing exposure there? Obviously, [indiscernible] is positive, but [I think] you can write a lot more.

Dino Ennio Robusto
Chairman & CEO

I see. I see. Okay. Thank you. I apologize for making you repeat that. You might recall, back in the second quarter of 2021, I had told you that property was about a little less than 20% of our portfolio and we thought that -- we felt it was an opportunity to increase it in a smart way when we also had purchased our quota share treaty.

Now interestingly, the proportion today, Meyer, is still about the same at 20%, and that's really because during that time, as I mentioned on -- to Josh's question, that we exited our entire aging services property exposure that had a lot of coastal exposure. But since it's roughly the same percent, what we did is essentially made some very smart trades and replaced it with property where the terms and conditions offered a much better risk return trade-off.

And so we're going to continue to make those decisions and still believe, as we did in 2021, that there's some room, given the size, its contribution to the overall book, that there is some opportunity for us to grow the property portfolio.

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

Okay. Fantastic. Also, a question for Scott. I'm just trying to put together the various pieces for rate filings in long-term care. So you've got higher interest rates and higher inflation. How does that impact regulatory responsiveness to file rate increases?

Scott Robert Lindquist
Executive VP & CFO

Thanks, Meyer. Well, listen, as I said in my remarks, we obviously addressed both in our latest GPV, and what we're seeing in that will obviously flow through our rate indications as we file with the respective departments of insurance. I've remarked that we've been fairly successful in our filings. We have actually overachieved our expectations in the past year, and we find that, generally speaking -- exceptions will apply, but generally speaking, regulators we have been dealing with have been receptive with what we've been presenting for rate increases.

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

Okay. So the reason I'm asking is GPV doesn't include sort of long-term expected rate increases and assumes that has been changed. So if I understand you correctly, you're saying that just going forward, you're not seeing any increasing friction?

Scott Robert Lindquist
Executive VP & CFO

I'm sorry, increasing what?

Dino Ennio Robusto
Chairman & CEO

Friction.

Scott Robert Lindquist
Executive VP & CFO

Friction. No, not really. Not at all. And so just to remind you, our assumption is conservative. The weighted average duration of rate increases we've included is under 2 years. That's consistent with past years. So I would characterize that assumption as prudent and conservative.

Operator

We currently have no questions coming through. [Operator Instructions] There are no further questions. I will now hand you back to your host to conclude today's conference.

Dino Ennio Robusto
Chairman & CEO

Great. Thank you very much, and I appreciate all your patience in having to repeat the script twice. Thank you, and we'll talk to you next quarter.

Operator
Thank you for joining today's call. You may now disconnect your lines.