S&P Capital IQ

CONTENTS

CNA Financial Corporation NYSE:CNA

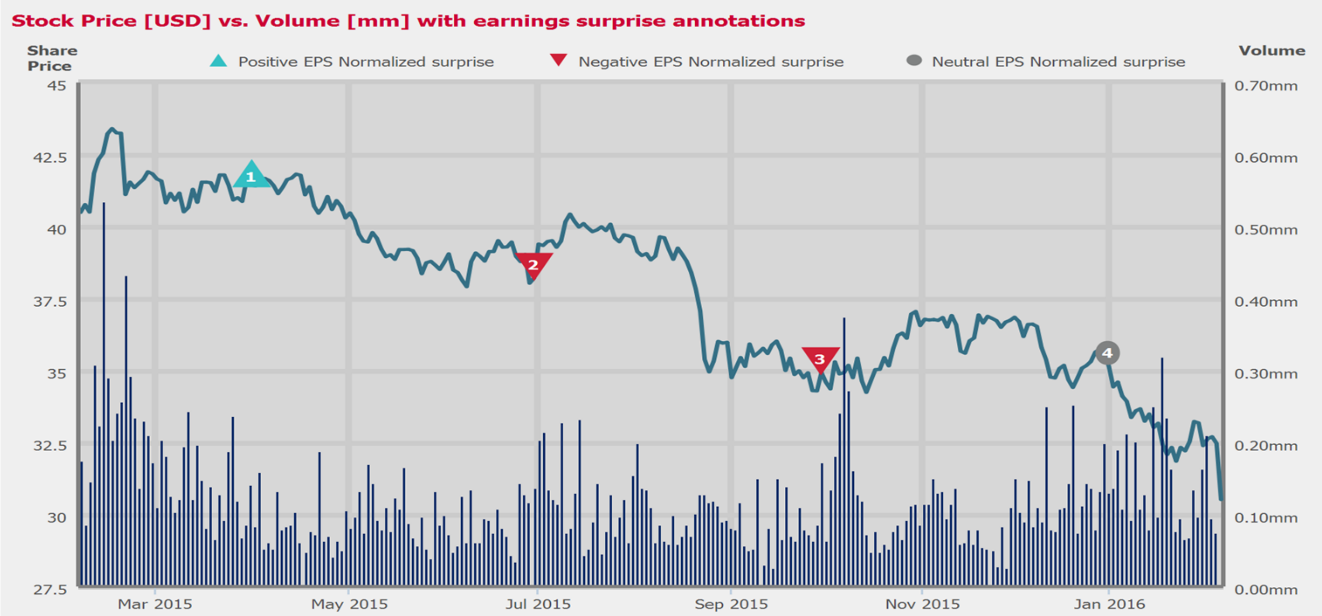
FQ1 2016 Earnings Call Transcripts

Monday, May 02, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.62	0.34	(45.16 %)	0.79	2.99	3.24
Revenue (mm)	2044.00	1668.00	(18.40 %)	2338.00	9428.00	8227.00

Currency: USD
Consensus as of May-02-2016 12:36 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.81	0.83	2.47 %
FQ2 2015	0.79	0.49	(37.97 %)
FQ3 2015	0.78	0.77	(1.28 %)
FQ4 2015	0.89	(0.19)	NM

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

James M. Anderson
Senior Vice President of Financial Planning & Analysis and Corporate Development

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jeffrey Paul Schmitt

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, everyone, and welcome to the CNA Financial Corporation First Quarter 2016 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. James Anderson. Please go ahead, sir.

James M. Anderson
Senior Vice President of Financial Planning & Analysis and Corporate Development

Thank you, Dana. Good morning, and welcome to CNA's discussion of our 2016 first 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 Tom Motamed, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. Following Tom and Craig's remarks about our quarterly 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 in 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 these risks is contained in our earnings release and in CNA's most recent 10-Q and 10-K on file with the SEC.

