S&P Global
Market Intelligence

CNA Financial Corporation NYSE:CNA

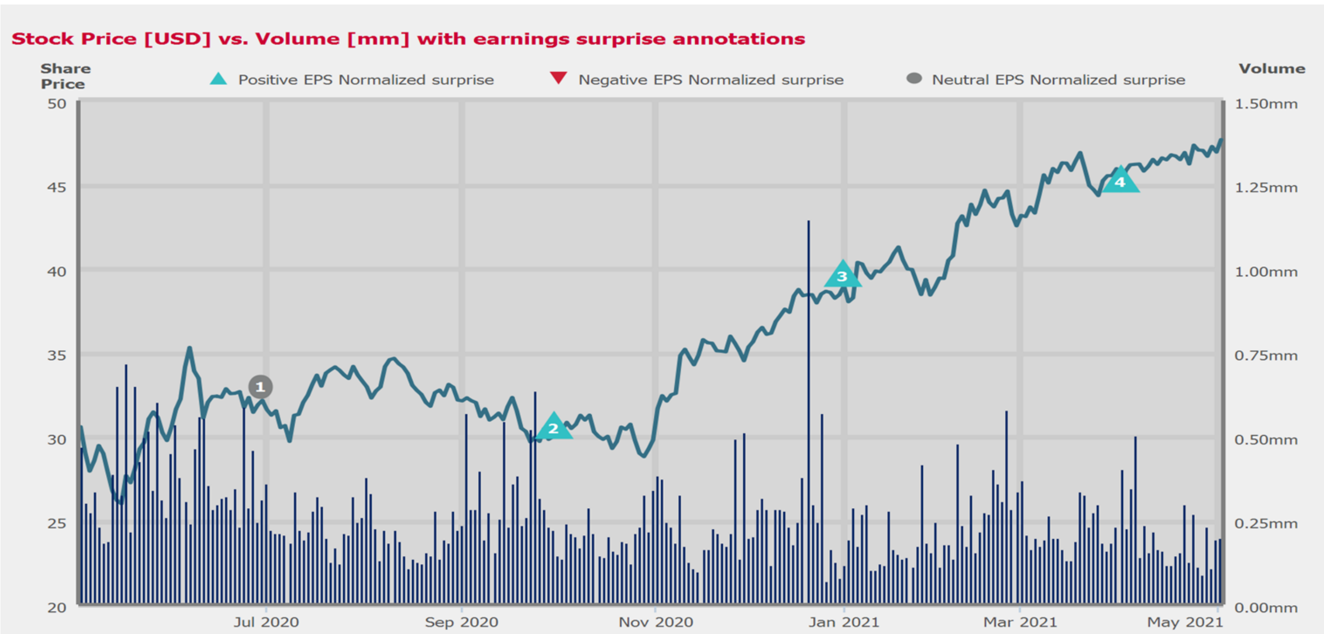
FQ1 2021 Earnings Call Transcripts

Monday, May 03, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.93	0.96	▲3.23	1.11	3.95	NA
Revenue (mm)	NA	NA	NA	NA	NA	NA

Currency: USD
Consensus as of Apr-14-2021 11:05 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	0.36	0.36	●1 0.00 %
FQ3 2020	0.60	0.71	▲2 18.33 %
FQ4 2020	1.00	1.23	▲3 23.00 %
FQ1 2021	0.93	0.96	▲4 3.23 %

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Call Participants

EXECUTIVES

Albert Joseph Miralles
Executive VP & CFO

Dino Ennio Robusto
Chairman & CEO

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Joshua David Shanker
BofA Securities, Research Division

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

Presentation

Operator

Good morning, and welcome to CNA's discussion of its 2021 first quarter financial results. CNA's first quarter earnings release, presentation and financial supplement were released this morning and are available via the website, www.cna.com.

Speaking today, we will have Dino Robusto, CNA's Chairman and Chief Executive Officer; and Al Miralles, CNA's Chief Financial Officer. [Operator Instructions]

Today's call may include forward-looking statements and reference 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 SEC filings. In addition, the forward-looking statements speak only as of today, Monday, May 3, 2021. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call. Regarding non-GAAP measures, reconciliations to the most comparable GAAP measures and other information have been provided in the financial supplement.

