S&P Capital IQ

CONTENTS

CNA Financial Corporation NYSE:CNA

FQ4 2011 Earnings Call Transcripts

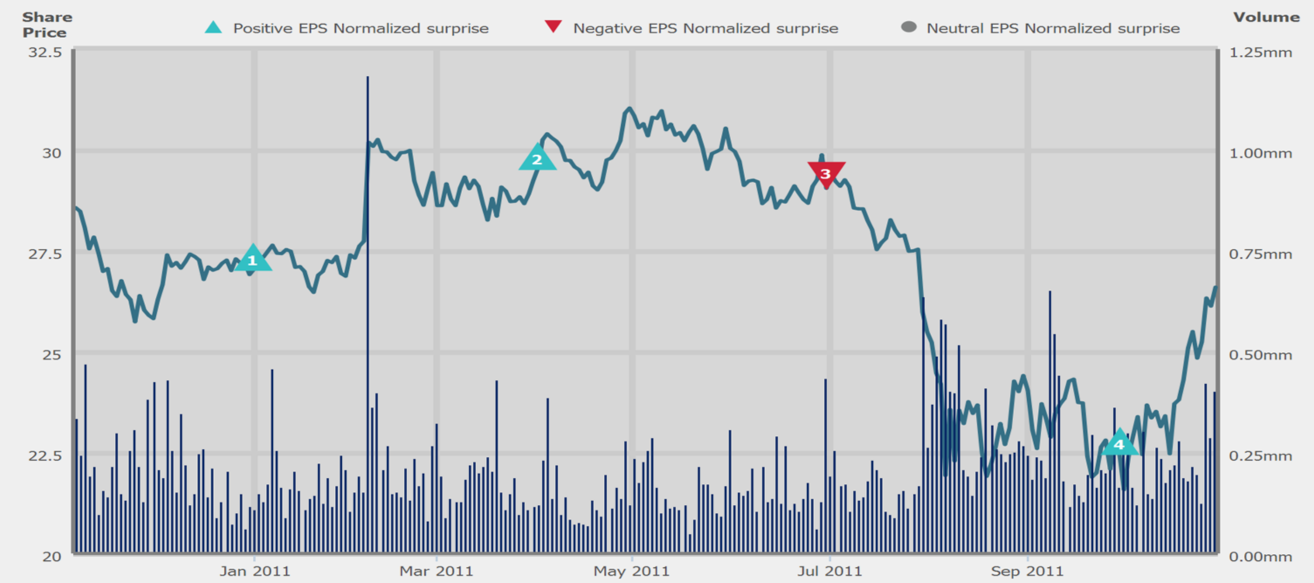
Monday, February 06, 2012 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.69	0.71	▲2.90	0.69	2.26	2.28	
Revenue (mm)	1974.35	1506.00	▼(23.72 %)	1962.66	7634.35	6222.00	▼

Currency: USD
Consensus as of Feb-06-2012 1:28 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	0.67	1.09	▲1 62.69 %
FQ1 2011	0.68	0.80	▲2 17.65 %
FQ2 2011	0.49	0.43	▼3 (12.24 %)
FQ3 2011	0.26	0.34	▲4 30.77 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

Nancy M. Bufalino
Former Assistant Treasurer

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Amit Kumar
Macquarie Research

Robert Ray Glasspiegel
Langen McAlenney

Ronald David Bobman
Capital Returns Management, LLC

Unknown Analyst

Presentation

Operator

Good day, everyone, and welcome to the CNA Financial Corporation's Fourth Quarter and Full 2011 Earnings Conference Call. Today's call is being recorded. At this time, I'd like to turn the conference over to Nancy Bufalino. Please go ahead.

Nancy M. Bufalino
Former Assistant Treasurer

Thank you, Dana. Good morning, and welcome to CNA's discussion of our 2011 fourth quarter and full year financial results. With us this morning are Tom Motamed, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. Following, Tom and Craig's remarks about the quarter and annual results, we will open it up for your questions.

Before turning it over to Tom, I would 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 in 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 6, 2012. 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 the financial supplement.

This call is being recorded and webcast. During the next week, the call may be accessed on CNA's website.

Now, 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, everyone, and thank you for joining us. Before Craig reviews our financial results, I would like to share a few highlights of the quarter and the year.

