S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

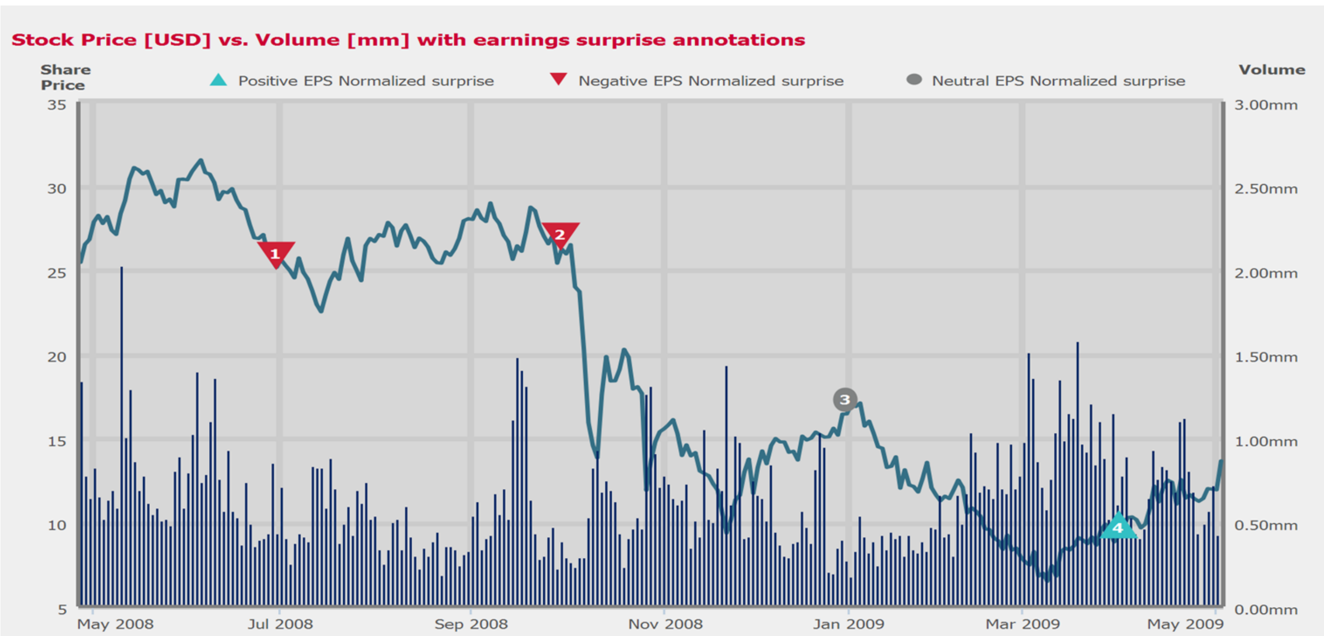
FQ2 2009 Earnings Call Transcripts

Monday, August 03, 2009 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2009-			-FQ3 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	1.02	47.83	0.54	2.22	2.42
Revenue (mm)	1705.00	1656.00	(2.87 %)	1599.00	6458.00	6466.00

Currency: USD
Consensus as of Jul-16-2009 10:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2008	0.96	0.93	1 (3.12 %)
FQ3 2008	0.69	0.31	2 (55.07 %)
FQ4 2008	0.45	(0.15)	NM
FQ1 2009	0.30	0.44	3 46.67 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

Nancy M. Bufalino

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Dan Johnson
Citadel Investment Group

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Ray Wicklander
Tradewinds Global Investors

Robert Ray Glasspiegel
Langen McAlenney

Presentation

Operator

Good day and welcome to the CNA Financial Corporation's Second Quarter 2009 Earnings Conference Call. At this time, I would like to turn the conference over to Ms. Nancy Bufalino. Please go ahead, ma'am.

Nancy M. Bufalino

Thank you, Dave and good morning. Welcome to the CNA Second Quarter 2009 Financial Results Earnings Call. The press release and financial supplement were released earlier this morning and can be found on the CNA website for your reference. With us this morning are Tom Motamed, our Chairman and CEO; And Craig Mense, our CFO. Tom and Craig will provide some prepared remarks about our second quarter results and then we will open up the discussion for questions.