In addition, the forward-looking statements speak only as of today, Monday, May 2, 2016. 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 have also been provided in the financial supplement. This call is being recorded and webcast. And 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, Tom Motamed.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, James. Good morning, everyone, and thank you for joining us today. In the first quarter, CNA produced net operating income of $91 million, which included an $83 million accounting charge related to our 2010 loss portfolio transfer agreement with Berkshire Hathaway. Excluding this charge, net operating income was $174 million compared with $225 million in the first quarter of 2015. The decrease was driven by lower limited partnership investment income, partially offset by improved underwriting income.

Our Property & Casualty business had a solid first quarter with a combined ratio of 96.1%, an improvement of 2.8 points over the prior year quarter. This is a result of favorable loss development across all of our Property & Casualty segments and sustained improvement in the underlying loss ratio, partially offset by a higher expense ratio.

Specialty continued to produce very good results in a competitive environment. The first quarter combined ratio of 89.4%, a 5 point improvement compared with the first quarter of 2015, primarily due to favorable prior year loss development and lower catastrophe losses.

Specialty rates increased 1% in the first quarter with retention of 87%. We continue to be very selective on new business as we believe that many of the opportunities that are coming into the market are inadequately priced for the exposures. As I have said before, when necessary, we will sacrifice the top line to protect the bottom line. We continue to make progress in commercial as a result of our focus and commitment to underlying discipline. The first quarter combined ratio of 101.9% improved almost 1.5 points compared with the prior year period, driven by 2.5 points improvement in the underlying loss ratio.

Prior year reserve releases contributed 1.5 points. These positive impacts were partially offset by a higher level of catastrophes and an increase in the expense ratio. Commercial rates were flat in the first quarter with retention improving significantly from 76% in the first quarter of last year to 83%. International produced a combined ratio of 99% as compared with 98.3% in the prior year quarter. Both the underlying loss ratio and catastrophe losses increased, largely offset by favorable reserve development. Market conditions continue to be challenging, particularly in the Lloyd's marketplace.

Before I turn it over to Craig, I'd like to provide you with some comments on the expense ratio. I'll start with some context. We remain steadfast in our commitment to being among the very best at selecting and pricing risk. We have made significant progress in improving our loss ratio and we know that continued improvement requires exceptional talent, analytics and other underwriting tools. While in the near term, these investments in talent and systems pressure our expense ratio, they are necessary in order to achieve improved margins for the long term.

While we are not happy with the first quarter expense ratio, we see it as short-term pain. You can expect that we will continue to invest in the business while simultaneously executing on our plan to further improve loss and expense results. I can assure you, we expect to treat expenses much in the same way we improved the loss ratio in Commercial.

With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. I think the best word to characterize CNA's operating performance this quarter is steady, with notable improvements in Property & Casualty underwriting profit reflected in both favorable prior year development and the underlying accident year loss ratio and in Life & Group operating results.

Net operating income for our P&C operations was $207 million, down 22% from last year with stronger underwriting performance offset by lower limited partnership returns. Our P&C underwriting capabilities continue to improve. The loss ratio was 60.7%, a 3.8 point improvement over the first quarter of last year. The underlying loss ratio was 62%, consistent with where we ended the full year 2015. Compared with the prior year quarter, the underlying loss ratio improved modestly, highlighted by Commercial's 2.5 point improvement.

As I did last quarter, I intend to focus my remarks on what I consider the more significant items this quarter, the long-term care results, investment income, the asbestos and environmental pollution reserve increase and associated accounting and a few key financial strength metrics.

Life & Group produced a $2 million net operating loss in the quarter compared with the $17 million loss in the first quarter of last year. The 2016 first quarter results are reflective of the year-end unlocking and associated resetting of our long-term care reserve assumptions, which we discussed at length last quarter.