This call is being recorded and webcast. During the next week, the call may be accessed on CNA's website. If you're reading a transcript of this call, please note that the transcript may not be reviewed for accuracy, thus it may contain transcription errors that could materially alter the intent or meaning of the statements.

With that, I will turn the call over to CNA's Chairman and CEO, Dino Robusto.

Dino Ennio Robusto
Chairman & CEO

Thank you, Ashley, and good morning, everyone. We started the year with good earnings from an improved underlying combined ratio and solid investment returns, which together largely offset a record-setting first quarter for catastrophe losses.

But before getting into our results, I wanted to comment on our cyber incident. As you likely know, in late March, we sustained a sophisticated cybersecurity attack, which we determined was caused by ransomware. Promptly upon detection, we undertook steps to address the incident, including proactively disconnecting our systems from our network out of an abundance of caution to contain the attack and, most importantly, to ensure that external parties were not at risk of cross-contamination.

We also engaged a team of third-party cybersecurity experts to investigate and determine the full scope of the incident and notified law enforcement and key regulatory agencies. I was personally involved in our remediation and recovery efforts, and I'm proud of the way we responded as a company. I'm pleased to report that the attack has been fully contained, and our systems are back online and operations are back to normal.

There is no evidence to indicate that external customers or other parties were at risk of infection or cross-contamination due to this incident. Most importantly, we were able to continue to meet the needs of our agents and brokers and insureds throughout the incident, and we received positive feedback from them that recognize their commitment to transparency and open communication.

We kept the agents and brokers consistently apprised to the latest developments throughout the 3-week restoration process and provided them with incident updates to share with their clients should they receive questions. Our agents and brokers have been very supportive through this incident, and I want to thank them for their remarkable understanding and flexibility.

We are continuing to review any impacted data to determine our legal obligations with respect to any notifications we may be required to make. To the extent that this incident impacted the data of insureds, employees or others, we will notify them directly as required.

Now turning to our results for the quarter. We had core income of $263 million or $0.96 per share. Net income for the quarter was $312 million or $1.14 per share. The P&C underlying combined ratio was 91.9%, a 1.8 point improvement over last year's first quarter results, and it is the lowest underlying combined ratio in over 12 years. Each of the 3 business units improved their underlying performance in the quarter.

The all-in combined ratio was 98.1%, 0.8 points higher from the first quarter a year ago. The increase is driven by a 2.5 point increase in the catastrophe loss ratio in the quarter compared to last year, largely offset by the improved underlying combined ratio. In the first quarter of 2021, pretax catastrophe losses were $125 million or 6.8 points of the combined ratio. The cat losses are primarily due to winter storms Uri and Viola.

The combined ratio for Specialty was very strong at 88.8%, a 2.5 point improvement compared to last year. The combined ratio for Commercial was 106.7%, a 1.5 (sic) [5.1] point increase, as cat losses were 13.4 points this quarter versus 7 points a year ago. International combined ratio improved considerably to 95.9% as the reunderwriting we executed earns into the portfolio.

Prior period development was favorable in the quarter by 0.6 points on the combined ratio. The expense ratio for the first quarter was 31.5%, 1.6 points lower than Q1 2020. We continue to see the improvement in our expense ratio as our higher written premium growth rate over the past 3 quarters earns in. Net earned premium was up 6% this quarter. Al will have more to add on the expense ratio as well as prior period development.

The underlying loss ratio in the first quarter of 2021 was 60.1%, a little less than 0.5 point lower than the fourth quarter of 2020. However, the fourth quarter's result had a continued COVID frequency benefit. Excluding the benefit from COVID, the underlying loss ratio in the first quarter of this year actually improved about 1 point from the fourth quarter of 2020, and that is due to acknowledging earned rate being well above our long-run loss cost trend assumptions.

Of course, our earned rate change at 11 points is meaningfully higher than the margin we acknowledged. But as we have said before, we have been prudent about significantly lowering our underlying loss ratio until we have clear evidence that our social inflation trends will play out as courts come back to full capacity and the economy rebounds, particularly because we have been successful in profitably growing lines of business, such as management liability and umbrella, which are impacted by social inflation. And to date, there is nothing that leads us to believe that social inflation has been even marginally extinguished throughout the pandemic.