Before we get started, I'd like to advice everyone that during this call there may be forward-looking statements made and references to non-GAAP financial measures. Please see the sections of the earnings release, headed Financial Measures and Forward-looking Statements for further detail.

In addition, the forward-looking statements speak only as of today, August 3, 2009. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call. This call is being recorded and webcast. During the next week, the call may be accessed again on CNA's website at www.cna.com. And with that, I'll turn the call over to CNA's Chairman and CEO, Tom Motamed.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, Nancy. Good morning and thank you for joining us. In today's call, I will start by covering CNA's second quarter and first half results. Our CFO, Craig Mense, will discuss our performance against our financial priorities and then I will come back on the line with some summary comments.

Let me start by saying we're pleased to report that CNA had a very solid second quarter. Net operating income increased 22% to $305 million or $1.2 per common share, compared with $250 million or $0.93 per common share in the second quarter of 2008. The improvement was driven by a 17% increase in investment income along with steady operating performance from our core underwriting business.

Net income for the quarter was $105 million as compared to $181 million in last year's second quarter. Book value increased 28% to $27.53 from year end 2009 -- or 2008, we were up 32%. For the first six months, net operating income was $454 million in 2009 or $1.45 per common share, compared with $471 million or $1.75 per common share in 2008. The net loss for the period was 90 million compared with net income of 368 million in the prior year.

Turning to our core property and casualty business, we achieved a combined ratio in the quarter of 98.1 as compared to 97.7 in the second quarter of 2008. We have been running in this range or better for the past several years. Favorable development improved the combined ratio in the second quarter by 4.9 points versus 0.8 points in last year. Catastrophe losses represented 2.9 points in both periods. Our 2009 accident year and loss adjustment expense ratio, excluding catastrophes, is 68.8 compared with 67 per accident year 2008. Both ratios are our current view, evaluated as of June 30, 2009. Net written premiums were down 6.6% in the second quarter and 4.2% for the first half.

Turning to our Specialty Lines segment, the second quarter combined ratio was 92.1 compared with 92.9 in last year. Favorable prior year development improved the 2009 ratio by 4.9 points versus unfavorable development of 0.2 points in 2008. Catastrophes added 0.4 points to the ratio in 2009 versus 0.2 points last year. Specialties 2009 accident year loss and loss adjustment expense ratio excluding catastrophes was 67 compared with 66.9 in 2008, again both ratios are our current view. There was less of an impact from the credit crisis on accident year 2009 and this offset deterioration from ongoing rate decreases over the past year.

Specialty Lines net written premiums declined 3% in the second quarter and in the first six months. Excluding currency fluctuation, the quarterly decrease was 1% and year-to-date net written premiums were flat. Other key production metrics reflect the positive momentum of our specialty business. The second quarter ratio of new-to-loss business was 1.3:1. Year-over-year policy count at quarter end was up 1%. We retained 83.5% of the business on renewal, in line with last year.

We are also encouraged that renewal rate decreases have been narrowing progressively for the past four quarters. The average second quarter decrease in 2009 was 0.8%, compared with 3.4% in the prior year period. As for Standard Lines, the second quarter combined ratio was 105.5 in 2009 compared with 103.2 in 2008. Favorable prior year development had a 4.4 point impact versus 1.9 points last year. Catastrophe losses added six points to the 2009 ratio versus 5.9 points in 2008.

The Standard Lines' 2009 accident year loss and loss adjustment expense ratio, excluding catastrophes, was 70.8 compared with 67.2 for 2008, both ratios are our current view. The deterioration reflects a frequency of large property losses as well as margin compression due to rate decreases over the past year. Standard Lines net written premiums decreased 10% in the second quarter and 6% in the first half. Currency fluctuations had no impact on Standard Lines premium.