CNA's 2011 net operating income was $614 million as compared to $660 million in 2010. Our operating results were influenced by lower net investment income, a higher level of catastrophes and reserve charges in our Life & Group runoff businesses. Craig will provide more detail in his remarks.

We continued to be pleased and encouraged by our progress on improved underwriting profitability and premium growth in our core property casualty businesses. In Specialty, we continued to produce superior underwriting results with combined ratios of 77.8 in the fourth quarter and 89.9 for the year.

In Commercial, we achieved more than 3 points of combined ratio improvement before the effect of catastrophes and development. While there's more work to do on our underwriting margins, we are encouraged by favorable rate trends and premium growth across both of our Property Casualty segments.

In Specialty, rates increased 1% in the fourth quarter. Commercial rates continued to decline, reaching 3% in the fourth quarter with some lines clearly exceeding that level. Retention was solid in both segments throughout the year. We are pleased that the market is accepting rate increases after a long period of negative rates.

Our Property & Casualty combined ratio continued to benefit from favorable prior year development, 7 points in 2011 and 10.6 points in 2010. We are also pleased to note that in the year of significant natural catastrophe losses for the industry, CNA's combined ratio included only 3.7 points from catastrophes, which reflects our disciplined cat management strategies.

Excluding the impacts of reserve development and catastrophe losses, our full year combined ratio improved 1.7 points to 101.7 from 103.4. This improvement was driven by a decrease of nearly 2 points in Commercial's non-cat accident year loss ratio.

Property & Casualty net written premiums grew 5% in 2011, 7% in Specialty and 4% in Commercial. 2011 is the first year we have grown in both segments since 2006.

Beyond the progress in our Property Casualty business, we took action on a number of fronts to improve our earnings power, financial stability and shareholder value. We completed the acquisition of a minority shares of CNA's Surety, increasing the scale of our profitable Specialty business. We sold our 50% ownership interest in First Insurance Company of Hawaii, continuing our efforts to simplify our organization and focus on core businesses.

Finally, we increased our quarterly dividend to $0.15 from $0.10 per common share.

With that, I'll now turn it over to Craig. Craig?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. In the fourth quarter, CNA's net operating income was $191 million and operating return on equity of 7%. Operating income available to the common shareholders was $0.71 per common share. Period-over-period comparisons were unfavorable, primarily as a result of the reserve charges in our runoff Life & Group business and lower net investment income.

As you heard from Tom, we are encouraged by the momentum of our core P&C business. The results there reflect our focus on improved margins, scale and financial stability. We continue to sustain our disciplined reserving practices.

In the fourth quarter, our core P&C businesses benefited from $250 million of pretax favorable prior year loss development. We now have had 20 consecutive quarters of favorable prior year reserve development. The major drivers of the favorable development in the fourth quarter were as follows: We recognized favorable development in our Commercial segment generalized liability lines, both primarily and umbrella, for accident years 2007 and prior, driven by improved claim outcomes and lower claim frequency.

Specialty segment recognized favorable development in medical professional liability, D&O, E&O and Surety in accident years 2008 and prior. This favorable development was primarily driven by favorable large claim outcomes as well as lower large loss frequency.

All of these reserving decisions we're based on analyses completed in the fourth quarter.

We also completed our annual fourth quarter review of GAAP reserve adequacy for the runoff Life & Group business line. We made 2 adjustments to our reserves as an outcome of that review.

In our payout annuity business line, which consists of single premium group and structured settlement annuity, we recorded $115 million after-tax increase to reserves, primarily to unlock actuarial assumptions which have now been revised through current best estimates. The 2 main drivers of the increase were our estimates of future mortality improvement as well as the impact of the continued low interest rate environment.

One other important matter to note is these charges were GAAP only reserve increases, and they did not have any statutory impact.

Total net GAAP reserves for payout annuities at year end were $2.7 billion. In our Long-term Care business line, we strengthened claim reserves by $33 million after tax. Neither the deferred acquisition cost assets nor the active life reserves in the line needed adjustment at the present time based on our current best estimate assumptions. However, our estimates at the level of GAAP margin remaining in the active life reserves was reduced, again, largely because of lower mortality and interest rates. This margin estimate reduction did have a follow-on negative effect on book value per share, which I will discuss further in a minute.