Now having said all of that, as earned rate is expected to continue to outpace our long-run loss cost trends assumptions, we should be in a position over the next few quarters to continue to see further improvement in our underlying loss ratio, all else equal. For the first quarter, rate increases continued to be strong at plus 11% for total P&C, which is consistent with the full year 2020 increase.

On a business unit basis, International rate was plus 14%, while Commercial was plus 10%, consistent with Q4 2020, and was plus 13%, excluding work comp. In the first quarter, the work comp rate was essentially flat, marginally better than full year 2020, which was slightly negative. Similar to 2020, the first quarter work comp rate included positive rate in several areas like manufacturing, while other areas were slightly negative, which aggregated to flat overall for the first quarter.

Specialty also achieved double-digit rate of 10%. Now although Specialty was down from the prior 3 quarters, it was impacted due to mix of business as our Affinity professional E&O programs are a larger percentage of Specialty renewal premium in the first quarter than the rest of the year. When you drill down, Specialty continued to get double-digit rate on rate in the areas that continue to need it, like aging services, where rates increased 33% in the first quarter; in public D&O, rates increased 34%; and cyber rates increased 21%, which incidentally was 6 points higher than in Q4.

Although rate for total P&C is 1 point less than the fourth quarter, we continue to get double-digit rate, which is merited because of all the environmental issues we have commented on over the last 18 months. Moreover, the increases remain appropriate and necessary when you put them in the context of how our industry operates.

It's consistently competitive with an underwriting cycle defined by long periods where price increases do not cover long-run loss cost trends that compound annually, like the roughly 20-plus quarters prior to this hardening market phase. Whereas through the first quarter of this year, earned rates have exceeded long-run loss cost trends for only 5 quarters.

So when we think about rate adequacy, we do so against this reality. Otherwise, we can too quickly fall behind in lines of business with higher and potentially accelerating long-run loss cost trends, such as several casualty lines we have discussed on prior calls. Therefore, we appropriately need to and will continue to push for rate increases well above long-run loss cost trends, and we see that persisting through the year-end.

We also continue to implement tighter terms and conditions across our portfolio, which can provide immediate benefit in the case of higher deductibles or coinsurance percentages. But in other cases, materialize over time, for instance, in cases where we strengthen our policy language. Retention was down 1 point from Q4 2020 at 83%. The decrease was due to re-underwriting our Lloyd's operation. Now although the decisions to eliminate certain programs were made in the fourth quarter of 2020, some policies had early 2021 renewal dates.

Retentions in Commercial and Specialty remained consistent with the fourth quarter at 84% and 86%, respectively. Our new business growth was strong at plus 16%, which continued in line with the double-digit growth rate in Q4 of plus 17%. With our success at growing new business and our double-digit rate achievement, gross written premium, ex our captive business, grew 8% in the quarter, led by Specialty at plus 10%, Commercial at plus 5% and International at plus 12%. Net written premium increased 4% in the quarter.

So as we look across the various production metrics for the quarter, we continue to effectively capitalize on the favorable market conditions and expect to continue to do so throughout the year.

With that, I'll turn it over to Al.

Albert Joseph Miralles
Executive VP & CFO

Thanks, Dino, and good morning to everyone. Before I get into the results, I would like to highlight a few changes to our earnings presentation materials intended to enhance the information provided to you and to align this reporting with how we manage the business.

These enhancements are specifically related to our production metrics and can be found on Pages 7 and 9 of the earnings presentation. This information for the Specialty and Commercial segments now provides a refined and more detailed breakdown of our rate and retention metrics into the subsegments of these businesses.

Specifically for Specialty, we've separated out the Affinity professional E&O program business from financial and management liability given very different business dynamics. As we've said before, our Affinity programs have been in place for many years with long-term multiyear renewal periods. As such, these programs are less impacted by day-to-day pricing dynamics in the market.