Our carried active life reserves are now based on our best estimate assumptions. As a result, the long-term care portion of our first quarter 2016 Life & Group result reflects the variance between actual experience and the reset assumptions contemplated in our best estimate reserves. As I said last quarter, while there will undoubtedly be variability in our future periodic results, over time, our reset assumptions should theoretically produce a breakeven underwriting results. This quarter's modest loss reflects outcome generally in line with our reset assumptions.

Net investment income was $435 million in the first quarter. Limited partnership investments produced a $14 million loss compared with income of $114 million in the prior year period. In a very volatile quarter, our LP portfolio generated a return of a negative 0.6% compared with the S&P 500 total return of a positive 1.3%. Income from our fixed maturity securities in the first quarter was $446 million, up slightly from the prior year period, reflecting consistent book yields and a higher invested asset base.

Our investment portfolios net unrealized gains stood approximately $3 billion at quarter end, an increase of $664 million or 29% since the end of the fourth quarter, driven by a decrease in market yields. The composition of our investment portfolio is relatively unchanged. Average credit quality of our fixed maturity portfolio remained at A. Fixed income assets that support our long-duration Life & Group liabilities had an effective duration of 9.2 years at quarter end. The effective duration of the fixed income assets, which support our traditional P&C liabilities, was 4.1 years at quarter end. These durations are both in line with portfolio targets.

Our corporate segment produced a net operating loss of $114 million compared with a $22 million loss in the first quarter of 2015. This decrease was driven by an after-tax retro reinsurance charge of $83 million associated with the accounting for our 2010 loss portfolio transfer of asbestos and environmental pollution liabilities to National Indemnity, a subsidiary of Berkshire Hathaway. The details of the loss portfolio transfer are illustrated on Page 14 of the earnings slides. You may recall the retroactive reinsurance nature of the transaction with NICO and that now that the ceded losses on the reinsured portfolio have surpassed the initial consideration paid, which is also known as the gain threshold, any increase in ceded loss reserves must be deferred and only recognized in proportion to paid recoveries.

The deferred gains will be subsequently recognized in future periods as ceded paid losses increase. While the accounting negatively affected our results this quarter, there is no cash nor economic impact. We had expected to complete our review of the asbestos and environmental pollution reserves in the second quarter of 2016, but accelerated our efforts after receiving communication from NICO that their reserve review indicated a substantial increase in reserves. The $200 million of unfavorable development was driven by an increase in anticipated future expenses associated with the termination of coverage, higher anticipated payouts associated with a limited number of historical accounts, having significant asbestos exposures and a higher-than-expected severity on pollution claims.

As of March 31, 2016, cumulative amounts ceded under the LPT were $2.8 billion, still well under the $4 billion limit. You will note that there is not any significant change in paid claims and that the estimated survival ratio of the cover remains approximately 16 years. At March 31, shareholders' equity was $11.5 billion and book value per share was $42.41. The 2.5% reduction from year-end 2015 reflects the payment of our regular quarterly and special dividend in the first quarter. Excluding accumulated other comprehensive income, book value per share was $42.61.

Statutory surplus at March 31 was an estimated $10.3 billion for the combined insurance operating companies, and we continue to maintain ample dividend capacity. As previously announced, we completed a $500 million debt issuance in the first quarter with proceeds used to redeem $350 million of senior notes due in August of this year. The coupon rate on the new debt is 4.5%, 200 basis points lower than the maturing debt. Cash and short-term investments at the holding company level were approximately $535 million at quarter end, reflecting the additional debt proceeds.

We continue to target cash at the holding company equal to approximately 1 year of our annual net corporate obligations. In the first quarter, operating cash flow was $334 million. Cash principal repayments through paydowns, bond calls and maturities were approximately $490 million. We continue to maintain a very conservative capital structure. All our capital adequacy and credit metrics are well above our internal targets and current ratings.

With that, I will turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, Craig. Before we take your questions, I would like to spend a minute on where we are in our journey to improve our Property & Casualty business. We continue to produce outstanding results in Specialty despite an incredibly competitive market environment. Our retentions are consistently high, and we continue to get rate increases in selected parts of the portfolio. We are extremely vigilant in maintaining our margins and believe that much of the new business in the marketplace is underpriced. The result is new business is down, growth is down.

