S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

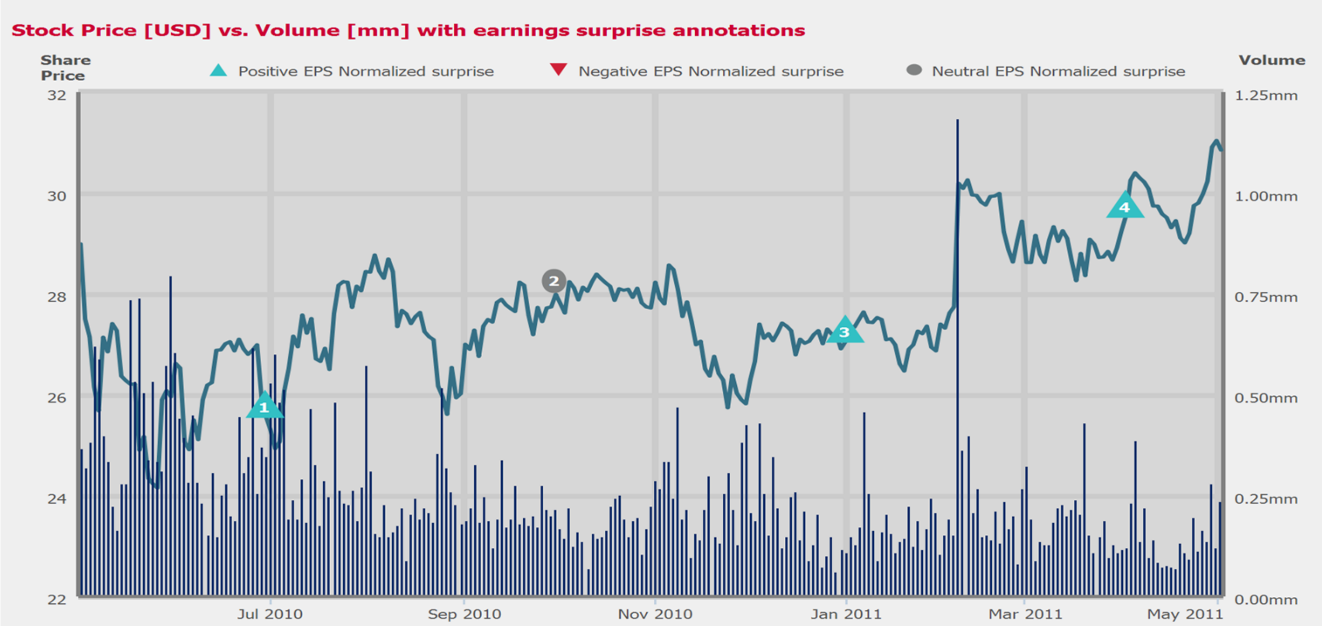
FQ2 2011 Earnings Call Transcripts

Monday, August 01, 2011 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.49	0.43	▼(12.24 %)	0.66	2.65	2.70
Revenue (mm)	1909.66	-	▲15.10	1901.84	7679.09	7795.34

Currency: USD
Consensus as of Jul-15-2011 7:14 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	0.58	0.91	▲1 56.90 %
FQ3 2010	(0.40)	(0.66)	NM
FQ4 2010	0.67	1.09	▲2 62.69 %
FQ1 2011	0.68	0.80	▲3 17.65 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

Nancy M. Bufalino
Former Assistant Treasurer

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Adrian Meli

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Robert Ray Glasspiegel
Langen McAlenney

Presentation

Operator

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

Nancy M. Bufalino
Former Assistant Treasurer

Thank you, James, and good morning. Welcome to CNA's Second Quarter 2011 Earnings Call. Our press release was issued earlier this morning, along with our financial supplement that can be found on CNA's website.

On the call this morning are Tom Motamed, our Chairman and Chief Executive Officer; along with Craig Mense, our Chief Financial Officer. Following Tom and Craig's remarks about the quarterly financial results, we will open it up for your questions.

Before turning it over to Tom, I would like to advise everyone that during this call, there may be forward-looking statements made and references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during this call. Information concerning those risks is contained in the earnings release and in CNA's most recent 10-K and 10-Q on file with the SEC. In addition, the forward-looking statements speak only as of today, Monday, August 1, 2011, and CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call.

