S&P Global
Market Intelligence

CNA Financial Corporation NYSE:CNA

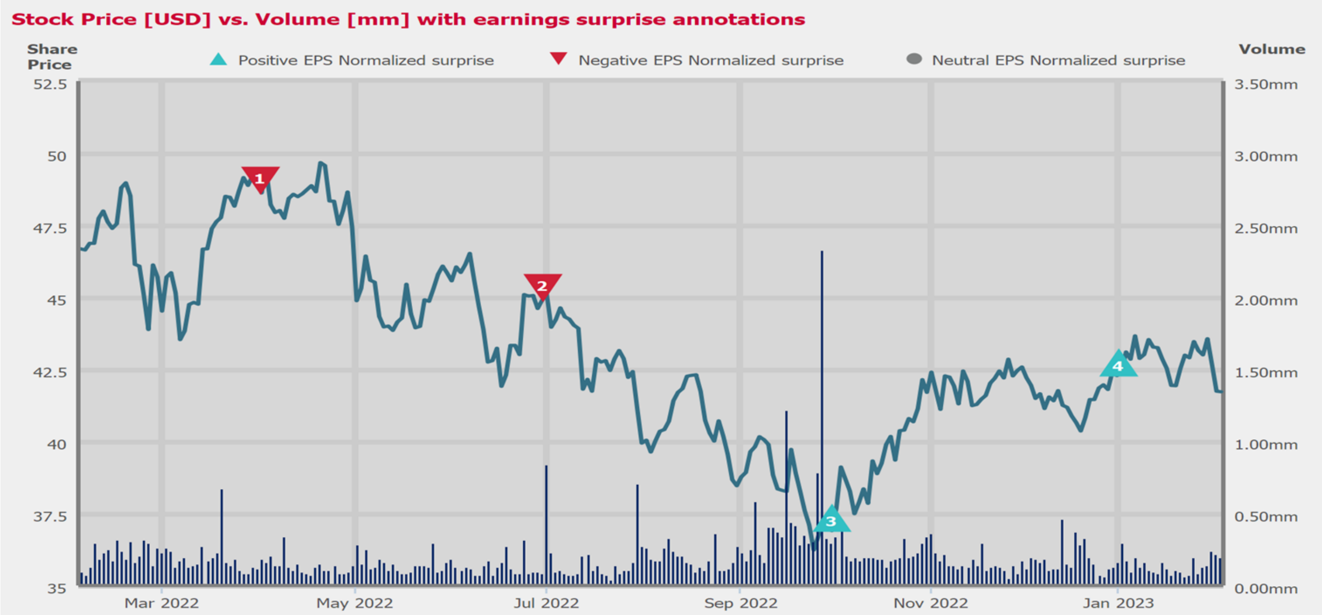
FQ4 2022 Earnings Call Transcripts

Monday, February 6, 2023 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.94	1.01	▲7.45	1.20	3.78	3.84	▲1.59	4.42
Revenue (mm)	3054.00	NA	NA	NA	11988.00	NA	NA	12746.00

Currency: USD
Consensus as of Jan-19-2023 9:06 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	1.22	1.16	▼1 (4.92 %)
FQ2 2022	1.03	0.90	▼2 (12.62 %)
FQ3 2022	0.59	0.78	▲3 32.20 %
FQ4 2022	0.94	1.01	▲4 7.45 %

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

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 Fourth Quarter 2022 Earnings Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded.

And at this time, I'd like to turn the floor over to Ralitza Todorova, AVP, Investor Relations for remarks and introduction of today's speakers. Please go ahead.

Ralitza Todorova
Assistant Vice President of Corporate Development

Thank you, Jamie. Good morning, and welcome to CNA's discussion of our fourth quarter and full year 2022 financial results. Our fourth quarter earnings press release, presentation and financial supplement 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, February 6, 2023. 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 supplement and other filings 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 the call, please note that the transcript 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.

CNA produced strong results in the fourth quarter, capping off a great year of underwriting performance. I'll start off by drilling down on the fourth quarter and then provide some detail on our full year performance.

Core income increased by $9 million in the fourth quarter to $274 million. Our P&C operations produced core income of $342 million down only slightly compared to last year, even with cat losses nearly twice as large in the fourth quarter of this year compared to last year, and investment income was down due to lower returns on our [alternatives] portfolio. We were able to largely offset that with higher underlying underwriting gain and slightly more favorable prior period development.