In Commercial, we continue to be pleased with the improved retention. Although rates are flat, the loss ratio continues to improve, validating our efforts to improve risk selection and pricing. We believe this is the time to keep our powder dry on new business and not erode our loss ratio accomplishments. We believe that our increased investments in information technology, analytics and people are having a favorable impact on our business today and for the long term.

With that, we would be glad to take your questions.

Question and Answer

Operator

[Operator Instructions] We'll go first to Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Given that your commentary about the markets and whatnot and where you are, when you think about the International business and given where the market is, what sort of long-term hope for margin can we have on the International business?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, we'd like to have more margin than we have today, that's for sure. And we think that's possible as we adjust our portfolio outside the U.S. I would tell you, Josh, that we started with the U.S. about 7 years ago, changing the portfolio and the mix. And we are doing the same kind of thing in Europe as well as at Hardy. So as we change the mix and improve the portfolio, we will expect improvement over time.

Joshua David Shanker
Deutsche Bank AG, Research Division

If I were to think about the pool of business that you would like to participate in industry-wide in the United States and the pool business you'd like to participate in globally, what are the margins for the 2 industries? Is business in the U.S. better than business globally? And certainly, obviously, interest rates are higher in the U.S. than they are in Europe. Things will change over time. But the attractiveness of the pie, is there, at this point in time, a market difference?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would say, if you look at Specialty in the U.S., that's a very good business. And as we've discussed and probably lots of other people have suggested, it's a competitive environment. There are more and more people coming after "Specialty" business. The fact is it's not as profitable as it was 20 years ago when there were less competitors. But it's still a good business if you know what you're doing, and we like the Specialty business. If we look at Europe -- Europe, when we purchased Hardy, we purchased Hardy because it was a specialized insurer, once again. So we believe there are margins to be had in the Lloyd's marketplace in Specialty. We are changing that portfolio a, bit and we are introducing some of the products that we have in the U.S., namely health care in Hardy and more casualty lines, which CNA has done for a long, long time. The property market in Europe is very tough. And we're trying to move more into a casualty marketplace there. So I think the margins are good. It's where you play. It's where you play relative to product and geography, and you just have to be smart about it. Canada looks a lot like the U.S. when you think of product capability and, quite honestly, a benign legal environment. So we like Canada, but I think everybody else likes Canada, too, a pretty tough place. So it's about portfolio management, segmentation, pricing, keeping your powder dry. But I think over time, Europe should be a good business for us.

Joshua David Shanker
Deutsche Bank AG, Research Division

And if you think about a 5-year plan right now, there seems to be a lot of disruption in the market and a lot of talent might be looking for new jobs. Is this a year that we should expect that CNA will be hiring in advance of underwriting results, being able to show the value of that underwriting?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

We are always looking for good talent, and we've been doing that as long as I've been here. And we continue to do that. Actually, when you look at the expense ratio, about half of the increase over the prior year relates to talent acquisition. We have hired a considerable amount of people over the last couple of months or quarters. And I think, I just looked at a report, we have about 174 more people onboard today than we did this time last year. So we are investing in talent, and that could be in underwriting, it could be actuarial. Wherever we can find talent, we're going to grab it and get ready for when the market opportunity creates a situation that we can write some business at the right price. I think you talked about a baseball analogy once upon a time. And I think the way we're looking at it, we're standing tall in the batter's box. We're letting the bad pitches go by. And when something comes over the middle of the plate, we're going to take a shot at it. But there are less opportunities out there today. But the market is experiencing disruption whether that be people and accounts, and we're going to take advantage of that.

Operator

We'll go next to Bob Glasspiegel with Janney Montgomery Scott.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Tom, are we still on track for Dino to join in December? Some of the other ACE Chubb departures have come sooner, and I wasn't sure whether you were making any efforts to accelerate that...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Dino has a noncompete, nonsolicitation. He will arrive December 1.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So you have made any efforts to try to speed that up in discussions?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Oh, you want to get rid of me?

