S&P Global
Market Intelligence

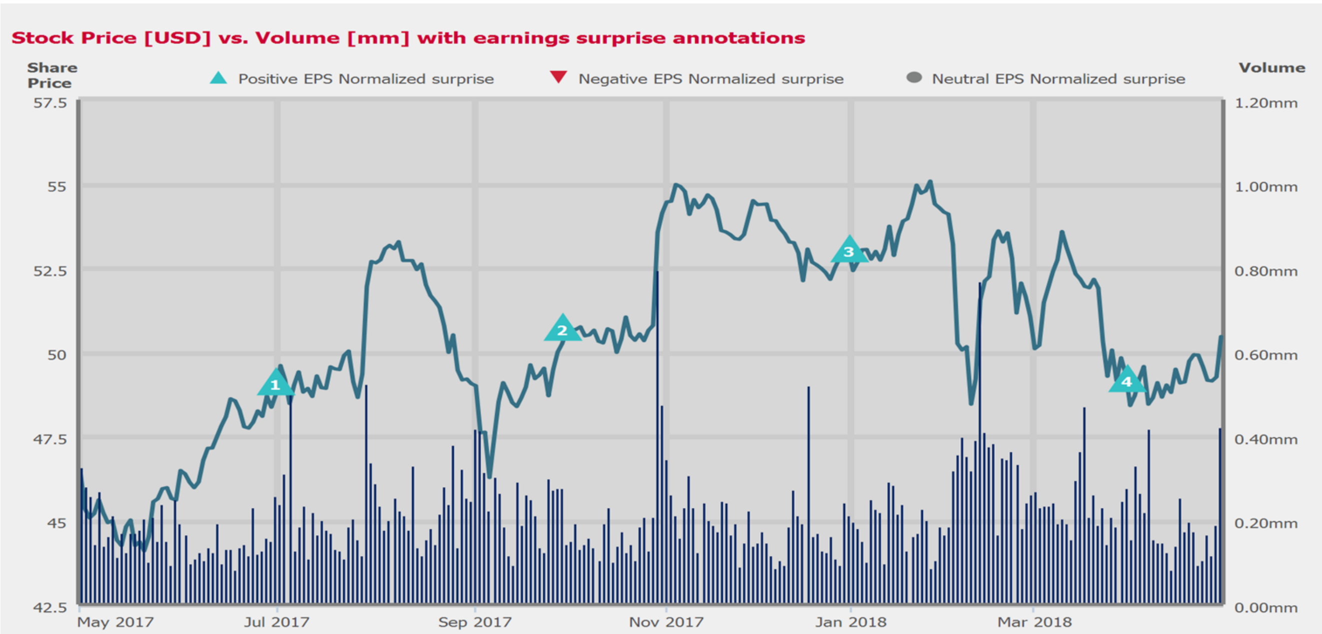
CNA Financial Corporation NYSE:CNA
FQ2 2018 Earnings Call Transcripts

Monday, July 30, 2018 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.98	0.99	1.02	1.01	4.15	4.32
Revenue (mm)	1815.50	1769.00	(2.56 %)	-	-	7700.00

Currency: USD
Consensus as of Jul-30-2018 2:32 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	0.76	0.88	15.79 %
FQ3 2017	0.22	0.58	152.17 %
FQ4 2017	0.82	1.05	28.05 %
FQ1 2018	0.91	1.03	13.19 %

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EXECUTIVES

Dino Ennio Robusto
Chairman of the Board & CEO

Donald Craig Mense
Executive VP & CFO

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Scott Louis Weber
Executive VP & General Counsel

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Gary Kent Ransom
Dowling & Partners Securities, LLC

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Good day, ladies and gentlemen, and welcome to today's CNA Financial Corporation Quarterly Earnings Call. I'd like to remind everyone that this conference is being recorded, and now, I'd like to turn the floor over to Scott Weber. Please go ahead.

Scott Louis Weber
Executive VP & General Counsel

Thank you, Greg. Good morning, and welcome to CNA's discussion of our 2018 second quarter financial results. By now, hopefully all of you have seen our earnings release, financial supplement and presentation slides. If not, you may access these documents on our website, www.cna.com.

