S&P Capital IQ

CNA Financial Corporation NYSE:CNA

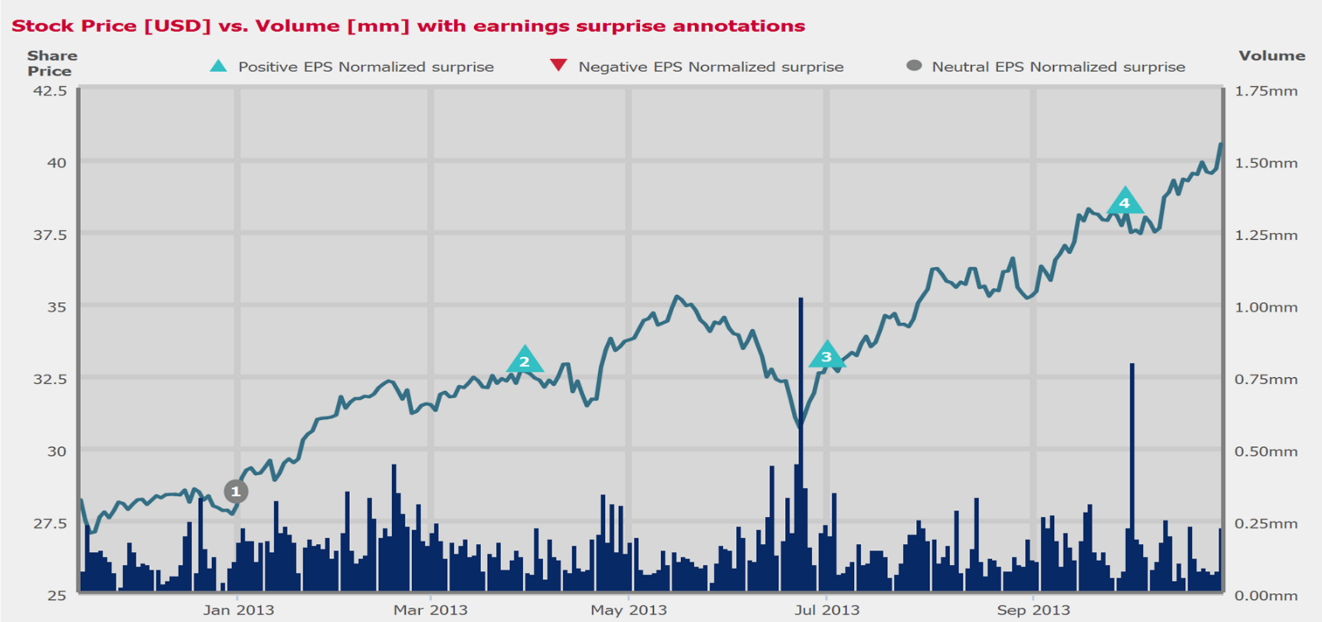
FQ4 2013 Earnings Call Transcripts

Monday, February 10, 2014 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.87	1.24	▲42.53	0.87	3.48	3.85
Revenue (mm)	1754.00	1684.00	▼(3.99 %)	1865.50	7006.00	6799.00

Currency: USD
Consensus as of Feb-10-2014 1:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	0.22	(0.03)	NM
FQ1 2013	0.71	0.86	▲1 21.13 %
FQ2 2013	0.64	0.75	▲2 17.19 %
FQ3 2013	0.76	1.00	▲3 31.58 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

James M. Anderson
Senior Vice President of Financial Planning & Analysis and Corporate Development

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

John Thomas

Joshua David Shanker
Deutsche Bank AG, Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Good day, and welcome to the CNA Fourth Quarter and Full Year Results Conference Call. Today's call is being recorded. At this time, I'd like to turn the conference over to James Anderson. Please go ahead.

James M. Anderson
Senior Vice President of Financial Planning & Analysis and Corporate Development

Thank you, Tim. Good morning, and welcome to CNA's discussion of our 2013 fourth quarter financial results. By now, hopefully all of you have seen our earnings release, financial supplement and presentation slides, which provide additional perspective on our financial and operating trends. If not, you may access these documents on our website, www.cna.com, under the Investor Relations menu.