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

No, no, no, I love talking to you Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

All right. Well, you still have to talk to me for a while. That's the answer.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay, okay. Well, I wanted to be able to talk to both of you guys because I really don't know Dino and looking forward to meeting him.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

You'll have your chance, Bob. Don't worry.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

On long-term care, Craig, are you -- you're suggesting that the results, if your reserve assumptions are correct for year-end, will be less volatile this year than last year. Could you remind me what the sort of losses that flowed through last year that would not if the reserve assumptions are valid?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, last year -- just looking at last year's first quarter, it was a $17 million after-tax loss. I think we had 1 quarter where it was $24 million after tax, 1 quarter it was $30 million after tax and the fourth quarter was the reserve charge. But -- so if our reserve assumptions are accurate, which I would expect, then the first quarter would be certainly indicative that they were, but it's only 1 quarter. I'd expect that our results ought to be in a tight band around 0. And that would be a lot less than the $25 million to $30 million run rate earnings drag that we've had in the past.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And one last question for you, Tom. Maybe I'm overanalyzing this, but this was the first sequential uptick in pricing for International and Specialty in some time. Is there -- does that suggest we're at the bottom? And maybe the disruptions you talked about in some of your competitors is -- in reunderwriting the actions that perhaps Zurich and AIG are taking is having an impact in the market?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think if I understand your question correctly, Bob, when you look at rates -- Specialty rates, first quarter '16 to first quarter '15 are flat. They're the same, a little over 1%, a little higher than full year 2015. If you look at Commercial, rates have gone to flat from low single digit. So I think that's the answer on rates. And International, that's actually improved from probably off by about 1 point full year '15 and first quarter '15 to almost flat this quarter. So that's the rate story. And what was your other question?

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Well, I was looking at Q4 versus Q1, so I saw a little bit better bottoming process than what your speech suggested.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, quarter-to-quarter -- anything can happen in a particular quarter. But I think we're pretty -- we're okay with where we are. I think the good story is, we're not swinging at bad pitches. We're really maintaining our disciplined.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Well, if I could just follow up. I mean, Zurich and AIG are both claiming to have pretty significant reunderwriting activities in place and expecting to write less business this year. And I would think they are 2 pretty important competitors for you. And Chubb and ACE are trying to digest a big acquisition, have had a decent amount of turnover. I'm just curious whether your crystal ball think that could lead to a bottoming in pricing?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would hope we're at the bottom. We're not going to discriminate against who the competitors are. But the fact of a matter is, yes, there are companies out there that have some work to do, and it's with particular product or particular geography. And like I said, we look at that and we say there could be an opportunity. And if there is, we go after it. But I'm not going to predict this is the bottom of the market. Hard to tell, but I think if people look at returns on investments and look at some of the claim trends and things like public D&O and other areas, the fact of the matter is I would hope we'd see more discipline in the market going forward.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

From your lips to your competitors' ears.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. Well, tell them.

Operator

We'll go next to Jeff Schmitt with William Blair.

Jeffrey Paul Schmitt

A question on the limited partnerships. Could you provide us with any more insight into the -- what some of the main concentrations are there? Is it private equity? Are there high-yield debt funds? What type of lag some of those have?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, I can comment on that if you'd like me to. It is a fairly diversified set. They are primarily, but only by a minor amount, hedge funds. Private equity makes up about 1/3 of the book. And it is focused -- the primary equity piece is, frankly, focused primarily on debt-oriented strategies as opposed to typical LBO[ph] type strategies. A roughly 70% reports on a more or less current basis, with mostly others lag either 1 month. Although in some cases, it's 3 months, but that's a small part of the total book.

