S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

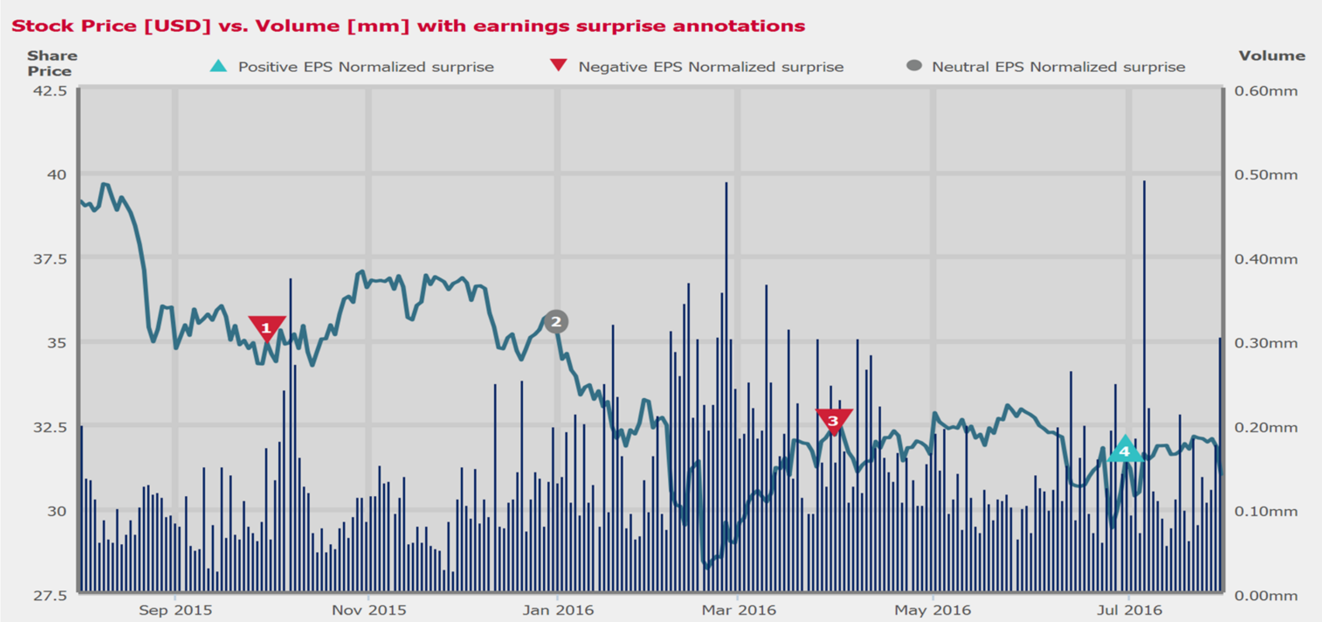
FQ3 2016 Earnings Call Transcripts

Monday, October 31, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.82	1.15	40.24	0.85	2.70	3.21
Revenue (mm)	1998.50	1624.00	(18.74 %)	2020.00	8014.00	7675.67

Currency: USD
Consensus as of Oct-31-2016 11:40 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.78	0.77	(1.28 %)
FQ4 2015	0.89	(0.19)	NM
FQ1 2016	0.62	0.34	(45.16 %)
FQ2 2016	0.71	0.74	4.23 %

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

James S. Tisch
Director

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jeffrey 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

Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Good day, and welcome to the CNA Financial Corporation Third Quarter 2016 Earnings Conference. Today's conference is being recorded.

At this time, I'd 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, Evan. Good morning, and welcome to CNA's discussion of our 2016 third 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 and references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during the call. Information concerning those risks is contained in the earnings 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, October 31, 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 and other financial 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, Tom Motamed.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, James. Good morning, everyone, and thank you for joining us today.

I am pleased to report another solid quarter of progress with a much improved net operating income of $311 million compared with $210 million last year and an operating ROE of 10.5%. The current quarter result was driven by a combination of several positives: Steady accident year underwriting results, continued favorable reserve development, light catastrophe losses, healthy investment income and a small profit in our Life & Group segment.

Our Property & Casualty Operations had another good underwriting quarter with a combined ratio of 90.4%. Excluding catastrophes and development, the Property & Casualty combined ratio was 97.5%.

Our Specialty business had another outstanding quarter with a combined ratio of 79.9%. This was driven by significant favorable prior year loss development across several areas, with Surety being the largest contributor. The underlying combined ratio for the third quarter was 95.6% with an underlying loss ratio in line with the full year 2015 result.