Total net GAAP reserves for long-term care at year end were approximately $8 billion. These reserve increases were the primary drivers of the $157 million net operating loss from the Life & Group segment in the fourth quarter.

We've added a new page in our financial supplement that provides a summary of net reserves by the major businesses of our Life & Group Non-Core segment. In addition, our 10-K will include new disclosures quantifying the estimated impact of hypothetical changes in key assumptions for both the payout annuity and long-term care blocks of business.

Overall, we continue to build on our financial strength and stability. All our capital adequacy metrics remain at or above our target levels and our liquidity profile remains very strong. Book value per common share at year end was $42.92, a 2% decrease from the end of the third quarter, driven by adjustments for unfunded pension liabilities and shadow reserve adjustments related to our Life & Group business.

Our investment portfolio's pretax net unrealized gain stood at approximately $2.6 billion at year end 2011, a slight increase from the end of the third quarter. While net unrealized gains did not change significantly at the fourth quarter, the after-tax amount of Life & Group related shadow reserve adjustments increased approximately $265 million in the quarter. As discussed last quarter, net unrealized gains on the longer-term assets supporting our Life & Group liabilities were mostly offset by shadow adjustments that reduced debt or increased reserves with the offset reflected in accumulated other comprehensive income. The quarterly change was largely driven by the reduction of longer-term care margins that I mentioned earlier.

We will adopt the new accounting guidance on deferred acquisition costs as of January 1, 2012. We currently estimated this change in accounting will reduce book value by approximately $7 million or $0.26 per common share. Our common shareholders' equity excluding AOCI was $11.1 billion or $41.17 per common share, up 4% for the year.

Our statutory surplus at year end was $9.9 billion. We did not make any repayments on the surplus notes this quarter. The outstanding balance on the note remains $250 million at year end 2011. Our primary insurance operating company continues to maintain approximately $1 billion of dividend capacity.

Cash and short-term investments at the holding company level were approximately $290 million at year end, and the full $250 million of our credit facility also remains available to us.

In the fourth quarter of 2011, operating cash flow excluding trading activity, improved to approximately $900 million. Additionally, we received approximately $600 million of cash principal repayments through pay downs, bond calls and maturities.

Net investment income was $523 million pretax in the fourth quarter as compared to $624 million in the prior year period. The decrease was primarily due to our limited partnership investments, which produced fourth quarter pretax income of $16 million in 2011 as compared to $113 million in 2010.

For the year, pretax LP income was $48 million as compared to $249 million in 2010. These investments produced the fourth quarter return of slightly under 1%. On a full year basis, our LP investment return was approximately 2.1% on par with the S&P 500.

Net investment income from fixed maturity securities declined 1% as compared to the fourth quarter of 2010, reflecting today's lower market yields. We made relatively minor changes to our investment portfolio sector allocation this quarter. The investment-grade corporate bonds sector continues to have the largest allocation of invested assets. Small increases in the allocation to the U.S. Treasury and municipals were offset by reductions in below investment-grade corporate bonds and non-agency mortgage securities.

Overall, our investment portfolio remains well-diversified, liquid, high-quality and aligned with our business objectives. The current allocation of assets is in line with our established longer term target.

The average credit quality of the fixed maturity portfolio will remain at A. Fixed income assets which support our long-duration of lifelike liabilities had an effective duration of 11.5 years at year end, up from 11.4 years at the end of this year's third quarter and in line with portfolio targets. The effective duration of the fixed income assets which supports our traditional P&C liabilities was 3.9 years at year end, down from 4.0 years at the end of this year's third quarter.

The increase in our common stock dividend reflects our measured approach to capital management.

With that, I will turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thanks, Craig. Before we open it up for questions, I would like to close with some observations.

A year ago at this time, we said we would continue to focus on underwriting and pricing discipline while continuing to build the balance sheet. Our progress on these priorities is evident on many fronts. Margin improvement across the portfolio driven by more than 3 points of combined ratio improvement in Commercial before catastrophes and development. Positive rate and solid retention across our Property Casualty businesses. Net written premium growth of 5%, favorable prior-year loss development for our fifth straight year, improvement in our capital position reflected in a 4% increase in common shareholders equity, excluding AOCI. The acquisition of the minority shares of CNA Surety and the sale of our 50% ownership interest in First Insurance Company of Hawaii.

Lastly, a $0.05 said per common share increase in our quarterly dividend to $0.15.

