S&P Global
Market Intelligence

CNA Financial Corporation NYSE:CNA

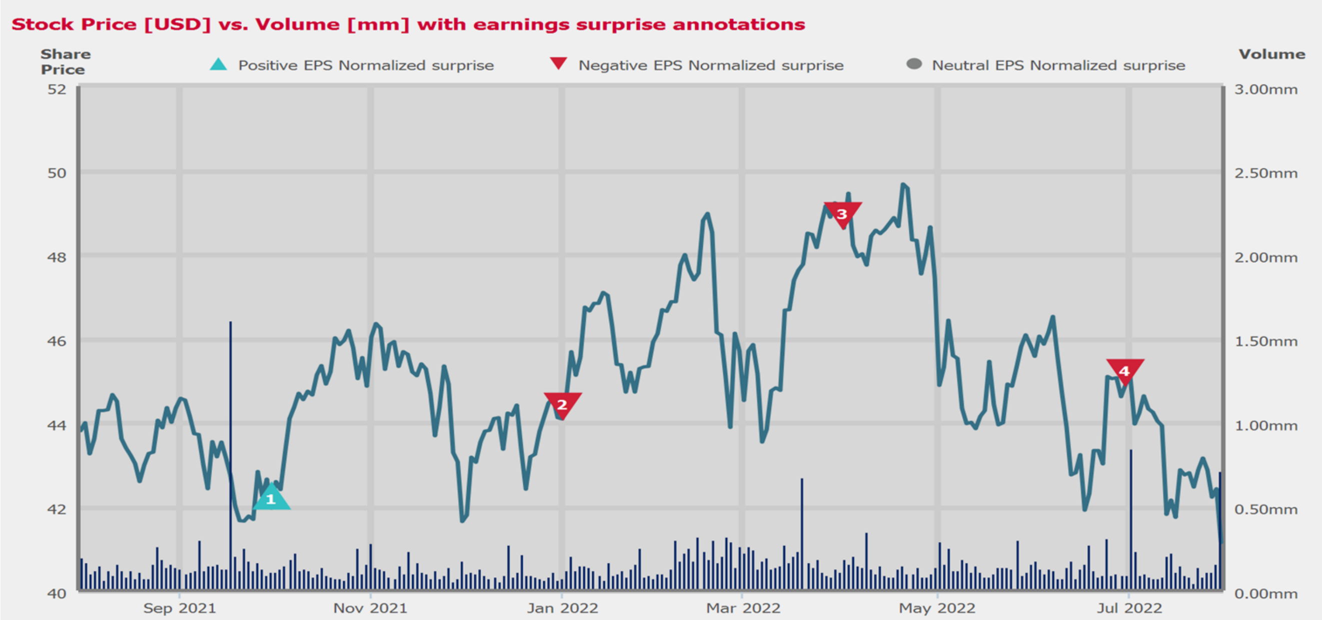
FQ2 2022 Earnings Call Transcripts

Monday, August 01, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.03	0.90	(12.62 %)	0.72	3.70	NA
Revenue (mm)	NA	2296.00	NA	NA	NA	NA

Currency: USD
Consensus as of Aug-01-2022 9:18 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.68	0.87	27.94 %
FQ4 2021	1.00	0.97	(3.00 %)
FQ1 2022	1.22	1.16	(4.92 %)
FQ2 2022	1.03	0.90	(12.62 %)

Table of Contents

Call Participants

EXECUTIVES

Dino Ennio Robusto
Chairman & CEO

Ralitza Todorova
Assistant Vice President of Corporate Development

Scott Robert Lindquist
Executive VP & CFO

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Joshua David Shanker
BofA Securities, Research Division

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

Presentation

Operator

Ladies and gentlemen, good day, and welcome to the CNA 2022 Second Quarter Earnings Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded.

I would like to turn the call over to Ralitza Todorova, AVP, Investor Relations, for opening remarks and introduction of today's speakers. Please go ahead.

Ralitza Todorova
Assistant Vice President of Corporate Development

Thank you, Elaine. Good morning and welcome to CNA's discussion of our second quarter 2022 financial results. Our second quarter earnings press release, presentation and financial supplements were released this morning and are available on the Investor Relations section of our website, www.cna.com. Speaking today will be Dino Robusto, Chairman and Chief Executive Officer; and Scott Lindquist, Chief Financial Officer. Following their prepared remarks, we will open the line for questions.

Today's call may include forward-looking statements and references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during the call. Information concerning those risks is contained in the earnings press release and in CNA's most recent SEC filings. In addition, the forward-looking statements speak only as of today, Monday, August 1, 2022. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call.