Net written premium grew 4% in the quarter, driven by our Warranty and Surety businesses. Specialty rates were flat for the quarter and retention continued to be very strong at 87%.

Commercial's combined ratio was 99.8%. Excluding catastrophes and development, the combined ratio was 98.7%. The underlying loss ratio was in line with where we ended the full year 2015.

Net written premium increased 7% in the quarter. The growth was driven by improved retention and new business in our focus customer segments. Commercial rates were essentially flat and retention at 83% while much improved from the prior year, is consistent with our recent quarterly trend.

Our International business had a good quarter with a combined ratio of 93.2%. The underlying combined ratio was 99.7%, also with an underlying loss ratio in line with full year 2015.

Net written premiums increased 15% for the quarter. The majority of the growth came from middle market products in the U.K. and Continental Europe and from product lines which are now being delivered across all the International platforms such as health care and technology. Rates decreased 1.3% and retention was 70%.

With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone.

CNA delivered a strong financial result in the quarter, driven by solid across the board P&C operating results, healthy investment returns and a small profit in our Life & Group segment.

Operating earnings were $1.15 per share, up almost 50% from the last year. Our core Property & Casualty operations produced net operating income of $329 million, 25% above the prior year quarter. Our third quarter calendar year loss ratio was 54.7%, helped by a little over 8 points of favorable prior year loss development. This is our sixth consecutive quarter of favorable reserve development. Our disciplined reserving practices have resulted in favorable prior year loss development in 34 of the last 36 quarters. The underlying loss ratio was 61.8%, consistent with both the prior year quarter and where we ended full year 2015.

Over the past few months, the management team undertook a comprehensive review process in an effort to simplify the organization, with a dual purpose of improving the timeliness of our decision-making and reducing our expenses. The outcome of this effort resulted in severance expense of approximately $11 million in the third quarter. We expect to complete this initiative next quarter and estimate that we will incur a small amount of additional severance expense.

We also completed the transition to a new IT infrastructure service provider in August, which added about $10 million of onetime transition cost in the quarter. These and other unusual expenses inflated our third quarter expense ratio of 35.2% by over 1 point. We expect these actions will lower our annual run rate expense ratio to below 34%.

Life & Group produced $6 million in net operating income in the quarter. I would characterize this result as consistent with our reset assumptions. The year-to-date Life & Group result is now breakeven.

Our Corporate segment produced a net operating loss of $24 million, similar to the prior year result.

Net investment income was $524 million in the third quarter compared with $354 million in the prior year quarter. Income from limited partnership investments was $65 million, a 2.6% return, compared with a $93 million loss in the third quarter of 2015. Income from our fixed maturities securities in the third quarter was $457 million, generally consistent with the prior year period. Our investment portfolio's net unrealized gains stood at approximately $4.1 billion at quarter-end, a slight increase since the end of the second quarter.

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 traditional P&C liabilities had an effective duration of just over 4 years at quarter-end, in line with portfolio targets. The effective duration of the fixed income assets which support our long-duration Life & Group liabilities was 8.6 years at quarter-end, which continues to reflect both the low interest rate environment and our tactical decisions.

At September 30, shareholders' equity was $12.2 billion and book value per share was $45.08, an increase of 3% since June 30. Book value per share, excluding accumulated other comprehensive income, was $44.21. Statutory surplus at September 30 was an estimated $10.9 billion for the combined insurance operating companies, relatively consistent to where we ended last year. We continue to maintain ample dividend capacity and significant financial flexibility.

Cash and short-term investments at the holding company were approximately $475 million at quarter-end. We continue to target cash at the holding company equal to approximately one year of our annual net corporate obligation.

In the third quarter, operating cash flow was $507 million. Cash principal repayments through pay down, bond calls and maturities were approximately $1 billion. 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.

As you read last week, I will be retiring shortly. Over the last 8 years, CNA has been on a journey to become a top-performing company. We have spent considerable time and effort on improving the fundamentals of our business from both an operating and financial perspective. The ongoing improvement that you have witnessed, along with the fundamentals in place, gives me confidence that CNA will continue to improve under Dino Robusto's leadership.

With that being said, we will now take your questions.

Operator

And before taking questions, we'd like to pause for a moment for additional remarks.