In the fourth quarter, the all-in combined ratio was 93.7%, an increase of only 0.8 points compared to the prior year quarter with pretax catastrophe losses of $76 million or 3.6 points of the combined ratio compared to $40 million or 2 points in the prior year period. Approximately 90% of our catastrophe losses in the quarter were from Winter Storm Elliott and the rest from several smaller events. Prior period development for P&C overall was favorable by 1.1 points on the combined ratio.

The P&C underlying combined ratio was 91.2%, consistent with last year and continues a string of underlying combined ratios of near-record levels for 7 consecutive quarters. The underlying loss ratio in the fourth quarter of 2022 was 59.9%, down 0.2 points compared to the fourth quarter of 2021. The expense ratio of 31.1% was up slightly from last year. As usual, Scott will provide more details on expenses.

In the quarter, we continued to achieve a strong production performance with 8% gross written premium ex captives growth and 9%, excluding currency fluctuation. Net written premium growth was 5% and 7%, excluding currency fluctuation. Written rate increase was 4% in the quarter, down 0.5 point and renewal premium change remained strong at 7%. We continue to see strong exposure increases in inflation sensitive lines like work comp, property and general liability. New business was down slightly in the quarter due to the reduced opportunities in management liability that we mentioned last quarter, but it remained very strong in Commercial, up 12% in the quarter. Retention remained high at 86% this quarter as the underwriters locked in the hard market benefits of increased pricing and substantially improved terms and conditions across the portfolio.

Before commenting on the individual business unit results for the quarter, the march to the 1/1 reinsurance renewal season was obviously a big focus for property treaties. Now our property treaties do not renew until June 1, but some of our third-party treaties did come up for renewal in the quarter, and the renewals went well. There was some minor movement in ceding commission on a few of the treaties, but we got all of the capacity we wanted and in some cases, a little extra capacity in exchange for that movement. And so the economics of our reinsurance coverage and ceding commission remain very favorable on these lines of business.

Turning to our 3 business units. The all-in combined ratio for Specialty was 88.8% in the fourth quarter, which is now the 10th consecutive quarter below 90%. The underlying combined ratio was 89.4%, reflecting 0.7 points of improvement compared to last year. The underlying loss ratio improved 0.7 points to 58.4% and the expense ratio of 30.8% was 0.1 points lower than last year.

Gross written premium ex captives growth for Specialty was down minus 2% this quarter. And net written premium growth was down minus 1%. Growth was lower this quarter due to less new business from significantly fewer IPOs and M&A opportunities in the quarter compared to the same period last year, which impacted our D&O line and program growth.

Rate was down 2 points to 3%, driven by the financial and management liability portfolio where rates were flat in the quarter. Within management liability, public D&O rates were negative after having achieved triple-digit cumulative increases over the hard market, and the rate levels are still more than double what they were at the start of the hard market. Private D&O rates were positive mid-single digit, and cyber rate increases were high single digit.

Because of the large increases in these areas over the hard market, our Specialty earned rate increases of about 8% in the quarter. We're still well above our long-run loss cost trends. Retention was particularly strong at 88% for the second straight quarter with all lines in Specialty achieving high retention levels.

Turning to Commercial. The all-in combined ratio was 99%, producing a small underwriting profit in the quarter even with catastrophes, adding 7.2 points to the combined ratio compared to only 2.9 points in the same quarter last year. The underlying combined ratio was 92.7% with an underlying loss ratio of 61.5%, stable year-over-year, while the expense ratio was up about 0.5 point to 30.8% in the quarter but down 0.7 points to 30.4% for the full year.

Gross written premium ex captives grew by 16% this quarter, and net written premium growth was 13%. In the quarter, Commercial renewal premium change was 9%, up 2 points from the third quarter and the strongest quarterly renewal change all year. Rate change was 5% and exposure was 4%, both up 1 point in the quarter. Rates were higher for almost all Commercial products and lines of business in the quarter other than work comp where rate decreases were low single digit and relatively stable with the last 7 quarters.