Regarding 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. Finally, 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

Good morning, everyone, and thank you for joining us today. Let me start by saying we are delighted with the positive premium growth in our Specialty and Commercial businesses. This is the first quarter in which we have had positive growth in both Specialty and Commercial since the fourth quarter of 2006. Submission activity in new business continued to be strong, particularly in those industries where we are concentrating and dedicating our resources. We are also pleased with the improving rate trends across our Property & Casualty business. CNA's financial foundation continues to improve as well. Book value per common share increased 3% since the end of this year's first quarter and 6% since year end 2010.

Turning to our financial results, net operating income was $116 million or $0.43 per common share in the second quarter of 2011 as compared to $269 million or $0.91 per common share in the same period last year. The decline was primarily due to lower levels of favorable prior year development, $0.17 per share in this year's second quarter versus $0.64 in last year's second quarter, as well as an increase in catastrophe losses. These losses reduced this year's second quarter earnings by -- earnings per share by $0.24 versus $0.12 last year. Net operating income from Property & Casualty Operations was $153 million in the second quarter of 2011 as compared to $293 million in the second quarter last year. These results included after-tax catastrophe losses of $65 million and $31 million, respectively.

The second quarter net operating loss from our Life & Group and Corporate segments was $37 million in 2011 and $24 million in 2010. Craig will comment on these segments in a moment. The Property & Casualty Operations combined ratio was 105.7% in the second quarter of 2011 as compared to 89.5% in the same period last year. These ratios benefited from favorable development of 4.8 points and 18.4 points, respectively. Second quarter catastrophe losses represented 6.9 points in 2011 and 3.3 points in

2010. While our cat losses were significant considering the severity of the widespread events and their impact on industry loss ratios, we believe our 6.9 points of losses reflect well on our disciplined approach to catastrophe management. Before development and catastrophes, the second quarter 2011 combined ratio improved 1 point to 103.6% from 104.6%. The improvement was primarily driven by the accident year loss ratio before catastrophes. This ratio was 69.4% in the second quarter of 2011 as compared to 70.3% in the second quarter of 2010.

The Property & Casualty Operations expense ratio in this year's second quarter was 34.2%, which was inflated by a onetime charge. Our run rate expense ratio is approximately 33.5%, consistent with our full year expense ratio in 2010 at which we've been able to sustain while continuing to make investments to grow our Property & Casualty business.

Noncommissioned expenses contributed 15.1 points to the expense ratio in this year's second quarter, a 0.2 point decrease from the prior year period, while commission expenses contributed 19.1 points, an increase of 0.6 points. The Property & Casualty Operations combined ratio was 103.8% for the first 6 months of 2011 as compared to 95.8% in the same period in 2010. These ratios benefited from favorable development of 3.4 points and 10.6 points, respectively. Catastrophe losses in these periods represented 5.3 points in 2011 and 3 points in 2010.

Before development and catastrophes, the combined ratio improved by 1.5 points to 101.9% in the first 6 months of 2011 as compared to 103.4% in the same period in 2010. The accident year loss ratio before catastrophes was 68.9% in the first 6 months of 2011 as compared to 69.6% in the full year of 2010.

In CNA Specialty, net written premiums grew 6% in the second quarter, building upon positive growth in the previous 3 quarters. Renewal rates were flat in this year's second quarter and first 6 months, which represented a 2-point improvement over the same periods last year. Second quarter renewal retention was 85% in both 2011 and 2010 and 86% for the first 6 months of both years. Exposures were up slightly in the second quarter of 2011.

Specialty's second quarter ratio of new to loss business was 1.41 quarter-over-quarter submissions increased 8%. The hit ratio improved by 6 points to 33%. We are pleased by a 16% increase in new business production as well as a 4% policy cap growth driven by our Professional & Management Liability businesses as well as some of our program business.