James S. Tisch
Director

Hello, everyone. This is Jim Tisch calling in. I'm the CEO of Loews Corp. And for sure, I'd be remiss if I didn't publicly comment on the impending retirement of one super, world-class CEO, Tom Motamed.

In the insurance industry, it is very rare for an executive to leave a company in a stronger capital position than the one he inherited, and it's even more rare to have done that despite instituting a dividend policy that has paid to all shareholders billions of dollars over the past 5 years. Tom has been an extraordinary CEO of CNA. The company he is leaving is in a significantly better strategic financial and reputational position than the one that he inherited when he started. I have publicly stated that I'd like for CNA to be a top quartile underwriter over time. And it is now my firm belief that, thanks to Tom, in many of CNA's segments, we have achieved that goal. And in other segments, there is certainly a clear path and a strategy towards getting there.

Anyhow, the Tom -- the job that Tom has done is simply remarkable and I just wanted to publicly say thank you. Tom didn't know that I was going to do this. And if you know Tom, you probably know that he is not too happy right now sitting in Chicago listening to me. But I wanted to acknowledge to him and to all of our shareholders my own gratitude on his final conference call.

With that, I'll now turn the call back over for questions.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

And you're right, I'm not happy.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Tom, if you would like -- historically, when George Herbert Walker Bush left office, he left a letter for Bill Clinton and there's the famous letter that Bob Willumstad left for Bob Benmosche when he took over at AIG.

Are there final closing remarks that you're going to leave? What are you going to tell Dino when he comes in on the first day of work? Is there going to be a letter on his desk telling what things he needs to address, first and foremost?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. There will be a letter, but it will be secret. I'm not telling you what's in the letter.

Joshua David Shanker
Deutsche Bank AG, Research Division

Can you give us some hints or at least tell us what's important to you to see happen as you leave?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

If I was to give you any indication, it would be that I'm very positive about CNA and Dino should be very positive about the future of CNA as well. So I'll leave it at that. But I'm a positive guy and that's what I'm going to tell him, be positive about the future.

Joshua David Shanker
Deutsche Bank AG, Research Division

All right. Well, not to be too negative, but your rates are going the wrong way it looks like.

To what -- when I look at the loss ratio, I think about the split of claims versus LAE. To what extent is there room to bring down that loss ratio just based on better claims handling and what's going on right now?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think we've told you a couple of quarters ago, Josh, that we expect that with the work that we're doing in claims, whether that be improving the talent that we have in claims, the systems, using analytics more aggressively, we expect that the claim department can help us lower the loss ratio. So that's not going to be a huge number, but it is going to help on the loss ratio side. And we think that the tools that we have in place on the underwriting side, we have also continued to upgrade talent over the 8 years I've been here in the underwriting ranks. We think that's going to help us too going forward. So better talent, better tools, we all think that will help us going forward.

So I said I was an optimist and I continue to be optimistic because I think we're doing all the fundamentals very, very well and they're going to pay off. So I think you can see loss ratio improvement in Commercial. We believe that. And as Craig mentioned, we are looking at expenses and we expect some expense improvement as Craig outlined.

Joshua David Shanker

Deutsche Bank AG, Research Division

Okay. And looking at International, obviously there's been a lot of variability that's been sort of going through some metamorphosis over time. There is very good result for this quarter. Has International reached a steady-state? Do we think these are normal results for International and that what you're leaving behind can reproduce these kind of results consistently?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think, first of all, you have to realize that it's not a huge portfolio. It's less than $1 billion. And it's made up of different businesses, very different businesses. Continental Europe is a lot different than the U.K. The U.K. is different than Canada. Canada is different than Hardy or Lloyds' syndicate. So they are very different businesses. I think we've made some pretty great strides to improve talent as well and introduce new products as we mentioned. Technology and health care were products that CNA U.S. wrote. And when we bought Hardy, we said, over time, we would be introducing those products to the European marketplace. So this is all work in progress. And if you know anything about Lloyds, it's a lumpy business because it has great deal of cat exposure. So the fact is you will see some lumpiness in our International results. But over time, we think this is a good business to be in. And as it gets bigger, it will get more profitable and, hopefully, less lumpy.