Financial and management liability, on the other hand, as we've told you over the last few years, has been a growth area for us, and we've been very successful in penetrating these lines of business and they exhibit rate retention dynamics typical of the traditional underwriting cycle.

You will also note on Specialty that we've included a line item for medical malpractice, which would have previously been classified as health care but did not include the medical malpractice Affinity business. This line item now includes all of the medical malpractice, including any related Affinity business that would have previously been included in the management and professional liability category.

On the Commercial side of the business, we have separated out the national accounts business, which includes both large account Property and large accounts Casualty. Again, these are important lines of business, which we've been targeting for growth, and the rate retention metrics reflect the unique business dynamics therein. Overall, we believe the additional information and granularity on these pages will provide insights into our business and the progress being made. Finally, all information here has been restated for the 4 previous quarters for comparative purposes.

Now turning to the results. Core income for the quarter was $263 million compared to $108 million for the prior year quarter. With a core ROE of 8.8% for the period, we continue to build upon the progress made on our underwriting profitability, notwithstanding a period of elevated catastrophes.

A meaningful contributor to our underwriting results for the quarter was the expense ratio. Our first quarter expense ratio of 31.5%, which is our lowest ratio since 2009 and reflects 1.6 points of improvement versus the prior year quarter and 0.5 point sequential improvement from the fourth quarter.

The expense ratio improvement was achieved in all 3 of our P&C business segments. During 2020, progress on our expense ratio was primarily driven by managing overall expense spend while investing judiciously in talent, technology and analytics. The expectation was that the trajectory of our net written premium would subsequently translate into earned growth, further benefiting the expense ratio.

This is clearly coming to fruition, evidenced by our results, and we are proud of our progress on this front. We would anticipate that our earned growth will continue to benefit the expense ratio and assist in funding rational investments into the business.

Turning to net prior period development and reserves. For the first quarter overall, P&C net prior period development was 0.6 point favorable, essentially flat to the prior year quarter. Favorable development in Specialty during the quarter was primarily driven by the Surety business. There were no material prior period development impacts in Commercial and International segments.

In terms of our COVID reserves, we've made no changes to our catastrophe loss estimates for the quarter. We continually review our COVID reserves and our previously established estimate of ultimate loss remains appropriate, and our loss estimate is still virtually all in IBNR.

Now turning to Life & Group. The segment produced core income of $36 million in the quarter compared to $4 million in the prior year quarter. Consistent with the last several quarters, results benefited from lower new claim frequency, higher claim terminations and more favorable claim severity. As referenced in the previous quarters, given the ongoing uncertainty of these trends, we've been taking a cautious approach from an income recognition perspective and accordingly have been holding a higher level of IBNR reserves.

Our Corporate segment produced a core loss of $36 million in the first quarter compared to a $17 million loss in the prior year. The results for the quarter included a $12 million after-tax loss from the closing of the loss portfolio transaction associated with legacy excess workers' comp reserves. As previously announced, we entered into this transaction with a subsidiary of Enstar Corporation and the transaction closed on February 5 of this year. This block of business, which was previously reported as part of the Commercial business segment, is now reported as part of the Corporate & Other business segment.

In addition, the results also reflect a change made to the segment presentation for certain legacy mass tort reserves.

Similar to the excess workers' comp block of business, these legacy mass tort reserves were previously reported in the Commercial business segment and are now reported as part of the Corporate & Other business segments. These changes were made to better reflect the manner in which we are organized for purposes of managing these businesses and assessing performance.

Turning to investments. Pretax net investment income was $504 million in the first quarter compared with $329 million in the prior year quarter. The results included income of $61 million from our limited partnership and common equity portfolios as compared to a loss of $125 million on these investments from the prior year quarter. Our fixed income portfolio continues to provide consistent net investment earnings, stable relative to the last few quarters and moderately down relative to the prior year quarter.

The year-over-year decrease was largely attributable to the effect of lower reinvestment yields. As a point of reference, the pretax effective yield on our fixed income earnings was 4.4% at Q1 2021 compared to 4.6% as of Q1 2020. The decline in our portfolio yield over this time reflects the cumulative effect of the persistently low interest rate environment. And while the recent increase in interest rates may help to alleviate some of the pressure on income, absolute reinvestment rates remain a headwind for the business.