Regarding non-GAAP measures, reconciliations to the most comparable GAAP measures and other information have been provided in our earnings press release, financial supplements and other filings made with the SEC. This call is being recorded and webcast. A replay of the call may be accessed on our website. If you are reading a transcript of this call, please note that the transcripts may not be reviewed for accuracy. Thus it may contain transcription errors that could materially alter the intent or meaning of the statements.

With that, I will turn the call over to our Chairman and CEO, Dino Robusto.

Dino Ennio Robusto
Chairman & CEO

Thank you, Ralitza, and good morning all. We are very pleased with the second quarter results as we had excellent production performance, including 17% gross written premium ex captives growth and a 64% increase in underwriting gain. Our core income declined by $96 million, driven by limited partnerships and common equity returns, which declined by $171 million, while income from our fixed income portfolio was up $16 million as we turned the corner in the second quarter with fixed income yields now increasing. Scott will provide more detail on investments.

In the second quarter, the P&C all-in combined ratio was 91%, a 3-point improvement compared to the second quarter of 2021, reflecting a lower underlying combined ratio, increased favorable prior period development and lower catastrophe losses. Pretax catastrophe losses were $37 million or 1.8 points of the combined ratio compared to $54 million or 2.8 points in the prior year period. For P&C overall, prior period development was favorable by 1.6 points compared to 2 (sic) [0.2] points favorable in the second quarter of 2021. Our P&C underlying combined ratio was a record 90.8% this quarter, reflecting 0.6 points of improvement over the second quarter of 2021.

In the quarter, our corporate segment core loss was $25 million higher year-over-year. These results include a $51 million after-tax charge related to unfavorable prior period development largely associated with legacy mass tort abuse claims, including the recent Diocese of Rochester proposed settlement, which occurred in the second quarter. Drilling down on P&C production, gross written premium growth, excluding captives, was 17%, and net written premium growth was 20%. Excluding the impact of a onetime catch-up related to the addition of the property quota share reinsurance treaty in the prior year period, net written premiums grew by 13%.

New business grew by 27% this quarter, which we are pleased with given that pricing and terms and conditions remained strong and consistent with our renewals. Retention was up 2 points to 85% this quarter, our strongest in nearly 5 years, and they were up in each of our operating segments. Exposure change improved by 1 point, and now is about plus 3% across our entire portfolio and plus 5% in our core middle market and construction business units. The overall written rate increase was 6% in the second quarter, down 1 point from last quarter. With some exposures, we actually saw a modest upturn, such as larger cat-exposed property in national accounts and auto in our construction portfolio.

Overall for Commercial, rates have remained relatively stable at about 5%, moderating only 1 point from the third quarter of 2021. So pricing dynamics, by and large, continue to reflect rationality in the marketplace. We see this as we look across lines of business and compare the results to our overall P&C increase of 6% in the quarter. By way of example, within Commercial, auto rightfully continues to achieve rate increases above that overall average. Work comp continues to be below, which is reasonable given the continued strong profitability. Property is above, and large national accounts property is low double digits.

In Specialty, medical malpractice continues to be above. D&O, with a cumulative rate increase of over 100% since the start of 2019, is now below the overall average, while the rest of management liability is still above as cyber continues to be well above in high double digits. And from a geography standpoint, our International book, which includes Canada, Europe and our syndicate, continues to be above the overall 6% increase.

So we think that rates have been moderating in a measured way, and we expect to see some up and down movements across the various lines, influenced by how loss cost inflation, cat exposure and overall economic conditions continue to play out. We feel good about the return on the majority of our book. But as I have mentioned before, we don't anchor rate adequacy to a point in time but rather on a longer-term basis because it is a moving target.

First, we don't assume we will cover our long-run loss cost trends every year going forward. History from past underwriting cycles clearly teaches us that. And second, in periods when loss cost trends have been increasing, essentially doubling to about 6% in the last 4 years in our portfolio, the pace at which the rate adequacy target moves is also changing. So we view this period in the cycle as a time to opportunistically continue pushing very hard for rate and balancing the rate retention dynamic in ways that will grow our P&C profit dollars.

On an earned basis, overall P&C rate in the quarter was 8%, which is still nicely above our long-run loss cost trend assumptions. But with the uncertainties regarding the various aspects of inflation in the broader market, we remain prudent in acknowledging margin. So let me add a little color on how we are considering inflation in our retrospective reserving and prospective pricing.