With us on this morning's call are Dino Robusto, our Chairman and Chief Executive Officer; and James Anderson, our incoming Chief Financial Officer, in addition to Craig Mense, our current Chief Financial Officer. Following Dino and James' remarks about our quarterly results, we'll open it up for your questions. Before turning it over to Dino, 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 involving risks and uncertainties that may cause actual results to differ materially from statements made during the call, information concerning those risks is contained in the earnings release and in CNA's most recent 10-K and Form 10-Q on file with the SEC.

In addition, the forward-looking statements speak only as of today, Monday, July 30, 2018. 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 also been provided in the financial supplement. This call is being recorded and webcast. During the next week, the call may be accessed on CNA's website. With that, I will turn the call over to CNA's Chairman and CEO, Dino Robusto.

Dino Ennio Robusto
Chairman of the Board & CEO

Thank you, Scott. Good morning, everyone. I'm pleased to share our second quarter results with you today, which show our continued progress in growing our underwriting profits. But before I start, I want to welcome James Anderson to our analyst call, and after my remarks, I will turn it over to James. You will recall that we announced last quarter that James is taking over for Craig Mense, who's retiring at year end. Craig is also with us on the call today.

Our core income this quarter was $0.99 per share, bring our first half per share earnings to $2.02, which is the highest half-year earnings for CNA in over 10 years. We are pleased with the second quarter $0.99 per share core income, as it included an $0.08 per share after-tax impact for IT investments we made as part of our technology and analytics strategy. Core income for the second quarter was $270 million, which was $31 million higher than a year ago. Core return on equity was 9.1%.

Overall, our second quarter 2018 combined ratio of 93.8% is essentially in line with last year's 93.5%, as catastrophe losses were lower in this year's quarter and prior period development was comparable. Our underlying combined ratio of 95.3% reflects a modest increase over the same period last year at 94.6%.

You may recall, we had an unusually low number of large property losses in last year's second quarter, which we attributed partially to good luck. Large property losses were slightly higher than expectations in this year's second quarter, but essentially consistent with expectations for the first half of the year. But nothing unusual in our property losses year-over-year, simply normal fluctuations quarter-to-quarter. You will recall that I have consistently highlighted, in my comments regarding our focus on improving our expense ratio, that we were going to continue to make the necessary investments in technology, analytics and talent, all the while reducing our expense ratio, which at 33.5% for the quarter is down almost a point from year-end 2017.

We had solid growth, with net written premium in the quarter increasing 4% from last year. Our underwriters continue to effectively manage the rate-retention dynamic with strong support from all levels of management.

In the second quarter, we continued our momentum on pricing, achieving rate increases in Commercial. Overall, a plus 1% and excluding workers' compensation, Commercial was plus 2%; Specialty, up plus 2%; and International, a plus 3%.

In Commercial, workers' compensation rates declined by 3.5%, while at the other end of the spectrum was auto, at plus 5%. The work comp rate dropped slightly from the first quarter, but not concerning in light of the benign loss cost trends and frequency and severity we have been experiencing and continue to experience. All other major Commercial lines had positive rate increases that were consistent with or slightly higher than the first quarter increases. We continue to be encouraged by the rate we can achieve in the market and, importantly, our ability to effectively achieve strong rate retention outcomes at the individual account level.

Our P&C retention ratio was 82% this quarter, a decline of 1% from the prior quarter, driven mainly by Specialty's retention, which dropped 3 points.

As I commented previously, we have a couple of pockets of our health care portfolio, namely large hospitals and aging services, which have greater rate -- which have greater need for rate increases, and our underwriters have been pushing successfully to obtain them as evidenced by 30% of our health care renewals in the quarter having a rate increase of more than 10%, which drove the overall health care portfolio rate increase to 6%. And when they could not secure the necessary terms and conditions in line with our risk-adjusted return requirements, our underwriters appropriately walked away from those accounts, which is the primary driver for our health care retention ratio of 73%.

Our retention in International was also down in the quarter, driven by our Lloyd's syndicate Hardy, where we continue to reduce our cat-exposed property, whereas in Canada, which has consistently been our most profitable geography outside of the U.S., the retention was essentially stable.

In Commercial, our retention, as shown on Page 10 of the earnings presentation, remained consistently strong at 85% in both the first and second quarters.