The most significant rate increases were achieved in National Accounts Property, and let me provide a little more detail on property. In anticipation of the 1/1 reinsurance renewals, rate increase in the fourth quarter was 18% in our National Accounts Property portfolio, 6 points higher than it was in the third quarter. And rate in January has accelerated compared to the fourth quarter by an even greater magnitude. So everything we are seeing is certainly indicating that we are entering another significant correction period, and we are leveraging this mini hard market not only to get more rate but to continue to push for better terms and conditions, which, as I have indicated to you in the past, tend to persist much longer than the hard market cycle. This has broadly included substantially lower sub limits and higher deductibles on severe convective storm, earthquake, and named storm perils, which have a significant positive impact on controlling our catastrophe exposure while allowing us to continue to offer sustainable capacity to our clients.

On top of that, we continue to push hard to secure increased property valuations to ensure we have an accurate reflection of exposures. We saw high single-digit valuation increases in TIV at renewal in the fourth quarter, and that has continued in January. We have strong capabilities and expertise to leverage property opportunities in the market. However, we intend to underwrite growth cautiously in order to continue to manage our cat PML conservatively. So while we currently expect to grow this portfolio throughout the course of the year, we expect the growth will be driven more from rate.

Outside of National Accounts, rate was also up in middle market, where it was 1 point higher than the third quarter. Because of the packaged nature of this portfolio, where property is sold together with other profitable lines like work comp and general liability, the middle market rate acceleration was more muted in the quarter, as was true throughout the hard market.

In the quarter, the middle market renewal premium change was plus 8%, excluding work comp. And for work comp alone, renewal premium change was up mid-single digit, both keeping pace with loss cost trends. Commercial retention remained strong at 86% and has been quite strong all year.

For International, the all-in combined ratio was 88.9% this quarter, a 6-point improvement over last year. The underlying combined ratio was 91%, stable with last year. The underlying loss ratio of 58.1% is lower by 0.4 points, and the expense ratio of 32.9% is up 0.5 point compared to last year's fourth quarter but down 0.8 points to 32.3% for the full year.

International gross written premiums grew 6% or 16%, excluding currency fluctuation. Net written premiums grew 2% or 12%, excluding currency fluctuation. Renewal premium change in International was plus 9%, split evenly between rate and exposure. Retention was very strong in International, 84% for the quarter, as here, too, we are locking in the benefits of all the underwriting actions we have conducted and commented on previously as well as the very strong terms and conditions and cumulative rate increase of 50% since the start of the hard market.

Now let me provide some perspectives on the full year. For the full year, our core income was $1.048 billion or $3.84 per share compared to $1.106 billion or $4.06 per share in 2021. The decline in core income was driven by a decrease in limited partnership and common stock returns partially offset by an increase in underwriting gain and an increase in investment income from fixed income securities.

Our P&C operations produced core income of $1.240 billion for the year, an increase of $56 million over the prior year. Underwriting income increased by $269 million to a record $559 million for the year. This was partially offset by $196 million decrease in net investment income due to lower LP and common stock returns.

The all-in combined ratio was a record low of 93.2% and 3 points lower than 2021. This included $247 million of catastrophe loss versus $397 million in 2021. We also had 1 point of favorable prior period development. Our P&C underlying combined ratio of 91.2% for the year was a record low and marks the sixth consecutive year of improvement in the underlying combined ratio. The underlying underwriting gain improved by $65 million to $730 million for the year, a 10% increase. The underlying loss ratio was 60%, consistent with 2021. The expense ratio improved by 0.2 points to 30.9%, the lowest since 2008.

All 3 operating segments produced very strong all-in and underlying combined ratios in 2022. For Specialty, the underlying combined ratio was 89.8%, our second consecutive year with a sub-90 underlying combined ratio. We have effectively achieved a turnaround in our health care business due to extensive reunderwriting and focus over the last 5 years, and we continue to cover the loss cost trends on this revamped portfolio with rate in the high single digits. The all-in combined ratio for Specialty was 88.6%, the lowest since 2018.

Commercial produced an underlying combined ratio of 92.4%, the lowest on record. The all-in combined ratio of 97.3% was also the lowest on record. For International, the underlying combined ratio was 90.8% and the all-in combined ratio was 91.8%, each of which is a record low.

Turning to production for the year. Gross written premium growth ex captives was 10% this year and 11% excluding currency fluctuation and the second consecutive year with double-digit growth. Net written premiums were up 9% and 10% excluding currency fluctuation. New business grew by 13% and was up over $200 million compared to last year. Retention was very strong at 86% and was 4 points higher than 2021. Renewal premium change was 8% for the year with rates up 5% and exposures increasing 3%.