But first, a comment on what inflation metrics we focus on because the headline CPI inflation number isn't necessarily the best proxy for the aggregate impact of economic inflation on loss costs in our portfolio. When we think about economic inflation, we focus on 3 components that can impact our claim costs: medical inflation, nonmedical cost of goods sold inflation and wage inflation and how each impacts our portfolio, which often will not equate to the weighting ascribed in the CPI metric.

For example, in our portfolio, medical inflation has a much larger impact than the weight it has in the CPI. And within the nonmedical cost of goods sold inflation, we focus more on a few key items, such as increases in construction materials and used car and truck prices rather than an overall average. Wage inflation obviously increases costs but has a partial offset on the premium side, so we incorporate that dynamic. The impact from these refinements are used in our reserving and pricing studies, more so than the headline CPI number. And importantly, these impacts are treated separately from the impacts of social inflation, which has become a prevalent liability loss cost inflation over the past several years.

We think about social inflation as being driven by somewhat independent factors we and others in the industry have spoken about at length, such as more aggressive plaintiff's bar, a higher number of nuclear verdicts, higher prevalence of litigation funding, and changing jury attitudes, which are increasingly punitive regarding corporations. And as we have previously noted and we continue to believe, social inflation may still be obfuscated somewhat because court dockets are still backlogged.

So let me provide some examples of how we have and continue to incorporate these inflation pressures, together with our earned pricing trends, into our assessment of prior and current accident years. Our medical malpractice business has been impacted by social inflation and higher long-run loss cost trends starting several years ago. We saw that in the data and increased our accident year loss ratio picks considerably, which led us to start raising prices very early on at the expense of retention. And we increased prior year reserves through unfavorable prior period development of $210 million from 2017 through 2021, which we have spoken about on prior calls. And we continue to maintain ongoing loss cost trends for this class above our overall P&C average.

For commercial property, we reacted to increases in loss costs from inflation in the third quarter last year. We increased our long-run loss cost trend assumptions about 2 points in our property lines, which we also previously discussed. These increases impacted the pricing and reserving for our current and most recent accident years given the short-tail nature of the claim development patterns. And the last example is workers' compensation. We did not reduce our accident year picks to reflect the lower levels of benign medical trends over the last 5-plus years as we maintained the higher long-run loss cost trends that were more evident prior to this period of benign medical trends. In addition, we have only partially reacted to the favorability in prior accident year reserves that the lower, more benign trends would suggest.

Accordingly, we believe our current reserve position is strong and further that our prudence will allow us to withstand a period of higher medical inflation, should a situation occur, where the rate environment remains slightly negative but medical inflation accelerates in the next 18 or 24 months. Of course, should it then keep increasing for several years hence, that will put pressure on our loss costs. But in that situation, we will at least have ample time to thoughtfully react. This general pattern of prudence in reacting to prior year favorability and not reflecting the entire perceived margin between loss cost trend and earned rate in recent accident year picks is evident across our entire portfolio and reflects our conservative underwriting company bias.

Even maintaining that prudence, the P&C underlying combined ratio was a record 90.8% this quarter. The expense ratio of 30.5% was lower by about 1 point, and the underlying loss ratio of 60% was 0.5 point higher than the prior year quarter. But as I've mentioned in prior quarters, the property quota share treaty that we purchased in June of last year lowered the net premium mix between property business and our other classes. And since our property business has a lower underlying loss ratio, this mix effect increased the overall P&C underlying loss ratio by about 0.5 point. We remain very pleased with the purchase of the quota share treaty as well as the additional cat cover in our property per risk treaty and cat treaty, all of which were successfully renewed last month at a modest mid-single-digit rate increase.

Now let me provide a little more detail on the 3 business units. The all-in combined ratio for Specialty was 88.1% in the second quarter, which is now the eighth consecutive quarter below 90%. The underlying combined ratio was 89.2%, a record low and consistent with last year. The expense ratio of 30.4% is up slightly from the second quarter of 2021, while the underlying loss ratio improved by 0.4 points to 58.6%. Gross written premium ex captives grew by 8% in the second quarter, and net written premium growth was 6%. We achieved rate increases of 7% in the quarter. This is down 3 points from the first quarter but is still exceeding long-run loss cost trends, and earned rate at a little over 10% is still well above long-run loss cost trends. Retention was 85%, consistent with last quarter, and new business grew 9%.

Turning to Commercial, the all-in combined ratio was 93.2%, the lowest all-in quarterly combined ratio since 2008. Cats in the quarter were 3 points compared to our 10-year average in Commercial of 6 points. The underlying combined ratio was 92%, a 1-point improvement over last year. The underlying loss ratio of 61.5% is 1.4 points higher in the prior year quarter. However, as I've mentioned earlier, this is largely due to the mix impact of the property reinsurance program we purchased last June. The expense ratio improved by 2.3 points to 30% in the second quarter due primarily to strong growth.