Our underwriters have also been successful in securing higher rate increases this quarter in other lines while maintaining a stable retention. For example, in management liability, we achieved a 1% increase, which is a half-point improvement from Q1, but a 3-point improvement from Q2 -- Q3 2017, while retention was consistent with the first quarter at 89%.

An additional benefit for the quarter is that exposure growth increased over a point from the first quarter, resulting in the second quarter written renewal premium change of 4.2%, which is 2 points higher than our loss cost trends.

On an earned basis, our renewal premium change is now on par with our loss cost trends. While the increase in renewal premium change was a key component of the total growth in the quarter, we also achieved 15% new business growth this quarter compared to a year ago.

In Commercial, our new business growth was broadly spread across our target -- targeted market segments. In both Specialty and International, we were successful in writing a new professional liability affinity program, which has long been a key focus area for us and where we have historically been very profitable.

As well, in Specialty, we grew new business in management liability 55%. Although this is off a relatively small base, we are encouraged, given it is an area of focus for us.

Reviewing our performance 6 months into the year, we continue to be optimistic about our journey to achieve the same top quartile industry performance that I have consistently discussed with you. Our strong results for the first half of the year fuel our optimism, as they are driven by our pretax underlying underwriting income, which was $190 million, up 43% from the first half of 2017.

Our first half 2018 underlying combined ratio improved 1.6 points to 94.3% compared to the first half of 2017. The first half underlying loss ratio improved 0.6 of a point to 60.7 from the first half of 2017, which is clearly top quartile performance.

And importantly, the lower underlying loss ratio is driven in part by improvement in health care, reflecting the vigorous actions we've taken over the past 1.5 years that I previously referenced.

As you have heard me reveal with each subsequent earnings call, our journey has many components to it, which include greater underwriting discipline, strengthened collaboration between underwriting and claims, risk control and actuarial, and the hiring of strong industry talent, the latest being Jennifer Livingstone as our Chief Marketing Officer. As well, we have increased our strategic engagement with our agent and broker partners at every level of the organization.

As I have also highlighted in the past, paramount along the journey is enhancing our technology and analytics capability. As these areas continue to evolve, we will continue to invest accordingly. The investment I referenced earlier in my remarks is one example of that. As you may have seen in the press release this morning, we entered a multiyear relationship with Atos, a global leader in digital transformation as well as infrastructure and data management platforms to manage our IT infrastructure. This partnership will facilitate the transformation of our IT operations to orchestrated cloud migration and meaningfully enhance the user experience. Additionally, it will reduce current technology cost by at least $10 million a year beginning in 2019. You may have also seen a recent press release regarding an anchor investment we made in MTech Capital, a fund that invests in newly-formed insure tech entities that we expect will give us additional strategic insights into the evolution of technology and analytics.

We are excited about the advancements technology and analytics will continue to offer us across our value chain, and we will continue to take advantage of this evolution.

Turning to our Life & Group segment. We had a core loss of $10 million for the quarter and a gain of $4 million for the first 6 months of this year. The evidence is continued breakeven earnings since our unlocking in 2015.

Our conservative set of assumptions that underlies our carried reserves along with our active management of our runoff long-term care business continues to generate results in line with expectations.

Overall, the second quarter and half year results reveal that our disciplined execution along our journey to sustain top quartile underwriting performance is paying off, evidenced by our consistently improved underwriting results, which we have achieved while growing our premium revenue with good-quality new business and doing it all more cost effectively. And this success and execution underlies the confidence we have in our ongoing earnings potential, and therefore, we are pleased to announce the 17% increase in our regular quarterly dividend to $0.35 per share, an increase of $0.05 per share. And with that, here is James.

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Good morning, everyone. And let me just say that after 5-plus years of watching and learning from Craig, I'm going to do my best to live up to the high standard he set, while also helping Dino and his team execute on the goal of consistently generating top quartile results.

Our Property & Casualty Operations produced core income of $319 million, up 22% from the prior year quarter. Pretax underwriting profit of $105 million was consistent with recent quarters, driven by a steady underlying combined ratio and $59 million of favorable loss reserve development.

Each of our 3 P&C segments produced favorable development, with Specialty accounting for the majority. Specialty's development was primarily driven by our professional liability business as well as surety, and comes predominantly from accident years 2015 and prior.

For the second quarter, our net pretax catastrophe losses were modest at $26 million or about 1.5 points on the loss ratio. Our expense ratio also improved to 33.5%, which is representative of our current run rates.