Operator

We'll take our next question from Bob Glasspiegel from Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Long-term care, a couple of questions. First of all, curious on whether you have any comments on Genworth's series of announcements. They did increase reserves for increased claim duration and came together with a plan that, I guess, may have implications to the industry so -- as well as going into your sort of fourth quarter review for long-term care, anything that we should be thinking about positive or negatively? It seems like it was a relatively quiet quarter in the third quarter with no commentary.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Bob, this is Craig. So it's difficult to comment on Genworth and I wouldn't want to comment on another company in any event, but it's particularly difficult because you don't know -- we don't know the beginning point of their assumptions about claim. But I could -- I would state categorically that we don't see that morbidity pressure and we even referenced in the press release that this quarter's small profit was driven by a morbidity positive. So recall that, last year, when we've reset our assumptions, morbidity reset assumptions were really the biggest part of the reserve change. And then, I think what's important for us is just to -- you can see the last 3 quarters' results that the results have been generally in line with those reset assumptions. So now we are in the midst of doing -- looking at both our disabled and healthy life reserves, but I don't expect an adverse outcome from disabled lives or claims. As a matter of fact, there's a possibility there could be a small positive out of that claim portion.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

And what about the interest rate piece to the analysis? What should we be thinking in terms of -- as far as pressure?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think that -- well, there is pressure from interest rates, so maybe just step back. I don't -- I wouldn't want to predict what the outcome is going to be, but just if you think simply about it, there are 4 key levers, right? Morbidity, persistency, interest rates and then rate increases. And I would tell you that there is pressure as -- more from the interest rate outlook than what we've been able to achieve because one of the positives is we've been able to really manage to produce slightly better investment returns that we've built into our recent near-term prospects, so -- but long-term that's a pressure. Then, on the side of morbidity, what I just said -- those -- morbidity persists in both have been largely in line with our expectations. I wouldn't expect any change from that.

And I would tell you that -- and I would remind you that our rate increase assumptions -- we've been pretty conservative in our outlook there, that we've only baked into our GPV what we could see over the course of the next year. So last year's GPV just incorporated rate increases that have been filed, that have been approved or that we plan to file in '16. So there's a positive from both our achievement of rate increases this year has been quite a bit above what we've baked in the GPV and then there's some prospect for future rate increases. Actually, regulators have been generally accommodative and positive on that side. So we've got some offsetting negatives and positives, but generally fairly balanced. And I really can't give you a hint nor do I even know of what exactly the outcome is going to be.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I look forward to your fairly balanced report in 3 months.

Operator

We'll take our next question from Amit Kumar from Macquarie.

Amit Kumar
Macquarie Research

Thanks, Tom, for obviously doing a fantastic job at CNA. And I agree with what Jim said that we rarely see a CEO leaving with a better company than what he gets to in the initial sort of round. So thanks for a fantastic job.

I just had a few quick questions. First of all, just starting with, I think, the discussion on severance of employees. I think the number mentioned was $11 million or so. Can you just give a bit more background on what happened and how should we think about that going forward? Are those people on the underwriting side or claims side or corporate side, just maybe expand a little bit?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I was going to say, Amit, those were -- it was across the board review. So they were from all sides and all different contributions. So I think what's most important is to know that it's -- it did, we think, simplify or improve the kind of line of sight to decisions. And as we said, we think it's about, overall, and you'll see this in the Q, about a $20 million overall cost. $11 million of it in this quarter, a little bit more to come, some actually recognized last quarter.

I think what you'd also want to know is, we think, the overall kind of annual run rate expense save is around $50 million. Not all of that will go to underwriting, so you won't see it in the expense ratio. So the -- and we have said this before, we thought the annual run rate expense ratio was around 34.5%. And we'd expect these actions to lower that to something that's slightly below 34% as we go to the fourth quarter and as we operate through 2017.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Amit, I would just add that we really have tried to simplify the organization. This was not cutting for cutting's sake. It was to find a better way to do business, simplify things, eliminate overlaps, et cetera, et cetera. So I think as we brought in a lot of new people over the last 8 years, we had very good people at CNA when I got here and we've just added more. So as we've done that, it kind of changes your perspective on how you should structure and organize things down through the ranks of the company.

So I look at it strictly to be more efficient and more effective and, at the same time, we have some cost savings. So that's a good thing.