Commercial gross written premium ex captives grew by 25% this quarter, and the net written premium growth was 20% excluding the impact of the onetime catch-up related to the addition of the property quota share reinsurance treaty in the prior year quarter. New business was up 39% in the quarter as several larger opportunities we had been courting for quite a while successfully landed in the quarter. For Commercial, the rate increase was plus 5%. And excluding workers' compensation, the Commercial rate increase was plus 6% and plus 7% on an earned basis. With the modest moderation in pricing we are experiencing, we continue to believe that Commercial earned rates ex workers' comp should remain at or above long-run loss cost trends through year-end.

Commercial retention was strong again this quarter at 86%, which is higher than any quarter since prior to the pandemic. We continue to see middle-market digit exposure changes in lines -- excuse me, we continue to see mid-single-digit exposure changes in lines of insurance with inflation-sensitive exposure bases like work comp and general liability, and we are clearly highly focused on valuation for property.

In national accounts, valuation increases were up nearly 10% prior to other account-level changes like higher deductibles and movement within a property tower. These various exposure increases are a good outcome, and we estimate that up to half of the increase acts as additional rate in our portfolio over and above our 6% rate increase. For International, the all-in combined ratio was 91.6% this quarter. The underlying combined ratio was 90.6%, reflecting 1.9 points of improvement from the prior year quarter. The underlying loss ratio of 58.5% is lower by 0.5 point, and the expense ratio of 32.1% is down 1.4 points compared to last year. In terms of our loss exposure to Russia/Ukraine, it continues to be de minimis.

International gross and net written premiums grew 13% or 18% excluding currency fluctuations. Rates were up plus 7%, which is a 1-point decrease compared to last quarter but remain above long-run loss cost trends. Retention in International was particularly strong at 85%, and it was broad-based, including our Lloyd's Syndicate. With the syndicate and European business re-underwriting behind us, International retention increases are meaningfully contributing to the profitable growth of our P&C operations as is new business, which grew by 24%.

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

Scott Robert Lindquist
Executive VP & CFO

Thanks, Dino, and good morning, everyone. Core income of $245 million is down 28% as compared to the second quarter a year ago, leading to a current quarter core return on equity of 8.1%. Our P&C operations produced core income of $317 million. Underlying underwriting income of $191 million pretax was up 15% over the second quarter of 2021. Overall underwriting gain in the quarter was up 64% year-over-year to $185 million. Net investment income of $432 million pretax was up $16 million in our fixed income portfolio, offset by a $171 million decline in our limited partnership and common stock investments, which we report in core income. More on our investment results in a moment.

Our Q2 expense ratio of 30.5%, which is 1.1 points lower than last year's second quarter. Lower acquisition expenses and higher net earned premiums drove the favorability despite continued strategic investments in technology, analytics and talent. To drill down a bit further, Specialty incurred higher underwriting expenses, primarily related to technology. Commercial benefited from lower acquisition costs and higher net earned premiums, while International acquisition expenses continue to benefit from the repositioning of this portfolio over the last several years. As I noted last quarter, there will be a certain amount of variability quarter-to-quarter. However, we continue to believe an expense ratio of 31% is a reasonable run rate.

For the second quarter, overall P&C net prior period development impact on the combined ratio was 1.6 points favorable compared to 0.2 points favorable in the prior year quarter. In the Commercial segment, favorable development in workers' compensation was partially offset by unfavorable development in general liability and auto. In the Specialty segment, favorable development in surety was partially offset by management and professional liability. Favorable prior period development in International was driven by the Commercial classes.

The paid-to-incurred ratio was 0.89 in the second quarter. This is up slightly from the first quarter and consistent with the fourth quarter of 2021. The 0.89 ratio remains at the lower end of our prepandemic range. The ratio, which fluctuates quarter-to-quarter, has been consistently lower over the past 2 years. As Dino noted earlier, our corporate segment produced a core loss of $78 million in the second quarter compared to a $53 million loss in the prior year quarter. Annually, we conduct a review of our mass tort reserves in the second quarter, while asbestos and environmental reserves are reviewed every fourth quarter.

As a result of this quarter's review, the segment includes a $51 million after-tax charge related to the unfavorable prior period development largely associated with legacy mass tort abuse claims, including the recent Diocese of Rochester proposed settlement. For Life & Group, we had core income of $6 million for Q2 2022, which was $37 million lower than last year's second quarter, primarily from lower investment income from limited partnerships. As a reminder, we will be conducting our annual gross premium valuation review during the third quarter.