Specialty's second quarter combined ratio was 92.2% in 2011 as compared to 79% in 2010. Favorable prior year development benefited these ratios by 7.7 points and 18.6 points, respectively. The impact of catastrophes was approximately 0.5 point in both periods. Before development and catastrophes, Specialty's second quarter combined ratio was 99.3% in 2011 compared with 97.1% in 2010. Specialty's x cat accident year loss ratio was 67.9% in the second quarter of 2011 as compared to 66.3% in the same period last year. The ratio was 67.4% in the first 6 months of 2011 as compared to 66.6% in the full year of 2010.

The Specialty market has been extremely competitive over the last several years, particularly in commercial D&O. The increase in our loss ratio was a direct reflection of the competitive rate environment. While we're not pleased with this deterioration, we are encouraged to have held rates flat the last 2 quarters after 18 consecutive quarters of decreases in our specialty book.

Turning to CNA Commercial. Second quarter net written premiums increased 5% in 2011 as compared to a 11% decrease in the second quarter of 2010. Renewal rates in Commercial increased 2% in the second quarter and first half of 2011, consistent with last year's second quarter and 1 point better than last year's first half.

Renewal retention was 78% in the second quarter of both 2011 and 2010. That 79% retention in the first 6 months of 2011, was 1 point better than in the same period last year.

Exposures were flat in the second quarters of 2011 and 2010. Commercial's new to loss business ratio was 1:1. Quarter-over-quarter submissions increased 12% and the hit ratio decreased 2 points to 24%. New business increased 15% and policy cap increased 3%. Additional premiums from audits contributed approximately 0.5 point to our 5% growth in the second quarter of 2011 as compared to return premiums representing almost 2 points of our reduced premiums in the second quarter of 2010.

CNA Commercial combined ratio was 117.7% in the second quarter of 2011 as compared to 98.4% in the same period last year. These ratios benefited from favorable prior year development of 1.8 points and 18 points, respectively. Catastrophe losses represented 12.5 points in the second quarter of 2011 and 5.7 points in last year's second quarter. Before development and catastrophes, Commercial's combined ratio improved 3.7 points in the second quarter of 2011 to 107% from 110.7% in last year's second quarter. Commercial's x cat accident year loss ratio was 70.6% in the second quarter of 2011 as compared to 73.5% in last year's second quarter. The ratio was 70.2% in the first 6 months of 2011 as compared to 72.1% for the full year of 2010, nearly 2 points of improvement.

In the second quarter, we completed the acquisition of the minority shares of CNA Surety, increasing the scale of our profitable Specialty business. Finally, we announced the quarterly common stock dividend of $0.10 per share.

With that, I will turn it over to Craig. Craig?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. While the absolute level of earnings in the second quarter were not what we would want or expect, the quarter was won, marked by notable progress toward our long-term objectives. Revenue growth, broad-based rate improvement, the improving performance of our Commercial line segment and our cat management discipline were significant and positive.

CNA's net operating income was $116 million and operating return on equity of 4.2%. Operating income available to common shareholders was $0.43 per common share as compared to $0.91 in the prior year period. The year-over-year decline is attributable to a higher level of cats this quarter and a lower level of favorable prior year reserve development.

Second quarter net income was $126 million and included after-tax realized capital gains of $10 million. Impairment losses were modest and largely reflect intent to sell decisions that are part of our ongoing portfolio management.

We continue to build on the strength of our balance sheet and improve our financial flexibility. All key capital adequacy metrics continues to improve and our liquidity profile remains strong. We are pleased to complete the acquisition of the public minority stake in CNA Surety in June. As we've indicated earlier, the transaction had a marginally dilutive impact on book value. You'll be able to see those details in our 10-Q, which we expect to file tomorrow. We continue to believe that both our Surety business and CNA will benefit from this strategic realignment.

Book value per common share increased 3% from the end of the first quarter of 2011 to $43.09 per share. The increase was driven by earnings and improvement in the market value of our investment portfolio. At the end of the second quarter, our investment portfolio's pretax net unrealized gain stood at approximately $1.8 billion, an increase of approximately $500 million from the end of the first quarter. Our common shareholders' equity excluding other comprehensive income was $10.9 billion or a $40.37 per common share at June 30, 2011, up slightly from the end of the end of this year's first quarter.