Jeffrey Paul Schmitt

Yes. Okay. And then the Commercial segment, obviously, continues to show improvement there, 62% accident year loss ratio. What is your target for that business? Or where do you think it can go to?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Obviously, lower over time, and I don't know what the time line actually could be. But I'd say there are a couple of points there. 2 to 3 points is something that I believe credible.

Jeffrey Paul Schmitt

2 to 3 points lower from here?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

From 62%.

D. Craig Mense
Chief Financial Officer and Executive Vice President

I would say that, Jeff, maybe just be -- we say that, Jeff, in consideration of today's, -- in today's price adequacy, right? But at today's pricing and price adequacy, we think 2 to 3 points better.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

And maybe another point, as we've re-profiled the book, we are getting less claims coming in the door than we did in the past. So what we call new horizon claims are down and also our outstanding claim count continues to go down. So that gives us a belief that the mix is making a difference, how we're changing what we're doing and how we're doing. So pure underwriting, what we call risk selection pricing, we think that's a couple of points. And we think what's going on in claims is going to be helpful to us over time.

Jeffrey Paul Schmitt

Okay. And could you say what you're seeing on the workers' comp rate front? I may have missed that.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

What's the question? Rates on workers' comp?

Jeffrey Paul Schmitt

Yes.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. It's off low single digits, kind of 3- 4. And quite honestly, what happened when rates were going up, workers' comp went up the most. So there's some kind of reaction now coming down. But I can tell you on -- we tier our business and the lowered-tiered business, we're still getting some rate increases. It's the best accounts. The fact is that's where you give up some money.

Operator

[Operator Instructions] We'll go next to Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I've got some questions. I guess, starting with the expenses. I guess, most notably in the Commercial segment, the -- just the absolute dollars of overhead expenses in the last couple of quarters have been elevated relative to earlier periods. I want to get a sense of how much of this recent increase is probably -- will be with you for some time. Or is there anything in these more recent numbers, roughly $130 million the last couple of quarters, again, this is overhead, anything in there where it's temporary to some technology investment that will go away? Can you give us some sense of that?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. I think, first of all, if you look at acquisition expense, that's flat, right? So we're talking about underwriting expense. And if we look at underwriting expense, that's up. As I mentioned earlier, Jay, over the last couple of quarters, we have been hiring people. That's headcount. That costs money. We also have spent money on IT and analytics. So all of that goes into the underwriting expense. So that has gone up. And of course, premiums have flattened and were slightly negative last year. So that also has an impact. So the reality is we are going to invest in the business and we are hiring people. As I mentioned, we've hired an awful lot of people and we've hired a lot of people in Commercial. As you point that, that number has gone up, we've hired a lot of people in Commercial. So this time of year, you tend to have people who haven't left yet. There's -- after people get their bonuses, there's always a flurry in the marketplace and people move on. But I think headcount will straighten itself out over time.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. The -- on the Specialty business, the net premiums continue to rise -- gross premiums, excuse me, continue to rise; net, down. I know the cell phone business distorts that. This relationship we're seeing now with growing gross and the shrinking or flattish net, should that differential continue in the future?