While we are on the topic of Life & Group, I'd like to give a brief update as to the approaching change in GAAP accounting methodology related to Long Duration Targeted Improvements, otherwise known as LDTI, that will apply to our long-term care business. We will be adopting this change effective January 1, 2023, but will apply it as of January 1, 2021. 2 years of adjusted financial results will therefore be included in our 2023 financial statements. Recall in last quarter's call, we estimated the net impact of these changes will be a $2.2 billion to $2.5 billion decrease of stockholders' equity as of the transition date of January 1, 2021.

In a rising interest rate environment, like we have seen over the last 2 years, as the corporate single A rates increase, the impact of adoption decreases. As an example, assuming June 30, 2022, interest rates were in place on January 1, 2021, we estimate the transition impact would have been significantly lower to a decrease of $400 million to $700 million to stockholders' equity as corporate single A rates are substantially higher at June 30, 2022, than at January 1, 2021. Finally, I want to emphasize this change in accounting has no impact to the underlying economics of CNA's business.

Turning to investments, total pretax net investment income was $432 million in the second quarter compared with $591 million in the prior year quarter. The decrease was driven by our limited partnership and common stock results, which returned a $15 million loss in the current quarter compared to a $156 million gain in the prior year quarter. The current quarter results reflect losses in our hedge fund limited partnerships of $35 million and common stock portfolio of $21 million, directionally in line with equity market performance during the quarter, that were partially offset by positive returns of $41 million from our limited partnership private equity portfolio. The gain in the prior year quarter reflected particularly strong results from all 3 portfolios.

As a reminder, private equity funds, which now represent approximately 75% of our limited partnership portfolio, generally report to us on a 3-month lag. So results this quarter were primarily reflective of performance from Q1 2022. Given that broader public equity markets were notably down in the second quarter, it would be reasonable to expect pressure on private equity valuations in the near term. Hedge funds now represent 25% of our limited partnership portfolio and predominately report results on a real-time basis. If you refer to Pages 10 through 14 of our financial supplement, you will find additional details of our limited partnership holdings and income by the private equity and hedge fund strategies.

Our fixed income portfolio continues to provide consistent net investment income, which has been steadily increasing over the last several quarters. We continue to benefit from the higher invested asset base driven by higher P&C underwriting income. As a point of reference, our average book value has increased $1.5 billion from the prior quarter -- prior year quarter, excuse me. Additionally, I am pleased to note the average effective income yields in our P&C portfolio were higher in the current quarter relative to the first quarter, indicating that we have reached an inflection point where reinvestment rates were about 100 basis points above our P&C effective yield. Given the longer-duration nature of our Life & Group portfolio, we have not yet reached an inflection point in this segment.

Fixed income assets that support our P&C liabilities and Life & Group liabilities had effective durations of 5 years and 9.7 years, respectively, at quarter end. The increase in Life & Group duration from 8.9 to 9.7 years during the quarter is reflective of strategic actions taken to simultaneously reduce reinvestment risk by selling short-dated holdings projected to roll off in the near term while also extending duration by redeploying the proceeds into longer-dated, high-quality securities at yields exceeding our long-term assumptions. In total, over $1.9 billion of long-dated fixed income securities were acquired in the Life & Group portfolio during the quarter with an average yield of 4.7% and an average rating of A+. Meanwhile, the $1.8 billion of mostly tax-exempt securities sold in the quarter as part of this repositioning generated $19 million of pretax investment gains.

While higher rates are positively impacting the outlook for investment income, from a balance sheet perspective, they have continued to adversely impact our net unrealized investment position, which ended the quarter at a $1.8 billion loss, down from a $4.4 billion gain at the end of the fourth quarter 2021. The investment portfolio credit quality remains strong with a weighted average rating of A with very little in impairments. Accordingly, interest rate-driven fluctuations in market values do not impact how we manage our investment portfolio as we generally hold our fixed income securities to maturity.

Notwithstanding the decrease in our net unrealized gain position, our balance sheet continues to be very solid. At quarter end, stockholders' equity excluding accumulated other comprehensive income was $12.2 billion or $45.06 per share, an increase of 4% from year-end adjusting for dividends. Stockholders' equity, including AOCI, which reflects our investment portfolio moving into a net unrealized loss position during the quarter, was $9.5 billion or $35.06 per share. We continue to maintain a conservative capital structure with a leverage ratio of 19% excluding AOCI, and our capital remains above target levels required for our current ratings, while statutory surplus remains stable after dividends.

