S&P Capital IQ

CONTENTS

CNA Financial Corporation NYSE:CNA

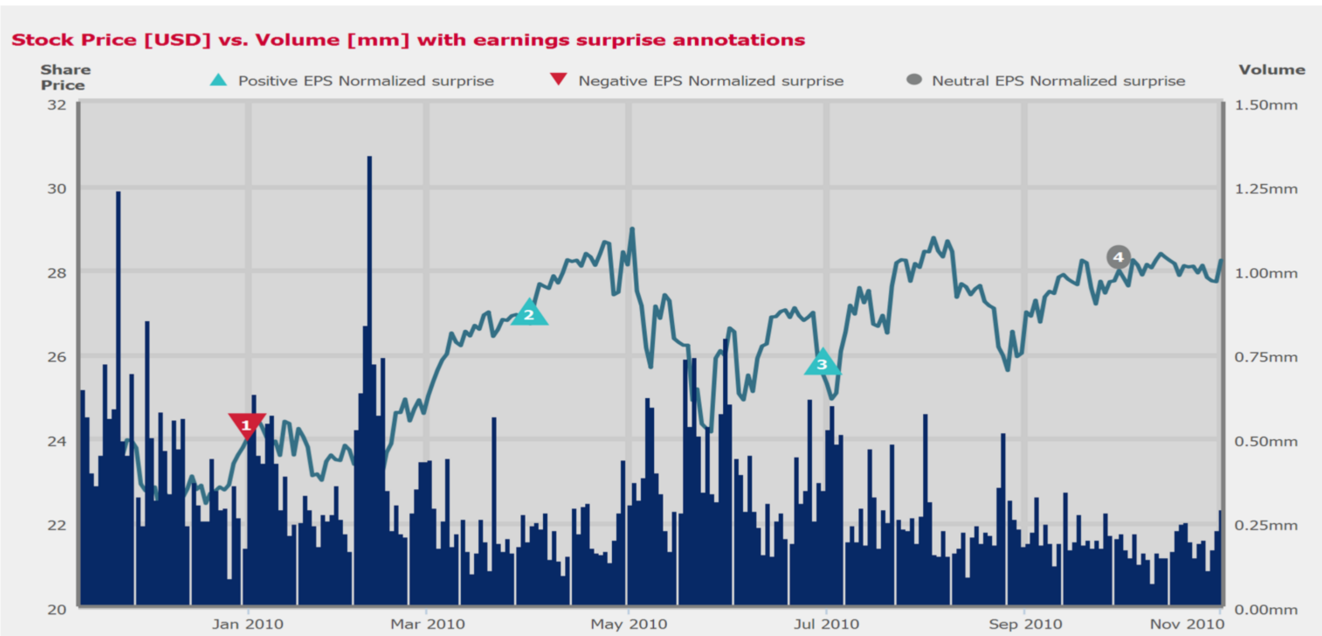
FQ4 2010 Earnings Call Transcripts

Monday, February 07, 2011 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2010-			-FQ1 2011-	-FY 2010-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.67	1.09	62.69	0.58	1.62	2.28	
Revenue (mm)	1829.70	1460.00	(20.21 %)	1838.00	7504.70	5899.00	

Currency: USD
Consensus as of Feb-07-2011 1:54 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2009	0.73	0.63	(13.70 %)
FQ1 2010	0.65	0.74	13.85 %
FQ2 2010	0.58	0.91	56.90 %
FQ3 2010	(0.40)	(0.66)	NM

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

Amit Kumar
Macquarie Research

Dan Johnson
Citadel Investment Group

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Ron Bobman
Capital Returns

Presentation

Operator

Good day, and welcome to the CNA Financial Corporation's Fourth Quarter and Full Year 2010 Earnings Conference Call. [Operator Instructions] 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, Anna, and good morning. Welcome to CNA's discussion of our fourth quarter and full year 2010 financial results. Our press release was issued earlier this morning. Hopefully, you all had an opportunity to review it along with the financial supplement, which can be found on the CNA website at www.cna.com.

On the call this morning are Tom Motamed, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. After Tom and Craig provide their remarks about the quarter, we will open it up for your question.

Before we get started, 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, February 7, 2011, and CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call.

With respect to the references to 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 again on CNA's website.