Amit Kumar
Macquarie Research

Yes. That's helpful. The second question I had was on the discussion on IT. And if I recall correctly, we talked about this previously, too. What exactly is happening when you say it's a new underwriting platform? Is it simplifying how the business is being looked at? Or is it aligning more business to be looked at? Maybe just help us to understand that a bit better.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. I think, Amit, the way I look at it is when I got here, there were lots of different systems that various underwriters use. So if you were in one particular underwriting group, your system may have been different than the people who were sitting next to you in a different section of the company. So what we've tried to do is, once again, simplify, create a common architecture for underwriting with the ability to, what I would say, connect to various databases and information so that you can get a holistic view on a particular customer or line of business, and that means claim people can look at the same information that underwriters are looking at and vice versa. So once again, it was a question of creating greater connectivity and streamlining the process and making sure that everybody was doing all the things that we thought were important from an underwriting, pricing and terms and conditions perspective.

So it's a multiyear program to get this done, but we are seeing rewards already. And people in the field who use this and people in the home office are saying this is a positive thing, but it's going to make us faster to the point of sale and make our jobs easier and more consistent with the appropriate amount of detail.

Amit Kumar
Macquarie Research

Got it. The final question I had was on the reserve releases and, I think, they were higher in Specialty. Is there anything different from this quarter's reserve releases, I guess, from the time period they came from versus the past time period? Maybe just expand on that a bit.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, this is Craig, Amit. So the -- not really different. So Specialty, as we said, was the largest driver and a little bit over half of that reserve release came from Surety. And the time period there, really '14 and prior. So -- and the other big bunch comes from a bunch of different professional liability product lines, so pretty widespread. And again, kind of '14 and prior reserves. So older accident years in Specialty continue to be positive. You'll see some commentary in the Q about some small pressures. In more recent years, we've said in public management, D&O and even some of our nursing home business, but again, more than offset by the favorable prior years.

In Commercial, I think what's important is we continue to see positives in the more recent years. So I think my commentary last quarter was that a lot of the frequency decreases we're seeing are, as Tom was remarking earlier, underwriting-driven, claim management-driven. So we've been a bit-- I don't know if you would use the word slow, but I guess cautious about recognizing those improvements. And we are seeing those improvements, recognized a little bit here in the third quarter. Actually, some of that good news is offset by adding a little bit of work comp reserves to the Florida judicial outcome, but otherwise positive. We'll be taking another look at all the Commercial lines, major products in the fourth quarter and take another hard look at the '16 accident year as a result of that. So I think that's all.

And then, International was really just a large take down, a large claim take down of a -- related to the U.K. floods and one claim from '15, and then a bunch of small positives across all of the other products in International.

Amit Kumar
Macquarie Research

Got it. And you mentioned Florida earlier and I just forgot to ask. Would your Hurricane Matthew exposure be limited to your cat load for the quarter? Or do you have any reads on that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I'm sorry. Ask that again?

Amit Kumar
Macquarie Research

Hurricane Matthew exposure, would that be in the cat load for the quarter? Or how should we think about that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

So that would be a fourth quarter event, so there's nothing in these results that would be reflective of that. Our exposures, our market share is around 1%, a little bit less than 1%. There's pretty wide ranges of losses that we've seen. I think we would estimate our losses to be really anywhere between maybe $20 million and as high as $70 million, but probably more likely to the mid or lower end of that range. But it's a little early to say, but not a significant event in terms of outcomes.

Operator

We'll take our next question from Jeff Schmitt of William Blair.

Jeffrey Schmitt

Could we get a sense on how much of the Specialty business mix is warranty-related?

D. Craig Mense
Chief Financial Officer and Executive Vice President

It's really a pretty small percentage. I would say it's probably about 5%. We can give you those exact figures in a follow-up call if you'd like them, Jeff, but it's not a big portion.

Jeffrey Schmitt

Okay. And then, looking at the underlying loss ratio, excluding cats. On the Specialty side, it's up about 90 basis points. Commercial is up about 70 basis points. Can you maybe discuss what's driving that and whether you're seeing any change on the frequency or severity front?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think -- I guess, the first thing I'd do is I'd suggest turn to Page 11 in our earnings slides that we put out. So some of the year-over-year comparison is going to be driven by just when we recognize, if you recall the pattern, by which we have kind of gone through the year when we've seen improvements. So I think the most -- what I would point you to, if you look at Specialty, look at where the full year '15 turned out and where we're booking the current full year, and it's pretty much exactly the same. So I think that would be the story there that loss ratios are stable. That would be -- and really then, the story in Commercial, if you look again at where we booked the full year of Commercial, which was 61.6%, we're now slightly below that. As I said, we lowered the loss ratio by about 0.5 point in the third quarter. We'll take another hard look at the accident year '16 in the fourth quarter. So -- and I think the story would be the same in terms of stable in International when you're kind of looking at year-to-date and you take out the -- in fact, recall last quarter, we had over 16 points of large loss impact in Specialty in International, and you can see that's come down to a portion that's pretty consistent with where we ended the full year

'15. So I think the story is stable or improving loss ratios in accident years, so -- that underwriting and claim actions are offsetting the pricing and competitive environment.