The decline in premium reflects in part the impact of the economy on exposures in all of our segments, but particularly so in our Construction business. We are also encouraged by the rate trend in Standard Lines. Rate decreases averaged approximately 0.9%, the lowest in 11 quarters. In the second quarter of 2008, the average rate decrease was 5.1%. As for the second quarter retention, we came in at approximately 80% slightly down from 81% in last year's second quarter. Overall, we are taking a more proactive stance on rate and risk quality in Standard Lines as well as focusing on new business in the industry segments where we believe there are greater profit margins.

Turning briefly to expenses, our expense ratio was 31.5 for the quarter and the year-to-date. In spite of the pressure on reduced net earned premium, these ratios are in line with the past few quarters and with our peers. Over the past few years, we believe CNA has demonstrated its ability to manage expenses in a competitive environment. In summary, CNA had another solid quarter, financially and operationally. With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. Last quarter, I laid out three key financial priorities for CNA. Today, I would like to give you a report on our progress as outlined against those priorities. As a reminder, those priorities are: first, deliver solid operating income; second, reduce the risk and volatility of our investment portfolio; and third, maintain a strong level of capital adequacy.

As you just heard from Tom, we delivered on priority one with $305 million of operating income, a 22% increase over the prior year period and a respectable 11.4% operating ROE. These results were fueled by a significant increase in investment income, primarily from limited partnerships and a continued steady contribution from our core P&C businesses, including their now 10th straight quarter of favorable reserve development. Second quarter investment income totaled $675 million, a 17% increase over the year-earlier period. Fixed income results were below the prior year, reflecting our decision to continue to maintain a high level of cash and short-term investments coupled with historically low short-term and long-term risk-free interest rates. At the present time, we are comfortable with giving up income to maintain a high degree of liquidity in a still uncertain environment. Although, you will likely see us again to put more of this cash to work over the coming months.

Income from our limited partnership investments was $165 million for a rate of return in the quarter of approximately 10%, a significant recovery in value. You will recall from our earlier discussions of our investment strategy that we invest in LPs as an alternative to equities. We expect, that over time, they will bring us higher cumulative returns with less volatility. Their recent performance demonstrates this point. Last year, our LP holdings produced a return of a negative 19%, while the S&P 500 Index returned a negative 37%. This quarter, the S&P 500 Index returned 16% while our LPs produced 10%. Over the last 10 years, our LPs have produced an annualized compound return of 10% while the S&P 500 Index produced a -2% return. We believe that these investments will continue to perform well over the long term.

Two other important characteristics of our LP investments are, one, they primarily hold marketable securities with the valuations driven by the fair value of the LPs and underlying security holdings, only 6% of our LP holdings are in private equity and 1% in real estate. And two, close to 90% as measured by recorded values, report results on a one month lag or less. So our earnings reports reflect more current market valuations.

The 199 million net realized investment loss in the quarter included after tax, other than temporary impairments, recognized in earnings of $257 million. This compares to an OTTI losses of $111 million in the prior year period. The OTTI credit losses in the quarter were centered in asset-backed holdings, primarily residential and commercial mortgage backed securities that were affected by the current difficult economic conditions. These impairment decisions were driven by both current collateral performance and our view that fundamentals are likely to continue to deteriorate.

Additionally, OTTI losses reflect intent to sell decisions consistent with our strategy of reducing risk and volatility in our portfolio. We adopted the new GAAP accounting guidance on other than temporary impairments in the second quarter. In general, this change reduces impairment losses recognizing earnings because a portion of the loss, the non-credit portion is recognized in other comprehensive income. That benefit in the quarter was largely offset by the negative impact of the securities that were written up as part of the cumulative-effect adjustment, required upon adoption of FAS 115-2 where were then sold at a loss or further impaired. In a related matter, the adoption of FAS 157-4 had no impact on CNA's financial condition or results of operations.

Our investment decisions continue to emphasize diversification, quality and liquidity. The effective duration of the total portfolio was 5.6 years at quarter end, up from 5.2 years at the end of the first quarter. Most of the duration increase can be attributed to closing derivative positions that had shortened the effect of duration as well as the selling securities at the short end of the curve. The effective duration of assets backing our segregated portfolio to match our lifelike long-term liabilities was 10.5 years, which is in line with portfolio targets. The effective duration of the remaining assets backing our P&C liabilities was four years at the low end of our four to five-year target and reflecting our overweight cash and short-term position.