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

Before turning it over to Tom, I'd like to advise everyone that during this call, there may be forward-looking statements made and references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during this call. Information concerning those risks is contained in the earnings release and CNA's most recent 10-K and 10-Q on file with the SEC. In addition, the forward-looking statements speak only as of today, Monday, February 10, 2014. 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 have also been provided in our most recent 10-K and 10-Q, as well as in the financial supplement. This call is being recorded and webcast. During the next week, the call may be accessed on CNA's website.

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

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, James. Good morning, everyone, and thank you for joining us. CNA's fourth quarter provided a strong finish to a good year. Adjusted operating income was $336 million, the highest quarterly operating income in 20 years. Adjusted operating return on equity was 11%. We are very proud to announce that we have raised our quarterly dividend by 25% to $0.25 per share and also declared a special dividend of $1 per share. This is the third year in a row that we have increased our dividend and is a testament to our financial strength and stability.

On a reported basis, CNA produced operating income of $213 million and an operating return on equity of 7%. Results for our corporate noncore segment include a $123 million noneconomic charge related to the accounting applied to the 2010 Loss Portfolio Transfer of our legacy asbestos and environmental pollution liabilities, the National Indemnity Company. Craig will say more about this in his remarks.

For the full year, operating income was $917 million, and net income was $937 million. Excluding the Loss Portfolio Transfer accounting impact, both net and operating income were above $1 billion. By either measure, CNA's results were significantly better than in 2012.

As you may have seen, today we announced the sale of our life insurance company to a subsidiary of Wilton Re. This transaction, when completed, will reduce our Life & Group gross GAAP reserves by $3.4 billion or 25%, and dispose of the vast majority of CNA's payout annuity business.

Now let me provide you with some details on our core business. Our Property & Casualty calendar year combined ratio was 95% for the quarter, over a 21-point improvement from the Sandy-impacted fourth quarter of 2012. Our Property & Casualty underwriting margin for the full year, as defined by the combined ratio, excluding catastrophes and development, has improved about 5 points compared with full year 2012. This includes an approximate 4-point improvement in our loss ratio and just under a 1-point improvement in our expense ratio. Our Specialty business had another outstanding quarter, with a combined ratio of 77.4%. Excluding catastrophes and development, the full year combined ratio was 94.2% compared with 99.3% for 2012, more than a 5-point improvement. Net written premium growth for the quarter was 5%. Rates increased 5% for the quarter and retention was 85% for both the quarter and year.

The Commercial combined ratio for the quarter was 111.8% and included 11.5 points of adverse development. Excluding catastrophes and development, the full year combined ratio was 100.4% compared with 104.1% for 2012, almost a 4-point improvement. Rates increased 7% in the quarter and net written premiums declined 3%. Hardy reported net operating income of $8 million in the fourth quarter, with a combined ratio of 90.1% or 91%, excluding catastrophes and development. Full year combined ratios were 93.4% and 89.8% respectively. Hardy's fourth quarter net written premium grew 16%, excluding the impact of the commutation with a 2012 year of account third party capital provider.

I'm now going to turn the call over to Craig. Craig?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. Our reported financial results were significantly affected by the accounting for the increase in our ultimate loss reserve estimates for asbestos and pollution and the related recovery of those losses through our reinsurance agreement with National Indemnity Company. There is a description on Slides 15 and 22 of the earnings presentation that we hope will be helpful to you. As you may recall, in 2010, we transferred our legacy asbestos and environmental pollution liabilities to NICO through a retroactive reinsurance transaction. At that time, we ceded approximately $1.6 billion of net liabilities and paid NICO approximately $2.2 billion for a reinsurance contract with a $4 billion aggregate limit. Over the past 4 years, the ceded liabilities have developed adversely. In the fourth quarter, the cumulative ceded losses exceeded the consideration paid, putting CNA in a gain position on the contract. GAAP requires that a portion of gains from retroactive reinsurance must be deferred. These deferred gains will be subsequently recognized in future periods as ceded paid losses increase. While the accounting negatively affected our reported results during the current period by $123 million after tax, there is no cash nor economic impact.

Excluding the accounting for the retroactive reinsurance contract with NICO, our fourth quarter 2013 net operating income was $336 million and net income was $344 million. On an adjusted basis, we generated over $1 billion of operating income over the full year 2013, a 77% increase as compared to 2012.