Looking ahead, we expect that market conditions will be similar to the past few years with no letup in the competition for good business. We also expect overall rates to continue to rise. Clearly, the most significant increases will be in lines affected by catastrophes as well as in workers compensation. Although Specialty rates have begun to improve, they have a long way to go.

At CNA, we will continue to focus on the fundamentals, which we believe will drive improved earnings and shareholder value in 2012 and beyond.
Now, we'd be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] We'll go first to Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just a question on the capital. You've had good underlying trends in P&C. You also raised the dividend which is a good first step. But if I look at your premium to surplus, it's at a much lower level than others and the under pled capital pressures ROEs compared to other commercial players. I'm wondering what specific steps on your capital do you anticipate to get the ROEs to let's say high single digits or even low double digits?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I'm not sure I'm following the question, Amit. Are you asking what the next steps will be?

Amit Kumar
Macquarie Research

Yes, to get the ROEs to go up further. I'm talking about the undeployed capital versus other larger commercial players.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, we've been asking your question, answering it exactly, but I think that we've been pretty consistent in both our answer and our behavior relative to capital that we've taken in a very measured approach, although, we have been active. We used excess capital to buy a minority share of the Surety. We sold our 50 percentage interest in the Hawaiian company to further simplify the place. We established or reestablished the common shareholder dividend a year ago. We just raised it 50% this quarter. And like when we talk at the board level and in the management among the things we like to be that we're really focused on the capital side. It's just creating our company that is known for creating a common shareholder dividend that's sustainable and consistently increasing. So that's really been the focus and really the extent of the discussion on the capital side.

Amit Kumar
Macquarie Research

I guess there is no near-term thought process that they should try to get the ROEs higher. That's what I'm trying to get to if you look at Travelers or Chubb. Is there some sort of a comparative thought process which is saying that we do have this undeployed capacity? Maybe we should look at acquisitions, special dividend or things of that nature. Or is it more about let's just fix the balance sheet. Let's keep on slowly yet incrementally improving the operation. Is that what the thought process is?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would say this, Amit, we look at everything. We also believe timing is everything relative to what you try to achieve, when you try to achieve it. But we have a clear focus on improving the underwriting results, improving the loss ratio, improving the returns on the P&C business in a low investment yield environment. So clearly, this is about improving our margins and creating better returns that way. If you look at our ROE, you're correct, we're behind some of the other competitors that we see in the market. But I can at least -- as I read the data as their combined ratios take some hits, their returned ROEs are going down as well. So it's about underwriting margins these days, and we've got to get that fixed. That's our priority. But we look at everything and if there's something out there that makes sense, we'll do it.

But at the same time, remember 1, 1.5 years ago, we had no dividend. So that's the start, and we'll keep looking at other opportunities.

Amit Kumar
Macquarie Research

And is there a specific ROE target which you have?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, clearly, in this environment where rates have been pressured, it would be hard to deliver those kind of returns. However, we believe as the rate environment improves and we improve our underwriting margins, our ROE will eventually start moving up.

Amit Kumar
Macquarie Research

Into the double digit range?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I'd love to see that happen.

Amit Kumar
Macquarie Research

Okay. I guess just one more question then I will re-queue. Can you just talk about -- you talked about pricing. You talked about margin. Maybe just talk about the loss cost trends. I'm looking for some sort of specific numbers. Are you seeing loss cost go up by 3% or 4% in Specialty or Commercial? Maybe just expand on the difference between pricing versus loss cost point of view.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. What I would say is on an overall basis, we look at loss cost running anywhere from 2% to 4%, depending on the line of business or industry segment. We would believe that we are getting in the fourth quarter 3 points of rate in Commercial and that is exceeding our loss cost trends in Commercial. In Specialty, we're at about 1% rate. We are lagging on loss cost trends in Specialty. But I'd say we're moving up. If January has any indication of the future rates continue to improve. So we think we're kind of on the cusp in Specialty, and Commercial we think we're doing just fine.

Operator

[Operator Instructions] We'll go next to Bob Glasspiegel with Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

I think I was with you for most of the long-term care discussion, Craig, but I lost you at the end on the balance sheet. Did you say that the $254 million balance sheet adjustment was for the lower margin or in long-term care or did I misunderstand the number?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No. And I think I said $265 million.