Our statutory surplus was unchanged at $10.1 billion from the end of this year's first quarter despite the statutory accounting impact of the Surety transaction and a $100 million repayment of the $1 billion surplus note originally issued in 2008. This surplus repayment leaves an outstanding balance of $400 million at the end of the second quarter.

Our primary insurance operating company continues to maintain approximately $1 billion of dividend capacity. Our financial flexibility is further enhanced by slightly over $200 million of cash and short-term investments held at the holding company level. The full $250 million of our credit facility is also available to us.

In the second quarter of 2011, we generated approximately $315 million of operating cash flow, excluding trading activity. Additionally, we received approximately $860 million of cash principal repayments through paydowns, bond calls and maturity.

We continue to sustain our discipline reserving practices. Our Property & Casualty business segments benefited from $102 million of pretax favorable loss development. Our track record of favorable development now extends over 18 consecutive quarters. We remain confident in the overall adequacy of our reserves.

I know that there's been a lot of chatter about the impact of RMS version 11 both on individual companies as well as the industry from an underwriting pricing and capital management perspective. We have spent a considerable amount of time reviewing this latest version of RMS' cat model to understand the model itself and its impact on CNA's property portfolio. More importantly, we have worked to validate the model's assumptions against our historic experience and professional judgment. We are now calibrating a new model in light of CNA's proprietary model adjustment. It's important to know that we have historically adjusted the prior model's output upward to reflect our view of model performance for many aspects of risk management, including the reinsurance purchasing decision.

In light of these upward adjustments, the impact of an increase in this new RMS model output is largely mitigated. Additionally, we view RMS as a single data point to inform us in our business decisions. We are incorporating this new information in the context of many other data points, including other vendor models and most importantly, our own experience and, of course, exercising our own professional judgment.

At this time, we do not expect the implementation of this new model to significantly change our ongoing operations nor will it require us to buy additional reinsurance protection.

We have a heightened degree of confidence in our property underwriting abilities. We've mentioned before the improvement in the accident year of commercialized loss ratio is largely attributable to those capability improvements, as well as our cat management disciplines. Our results compared to Commercial line's tier, stacked up very well. We have plenty of capital available to support those underwriting activities and are well positioned to act on any market opportunities that may present themselves.

Net operating income during the second quarter included pretax investment income of $517 million, a slight decrease in the prior year period. Fixed maturity and security income decreased 3%, reflecting a reduction in our asset base from last year's loss portfolio transfer with National Indemnity and the cash needed to fund the CNA Surety purchase as well as the effect of today's lower market yields.

Our limited partnership investments produced second quarter of pretax income of $11 million in 2011 as compared to a pretax loss of $4 million in 2010. Our second quarter LP results are below the very strong levels of the preceding 3 quarters, reflective of the uneven financial market performance this quarter. The second quarter and 6-month rates of return were 0.4% and 5.4%, respectively.

You will notice that we have revised the format of the investment information in our financial supplement to provide what we hope you will find more useful and relevant information about our portfolio and to better reflect how we manage the distinct portfolio dedicated to our ongoing P&C business and our Life runoff segment. The revised format is organized to provide new and comprehensive overview of our portfolio composition by asset class and by credit quality. Further detail of portfolio composition is provided for the P&C general accounts and Life portfolios.

We made relatively insignificant changes to our investment portfolio sector allocations this quarter. There was a small increase in tax exempt initial bonds and a corresponding decrease in investment grade corporate bonds. Our mortgage asset-backed portfolio reflects net purchases centered in agency mortgages and a continued runoff of our non-agency RMBS portfolio, which is now only $1.8 billion.

Overall, our investment portfolio remains well diversified, liquid and high quality as well as aligned with our business objectives. The current allocation of assets is in line with our established longer-term target. The average credit quality of the fixed maturity portfolio remained at A. The fixed income assets, which support our long duration life-like liabilities, had an effective duration of 11.5 years at quarter end, up slightly from the end of this year's first quarter and in line with portfolio target. The effective duration of the fixed income assets, which support our traditional P&C liabilities was 4.4 years at quarter end, down slightly from the end of this year's first quarter.

Our Life & Group Non-Core segment produced a second quarter net operating loss of $19 million in 2011 and $18 million in 2010. There were no significant changes in the fundamental performance of these businesses.