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, everyone, and thank you for joining us today. We are pleased to report our fourth quarter and full year results. Along with our earnings, we announced today the resumption of our common stock dividend. I trust you have seen the announcement. We are proud of the progress we have made in restoring CNA's financial strength, producing sustained earnings and delivering value to shareholders.

Turning to our financial results. Fourth quarter net operating income increased 65% to $326 million or $1.18 per common share in 2010 as compared to $197 million or $0.63 per common share in 2009. Net income in the fourth quarter increased 23% to $302 million or $1.09 per common share, as compared to $246 million or $0.81 per common share in 2009.

CNA's fourth quarter results reflect increased investment income and continued favorable prior-year development in our Property & Casualty Operations. For the full year, net operating income was $660 million or $2.17 per common share. Net income was $690 million or $2.28 per common share. The full year results include a continuing operations loss of $344 million and a discontinued operation loss of $21 million from the loss portfolio transfer we completed in the third quarter. Excluding the impact of this transaction, 2010 net operating income was $1 billion as compared to $982 million in 2009. On the same basis, net income was $1.1 billion compared with $419 million in 2009.

Our capital position continued to improve. Book value per share increased 13% in 2010, and statutory surplus increased 5%.

In our core Property & Casualty Operations, we had an excellent fourth quarter combined ratio of 89.6%, which included 14.6 points of favorable development. Craig will provide more detail on this in his remarks.

Before development and catastrophes, the fourth quarter 2010 combined ratio improved to 102.8% from 103.9%. The improvement was driven by the expense ratio, which improved to 33.1% from 33.9%, primarily reflecting the favorable impact of recoveries on insurance receivables written off in prior periods. The accident year loss ratio, excluding catastrophes, in the fourth quarter improved to 69.1% from 69.5% in the fourth quarter of 2009.

Excluding the impact of the Argentine workers compensation operation we can be sold in June, fourth quarter net written premiums increased 1%. On the same basis, fourth quarter net written premiums decreased 6% in 2009. Fourth quarter renewal rates decreased less than a point in 2010 and 2009. Retention was steady at 82% in both periods. Exposures were flat in the fourth quarter versus a decrease of 0.9% in the fourth quarter of 2009.

For the full year, the 2010 Property & Casualty Operations' combined ratio improved more than two points to 94.8%, which equals our best in the past 10 years. The 2010 ratio included 10.6 points of favorable prior-year development compared with 6.1 points in 2009. In addition, the 2010 combined ratio included two points of catastrophe losses compared with 1.4 points last year.

Before development and catastrophes, the full year combined ratio was 103.4% in 2010 compared with 102.1% in 2009. The difference is primarily due to an uptick of 0.8 points in the expense ratio, due to negative growth in our investment in underwriting and production staff. The 2010 expense ratio was 33.4% compared with 32.6% in 2009. For 2010, accident year loss ratio before catastrophes was 69.6% as compared to 69.2% in 2009.

Excluding the Argentine operation, net written premiums decreased 3% in 2010 as compared to a 6% decrease in 2009. Rates were essentially flat in 2010 versus a one point decrease in 2009. Overall, renewal retention remains steady at 82%. Exposures decreased 3/10 of 1% compared with 4/10 of 1% decrease in 2009.

CNA Specialty continues to perform well, delivering a fourth quarter combined ratio of 80.2% in 2010 compared with 78.4% in 2009. These ratios include favorable prior-year loss development of 18.6 points and 17.1 points, respectively. Before development and catastrophe losses, Specialty's fourth quarter combined ratio was 98.5% compared with 95.4% last year. Specialty's fourth quarter accident year x cat loss ratio was 67.1% as compared to 64.8% in the prior-year period. For the year, the accident year x cat loss ratio was 66.6% versus 65% in 2009. Both the quarter and the year were affected by increased frequency in our Employment Practices Liability portfolio and increased severity in our Medical Technology business.

Specialty's net written premiums increased 2% in the quarter as compared to a 2% decrease in the fourth quarter of 2009. Our renewal retention was 84% in the fourth quarter and 86% for the year. Renewal rates decreased approximately 2% in the fourth quarter. At the same time, exposures increased 1.6% in the fourth quarter and were flat for the year. Policy count was essentially flat for the quarter and the year.