And with that, I'll turn it over to Scott.

Scott Robert Lindquist
Executive VP & CFO

Thank you, Dino, and good morning, everyone.

I will provide some additional information on our results, as Dino indicated. Core income of $274 million is up 3% compared to the fourth quarter of last year, leading to a core return on equity of 8.9%. Net investment income of $503 million pretax was down $48 million this quarter. Our fixed income portfolio generated a $33 million increase in investment income this quarter offset by an $88 million decline in investment income in limited partnerships and common stock.

Our P&C expense ratio for the fourth quarter was 31.1%, which is a slight increase compared to last fourth quarter's expense ratio of 30.8%. The increase of 0.3 points was driven by higher underwriting expenses, including continued investments in technology, analytics and talent partially offset by net earned premium growth and lower acquisition expenses. As I have noted in prior calls, 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 2023.

The P&C net prior period development impact on the combined ratio was 1.1 points favorable in the current quarter. Favorable development in the Specialty segment was driven by surety and was somewhat offset by management and professional liability. In the Commercial segment, favorable development in workers' compensation was partially offset by unfavorable development in general liability and commercial auto. Our Corporate segment produced a core loss of $52 million in the fourth quarter compared to a $94 million loss in the fourth quarter of 2021. The loss this quarter was predominantly driven by our annual asbestos and environmental reserve review. The results of the review included a noneconomic after-tax charge of $28 million driven by the strengthening of reserves associated with higher defense and indemnity cost on existing claims as well as lower expected ceded recoveries prior to the application of our loss portfolio transfer cover that we purchased in 2010.

Following this review, our cumulative incurred losses of $3.5 billion are well within the $4 billion LPT limit, while cumulative paid losses are $2.4 billion. You will recall from previous year's reviews that there is a timing difference with respect to recognizing the benefit of the cover relative to incurred losses as we can only do so in proportion to the paid losses recovered under the treaty. As such, holding all else constant, the loss recognized today will be recaptured over time through the amortization of a deferred accounting gain as paid losses ultimately catch up with incurred losses.

As of year-end 2022, we have $425 million of deferred gain that will be recaptured over time. As we have noted in prior calls, we perform our annual review of asbestos and environmental reserves during the fourth quarter and all other Corporate segment reserves during the second quarter, although we will adjust such reserves in between these annual reviews as facts and circumstances warrant.

For Life & Group, we had a core loss of $16 million for Q4 2022, which was a $22 million reduction from last year. The results this quarter reflects a $40 million pretax reduction in investment income from limited partnerships, partially offset by improved morbidity.

As we have said in prior calls, we will be adopting the GAAP Long Duration Targeted Improvements, otherwise known as LDTI, accounting methodology effective January 1, 2023, but will apply it as of January 1, 2021. The estimated impact of adopting LDTI will be a $2.3 billion decrease in stockholders' equity as of the transition date of January 1, 2021.

Assuming that December 31, 2022, interest rates were in place on January 1, 2021, we estimate an approximate $250 million decrease to stockholders' equity as corporate [Single A] rates were substantially higher at December 31, 2022, than at January 1, 2021. Finally, as we have noted in prior calls, I'd like to emphasize the transition to LDTI accounting has no impact to the underlying economics of CNA's business.

Turning to investments. Total pretax net investment income was $503 million in the fourth quarter compared to $551 million in the prior year quarter. The decrease was driven by our limited partnership and common stock results, which returned a $20 million gain in the current quarter compared to a $108 million gain in the prior year quarter. The gain in the prior year quarter reflected particularly strong results from our private equity and common stock portfolios.

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 a higher invested asset base driven by continued strong P&C underwriting results. As a point of reference, the average book value of our fixed income portfolio has increased $800 million from the prior year quarter. Additionally, the average fixed income effective yield -- effective income yield in our P&C portfolio was 4% in the fourth quarter, an increase from 3.8% in the third quarter, 3.7% in the second quarter, and 3.6% in the first quarter of 2022.

The consolidated CNA portfolio fixed income effective yield was 4.5% in the fourth quarter compared to 4.4% for the third quarter and 4.3% for the second and first quarters of 2022, reflecting the higher P&C yields in that portfolio. The Life & Group portfolio yield was about flat in the current quarter as compared to the first 3 quarters of this year.