The Corporate segment produced a second quarter net operating loss of $18 million in 2011 as compared to a loss of $6 million in 2010. You will recall that the Corporate segment profile was changed substantially by actions taken last year. The asbestos and environmental loss portfolio transfer, completed in the last year's third quarter, decreased our net reserve and associated asset and capital base. Consequently, investment income allocated to this segment has decreased significantly, but has been largely offset by reduced client handling expenses.

The Corporate segment's results also reflect the additional interest expense from the increase of long-term debt that funded a portion of the preferred stock repayment that we completed last year. That additional interest expense is reflected in operating income while the more than offsetting benefit of the 10% preferred stock dividend elimination is only reflected in the earnings attributable to common shareholders' calculation.

While not significant, it is notable that our Corporate segment's results include the benefit of $8 million of favorable reserve development, reflecting positive outcomes from our CNA Re runoff book.

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 second quarter was marked by continued improvement in our ability to serve customers and increase shareholder value. The highlights were premium growth in both our Specialty and Commercial businesses with strong submission activity and new business, positive momentum on rates with an improving rate trends in Specialty and continued rate increases in Commercial, improving loss ratios in Commercial, continued discipline in our approach to cat management, and completion of the acquisition of the minority shares of CNA Surety.
We will now take your questions.

Question and Answer

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Several questions. In the prepared remarks, you had mentioned the expense ratio was impacted by a onetime charge. Can you identify what that was and quantify that, please?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. Jay, it's Craig. The charge was $60 million and it was for premium. We have a reserve for expected premium recoveries from retrospectively rated policies, mostly very old policy years from the old risk management casualty business that we took down this quarter. So that had a little more than 1 point impact on the expense ratio this quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. That' was helpful. And you are saying -- so it's just that all showed up in the expense item or is it a premium change as well?

D. Craig Mense
Chief Financial Officer and Executive Vice President

It was -- so, but it turned up in the, really, the charge to the earned premium so it decreased or depressed earned premium. There were some other offsetting good guys this quarter which is why, as Tom said in his remarks, he really think that run rate expense ratio is more like 33.5%.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay, that's helpful. And then another question I had. You mentioned on the Commercial business that exposures were flat, I believe. And I guess we've heard from others, there seems to be some increase in exposure and I'm wondering -- I mean, obviously, you can't comment on what others are saying, but given the really difficult economy we came out of and things are stabilizing, one might expect things to be a little bit better, but just comment on the exposure growth.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, it is flat, no denying that. I think one of the things you have to consider is we have been a bit of a laggard on exposure. If you go back the last few quarters where we have been negative, others have been flat and moving into positive territory. So we're a little bit behind on that. And we also have a pretty big construction portfolio, and that is in negative territories. So that drags the whole thing down.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great, and then if I could sneak in one more. On the Specialty side, I think you mentioned your hit ratio was up by 6 percentage points to 33%. And I guess I found that a little surprising given that rates are flat. I guess I wouldn't expect to see the hit ratio move all that dramatically. What was driving that increase, do you think?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

We have been pushing for several quarters on what we would call smaller business. So this is not the big public D&O business driving the boat here. So it's really going after smaller accounts where we put a lot of people on the ground. This would be not-for-profit business, private business, but it's smaller accounts and that pushes the policy count up pretty quickly when you're writing lots of small stuff.

Operator

Next we'll hear from Bob Glasspiegel with Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

I was wondering if you could give us a little bit more color on long-term care and how much that was.

D. Craig Mense
Chief Financial Officer and Executive Vice President

I'm sorry, Bob. Exactly what are you...

Robert Ray Glasspiegel
Langen McAlenney

The press release mentions you were offset by unfavorable claim experience in our long-term care business in the Life & Group Non-Core?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. You can see the Life & Group Non-Core loss is pretty steady and has been pretty steady for any number of quarters at about the level it is. So the difference we're seeing, we have -- we made it -- some so we reduced expenses but the claims are running about -- are running up about $10 million a quarter, just kind of roughly offsetting what the expense reduction is. It's why there's really no change in results. But given the overall size and scope of it, it's a relatively insignificant change.