Finally, net investment losses were $40 million in the second quarter compared with a net investment gain of $27 million in the prior year quarter. The current quarter results were driven by an unfavorable change in the fair value of our nonredeemable preferred stock portfolio, reflecting the higher interest rate environment, while the prior year gains were primarily the result of sales, calls and exchanges.

Operating cash flow was strong once again this quarter at $608 million and was a result of solid underwriting and investment cash flows. In addition to strong operating cash flows, we continue to maintain liquidity in the form of cash and short-term investments. And together, they provide ample liquidity to meet obligations and withstand significant business variability. Finally, I am pleased to confirm our regular quarterly dividend of $0.40 per share, which will be payable on September 1 to shareholders of record on August 15.

With that, I will turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thanks, Scott. Our second quarter generated fantastic results across Commercial, Specialty and International. We have been clearly focused on accounting for social inflation for several years, both prospectively and retrospectively, and we continue to be prudent in the face of uncertainty and backlogged court dockets. More recently, we have similarly included the impacts of the rise in economic inflation. Market pricing remains relatively rational, and we are successfully optimizing the rate and retention dynamics across the board and effectively growing our new business at strong terms and conditions. Bottom line, we remain enthusiastic about our business opportunities going forward.
And with that, we'll be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] We will take our first question today from Gary Ransom of Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a few questions. One was just on the catastrophes and the impact from the new quota share. Is it possible to quantify how much benefit you got in the quarter from that or how to think about what a run rate for your cat load might be going forward?

Dino Ennio Robusto
Chairman & CEO

I think going forward, we're probably -- the more recent average makes a lot more sense. But I'd say about 1/3 probably benefited from the quota share. Keep in mind also, Gary, that obviously, all the re-underwriting we did on the syndicate, which had a lot of U.S. cat exposure that was coastal, also wildfire, we re-underwrote all of that. We also mentioned on several calls some of our property re-underwriting from the health care aging services, coastal exposures, wildfire exposures. And some of that probably benefited the cat ratio this quarter. And then, I guess, always probably appropriate to put a little luck in there.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Right. Okay. That's helpful. I just also wanted to ask about the rate versus loss trend. I mean you gave us a lot of material there. And I -- if I think about what's going on, we have rates gradually decelerating, but we also have the potential for inflation accelerating loss cost trends perhaps. It all seems to be bringing the point at which those 2 lines cross maybe a little bit closer. It seems like you were preparing for that possibility. But is the market -- do you think there's any place where the market is prepared for that? Is the market reacting to that possibility? Or it just seems like there's -- the fact that there's so much uncertainty isn't -- I don't see it from the outside as completely reflected in market behavior, but you might have a different viewpoint.

Dino Ennio Robusto
Chairman & CEO

I mean it's really -- it's hard to say. I think it has been rational. It's been moderating quite slowly. Gary, we did see on our larger property in national accounts, in particular, anything that's cat-exposed, there, the rate actually went up from probably high single digits to slightly over double digit. So that could be, one would say, a rational reaction. Clearly, there's a lot of talk of that in large property. Now it's not a huge portfolio for us. But clearly, we do have a national accounts property strategy. And I mentioned before, we are trying to balance the portfolio a little bit. So we are seeing that conversation on property. Commercial auto, we saw it on, as I said, in our construction. And it's high single digit in auto.

So that's good. And the rest, we just are going to be as prudent as we can be on the loss cost trend side. And as I said, look, I mean, we don't think about rate adequacy at any moment in time. And so we've got an opportunity to continue to push for rate, and that's what we are doing. And I think the trade-off that the underwriters are making are good ones. It's harder to sort of incorporate more of a market overall, their perspective. That's just the way I see it and hence why I think in the end you get the gap still persisting maybe through year-end, as I indicated. And we'll see. You have a tough cat season. That can turn around because not only -- the inflation is going to put a pretty big toll on -- if you have a large cat in addition to sort of demand surge. So that's probably not enough from what you wanted, but that's the best I could offer.

Gary Kent Ransom
Dowling & Partners Securities, LLC

That's great. Yes. It's always difficult to see all the trajectories of these things.

Dino Ennio Robusto
Chairman & CEO

Yes.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I also wanted to ask about the retention in International. It's up at 85%. You did talk about it a little bit, but are there any particular classes or types of business where it's a little more sticky for you now after all that re-underwriting?