As of the end of the fourth quarter, reinvestment rates were about 125 to 150 basis points above our P&C effective yield, while our Life & Group current reinvestment rates are about flat to our effective yield given the long duration nature of our Life & Group portfolio.

Pretax net investment income for the full year 2022 was $1.8 billion compared with $2.2 billion in 2021. Similar to the quarter, the decrease was driven by our limited partnership and common stock results, which returned a $31 million loss in the current year compared to a $402 million gain in the prior year. Our fixed income portfolio produced an additional $79 million of pretax income in 2022 compared to 2021 as we pass the inflection point on reinvestment rates during the year. Accordingly, we see earnings from our fixed income portfolio being a significant tailwind for us in 2023.

At quarter end, our balance sheet continues to be very solid with stockholders' equity excluding AOCI of $12.4 billion or $45.71 per share. which is an increase of 7% from year-end 2021, adjusting for dividends. Stockholders' equity, including AOCI, which reflects our investment portfolio moving into less of a net unrealized loss position during the quarter, was $8.8 billion or $32.58 per share. We continue to maintain a conservative capital structure with a leverage ratio of 18%, excluding AOCI, and our capital remains strong with our financial strength rating of A+ from Standard & Poor's having just been affirmed in the fourth quarter with a stable outlook.

Operating cash flow was strong once again this past quarter at $512 million and over $2.5 billion for the year as compared to $2 billion in 2021. The 2022 operating cash flow results reflect record underwriting results as well as higher earnings from our fixed income portfolio. In addition to strong operating cash flow, we continue to maintain liquidity in the form of cash and short-term investments. And together, they provide ample liquidity at our holding company as well as the operating company level to meet obligations and withstand significant business variability.

For the full year 2022, the effective tax rate on core income was 18.1% and would be closer to 19% adjusting for a onetime deferred tax asset benefit arising from pending changes in the U.K. corporate tax rate. Looking forward, our effective tax rate on core income will continue to depend on the relative contribution of tax-exempt investment income to total pretax core income. Given the significant disposition activity in our tax-exempt portfolio in 2022, we expect tax-exempt investment income to continue to trend downward in 2023. Accordingly, we expect a 2023 core income effective tax rate of about 20% with a certain amount of variability quarter-to-quarter.

Finally, given the company's strong underwriting performance, we are pleased to announce we are increasing our regular quarterly dividend 5% from $0.40 per share to $0.42 per share. In addition, we are declaring a special dividend of $1.20 per share, both to be paid on March 9 to shareholders of record on February 21.

With that, I will turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thanks, Scott.

To recap, we have steadily and methodically improved our results over the last 6 years, and 2022 was a particularly strong underwriting performance with record low all-in and underlying combined ratios and strong production results across the board.
Of course, it's all about going forward, and we are encouraged by the opportunities in front of us. With the anticipated continued acceleration in property pricing and growth in exposures that act like rate, we expect to continue to cover our current loss cost trends as we enter 2023. Additionally, we will gain meaningful benefit from the tailwind of fixed income returns.
And with that, we will be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question today comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Yes. I was looking at the operating cash flow, I'm not the [best thing] to look at for insurance [for me], but substantial growth, $2.5 billion of operating cash flow generated this year, up from $2 billion last year. But the -- it looks like -- and obviously, FX is part of it, but reserves didn't grow at all over the course of the year. Can you sort of break out why you're having such good cash flow growth and why, I guess, [paid to] incurred levels are somewhat less attractive in the year?

Scott Robert Lindquist
Executive VP & CFO

Sure. Thanks, Josh. It's Scott here. So yes, you're right, $2.5 billion operating cash flow for the full year 2022. It was about $2 billion in 2021. So recall, in 2021, we had a significant loss portfolio transfer from some older workers' comp business, that was a negative -- that was about a negative $600 million or so, maybe $500 million impacting that 2021-year amount. So if you adjust for that, cash flow from operations are about flat year-over-year, albeit still very, very strong.

As far as [paid to] incurred goes, so for the fourth quarter 2022 by 85%, a year ago was by 89%. So there's going to be some natural distortions quarter-to-quarter, I mean much of that driven by catastrophe activity. And when you look at it, it has increased as courts have reopened. But at the end of the day, it's still substantially below where it was pre-pandemic. So that would be really my observation on the [paid to] incurred as well as the cash flow question.