Our investment portfolio's market value reflects a sizable recovery in the second quarter, which together with earnings, increased book value per common share by 28% from March 31. Our net unrealized loss position stood at 2.7 billion at quarter end, improving substantially from the 4.8 billion at the end of the first quarter and from 5.4 billion at year-end 2008. The sizable recovery was led by corporate and municipal bonds. I would also point out that 84% of our unrealized losses at quarter end were attributable to investment grade securities.

We took advantage of the quarters market recovery to make substantial progress toward our objective to reduce the level of risk and volatility in our investment portfolio. During the quarter, we made net purchases of 2.3 billion of investment grade corporate bonds and nearly 500 million in agency collateralized passthroughs and CMOs. We took further advantage of favorable conditions to reduce our holdings of high-yield corporate bonds by over $500 million in the quarter and $750 million year to date.

In non-agency mortgage-backed securities our position was reduced by $490 million in the quarter and $840 million year to date through principal payments and sales. We were also a net seller of about $1 billion in municipal bonds for reasons related to tax efficiency as well as our views on a relative risk and attractiveness of the sector. Our liquidity and cash flow continued to be major advantages. We had 5.5 billion in short-term holdings and treasuries at quarter end, including approximately 450 million at the holding company. Positive cash flow from operations, maturities and principal payments from structured securities were approximately $650 million in the second quarter were toward addition to the $640 million of positive cash flows in the year's first quarter.

This quarter's results also reflect an improvement in our capital position. GAAP equity increased from $7.1 billion to $8.7 billion during quarter and our regulatory capital improved as well up 5% to $8.2 billion. We regularly evaluate our capital adequacy against regulatory, internal and rating agency metrics. Against all these measures, we believe that our capital is more than sufficient to support our current ratings. Before turning the call back over to Tom, I would like to report briefly on our non-core business.

Results for our life and group non-core segment were essentially flat, with the second quarter net operating loss of $26 million. This quarter's results included two unusual items, a 28 million after-tax legal accrual related to a previously held limited partnership investment, which was largely offset by favorable performance on our remaining pension deposit business. The underlying business performance is relatively constant. Corporate segment produced second quarter net operating income of $13 million in 2009 driven by improved net investment income.

In summary, CNA had another steady quarter as measured by our progress on our key financial priorities. We remain well positioned to deliver solid operating results, we made meaningful progress toward our objective to reduce risk and volatility in investment portfolio and we built upon already strong levels of capital adequacy. With that, I will turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thanks, Craig. I thought it would be appropriate to update you on our progress on our operating priorities as well as our view of market conditions.

In the first quarter conference call I mentioned that based on CNA's success in Construction and Healthcare, we would be expanding our industry's specific appetite into nine additional segments. It is our belief that these areas will provide us opportunities for profitable growth. To date the results are quite encouraging. Submission activity in the U.S. for the first six months was up 28% in specialty and 21% in our core middle market segments. Although our premium trend is not in positive territory, submission counts tell us that we do have the support of our producers. We believe we are well-positioned for growth over time and expect our profitability to improve, since these industries tend to run at lower loss ratios.

Last quarter, we also told you of our interest in building out our excess in surplus lines capabilities through our wholesale distribution system. We have initially decided to focus on four specific areas; Property, Casualty, Programs and Transportation. Submission activity is encouraging, up 41% in Casualty and Transportation, and up 20% in Property for the first six months. We believe we have the knowledge and expertise to underwrite and price these risks for a profit with the added benefit of freedom from form and rate. We also advised you of our plans to open five new offices in the U.S. and to build out our capabilities in Europe and Canada. We continue to proceed on schedule with the implementation of our branch and zone network [ph]. We are also encouraged by our ability to attract quality people into our field operations as we build out our capabilities at the point-of-sale.