Robert Ray Glasspiegel
Langen McAlenney

I just want to make sure I understand this. So we should look for long-term care to continue running $10 million worse a quarter? Or is that just a onetime sort of true up in the quarter?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Bob, I'm a little lost by -- we've been running about an $18 million, $19 million loss in this segment every quarter for a while so -- and it's been pretty steady.

Robert Ray Glasspiegel
Langen McAlenney

No, I understand that. But you had some positives in there, lower expenses and, but you just -- in the press release, you highlighted that we have worst claim experience in long-term care. So that's just an ongoing worst claim experience pressure. That's nothing new, is what you're saying.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Nothing new. That's right.

Robert Ray Glasspiegel
Langen McAlenney

I know asbestos doesn't run through your operating statements due to the NICO transaction, but, and maybe you don't look at them quarter-to-quarter as a result, but I was wondering if there was anything in your experience to substantiate what Hartford said about increased claim activity.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would say number one, we can't speak for what's going on with the other carriers. So I don't think we have an answer for you that on, Bob.

Robert Ray Glasspiegel
Langen McAlenney

So it has hit your radar screen that asbestos activities popped up?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, we're not as concerned as we once were. The deal, we think that was good for us and shareholders long term. So we're focused on other things other than asbestos.

Robert Ray Glasspiegel
Langen McAlenney

I'm thankful for that and it was a good transaction. Just if we get 15 to 20 years of asbestos activity, it's a lot more than you think. It could come back somewhere way down the road. So, but you probably don't need to track it quarter-to-quarter anymore, which is productive from my vantage point. Does share repurchase stand in your radar screen, is the dividend sort of shooting your bullet on capital management too?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I think, the share repurchase is still down the list of things on the radar screen. If I could also just add something. We certainly monitor the claim outcomes with National Indemnity, and we'll do our regular reserve review on asbestos and environmental and we'll do it in the fourth quarter. So we're not ignoring it, but we're certainly not as sensitive to it and we're very happy to not have to deal with it at present.

Operator

Amit Kumar with Macquarie has our next question.

Amit Kumar
Macquarie Research

Just going back to your opening comments on the premium growth, you're writing at an NPW to surplus off approximately 0.6x. Could you refresh us how you're thinking about return on equity going forward? What sort of roadmap do you have in sort of achieving, let's say, a double-digit return on equity?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I mean, the big driver, Amit, is going to be improved level of earnings in the Property & Casualty business. As well as things we can do to mitigate the losses coming out of the runoff segment. So when we think of improved long-term improvements ROE, they have to come from that, which is why we felt encouraged when you look particularly at Commercial line and you see the run rate improvement. We feel like we're making some progress there. So that's the bigger driver. We certainly consider and think about and talk about among ourselves as well as with our board actions on the capital side. But at present, we're happy to have all these options available kind of out in front of us. And I think that's going to describe our general conversations and discussions here.

Amit Kumar

Macquarie Research

Does it -- so if I understand it correctly, just related to that, you acquired the remaining portion of SUR. You reinstated a common stock dividend. I'm just trying to understand the level of importance. Is the focus more on continuing to build teams and underwriters and other hiring all when you look at the level of excess capital reducing your ROEs? How do you think about either raising the common stock dividend or a special dividend down the road?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I would say that we recognize the need to manage all of those things. So what I've meant to say was the bigger driver and the real improvement is going to come from improved underwriting margins and improved underwriting income performance. But we recognize the need to also manage capital and do something productive with the excess. So why we're happy to have -- we'd like to keep our options open at present. And I think relative to any changes in the comment or other consideration, that's really more of a fourth quarter sort of time frame conversation than it is right now.

Amit Kumar
Macquarie Research

Got it, that's actually helpful. And just a final question and I might reach you. I missed some of the comments. You were talking about a loss uptick in D&O business. Could you just go back to that and expand a bit?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I didn't hear your question, Amit.

Amit Kumar
Macquarie Research

I was thinking you talked about like a loss uptick in some segments. You said the loss trends had changed adversely or had ticked up. And I missed that comment, I apologize. Can you just expand on that?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. If you look at the Specialty business, I believe it was the third quarter of 2010 we told you that we were seeing increases in loss activity in advanced medical technologies and employment practices liability. So that increase in frequency and severity has, I shouldn't say help, but hurt Specialty deteriorated loss ratio a bit.