The fourth quarter ratio of new to lost business was 1.2:1. Quarter-over-quarter, submissions increased 21% and the hit ratio improved one point to 30%. New business increased 15% over last year's fourth quarter.

Turning to CNA Commercial. The fourth quarter combined ratio was 97.4% compared to 103% in the prior-year period. These ratios included favorable prior-year loss development of 11.3 points and 8.6 points, respectively. Catastrophe losses added 2.3 points to the fourth quarter combined ratio versus 1.1 points in the prior-year period. Before catastrophes and development, the Commercial combined ratio improved to 106.4% from 110.5% in the fourth quarter of 2009.

Commercial's fourth quarter accident year x cat loss ratio improved to 70.8% from 73.2% in 2009. The improvement includes a favorable re-estimation of the current accident year loss ratio in the first three quarters of 2010.

On a full year basis, the 2010 accident year x cat loss ratio improved to 72.1% from 72.5% in 2009. Excluding the Argentine operation, fourth quarter net written premiums in Commercial were flat. This compares to a 9% decrease in the fourth quarter of 2009 on the same basis. Renewal rates in Commercial increased one point in the fourth quarter and the year. This marks our fifth consecutive quarter of rate increases.

Renewal retention was 80% in the fourth quarter, a decrease of one point from the prior year's fourth quarter. For the full year, retention was 79% versus 81% in 2009. Exposures declined 1.4% in the fourth quarter and 0.7% for the full year. The return premium audits that reduced our premium volume in prior quarters appears to be moderating for most of our industry segments. Policy count increased 2.1% in the quarter and the year.

Fourth quarter submissions in Commercial were up 3% and the hit ratio remained constant at 25%. The new to loss business ratio was 0.9:1, reflecting our continued focus on achieving adequate rates on new business.

With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. Fourth quarter highlights include net operating income of $326 million and operating return on equity of 12.2%. As Tom referenced in his remarks, if you exclude the impact of the loss portfolio transfer transaction with National Indemnity Company which closed in the third quarter, on a full year basis, our operating earnings in 2010 were $1 billion for an operating return on equity of 9.1%. Both the operating earnings and operating ROE in 2010 were relatively consistent with full year 2009 results.

Our Property & Casualty business continued to make a steady, meaningful contribution to operating earnings. $363 million for the quarter and $1.1 billion for the year. The fourth quarter net income was $302 million, reflecting after-tax realized capital losses of $24 million. Modest gains on portfolio sales were more than offset by $46 million of after-tax impairment losses.

As in previous periods, the impairments largely reflect intent-to-sell decisions that are part of our ongoing portfolio management. Book value per common share decreased 5% from the end of the third quarter to $40.70 per share at year-end 2010, reflecting a decline in the market value of our investment portfolio, driven by higher risk-free interest rates.

Our investment portfolios pretax net unrealized gain was approximately $1.2 billion at December 31, 2010, a decline from $2.3 billion at September 30, 2010. As I said during last quarter's call, we are not concerned by quarter-over-quarter changes in our investment portfolio's unrealized gain or loss position driven by changes in the interest rate environment.

I would point you instead to two other metrics that are better indications of our capital strength. Our common shareholders' equity, excluding other comprehensive income, was $10.6 billion or $39.49 per common share at December 31, 2010, up 3% from the end of this year's third quarter and 6% from year-end 2009. Our statutory surplus increased to $9.8 billion at December 31, 2010, a 5% increase over the prior year, and even after repaying $500 million of the original $1 billion surplus note. We also now have approximately $1 billion of dividend capacity in our primary insurance operating subsidiary.

Our capital adequacy metrics remain well above our target levels and reflected consistent improvement over the course of 2010. Both the strength of the balance sheet and our financial flexibility continue to improve.

2010 was a year during which we made significant strides to optimize our capital structure and improve our financial stability and earnings outlook. During 2010, we sold our Argentine work comp subsidiary at an attractive value, transferred our legacy asbestos and environmental pollution liabilities to National Indemnity and fully redeemed the outstanding shares of senior preferred stock purchased by Loews in 2008.

The final repayment of $500 million was completed in the fourth quarter. This redemption of the preferred and related refinancings over the past five quarters improved our annualized earnings available to common shareholders by $90 million and also eliminated the restriction on paying common shareholder dividends.