Dino Ennio Robusto
Chairman & CEO

Yes. So let me just parse out because we throw in Canada there, too. I mean Canada has always maintained a relatively stable and good retention ratio. It was more with respect to, as you point out, Europe and the Lloyd's Syndicate. And you had seen retentions in the low 60s for quite a few quarters. And as we re-underwrote the portfolio, what we did is just aligned it with our appetite in the United States. And so what we do in Commercial here and what we do in Specialty here is what we are targeting. We took down the portfolio substantially. What we left, we really wanted to hang on to. And I think we saw some good increase on the retention. It's nothing more significant than that. Both Europe and Hardy were 80% or a little over. So that's what we had expected, right? We went into the renewal season expecting that after the re-underwriting and so many quarters of it being down substantially.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. That's great. And maybe just one more on the mass tort abuse claims. You seem to be implying that there were other things besides Rochester that might have been in the abuse claim category. Was there anything there you can mention or talk about?

Dino Ennio Robusto
Chairman & CEO

Yes. So I think Scott mentioned it, right? We do the mass tort review every second quarter. We don't parse out all the components in there. A lot of it has to do with abuse and the impact of reviver statutes, but there's other old mass torts. And based on that review, we think and all the information we have that we have it appropriately reserved and broadly across all of the mass torts. But there's a host of things in there.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I guess I was dancing a little bit around the Boy Scouts, too, if there's anything specific you can say. I'll understand if there isn't anything you can say.

Dino Ennio Robusto
Chairman & CEO

Yes. Yes. No, I mean, listen -- and that falls under the abuse. But at this point, there isn't anything for us to comment as it's ongoing and active, as you saw. And listen, when and if warranted, we'll obviously comment on it, like we always do.

Operator

We take our next question from Meyer Shields of KBW.

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

Dino, I want to start, if I can. I'm trying to understand one of the comments that you made where you say, "We don't assume we will cover our long-run loss cost trends every year going forward." Does that mean that when things are accelerating, we should expect in the short-term loss ratios to go up?

Dino Ennio Robusto
Chairman & CEO

So this is -- this was more -- as I caveated the end of that sentence, history taught us that, right? In any underwriting cycle, Meyer, it plays over 15, 16 years. You get, I don't know, 8, 10 years of a soft cycle. You've got pricing that will drop below long-run loss cost trends. So that's why it was more -- just that, that's a reality. I've seen it happen over 40 years. It's going to continue to happen. Now is the time to continue to take advantage of the pricing in the marketplace and keep pushing harder. It's nothing more sophisticated than that. It's just a reality that causes us not to talk about, well, we're rate-adequate now. And so that's really all I was trying to get at.

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

Okay. That's helpful. Within Specialty, I guess, both last quarter and this quarter, we've seen the warranty expenses rise faster than the revenues. And I was wondering whether there's anything material there and how that -- how are you expecting that to play out to be coming -- going forward?

Dino Ennio Robusto
Chairman & CEO

No, there's nothing really there. A little bit of -- as we indicated, some technology and a little bit of analytics. We also hired some additional staff and talent as we sort of moved away from the shutdown periods of the pandemic, but it's nothing really significant.

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

Okay. And then final question. I'm just wondering whether -- or what you're seeing with regard to your clients in terms of a possible economic slowdown going forward. Are you seeing any level of concern?

Dino Ennio Robusto
Chairman & CEO

Well, yes. So when you talk to a lot of the clients, I think they still remain relatively optimistic. And I mean, I think the economy is going to be what it's going to be, right, Meyer? So we -- what we do is we pay close attention to exposures and the audit premium. Now both of them were up considerably in the quarter. And so, so far, the signs continue to look good. And we'll just keep tracking exposure. We keep tracking audit premiums. Obviously, if you get into a deeper recession, you'll see it in the audit premiums and we'll be able to reflect it. But right now, it continues to be a pretty good outlook.

Operator

Our final question today comes from Josh Shanker of Bank of America.

Joshua David Shanker
BofA Securities, Research Division

The disclosure on the call has been excellent, but I want to go a little deeper. And well, you said on the call that you want to talk about both pricing and reserves for preparing for inflation. You've been very fulsome. And please, don't let me get anything wrong. If I say something wrong, correct me. But I think about 2 years ago, you were estimating 2.5%, 3% long-term cost inflation, and now you're closer to 5.5%, 6%. Have the reserves for '16, '17, '18, '19, the unpaid losses, been revised up in all classes other than workers' comp over that time? Every time -- and you're not alone. There's lots who said, "Oh, we've taken up our loss picks," and yet they still release reserves. And so I'm trying to figure out how you -- how -- when taking long term -- so can you talk a little bit about that and what's happened last like 9 months?