Along with improving our ability to grow comes the need to improve our profitability. We are delighted with the performance and market position of our Specialty business. We believe it has a very strong franchise. However, we do need to upgrade our performance in Standard Lines. Recently, we made two significant management changes. First, Mike Coin [ph], who made important contributions in CNA's finance area, has assumed responsibility for our small-business portfolio. Under Mike's leadership, the unit has already made significant inroads on risk selection, pricing and process improvement. Second, just last week, we announced that Bob Lindemann would be joining CNA as the President of Standard Lines. Bob's 33 years of experience in commercial underwriting and claim, as well as his external focus, make him preeminently qualified to improve our performance and market standing.

I would be remiss if I did not spend a minute on expense management. We will be looking at our expenses across the company with an eye toward identifying cost reduction opportunities. We will approach this by looking to simplify, improve and eliminate those processes that do not provide value. I can assure you that disciplined expense management remains a key priority in our overall strategy.

Lastly, let me comment on the marketplace. The market continues to be competitive. But then after 32 years in the business, I do not know when it was not competitive. In Specialty, competition remains pervasive and strong across virtually all our business units. As I've said earlier, rate decreases continue to moderate. The trend of increasing rates and decreasing supply continues in financial institutions. But in most other areas, intense competition is the norm.

In Healthcare, we are seeing institutional business shift from established domestic carriers to new markets in London and Bermuda. In professional liability, new capacity continues to enter the market. Other challenging areas include large law firms and public company D&O. In Standard Lines, rate decreases have also continued to moderate. However, we are seeing significant competition on the new business side, especially from the national carriers with the package line being the most competitive. We're even seeing aggressive pricing on higher hazard accounts, notably in construction.
Overall, we do not see a turn in the market for some time. The culprit is the exposure declines across almost all industry segments and plentiful capacity. Although rates continue to moderate, premiums will continue to be under pressure. Rate improvement will favorably impact loss ratios overtime, but the decline in written premium will put pressure on expense ratios. Therefore, we believe our strategies of broader appetite and geographic expansion will help us through the current soft cycle until there is improvement in the economy. With that, we will take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Jay Cohen with Bank of America, Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

You mentioned, I guess in the Specialty business, credit crisis claims being less than what you had seen last year and I'm wondering if can you expand on that, some of the trends that you're seeing?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well I think, if you look at the credit crisis and the decline in the stock market last year, we believe that a lot of the litigation or the lawsuits occurred in 2008. The fact is, the market has rebounded to a degree and clearly when stock prices go down you do see shareholder lawsuits. Stock market goes up, there's less to sue about. So I think that's what we're seeing, Jay. And I think if you go back to some of the other conference calls, some of our competitors would have suggested the same thing. That they're not seeing a lot of activity in 2009 and that the worst of it is probably behind us when those suits were filed contemporaneous with the credit crisis.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess the other assumption is you are booking because of that as somewhat, for that business a lower accident year loss ratio because of the lower, the fewer claims?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, we are taking that into consideration.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

When you guys talk about rate, premium rates, renewal rates. Is it pure rate or does exposure play a role there?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Rate only, not exposure.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Which is rate only and so you are seeing some...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

For us, rate and exposure equals price. So we only talk about rate.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

At least one other company that I can recall, I guess Travelers, talked about their average renewal rates being up modestly in the second quarter. And I know you don't have access to all their data but what would be a reasonable explanation for why they would be saying somewhat of a different trend than you?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I don't know their numbers and I'm not going to refer to anybody else's numbers. But I think we are -- our rates have been improving but we're not over flat yet, we're slightly under flat. I think what you're seeing with some of the other markets is they might be a little bit ahead of us in pushing rate and therefore, if they say they're positive, you'd have to go back and look at some of their prior quarters to really look at their rate trend line. But I think they're probably in positive territory because they started pushing rates a little harder, a little sooner.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Is there a more concerted effort at CNA to push for higher rates, has there been a change this quarter?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. We have been pushing rates since early in the first quarter. It does take time to grasp or take hold because when you start -- right now we're looking at accounts that have effective dates of September, October, so there's always the lag. So when we started pushing in the first quarter, it really wasn't going to have an impact until the second quarter. It has -- retentions went down slightly and that's always kind of the cause and effect. If you push rates, retention tends to go down a little bit.