From a balance sheet perspective, the increase in interest rates during the quarter resulted in a decrease in our unrealized gain position on our fixed income portfolio to $4.3 billion at quarter end, down from $5.7 billion at the end of 2020. Fixed income invested assets that support our P&C liabilities had an effective duration of 4.9 years at quarter end. The effective duration of the fixed income assets that support our Life & Group liabilities was 9.1 years at quarter end. As usual, slides from our earnings presentation will provide you with additional details of the investment results and the composition of our investment portfolio.

Our balance sheet continues to be very solid. At quarter end, shareholders' equity was $12.1 billion or $44.50 per share, reflective of the decrease in our unrealized gain position during the quarter. Shareholders' equity, excluding accumulated other comprehensive income, was $11.9 billion or $43.81 per share. We have a conservative capital structure with a leverage ratio below 19% and continue to maintain capital above target levels in support of our ratings.

In the first quarter, operating cash flow was $82 million and impacted by a $640 million payment associated with the loss portfolio transfer transaction. Excluding this payment, operating cash flow was very strong at $722 million compared to $212 million at Q1 2020 and driven by the improvement of our current accident year underwriting profitability and a lower level of paid losses.

In addition to these net operating cash flows, we continue to maintain liquidity in the form of cash and short-term investments and have sufficient liquidity holdings to meet obligations and to withstand significant business variability. Finally, we are pleased to announce our regular quarterly dividend of $0.38.

With that, I will turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thank you, Al. We are pleased with our production execution, capitalizing on the very favorable market conditions as well as continuing to improve our underlying underwriting performance as we have consistently done over the last several years. And we expect meaningful opportunity to do more of the same as we believe this favorable market environment will persist throughout the year.
And with that, we are ready to take your questions.

Question and Answer

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Yes. So you said that you're not yet ready to interpolate the frequency data into your results, and that's why the loss improvement isn't as material as you had imagined. There's 2 sort of frequencies. There's the frequency of actual like incidents and then there's the social inflation issue about whether it's on hold or not. And there's no evidence, as you say, one way or the other. But the incidents, the number of workers' comp claims or the numbers of slip and falls or things like that, don't we have good knowledge about whether or whether or not they occurred over the last, call it, 16 months?

Dino Ennio Robusto
Chairman & CEO

Yes. Actually, Josh -- thanks. We do. And when it all started, the pandemic, we had indicated that we anticipated seeing a lot less frequency benefit than many of the other potential carriers just because of the nature of the type of insurance we had with a lot of health care business, manufacturing, construction, contracting, many of which were all essential services.

As I think I referenced in my comments, we did have about 0.5 point benefit in the fourth quarter. That continued to play out from a frequency standpoint. And there was nothing in this first quarter. Again, we started off from a base that was probably a lot less than others, and obviously, we started to see that play out. So we have recognized some frequency benefit. And that's why sort of in comparing it, I tried to sort of normalize it by taking it out and then suggesting that the underlying actually -- loss ratio actually came down more than 1 point. Hope that makes sense.

Joshua David Shanker
BofA Securities, Research Division

There's some [stuff] in there. And then with regard to the social inflation, one of your competitors increased their loss cost trend assumptions this quarter saying that social inflation is worse in their modeling. Is there -- I understand the hesitancy to take down concerns over social inflation. But have -- is there any evidence that social inflation is accelerating over the last 12 months?

Dino Ennio Robusto
Chairman & CEO

Okay. So the way I categorized it was that we didn't really see -- we had -- let me take you back and maybe provide some context. If you recall at the beginning of 2020, Josh, what we did, because of various casualty lines, like the aging services, medical mal we had referenced, we had also referenced umbrella. And at that time, we increased our long-run loss cost trends about 100 basis points to 4 points. And I think throughout the pandemic, the social inflation or these trends remained at the elevated levels.

Since then, though, we also experienced some higher loss cost trends in 2020 due to elevated losses in cyber, both a sort of frequency and severity. And also during the year, you have to contemplate mix changes during the last several quarters because as we indicated in the prepared remarks, we grew our casualty lines such as management liability, and they're going to hold substantially higher long-run loss cost trends than our first-party or our big bulk of Affinity programs.