All these transactions were made with an eye towards simplifying and strengthening our company. We were very pleased to announce the resumption of our quarterly common shareholder dividend this morning at $0.10 per share.

As you heard from Tom, our fourth quarter net operating income was helped by $222 million of pretax favorable prior-year reserve development in our core Property & Casualty Operations, which lowered our calendar year loss ratio for the quarter by more than 14 points. We now have had four consecutive years of favorable prior-year reserve development.

The major drivers of favorable development in the fourth quarter were as follows: We recognized favorable development in our Commercial segment property line from accident years 2008 and 2009, primarily related to an improvement in claim severity; we also recognized favorable development in our Commercial segment's general liability on umbrella line for accident years 2006 and prior due to improved claim outcomes; Specialty segment recognized favorable medical professional liability development in accident years 2006 and prior, due to lower claim frequency; also in Specialty, we took favorable development in Surety in accident years 2006 through 2008. All of these reserving decisions were based on the analyses completed in the fourth quarter.

Net operating income during the fourth quarter included pretax net investment income of $624 million, an increase of 10% from the prior-year period. The increase was driven by our limited partnership investments, which had a very strong quarter. Our LP investments produced fourth quarter pretax income of $113 million as compared to $75 million of income during the fourth quarter of 2009. Our LP investments continued to perform well. Fourth quarter and full year rates of return, for our LPs were 5.2% and 12.7%, respectively.

Investment income other than from limited partnerships increased 4% to $511 million pretax in 2010, reflecting our shift from lower-yielding short-term and tax-exempt investments to higher-yielding, taxable fixed maturities securities over the course of 2010.

Our purchases in the fourth quarter were centered in taxable municipals and agency mortgage-backed securities. We had net purchases of approximately $1.5 billion in these asset classes.

During the quarter, we reduced our holdings of tax-exempt municipals and in corporate obligations. Our overall position in municipal bonds, both taxable and tax exempt, continues to be modest and represents 19% of the investment portfolio. Our muni portfolio was well-diversified. These securities were in a net unrealized loss position of about 3% at year end.

Our cash and short-term position stood at $2.3 billion at year end, up slightly from the end of the third quarter. Overall, our investment decisions reflect our sustained emphasis on diversification, quality and liquidity as well as the importance of alignment between our portfolio and our business objectives. The average credit quality of the fixed maturity portfolio remained at A. We continued to segment our portfolio to facilitate our asset-liability management discipline.

The assets, which support our long-duration and life-like liabilities have an effective duration of 10.9 years at year end, very similar to the third quarter and in line with portfolio targets. The effective duration of the assets, which support our traditional P&C liabilities was 4.6 years at year end, unchanged from the end of 2010's third quarter.

We continue to maintain a very conservative capital structure and to exhibit a strong liquidity profile. Our operating cash flow has continued to be robust. In the fourth quarter 2010, we generated approximately $550 million of operating cash flow, excluding trading activity and after paying preferred dividends. Additionally, during the quarter, we received approximately $825 million of cash principal repayments through paydowns, bond calls and maturities.

Our financial flexibility is further enhanced by the approximately $215 million of cash and short-term investments held at the holding company level, which at year end amounted to 1.5x our net annual corporate obligations. The full $250 million of our credit facility is also available to us.

Our Life & Group Non-Core segment produced a fourth quarter net operating loss of $15 million compared with the loss of $19 million in 2009.

Corporate segment produced a fourth quarter net operating loss of $22 million in 2010 as compared to a loss of $97 million in 2009. The favorable comparison is driven largely by the $155 million pretax reserve charge for asbestos and environmental pollution taken in last year's fourth quarter, as well as lower operating and claim expenses in this year's fourth quarter. Partially offsetting these favorable items were decreased net investment income and higher interest expense.

On a separate topic, as all of you have now seen, the special committee of CNA Surety's Board of Directors responded last Friday to our proposal to acquire the Surety shares that we do not currently own. We are disappointed that the special committee has informed us that it does not support our proposal. At this time, we are evaluating the Surety response and considering our options. We will ultimately be guided by what we believe is in the best interest of our shareholders. We will not be able to share any additional information beyond what I outlined on this call.