Operator

Our next question comes from Dan Johnson with Citadel Investment.

Dan Johnson
Citadel Investment Group

On Standard Lines, can we talk a little bit about what you're seeing in the casualty accident year loss ratios, what sort of -- I don't know if you want to talk, maybe it's better to talk about the first half of the year versus maybe first half of last year, the quarterly noise and can you [indiscernible]? And then I got another one on the Standard Lines, please.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, why don't you give us the second one first.

Dan Johnson
Citadel Investment Group

Just sort of just the overall premium this quarter, just if you had any additional thoughts. Sequentially it was down reasonably a bit more, whether you thought that was your pricing actions that were driving that, whether you thought it was...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

There are probably several stories here. The first is, in what we call business insurance or the small business. We have been retooling, we have been pushing rate, we've been adjusting the mix of business, and when we have done that, it has taken its toll on pricing. But clearly, what we're trying to do to improve our profitability before we grow it in that small business area. So some of the actions we are taking resulted in price declines or lack of growth. So that was the big driver in the small business. In the middle market, we are pushing rate much harder, we are also moving more towards the core segments where we believe there is greater profitability. And as we did that, we have run off some of the non-core business, so that has had an effect as well. And pricing is tough, it's one thing to get our rates up on the renewal book but new business is pretty tough on a pricing argument. Now your other question was on the casualty book…

Dan Johnson
Citadel Investment Group

Yes. Are we seeing improvement or degradation, I guess, on the casualty accident...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. On the casualty, I'd say overall, we're approximately seeing a 2 point to 3 point deterioration in the current accident year versus 2008. And it's really due to the rate decreases that we took back in 2008, it's really a margin compression issue. The good news is, frequency trends are favorable in casualty.

Dan Johnson
Citadel Investment Group

Was that casualty common, a loss ratio or a combined ratio common?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Loss.

Dan Johnson
Citadel Investment Group

And then finally on the investment portfolio, sort of outside of the limited partnerships. Can we talk about the more fixed income component of the portfolio and where our average yields now on amortized cost? And where are we putting new money to work today?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Our average book yield as we ended the quarter was a little over 5.5 and we've been putting new money to work in corporates, as we said. So our net purchases of corporates were over 2.3 billion this quarter. And now we also still maintain, as I said, a very significant position in cash and short-term, which I think you would also expect us to start to put to work over the coming months.

Dan Johnson
Citadel Investment Group

In the quarter, the money that was put to work, what sort of average yields?

Company Speaker

This is Richard Scott [ph]. The yields have generally been on the taxables between the 5% and 6% range for the short-term maturity, five to 10-year maturity stuff. Long maturities has been higher, but to a smaller part of the portfolio.

Operator

[Operator Instructions] Our next question comes from Ray Wicklander with Tradewinds Global Investors.

Ray Wicklander
Tradewinds Global Investors

Craig, would you please discuss the benefit of lower performance fee accrual in the limited partnership portfolio? And also when we might start to see performance fees kick in for a lot of the funds that are below the high water mark?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I'm sorry, as to begin lower performance fee accruals?

Ray Wicklander
Tradewinds Global Investors

I'm just presuming that based on the last year performance of the LP portfolios, that a lot are not paying performance fees. So I just wanted to know if that 10% return, what that would be if performance fees were fully factored in?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I think it's the same. I think in the -- maybe you're new, we've been in these investments for some time, we're not paying the same. Two and 20 kind of things that you would have expected because of the length of time and our knowledge and relationship with these folks and these investors.

Ray Wicklander
Tradewinds Global Investors

So there's no performance fee at all for that whole portfolio?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, of course there is. I'm just saying it's not as significant. Those are net numbers that we report and that 10% isn't driven by a reduction in fees.

Operator

Our next question comes from Bob Glasspiegel with Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

I appreciate the historical limited partnership numbers, maybe if we get that for the total portfolio at some point that would be a great addition to the conference call. On your topical assets that you're cutting back on RMBS in high yields in particular, what percent in the quarter were sales versus maturities, in the reduction, just ballpark?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Do you want to talk about the structure, Bob or what do you...