Operating income available to common shareholders was $1.24 per share, excluding the LPT accounting impact and $0.79 per share on a reported basis. Our core P&C operations produced net operating income of $340 million in the fourth quarter of 2013 and $1.2 billion for the full year, up significantly as compared with fourth quarter and full year 2012. Improved accident year underwriting results and limited partnership returns drove the increases. Our fourth quarter 2013 loss ratio for P&C operations was 62%, almost 19 points better than last year's fourth quarter. Excluding catastrophes and development, the loss ratio was 61.3%, a 7-point improvement over last year's fourth quarter. The full year loss ratio, excluding catastrophes and development of 63.8%, was approximately 4 points better than 2012.

Our fourth quarter expense ratio was 32.8%. The full year 2013 expense ratio was 33.1%, which compares favorably to the 34% expense ratio for the full year 2012. This decrease reflects real expense reductions, enhanced productivity and the growth in earned premium.

Specialty's fourth quarter 2013 net operating income improved to $232 million from $130 million in last year's fourth quarter, with a combined ratio of 77.4%. Specialty's results benefited from 13 points of favorable development, reflecting improved estimates across a broad range of product lines for the years 2010 and prior. Excluding catastrophes and development Specialty's loss ratio was 59.8%, 9 points lower than last year's fourth quarter. The full year 2013 loss ratio, excluding catastrophes and development of

64%, is almost 4 points better than what we reported in 2012. The improvement was driven by both rate achievement and targeted underwriting actions that continue to refine the portfolio mix.

Commercial's fourth quarter 2013 net operating income was $100 million. This compares to a $44 million loss reported in the prior year period. Excluding catastrophes and development, the Commercial loss ratio was 65.2%, an improvement of 4 points over last year's fourth quarter. On a full year basis, the loss ratio, excluding catastrophes and development, was 66%, an improvement of just under 3 points as compared to 2012. Tom referenced 11.5 points of unfavorable development in Commercial. This was primarily driven by auto and general liability reserves strengthening in recent accident years. The changes to auto estimates reflect an increase in claim frequency, while the general liability changes reflect an increase in severity for both small and middle markets business. Slide 12 provides detail of our prior and revised loss ratio estimates for Commercial lines.

Our non-core Life & Group segment produced $13 million of net operating income in the quarter, which is significantly better than the prior year result.

The fourth quarter 2012 result included $44 million after tax of payout annuity and long-term care reserve charges. The current quarter result includes a $22 million nonrecurring benefit. The favorable effect of rate increases in the quarter was offset by unfavorable morbidity.

Our Corporate segment reported $140 million net operating loss in the fourth quarter of 2013, driven by the $123 million impact of the retroactive reinsurance accounting. Both periods benefited from a modest amount of favorable loss reserve development recognized in our CNA Re and other P&C runoff portfolios. Our balance sheet continues to reflect CNA's financial strength and stability. This strength and stability, as well as our current earnings outlook, are reflected in our board's decision to increase the current common shareholder dividend by 25% and declare the $1 per share special dividend.

We believe today's announcement of the sale of Continental Assurance Company is a big positive for CNA. It meaningfully reduces risk in our non-core Life & Group operations and further simplifies our operations. It is currently expected that the transaction will result in net proceeds of approximately $615 million, inclusive of tax benefits, a portion of which will be received in the form of a dividend from Continental Assurance Company immediately prior to closing. Anticipated net proceeds are slightly higher than the life company's December 31, 2013 statutory capital and surplus of $597 million. The closing of the transaction remains subject to customary closing conditions and certain regulatory approvals, and is expected to occur in the second quarter of 2014.

Book value per share increased 4% in the fourth quarter to $46.91 per share. Year-over-year, book value per share increased 3%. Excluding accumulated other comprehensive income, book value was $45.26 per share, up 6% from year end 2012. Our investment portfolio's pretax net unrealized gain stood at approximately $1.9 billion at quarter end, a decrease of approximately $225 million at the end of the third quarter of 2013. Our statutory surplus at quarter end was $11.1 billion, up more than 7% from the end of the third quarter. A decrease in our pension liabilities, driven by a change in the discount rate, contributed meaningfully to this growth. These numbers do reflect a $100 million dividend paid to the holding company during the fourth quarter.