Moving to each of our P&C segments. Specialty's combined ratio was 86.8 for the quarter and its underlying combined ratio was 92.7 or 0.5 points lower than the prior year second quarter, with the loss ratio driving the improvement.

For the first half of 2018, Specialty's combined ratio was 87.2, a strong result by any measure. Our Commercial segment's combined ratio in the second quarter was 96.6. This result included 2.5 points of catastrophe losses, which is a favorable result by historical standards.

Commercial's second quarter underlying combined ratio was 95, 1 point higher than the prior year's quarter. For the first half of 2018, Commercial's combined ratio was 96.8, more than 1 point better from the first half of 2017. Our International segment generated a combined ratio of 104.7 in the second quarter, driven by a higher number of large property losses, as Dino mentioned. International's combined ratio for the first half of 2018 was 100.8. Within our second quarter Life & Group result, long-term care morbidity experience continues to be consistent with our reserve assumptions. Rate increases, investment income and reduced expenses were all small positives. Persistency was slightly unfavorable.

Our Corporate segment produced a core loss of $39 million in the second quarter, which included the $23 million after-tax charge related to our new IT infrastructure arrangement Dino referenced in his remarks. Pretax net investment income was $506 million in the second quarter compared with $475 million in the prior year quarter.

This improvement was driven by our limited partnership and common equity portfolio, which produced $42 million of pretax income, a 1.8% return compared with $16 million last year.

Pretax income from our fixed income security portfolio was $454 million this quarter, which is essentially flat to the prior year quarter.

The pretax effective yield on the fixed income portfolio was 4.7% in the quarter, a level that we've been able to keep relatively stable over recent years without taking on more risk.

The composition of our investment portfolio was relatively unchanged with the exception of our continued gradual shift from lower yielding tax-exempt municipal securities in our P&C portfolio to corporate and asset-backed securities, based on the relative value being offered.

Fixed income assets to support our P&C liabilities had an effective duration of 4.5 years at quarter-end, in line with portfolio targets. The effective duration of the fixed income assets that support our long-duration Life & Group liabilities was 8.2 years at quarter-end.

Our balance sheet continues to be extremely strong. You likely have seen that both A.M. Best and Fitch moved CNA to a positive outlook over the last 6 weeks, following favorable actions from both Moody's and S&P last winter, providing further validation of our capital strength and improving earnings power. At June 30, shareholders' equity was $11.4 billion or $42.06 per share, and shareholders' equity excluding accumulated other comprehensive income was $12 billion or $44.29 per share, an increase of 4% from year-end 2017 when adjusted for the $2.60 of dividends per share paid so far this year. Our investment portfolio's net realized gain was $1.9 billion at quarter-end.

In the second quarter, operating cash flow was $136 million, and we continue to maintain a very capital -- a very conservative capital structure. All of our capital adequacy and credit metrics are well above our internal targets and our current [indiscernible]. With that, I'll turn it back to Dino.

Dino Ennio Robusto
Chairman of the Board & CEO

Thanks, James. Before we move to the question and answer portion of the call, let me briefly leave you with some summary thoughts on our performance. Our second quarter core income was $31 million higher than Q2 '17, and our first half core income was $77 million higher year-over-year. We had pretax underlying underwriting income of $79 million, following up on $111 million in Q1, giving us $190 million for the first half of the year, up 43% over the same period last year. Solid growth of 4% in net written premium for the quarter and 7% for the first 6 months. Our Life & Group segment continues to sustain breakeven earnings since our unlocking in 2015.

Our 2018 second quarter core return on equity is 9.1%, and net income return on equity is 9.4%. Our core earnings per share for the first half of 2018 were $2.02, the highest level of half-year earnings at CNA in over 10 years. And finally, based upon the confidence in our future earnings potential, we increased our regular quarterly dividend to $0.35 per share. And with that, we'll be glad to take your questions.

Question and Answer

Operator

[Operator Instructions] And first, from Deutsche Bank, we have Josh Shanker.

Joshua David Shanker
Deutsche Bank AG, Research Division

First question, can you give us the rate -- the renewal rate price increases and the retention numbers, excluding health care?

Dino Ennio Robusto
Chairman of the Board & CEO

We don't -- I don't think we can easily calculate it, but we can get it for you.