Robert Ray Glasspiegel
Langen McAlenney

$265 million?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, after tax was the -- were the increase in shadow reserves.

Robert Ray Glasspiegel
Langen McAlenney

For long-term care you said primarily?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Primarily.

Robert Ray Glasspiegel
Langen McAlenney

Okay. Do you have the pretax number? Is it 35%?

D. Craig Mense
Chief Financial Officer and Executive Vice President

You can use 35%.

Robert Ray Glasspiegel
Langen McAlenney

Okay. Was there any pension adjustment on your book value at year end?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. We did adjust a minimum pension liability, and that had a $211 million after tax impact on book value per share. So about $0.78.

Robert Ray Glasspiegel
Langen McAlenney

Okay. Is there an interest rate number used for either of those 2 things so that they'll be helpful?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I can tell you, it's got to be -- you'll see it in the 10-K, and we'll be -- in fact, we'll be buying that in the next couple of weeks. But the discount rate assumption we used on the benefit obligations for pension was 4.6%.

Robert Ray Glasspiegel
Langen McAlenney

And on the long-term care, just what sort of discount rates are we using now?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, we're using -- and you'll see this well in the K when you get it, so you need to parse and I would say pay attention to the detail of the reserves and the makeup of the Life Group segment. So the payout annuities and structured settlement reserves have discount rate based on 2012 cash flows of about 7.4% that will be then declining down about 5.5% over time. And the discount rate in the long-term care is something around 6.4%, 6.5%.

Robert Ray Glasspiegel
Langen McAlenney

And not to belabor this, I mean, you're sort of matched on your asset and liability duration as I understand, is that a fair statement?

D. Craig Mense
Chief Financial Officer and Executive Vice President

That's a fair statement. But remember, we attempt to match the best we can from the assets and liabilities. But recall that the durations of these liabilities would exceed that asset duration we have about 11.5 years.

Robert Ray Glasspiegel
Langen McAlenney

11.5 years versus what?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Our asset duration is 11.5, and liability duration of payout annuities is a little over 10. I think long-term care is 16.

Robert Ray Glasspiegel
Langen McAlenney

Okay. Getting to a more pleasant conversation. Tom, do you think that on the PC side, rate increases now are keeping up with underlying loss cost? Where are underlying margins sort of heading trend line based on pricing?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. On the Commercial side, we think that our overall rate achievements is exceeding loss cost trends. On Specialty, we are just moving into positive territory on rate increases one point in the quarter. So we're behind in Specialty, but we like the momentum we're seeing. January was both good on rates for Commercial and Specialty. So we think that's going in the right direction.

Operator

[Operator Instructions] And we'll take a follow-up from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just sort of cleanup questions. First of all, can you talk about what sort of pressure do you expect on retentions going forward as you try to raise rates? Some other companies have talked about experiencing near-term pressure on retentions as they try to charge higher rates on the business.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I guess, Amit, you have to go back in 2009. We started pushing rate increases in Commercial back in 2009. So in '09 and '10, we did suffer some drop-off in retention, particularly in Commercial, not in Specialty. But I would tell you this, in the fourth quarter, retention actually improved slightly. So we've been at this awhile. We've been re- profiling the book. So I think the longer you are in this, you get a stabilization of retention. We're seeing that in Commercial. We're going to continue to push hard, not only in Commercial but Specialty for rate increases, so it is foreseeable there may be a slight drop off on the Specialty side relative to retention. But we've had some quarters going back a year or 2 where the retention would have been 5 points less than what it is in the fourth quarter today. So, yes.

Amit Kumar
Macquarie Research

Got it. That's good to know. The second question is, you talked about pricing in Q4. I'm wondering what sort of prices did you see in the first 2 months of 2012?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, considering it's only early February, I can only give you one month. Then I won't give you an exact number. But if we look at the month of December, which was a good month for us on rate, it was higher than November and October. So we gained momentum in the month of December, and January is higher than December.

Amit Kumar
Macquarie Research

Got it. Okay. And then final question on the reinsurance treaty. I think there was a mention that the reinsurance cost sell. Can you just expand on that? And I know that your regions treaty renews on 1/1. Is it the same? Is it different? Did you pay less? Or did something change on that?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, first, remember, we had several treaties out there. So is there anything specific you're looking for which treaty?