Joshua David Shanker
BofA Securities, Research Division

And Scott, you really took it where I wanted to take it as well. So if we talk about courts reopening and what is the frequency of losses being paid right now compared to what might have been thought about a normative frequency had courts not been closed, is there a catch-up going on? And how long should this last?

Scott Robert Lindquist
Executive VP & CFO

Yes. I think we've talked about this before. I mean the courts, there's significant backlog out there. We're seeing it, absolutely. We expect it to emerge slowly as we move out from the pandemic. I'm not in a great position to predict how quickly that will emerge this year, but things are loosening up, and we're seeing that.

Joshua David Shanker
BofA Securities, Research Division

And social inflation in line with what it was a year ago?

Dino Ennio Robusto
Chairman & CEO

Yes. Josh, it's Dino. Thanks. We had said that, during the pandemic years, right, we just thought it was obfuscated. And clearly, as soon as the courts opened up, notwithstanding the -- some of the backlog that Scott mentioned, you could see it, it just sprung right back. So we're at an elevated 6% loss cost trend. And so it's right what we had expected it.

Joshua David Shanker
BofA Securities, Research Division

And if I can sneak one more in. You just said an elevated 6%, do you perceive that 6% to be elevated? Or is that a new normal that it's 6% for the foreseeable future, and we have no plans to expect it to go down? Or do you think that's a temporary 6%?

Dino Ennio Robusto
Chairman & CEO

Yes, that's a good question, Josh. I mean, I think elevated just relative to pre-pandemic levels, right? And so social inflation clearly impacted it tremendously. Now it's at 6%. As the backlog gets worked through, is it possible it can go higher? I mean, I guess so. But even at 6%, compounding annually, it's going to take a lot of discipline and we got to keep pushing hard for rates to stay ahead of those loss cost trends. So right now, we see it at 6%. I guess it could go higher, but that's high, 6%.

Operator

Our next question comes from Meyer Shields from KBW.

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

You talked about keeping property PMLs broadly flat. [I was wondering] if you could remind us of what the internal constraints are on that and what you're building in for, I guess, loss trend there relative to rate increases that you're expecting.

Dino Ennio Robusto
Chairman & CEO

Yes. okay. So we don't parse out sort of our PML accumulations. It is less about internal constraints and more simply just given what we have seen over the last decade of elevated cats and secondary type cat perils having such a dramatic impact. We're just prudent in how we manage our cat PMLs and the reinsurance that we purchased. In terms of the property, you'll recall early on when we saw the inflation hit, right, we had increased our property loss cost trends about 2%, and we've kept them at the elevated levels. So clearly, the rate we're now getting and also the TIV, which is why I wanted to sort of detail that we're being successful in getting valuations up, we're covering -- we're clearly covering our loss cost trends there. But we had increased them about 2 points.

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

Okay. And I know it's early, but I was wondering whether you've had any conversations yet with the property quota share reinsurers. Just we're trying to get a sense in terms of how net exposure might change over the course of this year in a tougher reinsurance market.

Dino Ennio Robusto
Chairman & CEO

Yes, yes. I mean that's -- we haven't -- and I think they were all sort of consumed with the 1/1s, and that made a lot of sense. You've got to get through the April 1s and then the June 1s. Look, I mean, all I can say is when I look at what the press has been about the activity on renewals, there's clearly a possibility that we can get a little bit more -- have to take a little bit more net. And so we'll just -- we'll see how that plays out. And then on the pricing, which obviously was quite substantial, I mean it was -- it had a big variability to it.

And I think, look, our overall results have been good for us and the reinsurers, and we would expect to be on the better end of that. But we'll have to see, right? To a large extent, Meyer, it probably depends also on what happens in the next several months. You have a very active catastrophe season before June 1, that could change the calculus a little bit. But we're being -- one of the reasons why we're prudent now about how we write property and how we look at cat PML.

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

Okay. That's helpful. And then one final question, if I can. I know there was a lot of commentary in the back half of last year about sort of the sudden emergence of rate cuts in D&O. and I'm wondering whether that trajectory has changed more recently. Or is it the same intensity of competition as in previous months?

Dino Ennio Robusto
Chairman & CEO

It's -- I don't know if it's really changed much recently. I mean it was an abrupt change, which we saw obviously, going into the third and fourth quarter. I think a function, as I said in my prepared remarks is the fact that, look, D&O got over 100% rate increases during that hard market. And so I think it's a bit of an adjustment. It's still -- our rate level still double what they were -- I think we'll -- now look, I mean, if it continues to persist that way, then obviously, in a few quarters, that could be a little bit more problematic. But I'm not there yet.