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Yes, Josh, we can get it for you after the call. We just don't have it hands on.

Joshua David Shanker
Deutsche Bank AG, Research Division

I mean, just -- one thing I would say, if you have -- if it's 6% for health care overall, some rates to comp up as much as 30%, it feels to me that -- and there's nothing wrong with this, but that the rate renewal environment for the aggregate book might be close to flattish. Is that wrong for me to think it that way?

Dino Ennio Robusto
Chairman of the Board & CEO

No. Josh, I think that's a good way. It is flattish but slightly up, right? As I think I indicated on my -- in my remarks, comp at minus 3.5. Last quarter, sort of minus 3, so you got about 0.5 point there that was done. But International was up 0.5 point; management liability was up 0.5 point; auto was up 0.4; ocean was up about 1 point. Property, overall, was essentially the same, in the sort of low 2%-ish. Health care, just in general, in terms of, it's like about 7% of the book. So -- but we can do the actual math, but that's a [indiscernible].

Joshua David Shanker
Deutsche Bank AG, Research Division

7% gives me enough. I can do it myself. I'm not going to put you through it.

Dino Ennio Robusto
Chairman of the Board & CEO

Okay. Fair enough. Fair enough.

Joshua David Shanker
Deutsche Bank AG, Research Division

Perfect. And then the other question is, I'm just trying to sense style of analysis. In the fourth quarter of last year, you took this big reserve release on morbidity. A lot of watchers and investors were surprised about that, given commentary about morbidity and others. You point out on the 2Q quarters now that morbidity was consistent with expectations. To what extent is the -- tell me about -- can we talk about what the second quarter underlying actuarial analysis is versus the fourth quarter? And would we expect it to be possible, given what you do in 2Q, that you would detect any changes if there was one?

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Josh, the actuarial analysis that we do for long-term care happens in the fourth quarter each year. So what we see on all of the other quarters is an actual-to-expected calculation. So when we say that it's in line with our expectations that were set, when we unlocked in 2015 and on the gross premium valuations that we've done at the end of 2017. So there's no new analysis that's been done other than checking actuals versus expected.

Donald Craig Mense
Executive VP & CFO

Yes, Josh, maybe -- this is Craig, just to maybe add to that, we certainly would see -- to directly answer your question, if things were changing, we would see it. Because we follow it, and claim volumes have not changed for us over the last, really, 2.5 years.

Joshua David Shanker
Deutsche Bank AG, Research Division

So can we just review the morbidity adjustment, what prompted that in 4Q? It was based on projected claims or based on actual claims?

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Yes, Josh, when we unlocked at the end of 2015, we were reacting to morbidity that we had seen in the prior years before that, which was really on the heels of beginning of our rate increase program. So we had seen a lot of, what we call, shock morbidity leading up to year-end 2015, and when we did that 2015 growth premium evaluation analysis, we projected that, that shock morbidity was going to continue for the next few years. And what we saw in 2016 and 2017 was it actually didn't. It normalized much quicker than we expected. So we had baked in higher levels of morbidity that we end up not seeing, and so that's really what drove the 2017 change.

Operator

And moving on, we'll hear from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I wanted to talk about the International business. Underlying combined ratio there last 6 quarters around 100. And obviously, it's not doing as well as the other segments. Is there a more concerted effort to drive that ratio lower? Does that need, maybe, a little bit more extra attention?