We continue to maintain significant dividend capacity at the insurance operating company level. Cash and short-term investments at the holding company were approximately $500 million at quarter end. In the fourth quarter, operating cash flow, excluding trading activity, was approximately $300 million. Cash principal repayments through paydowns, bond calls and maturities, were approximately $800 million. Net investment income was an especially strong $642 million, pretax, in the fourth quarter. Income from limited partnership investments was $148 million, up more than 120% from the prior year period. The full year 2013 rate of return from our limited partnerships was 18%. Income from our fixed maturity securities in the fourth quarter was $497 million pretax, essentially unchanged from the prior year period.

Slide 18 provides a further description of our net investment income. You will note that our after-tax income from our fixed maturity securities actually increased quarter-over-quarter, reflective of our portfolio shift to tax-exempt investments. While our overall portfolio allocations did not change significantly in the fourth quarter, we did continue to take advantage of opportunities in the tax-exempt municipal bond market. The investment-grade corporate bond sector continues to represent the largest component of our invested assets.

The average credit quality of our fixed maturity portfolio remained at A. Fixed income assets that support our long-duration lifelike liabilities had an effective duration of 11.3 years at quarter end, a slight decrease from the prior quarter end and in line with portfolio targets. The effective duration of the fixed income assets, which support our traditional P&C liabilities, was 4.4 years at quarter end, equal to the third quarter. Overall, our investment portfolio remains well-diversified, liquid, high-quality and aligned with our business objectives.

With that, I'll turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, Craig. Before we open it up for questions, I would like to close with some highlights. Our 2013 net and operating income were both above $1 billion, excluding the loss portfolio transfer accounting impact. Our 2013 combined ratio, excluding tax and development, improved almost 5 points compared with the 2012 result.

Rates on our portfolio increased approximately 7% for the year. We are pleased that the Commercial rate increases were over 8% and that Specialty rates were up 6%. Net written premiums were up 6% for the year. We have solid investment results and our book value per share, excluding AOCI, has increased 6.2% since the beginning of the year. We raised our quarterly dividend for the third consecutive year and declared a special dividend of $1 per share.
With that, we'd be glad to take your questions.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess, a couple of questions on the sale of the life company. Can you talk about the earnings impact of the sale of that business? We don't really see what that business had been earning or losing, and that's the first question.

D. Craig Mense
Chief Financial Officer and Executive Vice President

This is Craig, Jay. The life business returns have been pretty uneven and I would say relatively low. You recall that last year, we took a charge -- actually, each of the last 2 years took a pretty substantial charge to unlock our assumptions payout annuity business. Last year, that amount was in the $20-some million plus after-tax. The year before, it was $100 million plus after-tax. The normal run rate, assuming that we wouldn't be getting any reserve charges, is something in the order of, say, $20 million, or has been $20 million or so, after tax.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Per year?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's helpful. And then secondly, what is the plan for the proceeds of the sale?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, just keep in mind that the company was over-capitalized, and that the statutory capital in that company rolled up to CCC's capital. So it was used and considered in our overall capital base. So the $600 million plus of proceeds shouldn't be -- the actual freed up capital is something more in the order of a little north of $200 million. So we don't have any plans for that now. That's something that we'd consider when it closes, when and if it closes, we'd consider that, along with our current earnings and the outlook for earnings as we move forward.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Good problem to have, anyway. And then the last question, the special dividend, I mean, other than just being a nice round number of $1, what went behind the thinking of the size of the special dividend?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I don't -- nothing particularly magical. I think what I would want you to take away from it is just simply that it's a testament to the financial strength and stability of the company, that we have more than adequate capital to support the business, to absorb the risks in the business and to support the growth of it forward. That we had an excellent earnings year this year and quarter this quarter. That we looked around at each other and talked to the board and looked to the amount of earnings and did not have any -- first order would be, if we had opportunity to deploy it into the business, we did not. So we chose to return it to shareholders.

Operator

And we'll take our next question from Amit Kumar with Macquarie Capital.