Thomas F. Motamed

Former Chairman and Chief Executive Officer

Yes. We think so. We talk about risk selection here every day. We talk about pricing. We talk about tiering. Now if your question is Specialty, we have some areas in Specialty we're getting rate increases, where we think we need them. Others are more competitive. We're giving something back. But I think the story in Specialty is, quite honestly, a lot of people don't understand the exposures and they're underpricing the business and they're making it competitive and they're going to pay the price. We've been in this business a long time. We get it. And therefore, if you look at Specialty, we're not writing a lot of new business in Specialty. Why is that? We don't think it's priced right.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Actually, the question really was on -- sorry, so the question was really on the difference between the net and the gross. Because I think it's the cell phone business where you write -- you basically reinsure all of it. Maybe that's a growing piece of what you're doing. But if you look at the gross premiums have gone up roughly 10% for the past 5 quarters. Premium -- net premium has been down. I'm wondering going forward, does that cellphone business continue to impact the numbers the way it has been?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. People keep buying cell phones. Its's just going to keep going up. It has been going up.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes. No, that makes sense. Next question. On the health care side, we've heard from a number of companies that have had some reserve -- negative reserve issues in their various health care businesses. And this obviously encompasses a lot of different types of business. It doesn't seem like you guys have had much of an issue. Can you talk about the reserves in your health care-related businesses?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I think they're more than generally adequate. This quarter's loss reserves and release in Specialty came from older accident years in health care, so 2011 and prior. I think we continue to see pressure on results in the more recent accident years really across all of Specialty, Jay. This is what Tom was saying. So '12, '13, '14, '15. But we believe we reserved adequately for that. So whether that's health care or particularly public D&O or financial institutions where we think the pricing and competitive environment has gotten a bit irrational, we book to those. So we see pressure on loss ratios there, but we were able to -- we certainly feel like we're reserving appropriately and adequately and had some favorable news coming out of Specialty in '11 and prior, so older years.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. It's nice differential with what we're hearing from some others. This leaves one more question. And again, more of a probably technical thing. On the International side, your net premiums written grew quite a bit faster than your gross. I don't know if it was a change in your reinsurance program that allowed that.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, there were a couple of things. So you're right. So our reinsurance spend, last year, we purchased most of the XOL covers in the first quarter of this year. The anniversary date's been moved to April 1. So some of the difference is that. And then you might remember, there was a big premium kind of write-down of $16 million last year in the first quarter in the International business, where for a bunch of previous years, Hardy recognized an adverse premium development. So there were 2 things happening. So when you -- maybe so you can -- if you want to call us back, and James or I can or someone can kind of lead you through it. But once you cut through all the noise in International, so you cut out that premium writedown a year ago, the reinsurance spend and FX, it's -- the top line's flat. But we'd be happy to lead you through the detail.

Operator

We'll go next to Meyer Shields with Keefe, Bruyette, & Woods.

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

Two, I guess, bigger-picture questions. One, are you seeing any change in BOPs liability claim filing, is that environment changing at all?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I'm sorry. Say that again, Meyer. We didn't really hear you.

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

I'm sorry. I was asking whether you see any frequency of liability claims under commercial multiple peril.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

What were the last 3 words that you said?

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

Commercial multiple peril.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

No.

D. Craig Mense
Chief Financial Officer and Executive Vice President

No. Not quite -- we haven't seen any increase. And what I did say is we had small favorable development you saw on Commercial and kind of differentiating from what we've seen in Specialty, 12, 13, 14 in Commercial lines are both GL in a very small modest way. GL and auto both had developed slightly favorably. So that's certainly encouraging to us and encouraging to what Tom was saying earlier about where we think Commercial lines is going.

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

Okay, that makes sense and that's good to hear. Second, we've heard some talks from both Berkshire Hathaway and AIG about opening direct-to-consumer distribution platforms. Can you talk a little bit about how you and maybe your agents are responding to this?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Direct-to-consumer, Tom?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Oh, direct-to-consumer. I think if you look at Berkshire, from what I know, they're looking at the very small business. Particularly, what I heard was workers' comp in California. So I don't think -- we write small business. We write small workers' comp. But we haven't seen that be a disruptor to us today. We'll see over time what it does, but we're committed to the independent agent system, the broker system. And we're pretty selective who we deal with and we try to build strong relationships. And quite honestly, since we're a company that really specializes in certain industry segments, we're much more focused on the more sophisticated customer who wants the advice of a broker and agent and is not a price buyer. We're not interested in the price buyer. So we're in a different marketplace. That doesn't mean they won't be successful. But we're not going to compete on price. We'd rather compete on value whether that be underwriting expertise, risk control claims, whatever it might be. That's how we've chosen to compete.

Operator

And with no further questions in the queue, I'd like to turn the conference over to Tom Motamed for any additional or closing remarks.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you. We'll see you next quarter.

Operator
Again, that does conclude today's presentation. We thank you for your participation.