Dino Ennio Robusto
Chairman of the Board & CEO

Yes, Jay, it's Dino, thanks for the question. It's a good question. Look, first, let me just start off by saying, all of the initiatives along the journey to sort of get to that top tier performance that I've been talking about, everything from disciplined underwriting culture to talent, to expense, all of that, right, that happens across every one of our offices worldwide. But when you take a look at International, or as we call International, you've got everything from our Hardy Lloyd's syndicate to the Canadian operation, which is maybe more akin to what we see in the U.S. So you've got to take each of those, sort of, in its components. So let me just make a couple of observations. Hardy, which has been the area that's been most strange from a loss ratio and indeed a combined ratio standpoint, is where we are and have been shifting over the course of the last 6 quarters from the standard Lloyd's type products, the marine, the shared and layered property, [indiscernible]. What we are replacing it with and what we want the Lloyd's syndicate to be, it's principally the target markets that we have expertise in that we think we can bring to the marketplace, which is health care, technology, life sciences and certain aspects of our construction business, and that's a process that takes time, and it has been going on. There's been, and I believe it's been mentioned, some of the evolution away from things like aviation, running off political risk. We had a very unprofitable A&H, and we had some of that classic cat property, which we're moving away from. And so our expectation -- so that's a unique effort, right, for Lloyd's that transcends the other offices. And that's the way we see Lloyd's playing out for us in the future, and so we clearly expect more profitability from that. Now you take Canada, on the other end of the spectrum. Canada, if you look at it historically over the last 10 years, 10 years combined, this has had a combined ratio under 90%. Now as I indicated, look, we had some property losses that were higher than expectations in the quarter. Obviously, when you do it for the half, they're in line. But for the quarter, it made the Canadian piece slightly unprofitable. And since that's been where the lion's share is, right, that's why the quarter's International -- look, which -- so there are efforts, clearly in particular on the Lloyd's syndicate, to make that more profitable, and we remain very optimistic about our International operations, both in terms of it contributing to our bottom line but also in our ability to be able to serve some of the multinational clients. So we're all over its various components. Maybe that's a little bit longer than you were hoping for, but I think important to dissect it that way.

Operator

[Operator Instructions] Next we have Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a question on the IT expenses, and wondering if you'd give us a little more of a qualitative view of what this investment is actually going to change in terms of the customer experience and the agents? What the underwriter -- underwriting tools might be, kind of giving us a picture of what's happening down in the trenches for all these changes that you're making?

Dino Ennio Robusto
Chairman of the Board & CEO

Yes. So Gary, Dino. Look, we're very excited about this partnership with Atos. First of all, it is a very unique, what we call industry-leading service model, because they are assuming ownership of the IT infrastructure servers, devices and in the process, going to be modernizing all of that. And that eliminates [indiscernible] license risk for us because they take that over. It's very unique also in that it's as-a-service model, so it's a consumption-based model. Moreover, Atos uses what they call their Canopy Hybrid Cloud, which puts our infrastructure and the software running on infrastructure, it's going to be migrated to the cloud, which is clearly what you want to be able to do. All of it is building, if you will, a large, a foundation for us to be able to then take advantage of the different sort of analytics languages, et cetera, that cloud brings to and allows us to modernize it. It's also, from a digital standpoint, it's also the sort of device-as-a-service. So they take over all of the management of the devices and bring to bear their sort of cutting-edge digital interfaces, which we fundamentally believe the right way to go is to use a world's leading provider, get it in a consumption model as a service, which is really, really unique in the marketplace, and all of it also helps our entire security because of their cloud.

So look, we are interested in converting and building a foundation to convert all of our legacy, because this is clearly the direction in this industry with the tremendous advances in technology. And I'm like, we're very, very excited about the change, and it's a step, albeit a very large step in many more we're going to make.

Gary Kent Ransom
Dowling & Partners Securities, LLC

The way you described it as a consumption model, does that mean it's more akin to a variable cost as opposed to a fixed cost?

Dino Ennio Robusto
Chairman of the Board & CEO

Yes, yes, yes. So that you know as we grow, they also benefit -- of course, like most, at least I was going to say, smart consumption models, it's spec-ed right so that after a certain level of growth, then the per unit cost comes down a little bit. But nevertheless, look, our interest is to let them benefit with us because that ends up making it interesting for them. And once they've eliminated all of the obsolescence risk and we are using the most cutting-edge cloud environments, we're both very happy.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And the $10 million of savings you referred to, then that's part of just eliminating what you're doing and handing it over to them?

Dino Ennio Robusto
Chairman of the Board & CEO

Absolutely. There is no question at the scale they bring to bear on a global basis, and I think it's likely conservative, the number of $10 million. So that's baked in. It's a 7-year deal, so we're very excited.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. I will love to hear more about that over the next several quarters. Can I change the subject slightly? I want to also ask about loss cost trends too, and just whether you're seeing anything across your lines that are a change or a shift. Do you see frequency moving up anywhere? Do you see severity doing something unusual? I'd love to hear about any pockets where there's change.