Dino Ennio Robusto
Chairman & CEO

Sure. So let's -- first of all, if you look at the open claims on quite a few of the lines, so if you look at umbrella, you look at medical malpractice, you look at auto, all of those are unfavorable. And you can see it. Of course, we had offsets on comp. But don't forget, we also had offset on surety, and that's significant. But if you look at the other lines, as I gave you, there were $200 million just on medical malpractice. Then you add Commercial auto, an umbrella, which you can obviously see to a large extent in our disclosures, it's been substantial because it does, to your point, Josh, and a point you've been making effectively, it does affect the past, not only the future because of all of the open claims.

Joshua David Shanker
BofA Securities, Research Division

And so when you said -- look, we're -- some -- I don't want to -- I read it was just rhetorical in some reason. Meyer got into it a bit. But when you say that we're not always going to be below, we're not targeting a long-term pick, I guess -- it's hard for me to parse that. We're not targeting a long-term inflation pick in how we're pricing. We're acting more organically. Is there confidence that those reserves are now being picked at or above the long-term loss cost inflation that you have in your assumptions?

Dino Ennio Robusto
Chairman & CEO

Yes. We clearly -- we've increased those long-run loss cost trends substantially, right? They've doubled, as I said, in 4 years. And we believe with the actions we have taken over this period and in this quarter that the reserves do capture it. Now it's possible that long-run loss cost trends, which we are sitting at about 6%, might go up. My point on the other aspects that Meyer brought up of rate, it was a question of rate adequacy because you'd hear conversation around rate adequacy.

What I was simply suggesting is that we don't focus on that as much because it is -- it has been increasing. It can continue to increase. And so you might be rate adequacy -- rate adequate and aligning quickly or not anymore because of long-run loss cost trends. And then the other component I was just making is let's be realistic. There's also times in a soft cycle where you're not going to make it. And so my point there was simply that, "Hey, now is the time to go get more rates." And that's all I was intending.

Joshua David Shanker
BofA Securities, Research Division

That makes sense. And then my other question on medical loss inflation. To what extent is it just a lagging indicator? Medicare and the HMOs have a lot of bargaining power, and so the cost of medical services have been taint as we're using pricing for medical services that was set in the past. But should we expect that the input costs to hospitals are rising even if the costs to the patients haven't gone up yet?

Dino Ennio Robusto
Chairman & CEO

Well, first of all, let's just put in context the medical malpractice line and our actions on that medical malpractice line, which have been substantial both in terms of unfavorable prior period development and long-run loss cost trends and, of course, in consequence, pricing, et cetera, was a function clearly of social inflation. We saw significant attorney representation increase on those cases. We saw an emboldened plaintiff. We saw higher settlement events even when the facts didn't warrant it. That's what drove that a lot. Hard for me to sort of then sift through all of that and say is it an indicator for what medical trends are going to do as we see it in work comp? Not -- it's not something that I can assess, and I want it to be clear on the social inflation impact on professional or medical malpractice. Does that help?

Joshua David Shanker
BofA Securities, Research Division

That helps. And what about on -- let's talk workers' compensation, which obviously has been very favorable. Some of that -- there's some medical in that. Is it -- and look, you certainly expect that workers' comp loss trends will rise in the future. But to what extent is that -- is medical costs a delayed -- a lagging indicator of inflation as opposed to a concurrent indicator?

Dino Ennio Robusto
Chairman & CEO

I mean I'm not really sure how to -- when you look at the CPI, medical inflation on the CPI this quarter, I think it changes every quarter, went up to 4.5%. Our trends are showing less, probably under 4%, and a function of some of the things that offset it, fee schedule; the opioid utilization, which has come down. The fee schedule does -- those kinds of things does cause a lag, and so some of that has a lag impact. We want it where we clearly have a good handle on it. As I was trying to point out on the work comp, because we've been so conservative, that if it goes up, we think we've got some room there. Of course, if it really turns a corner, a function of economic inflation goes up for a protracted period of time, well, the good news is we'll have a little bit of time to react, and we think we can, based on our portfolio that we have, which to a large extent is more sort of the white collar work comp.

Joshua David Shanker
BofA Securities, Research Division

Well, I just want to say, as usual, the disclosure, the detail, the depth, it's all top tier, and thank you for doing so much work on this.

Dino Ennio Robusto
Chairman & CEO

Okay. Thanks, Josh.

Operator

We'd now like to turn the call back over to Dino Robusto for any additional or closing remarks.

Dino Ennio Robusto
Chairman & CEO

Yes. Thank you very much, everyone, and we look forward to chatting with you next quarter.

Operator
Thank you, ladies and gentlemen. That will conclude today's conference call. Thank you for your participation. You may now disconnect.