I think we're going to continue to push, and we have the expertise that continue to drive this thing profitably. And I think we've demonstrated, right, through all of our reunderwriting efforts, and we're not going to chase accounts that you can't make a good return. So I think it's too early to suggest. Look, this thing is just overly competitive and it's going to play out -- continue to play out that well -- that way, rather.

Operator

[Operator Instructions] And ladies and gentlemen, at this time, I'm showing -- we do have a follow-up question from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Well, I'm not going to let all this time go without getting more questions in. So...

Dino Ennio Robusto
Chairman & CEO

I had a hunch, Josh.

Joshua David Shanker
BofA Securities, Research Division

All right. So obviously, this is not the quarter for the LTC study. Where do you -- in terms of thinking about interest rates and behaviors for reserving as we close out the year, obviously, we've gone through COVID, you're learning more about behaviors. Can you talk to us a little bit about how you think about incidents and adequacy of coverage given where rates are?

Scott Robert Lindquist
Executive VP & CFO

Sure, Josh. It's Scott here. So yes, if I can comment a little bit about just the past few years and then kind of where we're at right now with the long-term care book. So I would say, over the past 3 years relative to reserve expectations, the long-term care [block] has generally experienced lower claim frequency, higher claim terminations and more favorable claims severity amid the effects of COVID-19. And those effects were definitely more pronounced earlier in the pandemic. And as the pandemic has abated, these effects have largely dissipated as we've worked our way through 2022.

I'd also remind you, in the third quarter call, when we talked about the GPV update, we also reduced our IBNR. We had actually built up IBNR over 2020, 2021, expecting somewhat of a delay in reporting of claims that did not materialize. So we reduced IBNR by $107 million. During the third quarter, it was somewhat masked by an uptick in our claims reserves for LTC for our [disabled life] reserves that was about $82 million. So I think that's a big picture how things are looking as we're emerging from the COVID era as we sit here right now.

Joshua David Shanker
BofA Securities, Research Division

And then obviously, the things -- you're probably more so than any [indiscernible]. You're slow to recognize good news in LTC but quick to recognize anything that might be unfortunate. Is there good news in the trends that's not baked into reserves yet?

Scott Robert Lindquist
Executive VP & CFO

Well, I guess I would point you back to the third quarter call when we did our GPV review. We ended up increasing the margin. We increased the margin from $72 million to $125 million. We had some puts and takes. We had a very positive tailwind around discount rate, higher interest rates. That was a significant positive. Also rate, we had increased margin by $190 million for -- increased outlook for rate on a net present value basis. And then offsetting that was cost of care inflation and higher utilization. So you kind of shake that all up, and we were at a net plus $125 million margin at Q3. We have not updated our study since then. So I would say that's pretty much how we feel right now because right now that $125 million is our best estimate.

Joshua David Shanker
BofA Securities, Research Division

And then it's probably too early to ask this question. But if I go back in time to the previous decade, sometimes people might have said, if we knew how good the business was back then, we would have written more of it and maybe been a little more aggressive on the price because it turned out to be so strong in the profitability. When you think about the 2020 to 2022 period, and then there's a lot of puts and takes with social inflation and whatnot, but there was a lot of pricing, do you think that those years are going to be years that people reflect on, if we knew how good it was going to be, we would have written more?

Dino Ennio Robusto
Chairman & CEO

I think that's obviously a wait-and-see, right? I mean, listen, we have been cautious and prudent in how we recognize margin because of the social inflation dynamic to relatively new sort of going back 2016, '17, it's had a significant impact. And we obviously watch it closely. As I mentioned earlier, we also had economic inflation. I think we'll just have to see how these more recent accident years where earned rates well above loss cost trends, how that all plays out over the next 4 or 5 years, and in the meantime, it's really what's fueling the caution that we bring to recognizing margin.

Operator

And at this time, I'm showing no additional questions. I'd like to turn the floor back over to Dino Robusto for any closing remarks.

Dino Ennio Robusto
Chairman & CEO

Great. Thank you very much, everyone, and we will chat with you next quarter.

Operator
And ladies and gentlemen, with that, we'll end today's conference call and presentation. We thank you for joining. You may now disconnect your lines.