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Sure. Gary, this is James. I'll give you some color on a few areas. I mean, the one area that we are seeing the most change is health care, as Dino has mentioned. So we've seen increasing severity trends really driven by large jury awards that both we and the rest of the industry have seen more recently, driven by large hospitals and aging services. And as Dino mentioned, our underwriters have continued to respond by managing the rate retention dynamic there, getting the 6 points of rate and our retention down at the 73% level. But we have now baked in loss cost trends of 6% into the health care book. The other area that's elevated from a severity trend standpoint is Commercial Auto, and that's not really a change; it's been elevated for several years. But that's a 4.5% severity assumption with going up to 6%, when we have excess exposures. And at the other end of the spectrum, workers' comp loss cost trends continue to be very good. We're seeing high-single-digit negative frequency and flat severity. But just to make you crystal clear, that's what we're seeing. In our workers' comp reserves, we still have a 4% severity assumption baked in, as we want to make sure that our reserve levels are set at the longer-term trends. I would say all the other lines, Gary, are really more modest, with no real deviation from our longer-term trends.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. Okay. That's very helpful.

Dino Ennio Robusto
Chairman of the Board & CEO

Gary, it's Dino, if I can just -- sorry, Gary, if I can just add to the point about health care, as James was saying, right, we've been reacting very aggressively, and you're seeing rate increase to 6%, 9%, 8% and moving the retention effectively. The combined ratio over the last 6 quarters has come down about 15 points, still, a little over 100. But it has been -- it caused, that and overall rate retention dynamics, it's improving it very quickly. So we feel good about it being in a profitable position sometime in 2019. So I just thought I'd add that color.

Operator

[Operator Instructions] Next we have Meyer Shields with KBW.

Meyer Shields

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

If I can just close the loop on that, are you booking workers' compensation frequency negative or flat?

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Well, our current trends right now, we have -- severity is running flat. And it's -- we book a low single-digit negative frequency.

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

Okay. And then sort of on the same topic, I guess. In your introductory comments, you talked about renewal premium changes coming in line with loss trends. Do you think that is from the perspective of renewal premiums or the rate side in terms of forwards underwriting margins?

Dino Ennio Robusto
Chairman of the Board & CEO

Yes. So renewals, so the renewal premium change, both it's a combination of the rate and exposure and exposures that had gone up 1 point. So they're written a little over 4%, 4 points, it's about 2 points higher. The earned now is in line with the loss cost trend. Look, it's good news in the exposure growth. Not all exposure, obviously, acts like rate. Some has much more impact, so in the case of payroll, as salaries go up for the same amount of work, that's clearly to your benefit. There's other forms and then there's some exposure that is -- that doesn't act as rate. Nevertheless, there's a good portion of it that does. It's been consistently going up. So look, if it continues and it sustains itself, that's going to portend well for the underlying loss ratio.

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

Yes. No, that make sense, perfect. And then just quickly, the IT savings, are those going to be in Corporate, in individual segments or both?

Dino Ennio Robusto
Chairman of the Board & CEO

It's going to be in the expense ratio by the business units that used it and impact it, right?

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

That's right. It will come through in all the areas. It will be -- it will come through in [indiscernible], it will come through in the expense ratio, all the different parts of the enterprise.

Operator

[Operator Instructions] Looks like we have another question, from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had one simple question. If my memory serves me, I thought, I don't know, 5-plus years ago, you went to sort of a semi or some sort of outsourced tech service provider model. But I'm a little bit -- I'm not sure. But if I'm close to accurate, could you explain the transition if there is one?

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Yes. I mean, We did, Ron, I think it was probably 7 years ago, move to an outsourced model that's different than the one that we're moving to now. It was really an outsourced labor model before. So this is much more an infrastructure as a service, where it's not just the labor but it's the entire hardware, as Dino mentioned, servers, networks, everything. The entire infrastructure is being outsourced to the third party.

Dino Ennio Robusto
Chairman of the Board & CEO

And that firm is who we changed from to Atos. So your memory is quite good.

Operator

And at this time, it appears we have no further questions from the audience. I'd like to turn the floor back to management for any additional or closing remarks.

Dino Ennio Robusto
Chairman of the Board & CEO

No, that's great. Thank you, everyone, for joining us today. We'll see you in a quarter.

Operator
All right, ladies and gentlemen. That does conclude today's conference. Thank you for joining, once again. You may now disconnect.