Operator

[Operator Instructions] We'll now hear from Adrian Meli with Eagle Capital.

Adrian Meli

Could you guys try to explain how we get to 13% to 15% long-term ROE given the drag from the life insurance business and long-term care? We're just trying to figure out here how much equity capital that business takes and what the kind of long-term drag on the ROEs from it.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

We haven't and Adrian, I appreciate your question but we have not disclosed the equity capital allocation in the Life group. Clearly, it's a drag and clearly anything we can do to mitigate that loss is helpful. And I think we've said in the past, we look at options all the time for dealing with that long term and nothing on the horizon. So the way to get to 13% and 15% is improving the P&C returns. And that's really where we've been, we've been focused on everything but primarily are focused on that.

Adrian Meli

Is it possible with your current revenue if the cycle turned and your profitability went up, is it possible given the specialty mix that you could get the ROE today? Or would you have to grow premiums a lot to dilute that business to get those returns?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, I think a couple of things. Number one, the market is what it is. So our objective is to grow in this marketplace and also improve the loss ratio. So we had a good quarter on growth for both Commercial and Specialty. We're in positive territory for the first time in quite a few years. So we're encouraged with that. We're encouraged with all of the metrics that support that, whether that be rate, new business, submission activities. So number one, organic growth. It's something we have to do regardless of where we are in the market cycle and we need to make sure it's profitable. We continue to be encouraged with what's going on in Commercial. And when we look at rates, everybody's interested in rates. I can tell you when we give you our rate number in Commercial, that's kind of a worldwide number. Some companies will give you U.S. only. If we look at our U.S. business, which is the predominant piece of Commercial, rates are really closer to 4%. So the underlying daily business that we're conducting, we're seeing good rates, we're seeing good new business, and we believe the pricing on the new business is adequate. So as Craig said, we have to improve our margins in Commercial and Specialty, and that's what we are focused on. So when we do that, the expense ratio is going to come down as well. So there are lots of things that enter into the play. It's not as easy, they're saying there's 2 things or 3 things. There are a lot of things we're working on that we think over time in this current market condition will pan out favorably for us. If the market takes off with rate increases, dramatic rate increases, that's going to be positive for everybody. It will be positive for us as well. So right now, we're just focused on being in the current market and really kind of pulling on all the levers we know to improve the results. So that would be a longer haul to get to that number in the current market.

Operator

We have a follow-up question from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just a follow-up on this ROE question. It seems to me that capital management or something to do with Life business kind of has to play a role. I mean, I just did some quick math and to get to 13% to 15% ROE, you'd had to have a combined ratio probably in the high 70s or maybe low 80s, which is not going to happen. And obviously, interest rates are low and that adds additional pressure. And I'm wondering, you mentioned, Craig, things you are considering or things you haven't looked at on the Life business. Can you talk about those things? So that's one. And then separately, on capital management, why not do a special dividend? What's the argument against it?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Let me start with the last question first. I don't think there is the argument against the special. It's just it's less effective and impactful to common shareholders than just increasing the common shareholder dividend. So there's no -- being negative to that. And it's among the array of options that we have, including spending the money on whether continuing the business or continuing their best or potential acquisitions. Anything is on the table, which is why I said it's important to keep our options open and things in front of us right now. As far as your question on the Life business, I don't appreciate the reason and the kind of pressing on the question, but I don't have any kind of generic. I think you had asked this before, option or idea, on the table. So there's really nothing specific to offer you. And just like all the rest of our businesses and just like Tom said, we need to do any number of things in order to improve the ROE and get to that result. And among all those number of things, including the Life business but the other primary objective at present, what's right in front of us right now is improving the P&C business.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess the good news is the -- so the underlying loss ratio for the company, last 3 quarters have shown improvement and well, it's arguably still a challenging market. So there's clearly some progress being made there.

Operator

[Operator Instructions] And there are no questions at this time. I'll turn the call over to Mr. Tom Motamed for a closing comment.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you very much. See you next quarter.

Operator
That does conclude today's conference call. Thank you for your participation and have a nice day.