With that, I will turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, Craig. All in all, the fourth quarter and full year were marked by a continued progress on improving our operational and financial results. The highlights were a 65% increase in fourth quarter net operating income to $326 million for an operating return on equity of 12.2%; full-year net operating income and net income of $1 billion and $1.1 billion, respectively, before the impact of the loss portfolio transfer; a fourth quarter combined ratio of 89.6% in our core Property & Casualty Operations. At 94.8%, our full year combined ratio equals our best in 10 years. Favorable prior-year development for the fourth straight year; positive growth in specialty and improving growth trends in Commercial; accident year improvement in the Commercial segment driven by re-underwriting and five consecutive quarters of rate increases; improvement in our capital position, reflected in a 13% increase in book value per common share from year-end 2009; sale of our Argentine operation and redeployment of capital to our core businesses; completion of the loss portfolio transfer transaction that effectively eliminated our exposure to legacy asbestos and pollution liability risks; redemption of senior preferred stock over the past five quarters, which increased annualized earnings available to common shareholders by approximately $90 million. Following this redemption, the resumption of the common stock dividend to our common stockholders.
In 2011, we will continue to focus on underwriting and pricing discipline while continuing to build the balance sheet. Now we will take your questions.

Question and Answer

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

First is, this is more of a numbers question. You mentioned I think it was in the Commercial business that there was some favorable development from the prior three quarters in 2010, in the fourth quarter number, if you could give some quantification of that, that would be helpful.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Jay, it's Craig. When you're comparing quarter-over-quarter like fourth quarter last year we had a little bit of -- you might remember we had a little bit of an increase in the full-year last year. So this year's impact is worth about a half a point.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

For the full year, in the Commercial segment, your underlying accident year loss ratio improved, and granted you've had some price increases, which would have helped a bit. But I guess the bigger picture question is, what exactly is driving that? And as you speak to that, can you talk about the claims environment that you're seeing?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Jay, it's Tom. I think, number one, we have spent the last two years re-underwriting the book, re-profiling the book, going after segments, which we think have better loss ratios. So I think from an underwriting strategies standpoint, we're trying to change our book of business in Commercial. So I would say that would be one. The second thing would be new arising activity in the Commercial lines are down in every line of business, with the exception of Marine. And average paid would also be going down in every line of business, with the exception of Property where we've had several large losses in 2010, so less frequency, lower claim payments, on paid claims as well as a re-profiling of the book as well as improvement on the rate side. And the other thing would be we are seeing exposure improving as well, not equally in every line of business, but some are doing better than others.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Did the exposure change help you from a margin standpoint? I assume exposure change means more risk as well.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, that's exactly right. But when you get more exposure, you'll also get more money, right? So as the exposure goes up or improves, you're getting more dollars for that. And as long as the quality of the risk is good, that's a good deal. If the quality of the risk is bad, it's a bad deal. Rate is what improves your margin.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

On the dividend, can you talk about the Board's decision to come up with the $0.10 a quarter? What was behind that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Jay, it's Craig. The thinking really was that it was appropriate at this time, given the earnings outlook. We look at the yield and we look at the payout ratio of the earnings, and obviously we're encouraged by the strength of the balance sheet.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

In fact, it was happening quicker than I expected. So I don't mean to criticize. I want to see what the thinking was. The last time you initiated a dividend, I think it was '07, within a couple of quarters, you were able to raise that dividend by I think it was 50%, to my recollection. What would have to happen for the Board to consider raising the dividend in a similar fashion the way they did last time, not necessarily the amount, but just in general, a raise, what would have to happen?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Jay, I appreciate the questions, but we really can't comment on future actions like that.

Operator

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

Amit Kumar
Macquarie Research

I guess staying on that line of discussion, I mean if you go back to the discussion on float, and obviously, Loews has had a meaningful portion since 1974. When you sort of look forward, is there something which you plan to revisit with Loews? Or is this something which is completely at their discretion? Like can you bring it up, saying that we've done ABC, our stock price has recovered, but obviously the ownership is a challenge. What needs to happen for those discussions to take place?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, I think the first thing is we can't comment on what Loews feels about CNA, but I would say from our standpoint, we're focused on improving the operating results and our capital position. So that's our objective. That's what we're going to do, and that will be to the benefit of shareholders over time, whoever they may be.