Robert Ray Glasspiegel
Langen McAlenney

You talked about trying to improve your quality and you went through three or four asset classes that you cut back out of the quarter. And I just want to know if it's more of maturities or that you're just not putting back in or outright sales, with a rough mix between?

D. Craig Mense
Chief Financial Officer and Executive Vice President

On the structured, I could say -- and we're going to let Richard expand here. On the structured part of the portfolio, the majority are sales and actually most of it are prepayment as we said in maturities. So about a little over 550 million of structured paydowns, so that's what's driving those numbers in that direction. On the bank loan, high yield below investment grade portfolio has been mainly sales. But maybe, Richard, you want to elaborate on that?

Company Speaker

I would concur on that. The predominance of the sales on the corporate side has been out of the bank loan portfolio. And has generally been focused on, what I would call low coupon, high dollar-priced pieces where we felt that the capital costs associated with holding those pieces was not compensated by the return. In the mortgage backed space, the bulk of the reduction has been through pay down.

Robert Ray Glasspiegel
Langen McAlenney

My perception was that you had a relatively short portfolio with your structured and we were going to know, within a year or two if those things matured or paid off or not. Do you have a rough feel, Richard or Craig, on what the maturities or potential pay downs are for the rest of the year and looking out to 2010?

Company Speaker

What we have estimated for this year pay downs running, ballpark number of $500 million a quarter. A little bit higher than that in some quarters. I think we get 550 in the second quarter, as I recall, or thereabouts.

Robert Ray Glasspiegel
Langen McAlenney

And that includes retirement too or the paydown is...

D. Craig Mense
Chief Financial Officer and Executive Vice President

What Richard is talking about there Bob was just on the structured. So on the structured, we had said last quarter we thought about a billion eight for the full year and it's already, as Richard said, it's running, first two quarters are running well above that. But still our expectations are in the 500 a quarter going forward. For the rest of this year anyway.

Robert Ray Glasspiegel
Langen McAlenney

And next year?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I don't have a number for you for next year, right now. But I would imagine it be somewhat less.

Robert Ray Glasspiegel
Langen McAlenney

And what's the denominator on this that we're talking? Which page in the supplement?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I was talking about all of the structured, all the asset-backeds.

Robert Ray Glasspiegel
Langen McAlenney

All the asset-backeds, okay. Tom, I was wondering if you could tell me what -- you talked a little bit about Bob coming over from Zurich, is he bringing agency relationships just general blocking and tackling, I'm not familiar with his background.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Bob has, as I mentioned, 33 years in the business in significant underwriting roles. He does have significant agency contacts, I've gotten plenty of e-mails from agents saying they're glad to see Bob at CNA, look forward to working with him. So he's got the internal piece well covered and he has the external piece well covered. So we're expecting that we'll see improvement both on the profit side and the growth side. And I've known of Bob for many years and he's a very, very solid guy, we're delighted to have somebody of his caliber join us.

Robert Ray Glasspiegel
Langen McAlenney

Craig, if you execute your plan, how far are away are we from thinking that you could start to think about paying down the lowest preferred, again?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Bob, I don't know. That's a bit probably too much speculation. We don't have any current plan there and that would depend on the capital markets and their reaction to us, and we're in no particular hurry to do it. Also, where we stand with the rating agencies, would factor into that consideration. You recall we still have a negative outlook from Best and from Moody's. So we'd like to see those things change and we do it at a time when we thought it was appropriate and advantageous for all of our shareholders.

Operator

[Operator Instructions] And we have no further questions. At this time, I'd like to turn the conference back to Nancy Bufalino for any additional or closing comments.

Nancy M. Bufalino

Thank you, Dave and thank you all for joining us today. Once again I call your attention to disclosures concerning forward-looking statements and non-GAAP measures. A taped replay of today's conference call will be available for one week immediately following the call until August 10. You can see the replay details in our earnings release. Thank you again for joining us this morning.

Operator
And that does conclude today's presentation. Thank you for your participation and have a great day.