Jeffrey Schmitt

Okay. And we're hearing anecdotally from some others that you're starting to see the litigation front start to change, just people getting more aggressive there. Are you seeing any of that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We are in some isolated product lines, but not broad-based. And that's part of what we would say is driving our nursing home results, which have been slightly adverse for the last couple of years.

Jeffrey Schmitt

Are you seeing sort of increased severity there where verdicts are higher? Or what exactly are you seeing?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No. I think we're -- no. We're seeing actually increased frequencies there. And we've commented on that for the last, actually 2 or 3 years, I think, but that's kind of the same.

Operator

We'll take our next question from Meyer Shields of KBW.

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

Two small questions, if I can. First, within Specialty, does the fact that you're growing rapidly in Surety, is that itself impacting the loss ratio and mix ratio on a comparable basis?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, not at all. I don't think -- I mean, that's more a function of just economic activity picking up and construction activity. That's a pretty -- that's been a very stable business. So -- and accident year loss ratios booking are really consistent with what we've booked in the past, and our pattern and practice really haven't changed there. Recall that's pretty -- can be a high volatility business if not done correctly. So we -- our practice has been to book what we think is a prudent accident year loss ratio and then look and see what the results have been, which you can generally tell when you're about 3 years in.

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

Okay. That's helpful. And then, just really quickly on the life side, the income tax benefit was a lot bigger than we had modeled and bigger than the pretax losses. I was wondering whether there was anything unusual there.

D. Craig Mense
Chief Financial Officer and Executive Vice President

No. I think that's just a function -- if you look at the life portfolio, which is about 50% coming from -- in tax exempt munis. So it's just a function of how much income is coming from that tax exempt muni portfolio.

Operator

[Operator Instructions] And we'll take our next question from Jay Cohen of Bank of America.

Jay Adam Cohen

BofA Merrill Lynch, Research Division

And I just want to echo the positive thoughts and comments about Tom. You've been with the company a long time and the pace of change has been pretty steady. But really, when you take a step back and you think about where the company was when you took over, you see the accumulative change is actually really quite dramatic. So congratulations on a great tenure and, of course, good luck in the future.

The questions I have. I guess, first one would be in the Commercial business, the top line growth has been picking up. This was a much better growth rate than you've seen. Is this something you see as sustainable or there were any sort of large onetime items that help the net premium written growth?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think, Jay, if you look at the third quarter of '15, our retention was 76%. The thing that has helped the most is we really improved our retention. We're currently about 83%, and that really is an indication of we feel better about the quality of the book. So I think the retention, to me, is the key number.

If you look at new business in Commercial, third quarter of '15, we wrote $135 million. This quarter, we wrote $135 million of new, so that's the same. The submissions are down. The hit ratio, a little bit better. So I think once you have your retention at 83%, it's a little harder to grow the next time around in the current market. So I wouldn't expect you to see 7% next time third quarter of, whatever it is, '17. So I think it's the retention that really buoyed the growth in this quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. And then, the other, maybe for Craig. Can you just remind us, I'm sure I asked this question before, but remind us about the timing of -- from a cash capital standpoint when dividends come to the holding company?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We take dividends to the holding company on a regular basis, so usually every quarter a certain amount. And that structure is pretty well laid out, I think, in the Q and we'd be happy to kind of lead you through that, Jay, so that you can -- if you're looking to understand what kind of dividend capacity we have. And remember that it gets replenished. So you take the starting point is looking at the last 12 months of operating income and it dividends out. And then, every quarter, as you roll forward, it's kind of replenished by that amount.

Operator

We'll take our next question from Ron Bobman of Capital Returns Management.