Amit Kumar
Macquarie Research

Is this something which can you bring up, or is there something in the document which says that only they can bring up this discussion point?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, we're not going to comment about that.

Amit Kumar
Macquarie Research

Moving on to the life book, and we haven't discussed this in detail for some time, can you just refresh us what your view is on the run-off portion. I think you mentioned the duration is 10.1 years. Looking at the returns of book, are there other options available to you on this book, which could perhaps get it off sooner than later?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We're always continuously looking at options for all the run-off portions on it.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think you can see that we've taken considerable actions to improve our capital position and operating results, and that's the responsibility of management. We will continue to look at that for all aspects of our business.

Amit Kumar
Macquarie Research

Just finally, going back to the sort of bigger discussion on capital management, you're writing at 0.6x net premium to surplus. Assuming that the markets improve, the economy improves meaningfully, how high do you think you can go if things improve from here?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

First of all, I think 0.57x, not 0.6x. Well, we think we have a lot of room, and we have spent the last two years re-profiling our business, improving our business, putting a lot of resources together, improving systems, metrics and those types of things that you need to run a business. But as we said, when I first arrived, the first objective is to improve our commercial underwriting results and get that to be profitable year-over-year. And we also said that we think we have a great Specialty business and the first thing we would see would be growing the Specialty business. You saw that happen in the fourth quarter. A quarter does not make a year, but we are optimistic that what we outlined two years ago will continue to move forward. And as far as how much, you can do the comparisons, but we have plenty of room to grow the business. And I think from our perspective, we believe we're putting everything in place to help us grow the business, if the pricing is right in the future. But we're not going to write business just because we have a good premium-to-surplus ratio or a low one. It will be about whether the good risks are out there at the right price in the right segments that we're interested in doing our business.

Amit Kumar
Macquarie Research

And just one quick thing on investment income. If I understand this correctly, the move, was that more of an asset-liability matching play? Or are you seeing great opportunities in the marketplace? Is that going to continue going forward, or do you think whatever opportunities you saw, you already capitalized on that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I'm sorry, Amit. I think you're talking about the increase in the fixed maturity piece over the income. If you took a look back at the fourth quarter of '09, you might recall that we had almost $4 billion in cash in short term. So we put a good amount of that to work. Our cash in short term a little over $2 billion, and we shifted from tax-exempt municipals, where we sold about $2.7 billion of tax exempt, and we have bought taxable munis of about $3.5 billion. So it's really the shift over the course of the year in those asset classes that have resulted in the increased income.

Operator

We'll now move on to Dan Johnson with Citadel.

Dan Johnson
Citadel Investment Group

On Page 16 of the supplement, where you go through your sort of current accident year views. And I just want to make sure I'm reading this correctly. If we look in the Specialty box on top, is it saying that the gross accident year loss ratio estimate for the 2009 year went from, call it, 65.6% up to 67.3%? First of all, is that the right way to read that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

That's correct.

Dan Johnson
Citadel Investment Group

And then can we talk a little bit why that's the case?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Really, the same reason that the accident year in '10 increased. It was a medical liability, large losses in Medical Liability segment and a loss increase in the employment practices liability. And also, I guess the other thing to add to that, Dan, obviously, the impact of rate decreases over time.

Dan Johnson
Citadel Investment Group

I get why maybe that would move from year-to-year, but I thought this was, what it looks like to me is we are re-estimating the. . .

D. Craig Mense
Chief Financial Officer and Executive Vice President

Which is what I said at the beginning, it's medical liability losses ended up being worse than we thought and both the frequency of loss and employment practice liability increased.

Dan Johnson
Citadel Investment Group

On the medical liability, what sort of duration business is that typically?

D. Craig Mense
Chief Financial Officer and Executive Vice President

It's fairly longer term, I say, medium- to longer-term business.

Dan Johnson
Citadel Investment Group

Well, that leads nicely into the second question, which maybe if you want to talk about in your longer-tail businesses, and I'm sorry if you touched on workers comp, I did not hear it, but what sort of trends you're seeing there? And how you're picking those trends now versus, say, a year or two ago, please?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Could you restate the question?