Amit Kumar
Macquarie Research

The first question I have is a follow-up to the last question. Now that you have, I guess, achieved several of the milestones you had set out to achieve in terms of capital management, in terms of the disposition of the payout book, how would you sort of outline the next steps for you in this franchise? Is it more so a focus on the core book? Is it using the capital to grow via acquisitions, or is it something in terms of focusing on what else could be done, I guess, on the long-term care book?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Why don't I start, Amit? I think number one, we continue to proceed with improving our core business. We are focused on that. We think there's more upside relative to improving margins. We continue to be encouraged by what we're doing on the rate side as compared to loss trends. So we'll continue to push to improve the core businesses. So that's number one. We have said, for a long time, that if there's something out there that makes sense, we may be interested. We did that by buying the remainder of CNA Surety, we did that with Hardy, but we are going to be very judicious in what we look at because it has to be something that contributes to better margins over time. So those are our immediate focus today. And I don't think we've changed our message, it has been very consistent for the last 5 years. We're just seeing the fruits of our labor starting to show up. And we're pleased with that. But this is not over. We have more work to do and now Craig, you may want to comment about some of the other businesses?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, Amit, just -- so it's all the things you said. We've been deliberate in our actions. And as Tom said, I think we've behaved consistently with what we've told you or the messages we've given you. So we need to do all of those things you said. First and foremost, we need to continue to improve the operating earnings power and the consistency of the P&C business. And then we will continuously look at, and do, acquisitions and we will continuously evaluate prospects for disposing and mitigating the results in what's remaining of the noncore runoff businesses, as we have. So nothing to announce or discuss today, but expect us to keep working on all 3 of those fronts.

Amit Kumar
Macquarie Research

I guess, a follow-up to that, and this is a question we get often, is the discussion on the other pieces of Life & Group non-core and the discussion on how the entities are I guess co-mingled. So anything near term would be difficult. Is that something which would take much longer than, perhaps, what the perception might be out there, just in terms of separating the entities and, perhaps, doing something down the road? Can you just talk a bit about that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I'm not sure exactly -- I don't know that I'm exactly hearing your question, but I would tell you the way we think of it is -- so we are -- and we haven't closed the sale of the life company yet. But once we have closed the sale of the life company, we are essentially left with a long-term care business, because we have sold asbestos, environmental, to National Indemnity and then the life business to Wilton Re. That's a business that's going to be -- we're going to be in. At the moment, we're looking at that as if we're going to be in that business for a very long period of time. And we don't see any viable prospects or opportunities to separate it. So we continuously look at it and evaluate it, but that's -- I think you shouldn't -- and at the moment, our focus is how do we operationally improve that business and operationally improve those results, while we keep our eyes open and evaluate any possibility to -- any other way to demise or defease those liabilities.

Amit Kumar
Macquarie Research

Got it. Now you actually did answer my question about that. The only other question I had was the discussion on the auto and GL. I think you mentioned claims frequency was higher, I guess, on the auto side and the loss cost severity was higher on the GL side. Can you sort of just expand on that just a bit more?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I don't think -- there isn't a whole lot more. It's just that auto frequency is up slightly, again '09, '10, '11, '12 years. If you take a look at the slide that I -- if you would, that I referenced in the earnings, and you can see that I think the way -- and GL severity was up slightly over those same year -- same year periods, so I wouldn't consider this increase to be that substantial. The way I would suggest you look at it and the way we look at it is that if you look at those years, we have made significant improvement over those 4-year period. It's just that the starting point was just a little bit worse than we thought the starting point was when we got -- when we started on this journey.

Amit Kumar
Macquarie Research

Got it. So net-net, nothing unusual in terms of what you saw this quarter versus the past?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No.

Operator

And we'll take our next question from Bob Glasspiegel with Janney Capital.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

A question on the deferred gain now for the Berkshire transaction, what's the duration on that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, really, it would be the duration of the contract, Bob, effectively, because it gets recognized as ceded paid losses move towards the ceded ultimate liabilities.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So will that $189 million is going to feed in over, let's say, 6 to 8 years or longer or...

D. Craig Mense
Chief Financial Officer and Executive Vice President

It should be longer than that, I would think, as the duration of these liabilities are 20 years plus.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And that comes through the combined ratio? I mean, it will improve your combined ratio or not?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, that will come through with a reduction loss so -- in the corporate segment.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Right. Okay. In pension, how much did -- did that contribute anything into AOCI and what's the sort of run rate for pension expenses perspective, I think you get a little bit of a positive?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We do get a little bit of a positive. So the reevaluation of our pension liabilities, I mentioned that it was very meaningful in stats. So it was a little less than $400 million impact on stat surplus, positive. And it was a little less than $300 million after-tax impact on GAAP equity.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

That's for the quarter or for the year?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, that -- it was recognized this quarter.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

In the quarter.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Right, so it was recognized in the quarter. So that's part of the reason for the increase in GAAP equity. And the run rate expenses, it's a slight positive. It's not really meaningful going forward.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. Nickel-, dime-type order of magnitude, or could it be still of a figure...