Amit Kumar
Macquarie Research

Yes. There was some discussion on the last call that one part of the treaty renewals on 1/1, and I don't have those notes with me, but something that renew on 1/1. Is that right?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. This is Craig, Amit. And so we did renew our property cat treaty 1/1, and we renewed it on the same terms, same coverage, same retention and the prices were up slightly. I'd say actually about something like -- and this is going forward in '12 -- about 9%, some exposure and some rate. But I think what you're referring to is in earlier calls we said that part of the increase in net written was lower reinsurance cost, and that was really -- that was a function of the property for risk in the property cat last year in 2011. We had lower cost as we improved the portfolio and as our results improved. So that helps the net written, which was growing at a faster rate than the gross written which is what we're trying to describe in some of the earlier conversations in the call.

Operator

[Operator Instructions] We'll go next to Peter Seuss [ph] with Surveyor Capital.

Unknown Analyst

Just a question on Commercial lines underwriting. It looks like the accident year ex cat combined ratio or loss ratio, I guess, improved by a couple of points this year, and I assume most of that is due to the re-underwriting of the book. I'm just wondering if you could provide some color as to how much improvement remains from the re-underwriting initiative.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Four. We continue to press. We continue to improve our metrics in tools, so that we can get more granular relative to pricing of any particular risk whether it be by industry segment or line. But clearly, we don't retain 100% of the book. We retain roughly 80, high 70s. So we're always churning the book looking for better business, and we're pushing rates pretty hard. The other thing is there's really very little exposure growth in Commercial these days. It's less than 1 point, which is a reflection of the economy still being fairly flat. But you always underwrite the book or re-underwrite the book. But we're making good progress, and we're very pleased with the new business. We're writing as going into the segments we really want to be in. And the other thing is actually in the fourth quarter where we saw a lot of competition for new business, our new business writings went down a little bit. So the fact is we're only writing the business at the right price to bring it in the door the first time, and then we're constantly looking to push rate once it's in the door.

Unknown Analyst

Would you say that a lot of the low hanging fruit from the re-underwriting has been accomplished? Or can you continue to sustain these types of improvements going forward?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Our expectation is we will continue to see these kinds of improvements over time.

Unknown Analyst

Got it. And then finally, just on the expense ratio, about 33% this year. What kind of growth do you think you need in order to see improvements in that ratio?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. I think kind of 6 points would be a good number to keep in mind. But clearly, you mentioned 33%, we kind of look at it as being 33.5%. It's been kind of bumpy for various one-time events. But we need to grow the business 6% a year. That would be a good number. 6%, 8% would be helpful. And, of course, keeping our controllable expenses pretty flat which we've done. We've really done a good job on expense management from a controllable perspective.

Unknown Analyst

So 6% to 8% would result in an improvement. And do you think that, that type of growth is achievable in this rate environment?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. I think it's clearly achievable.

Operator

And we'll go next to Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

Craig, you mentioned I think a $1 billion of dividend capacity, I assume that's from the main underwriting annuity. I was curious, is that entity paying any ordinary dividends? Or is that just sort of a going forward capacity and you've not been pulling dividends on a regular basis, ordinary dividends out on a regular basis? And also, what are your thoughts about dividending the maximum amount of ordinary dividends or choosing not to?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, first, Rob, you're correct. That's the dividend capacity -- Ron, it's the dividend capacity in our operating company, so kind of [indiscernible]. We have not been distributing dividends from the operating company to the holdco. Over the past year, we've been holdco. Cash needs have been met, more than met by repayment of the surplus notes that we've established. We still have $250 million of the surplus notes, so the uses for cash we have at holdco are debt service payments and common shareholders' dividends outwards, which as we look at it will be met by first by continued repayment of the surplus note and then likely later in the year we get to take some dividends from the operating company. But there's no particular advantage for us that we see in taking surplus from the operating company and putting it -- holding it at holdco, actually it might be a hurt to investment income that we increase the amount of short term assets.

Ronald David Bobman
Capital Returns Management, LLC

I'm sorry, the holder of the surplus note, is that the holding company or is it...

D. Craig Mense
Chief Financial Officer and Executive Vice President

That's the holding company.

Operator

And there are no further questions at this time.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Okay. Thank you very much. See you next time.

Operator
Again, that does conclude today's presentation. We thank you for your participation.