Dan Johnson
Citadel Investment Group

What do you think about medical liability trends and workers comp now versus the way you've looked at it over the prior couple of years?

Thomas F. Motamed

Former Chairman and Chief Executive Officer

Let's talk about workers comp. The pure premium trend is still fairly benign. However, we have seen a slight increase in medical paid-loss severity. And as I said earlier, new arisings were down, which means frequency is down. So we're seeing less claims, and there is a slight increase in medical paid-loss severity, but nothing out of the usual in workers comp.

Dan Johnson
Citadel Investment Group

Any other lines, longer-tail lines, that have had notable moves beyond the medical liability line that we just talked about?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Not in an adverse sense, only a favorable sense.

Operator

We'll now take our next question from Ron Bobman with Capital Returns.

Ron Bobman
Capital Returns

Tom, what additional areas of the company, I guess, in the most material sense need improvement? What are you, in the midst of initiating change and improvement, what around the corner are you focused on sort of perspectively?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Do you have a particular area, you want to talk about?

Ron Bobman
Capital Returns

No. You're the expert and you're inside the tent. You've made a lot of changes. You've hired a lot of people. You've made a lot of improvements. And I'm just wondering what lies ahead as far as change that you're either currently or will be focusing on to sort of continue the trend line?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think the first thing is we can't lose sight of the need to execute the existing strategies and to improve the metrics in all of our businesses. So whether that's accident year loss ratio, whether that's growth, whether it's expense, we're focused on executing the strategies that we announced two years ago. And that's a big part of the business. We're going to stay pretty close to the areas we've identified. When I talk about underwriting segments, we're not going to stray from where we are. We probably have a few adjacencies that we will look at, but this is not about getting unfocused and getting big. This is getting focused and getting more profitable then, over time, increasing the scale of the organization. So I think that would be my general comment. We will continue to look at some of the other areas that are not in P&C core area. We'll continue to look at those, and see if we can improve our performance. But most of this bus is driven by core P&C. So it's a question of improving that. We will continue to look for good people, and we are still able to attract people. So we're pretty optimistic on building a high-caliber team.

Operator

We'll now turn to our next question from Robert Glasspiegel with Langen McAlenney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I was just wondering where buyback stands in sort of capital management thought process. Do you have an authorization? If so, how much is it? And is that, at all, in your thought process today?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Bob, I guess, first, and you'll see this in the K that we do have a broad authorization from the Board to buy back. There's no number that's associated with it. So there's no program that we have. And I think more, importantly, I think just be guided by the fact that at this time, given the flow, we think returning money to all shareholders is more appropriate than reducing the flow. So that's our current thinking.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So you thought dividend was better than buyback, with the stock at this discount to at book value?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Given the float. We thought it was more appropriate to give money and cash back to all shareholders.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Because the last time around, you weren't buying back stock despite the float. The float is now a bigger consideration than it was then?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I don't think so. It's very marginally different.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Tom, I'm going to rephrase the Chubb discussion I had with management. You're consistent with their thought process that exposure growth and rate decline, in combination, is a favorable factor for margins for markets, i.e. you like exposure growth to...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Let me stop you right now, Bob, that's not what I said. What I said was improvement in rates improves margins, if the quality of the portfolio is the same, right?