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, yes, yes. Not important. Certainly not important and you wouldn't recognize or notice it in the model.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Well, it's been a pressure incrementally, so just alleviating the pressure is a bigger help than that.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

And you warned me to be patient on the improvement in underlying -- that the rates would work their way through and your recommendations for patients was certainly justified with the -- what we saw this quarter and, to a lesser extent, the last quarter. So you, Tom, I think in your remarks, you said there's expectations for improvement in underlying perspectively. Is there anything that we should think of different than rates less loss cost growth that could mitigate the improvement prospectively?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, I think we are going to keep pushing rates in those lines that need it. I think we're doing a better job retaining the better accounts. So our credibility is increasing at the customer level and the agent level. Other than that, I think it's just continuing to focus and drive the numbers in the right direction. But we are getting good rate increases in Commercial and Specialty in the business that we retain. So I don't think you're going to expect anything different out of us other than we just keep pushing and we're getting better at it. I think that's the story here. We're getting better at execution.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Good answer. One last question. Do you need more rate in Commercial in light of, sort of, what you bumped up reserves or do you think the current rate is adequate to get your required returns?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

The more rate, the better. That's always going to impact your margin. I think it's kind of interesting, Bob, we do a lot of, I'll say, granularity when it comes to rate increases. But if you look at our Commercial business, we're getting rate increases between 6% to 13% on business. What really the story is that's underlying, at least we think it's a big issue -- a bigger issue, is we have more rate decreases in the fourth quarter than we did in the third and second quarter. And that, I think, translates into the book is getting better and as the book gets better, you have some customers that actually deserve a little bit of a rate decrease. So rate -- the number of policies that got rate decreases went up in the fourth quarter, whether it was Commercial or Specialty. But we're still getting rate increases. So that's good. So yes, I think we'll just keep pushing on it. And risk selection, more and more of our business is in the focus classes, and that's what we're doing. And when it comes to new business, we're writing less new business because we think there's a bunch of business out there that's probably not that good. That's what's showing up in the marketplace as people try to retain their best accounts. So I think we're just becoming better at execution and recognizing what you go after and what you want to keep.

Operator

And we'll take our next question from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I want to just walk through the Commercial expense ratio. You had the benefit from the favorable development in that, and I want to know if there's actual underlying improvement going on in the expense ratio as well, just thinking about forecasting it forward.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think there's -- so Josh, you ought to think in Commercial, there was probably about a 2-point benefit from the insurance assessment on that ratio. But there also was some seasonality in terms of spend on the other side, it was a little higher. So I think that expense ratio is -- and perhaps maybe a point -- in terms of going forward, maybe 1 or 1.5 points at the most.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And then on Hardy, the expense ratio improved year-over-year, but there might have also been seasonality in that. I realize it's all coming off a small base. You plan to grow that business. Was the 49-ish above budget, below budget, or was it 47, I have to go check the number again. I'm trying to think about how to think about that going forward.

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, it was, this quarter, the reported expense ratio was 49 at Hardy. But that was inflated by some onetime costs to close the Bermuda operation and also some severance expenses. So it's probably inflated by 2, 2.5 points from the run rate. I think what we've said in the past is that the long-term objective is to get the expense ratio at Hardy to 40 or better. And I would tell you, we expect to get most of the way there over the course of 2014.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And I don't mean to belabor expenses, but it's always easy to look at an improvement there. So there wasn't really much improvement on the Specialty side. Are we at run rate operational efficiencies at CNA Specialty from an underwriting expense ratio?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think when you say not much improvement, expense ratio on a full year basis, it's 1.5 points lower than it was. But I would say...right, so it's running around 30. That's about the right number. And I wouldn't want you to think that it's going to get much lower from there. But we're always looking for ways -- listen, improving productivity, we've held expenses flat. I would tell you that our overall just total spend was down about 1% year-over-year this year. If you included the impact of Hardy having been in for the full year, our actual spend was about 4% less on underwriting and other expenses. So it's something that we're mindful of. But it's -- so we'll continue to make -- we're going to, hopefully, continue to make some progress there. It's a focus for us. But they -- the real focus right now is improving our loss ratio, and that's where we would point you as where you ought to look for more improvement in '14.