Ronald David Bobman
Capital Returns Management, LLC

I had sort of a general -- I had a few questions. So the first one, I'm curious about, on the Commercial business. Tom, when you either sort of just prior to joining or soon after joining and sort of had a more direct survey of what that operation, the book, the people sort of look like and now you look as to where it is today, did you sort of meet your expectations for the level of -- the quantity of improvement? Did you exceed it? Did you fall short? In some ways, yes; in some ways, no? I'm curious to get your thoughts about that.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would say, first of all, you're never satisfied with where you are. I'd like to think we can always do better whatever the category is we're looking at. So I would say, look, number one, it's a journey. It takes a lot of time. As Craig suggested, you need to be conservative. You need to be cautious. It's not turn the whole place over and look for an immediate return. So I think we've done this in a very thoughtful, conscious, methodical way. But would I like to see a little better than it is today? Sure. But I think if you look at the numbers, they're rapidly approaching our peers. And in this type of environment, that's a pretty good result. And someday, the market will pick up and CNA won't have to deal with a lot of hangover issues or legacy issues. We'll be well-positioned for the future. So I would say yes. Could we be a little bit better? Maybe so, but I'm optimistic about the future and I think CNA is well-positioned. So that's where I'd leave it.

Ronald David Bobman
Capital Returns Management, LLC

Would you comment on Commercial auto, what you're seeing and what you think the future holds for that line of business for the market broadly? And then, I had one more question after that, please.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Tell me why I should like Commercial auto, that's probably the starting point. I would say that it's still a black eye for the industry. We continue to get rates in Commercial auto. But quite honestly, the loss trends aren't very favorable. So whether that's severity or frequency for the industry, I think it's going to be a black eye for a while.

Our strategy, we're certainly not pushing Commercial auto as a line that's going to drive earnings over time. I think if you look at our business, we're much more focused on the middle market business and the package business, which is performing very well. Package will be the leader of Commercial over time and the customer segment strategy, where we want to write the business. So auto, we have really kind of re-underwritten auto in a lot of the segments and avoided it in some segments as well. But as I learned early in my career, 4 wheels is bad. You get more wheels, more tires, the bigger the trucks, the worse it gets, more buses, whatever you want to say. So not a line that I would say will be a driver of profits for the industry anytime soon.

Ronald David Bobman
Capital Returns Management, LLC

Is there something unique about Commercial auto or Commercial auto this time? Or is it just a classic casualty line that just got too bad and it's going to take particularly long to right itself?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think it's -- I'm a little old. So I can tell you this, if you go back 30 or 40 years ago, it wasn't a very good line back then. It got better for a while and now it's gotten worse. So I don't think it's a great line. If you drive a vehicle, you can see how others drive vehicles. It's a little bit alarming out there. People are paying less attention. Speed limits don't mean anything. And the fact is there are a lot of accidents, a lot of highway deaths. So I think it's not a line that's going to get, as I said, to the point that you're going to make a lot of money off it. So we'll go other places to write business. And I think that's always important that you don't write business for the sake of writing business. You write business where you think there are margins, and that's one of the things that we've been focused on.

Ronald David Bobman
Capital Returns Management, LLC

My last question was on the adverse development cover that the company purchased from Berkshire, I'm not sure how many years ago. But could you just, I guess, presumably, Craig, could you give us an update on sort of where CNA stands as far as sort of utilization? I assume you're below the attachment. But could you just frame the current level of utilization or lack of utilization?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Ron, it's -- we purchased that cover in -- effective January of 2010. So we're almost 7 years in. I think the right way to frame it is how did we conceive of it and construct it when we bought it. Recall, we bought it to try to essentially eliminate our asbestos and environmental pollution exposure. And the way we framed that is that we bought enough cover that would -- we thought would extend beyond 20 plus years on a paid basis. And I'd say it's worked out pretty much exactly as we conceived or constructed it. So we're now almost 7 years in. Paid losses against the cover is something right around $1.2 billion against the $4 billion limit. So -- and when you look at kind of average -- so about 3-year average, you'd see that there is about 16 years of limit left, so that sounds like pretty consistent against it.

There have been -- it's not in the earnings material this quarter, but we have some earnings slides from subsequent if you'd like to call in. I'm sure James Anderson and group would be happy to get you some of that material from, like, 2 quarters ago. We had some material in because that's when we completed our reserve review. The seated reserves are now $2.8 billion against that $4 billion limit, so $2.8 billion of ceded against $4 billion. Recall that we paid $2.2 billion and have paid $1.2 billion into it. So hopefully, that's helpful.

Operator

[Operator Instructions] And there appear to be no more questions at this time.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Okay. That's all folks. Thank you.

Operator
And that does conclude today's presentation. Thank you for your participation. You may disconnect.