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I have that.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Quality of the portfolio is the same or unchanged and you get more rate, excluding some unusual activity, that will improve your margin. If you had exposure growth, you will get more premium, but the premium is growing because the exposure is growing. So the way we look at that is that it's neutral. Yes, it will affect your premium number. Your premium number will go up, if you have exposure growth because you're collecting more premium, but that doesn't mean that improves your margin.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Let me just rephrase the question, in a world of rate declines, you would rather have exposure growth than flat exposures or you're neutral to it?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I'm neutral.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Because I thought, now I'll have to re-read the transcript that, thus, you said you were encouraged to see some exposure growth, but maybe I misunderstood that.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I never said I'm encouraged. I would say this. I don't know that I said that, but what I would say is what exposure growth signals is that there's some economic improvement happening out there. Payrolls are up. Maybe they are buying more buildings or improving their real estate holdings and their sales may be up. But what that suggests is, and I will refer you back to older conference calls that we've had where I said until the economy improves, it's hard to get faith. So what I would tell you now, just so we're all clear is, if exposure improves, it's signaling the economy is getting better, which then gives us the opportunity to, hopefully, get more rate, because companies are doing better. Their sales are up, hopefully, their profits are up, et cetera, et cetera. So exposure for us is just an indicator of what's happening. And the point is, we are getting rate in Commercial. We have been getting rate for the past few quarters, and that's what we're pushing. We're pushing rate. We cannot control exposure. That's a question of what the sales are. That's a question of what payrolls are. That's a question of they buy more buildings, but what we can control is rate. Rate, ultimately, affects margin. And if exposure improves, that tells me the economy is improving, which is a good harbinger for the industry, going forward.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Inflation, worried about it, not worried about it, does that change? If it did happen, would that change? If you thought inflation was going to happen, would you be more aggressive cutting back exposures and units?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think you've got two questions. You've got investment side, I'll get Craig handle that. But on the underwriting side, the actuaries are always projecting forward, looking forward. So when they look at inflation or potential inflation, they're building that into the accident year picks. So from that standpoint, they are always looking at it. As to respect to CNA, the good news for us is new arising activity, other than in Marine, is down. So less frequency and, typically, when you have more frequency or increasing frequency, you ultimately get more severity. So we like the fact that frequency is tailing down, that means we have less claims. Therefore, inflation has less of an impact on those claims relative to the total. Maybe Craig, you want to comment on inflation relative to the portfolio, et cetera?

D. Craig Mense
Chief Financial Officer and Executive Vice President

As far as the investment portfolio, it's a bit of a tickup in rates would be something that would be welcome. We're in a pretty significant unrealized gain position. But as I said, again, in the last call, we don't expect to harvest much of those gains. So an the ability to invest at a little higher rate would be a welcome thing.

Operator

We'll now take a follow-up from Jay Cohen.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Can you talk about your outlook for pricing for 2011? And then secondly, I guess for Craig, on the Life & Group run-off business, can you talk about a generic transaction that you could potentially do that would eliminate that run-off business? Obviously, no numbers, but just generically, what kind of transaction could you engage in to address that business?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Jay, it's Tom. I'll go first and then turn it to Craig. Let's be clear, when you talk of pricing, pricing is rate and exposure. So I'm going to break it in pieces. As I said on the call, we are seeing some improvement in the exposure area, and I think many of the other companies have commented on that. And as I just said, I believe that there are signs out there that exposure is improving. And I kind of put that in the bucket of, "Okay, the economy is stabilizing, first, and it needs to stabilize before it grows." So that's my answer on exposure. On rate, we continue to push rate. We have, in Commercial, gotten some rate, and we will continue to do that. What I would tell you is, depending on the area of Commercial, we've gotten low single-digit rates. In some areas, it's still negative. But overall, we've been positive on rate in Commercial. We believe in Specialty we can push rates in certain areas as well. But we're not going to erode margins by cutting rates. So exposure, you've heard that answer. Rate, you've heard that answer. And then you can figure out if you put them both together, that's good, relative to pricing.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Jay, as far as generic, I don't have any easy answer for you to that. There isn't any kind of simple generic transaction. I think just be mindful of that businesses. It's about $11 billion of reserves. About $2.7 billion of those reserves are in the life company. Those are mainly benefit settlement payout annuities, and the remainder of those reserves are long-term care reserves and those are in the casualty company or written in the casualty company. But beyond that, I don't have any particular ideas or anything I can share with you.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Is it fair to say that the existence of these run-off businesses hurts your ROE?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. Absolutely. That's fair to say.

Operator

And we'll now take our next question from Drew Sigour [ph] with CIG Advisors.

Analyst

I had a question related to your CNA Surety. I wanted to understand why you didn't allow them to pay their excess capital in forms of dividend or letting them to do some acquisitions, since it paid up some huge amount of excess capital?

D. Craig Mense
Chief Financial Officer and Executive Vice President

As I said in my remarks in the call, we're not prepared to share any information beyond the remarks I said in the call about CNA Surety.

Analyst

When can we expect any resolution on this deal?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We have no comment.

Operator

And there are no further questions.

Nancy M. Bufalino

Thank you very much. Thanks, Anna. Thank you, all, for joining the call today.

Operator
And that does conclude our conference for today. We thank you for your participation. You may now disconnect.