Joshua David Shanker
Deutsche Bank AG, Research Division

And the team is the right team. You have the right people in place now? This is -- like, in thinking about your organization, this is the CNA team going forward?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, this team has been in place for quite a few years with relatively few exceptions. Yes, it is the team.

Operator

[Operator Instructions] We'll take our next question from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I just had a couple of questions. So I had a question about the Loss Portfolio Transfer and the -- in essence, the increase in losses. And I'm just curious, the staff responsible for reviewing the claims, making the claims payments, the actuaries that set these reserves, are these now all, in essence, Berkshire employees and they're providing you this number for ultimate ceded losses? I assume, there's some level of review, you then sort of opine and book a number, or is it -- come about a different way?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Ron, so it's -- no, the -- these estimates are our estimates. So our actuarial staff does a complete review as they would have in the past, of all of the case reserve estimates, and they interview the claim adjustors and the staff doing the client administration. Now what's changed is the staff doing the claim administration are Resolute, National Indemnity employees. We do have also a group under Jon Kantor, our General Counsel, Legal who in the past have managed ours, who also has an oversight function in client and claim settlement related to National Indemnity. So we have -- we do pay attention to what they're doing. We haven't outsourced it and then just forgotten about it. But I would emphasize that the estimates are our estimates.

Ronald David Bobman
Capital Returns Management, LLC

Okay. I appreciate that. And I had a question about Hardy. Tom, if you'd comment on sort of the underwriting results in the fourth quarter, whether they sort of met your expectations, fell short, whether they exceeded your expectations. And then, if you could talk about the Hardy book of business and how it was, if at all, sort of reconfigured or structured at the 1/1 reinsurance renewal, any sort of changes there or color you can provide? And that's it for me.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I'll start, and Craig will finish with the reinsurance comment. I think number one, when we bought Hardy, we were optimistic that it would be a contributor, and it is contributing. They have re-profiled their treaty reinsurance business, but we continue to like the businesses they're in. As Craig mentioned, they -- we have closed down the Bermuda operation because we don't think we can get enough volume and margin out of there. So we're making adjustments as we go. But we are pleased. It's a very competitive market at Lloyd's, and we like the restraint that we're seeing relative to new business. They are not following the pack. So we like that. So I'd say, we are satisfied with where they are, but we want more. And they know that and they're going to work on improving their margins. And as Craig mentioned, the expense ratio, we expect that, that's going to come down. So I think there's, from our perspective, optimism that they can perform at a higher level just like CNA can. So yes, we're pretty pleased. But it's a tough environment over there, and we like the fact that they're showing restraint.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, there's nothing really changing in the portfolio there, Ron. So it did have a small property treaty reinsurance function, and obviously the prospects for that are less optimistic than they would have been. But you will recall that we never really counted and thought that much of that in the get-go. So they, like we, are focused on underwriting profit and being disciplined underwriting managers, and we think we've got an excellent cadre of underwriters over there managing their business.

Operator

We'll now take our next question from John Thomas with William Blair.

John Thomas

The middle-market in Commercial has seen a decrease in rate over the past 3 quarters, while the small business in Commercial has -- the rate increases have actually increased. Can you comment on the differences there?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Small business needs more rate than middle-market. I mean, that's the short answer. So we expect that they'll continue to get significant rate increases to improve their profitability. I think if you look at the middle-market, we're pretty pleased with the level of rate increases. As I said earlier, we are getting overall rate increases on the renewal book. At the same time, there are accounts in that renewal book that are getting rate decreases, though we saw more of them in the fourth quarter than we did the second and the third. And that's probably -- or it is reflective of the fact that these are better accounts that we're retaining and to retain them, we're giving back a little bit on the rate side. But overall, we're pretty pleased with that. And if you look at loss trends, the fact is, we still have a pretty good return or margin. And if you want to, you can look at Page 13 of the handout, that'll kind of tell you the story there.

John Thomas

All right. And then professional liability, what are you seeing with the loss trends in 2013 compared to 2012?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

It's kind of flat with those prior years.

Operator

And at this time, there are no other questions in queue. I'll turn it back to our speakers for any closing remarks.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you very much. See you next quarter.

Operator
And that concludes today's conference call. We appreciate your participation.