So what we did at the beginning of this year, Josh, to your question specifically, we increased our long-run loss cost trends roughly another 50 basis points and now it sits at about 4.5 points. Hope that helps.

Joshua David Shanker
BofA Securities, Research Division

That helps. And one other pandemic-related frequency severity item, when would we have information about how the pandemic has changed future behaviors around convalescent care, whether in-home care versus nursing home care, and what that means for longer-term modeling of long-term care losses and whatnot?

Dino Ennio Robusto
Chairman & CEO

I'll turn that over to Al. Al?

Albert Joseph Miralles
Executive VP & CFO

Yes. Josh, look, we are really week-to-week, month-to-month evaluating that and looking at those trends. To date, relative to the trends we've seen through the pandemic, it has not abated. We continue to see lower claim frequency, higher claim terminations and more of an inclination towards home health care. So to date, that hasn't changed, but we're looking very closely. And as I mentioned, we continue to hold higher IBNR in anticipation that we could see that certainly abate and change back to pre-pandemic levels.

Joshua David Shanker
BofA Securities, Research Division

If people opt to choose in-home care versus nursing care because permanent behaviors have changed, is that positive or negative for the long-term carriers? Is in-home care more expensive? Or is nursing care more expensive?

Albert Joseph Miralles
Executive VP & CFO

Home health care is typically less expensive. And so that is some of what the positive effects we're seeing come through our results is that our cost of care is actually less. What we're holding from an IBR (sic) [IBNR] perspective is more the frequency, but cost of care has been lower because there's been a propensity towards home health care.

Operator

We'll take our next question from Gary Ransom of Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I just wanted to follow up on the expense ratio. What I heard was that there really wasn't anything unusual at all in the expense ratio and that, that is a reasonable expectation going forward. Is that correct? Or was there anything unusual in the number this quarter?

Albert Joseph Miralles
Executive VP & CFO

Yes. Gary, it's Al. Nothing unusual. I think really, the storyline we've been giving you, we expected that earned growth would begin to kick in with our net written growth in 2020. You're seeing that show up this quarter. At the same time, we've been disciplined about our expense spend while we make investments. And I think you're just seeing -- you're seeing a continuation of that.

With respect to kind of the path forward, we would expect that our earned growth will continue to come in and we'll continue to manage as we have. The only variable I'd give you, Gary is, look, our investments in the business, talent, technology, analytics, are not a straight line. And therefore, you're going to move around a little bit on the expense ratio. But I think the level you're seeing in and around 31% is a good target.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. Terrific. And Dino, thank you for the info on the cyber attack. I wanted to ask though if the -- you have an arrangement with a vendor that handles all of your hardware, as I understand it. I'm not sure that -- I think that's still in place. But was that company involved in the -- in fixing this? And were they -- is that entirely separate from what you experienced?

Dino Ennio Robusto
Chairman & CEO

Gary, all our vendors that we use, we have infrastructure and other partners and we also have in-house IT and technology and security. And everyone was involved along with some forensic experts that, obviously, we hire when this event started. So everyone was involved, everyone did, in my opinion, quite an incredible job working around the clock to get us back up and running in the course of that 3-week period.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So is there -- if I look at where you are today in terms of cybersecurity versus, say, 6 months ago, is this -- you not only fixed this problem, are you in better shape in terms of the protective considerations you have around your technology?

Dino Ennio Robusto
Chairman & CEO

Yes. I mean I would say, look, we took obviously a number of steps and measures to, first, just remove the hackers and -- but also to further secure the environment, a host of actions, additional endpoint detection, monitoring tools, et cetera, so we did post this event.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. And then back on the underwriting. You still have this concern about social inflation, that's kind of the downside or the potential risk of loss ratios rising. Every quarter, we, from the outside, are trying to assess whether those loss ratios reasonably reflect what's going on.

And when I look back at the loss ratios historically, accident year loss ratios, at this stage of the cycle, they've had a very strong tendency, at least in long tail lines, to develop favorably. I don't know if that's going to happen this time necessarily. But if you think about the reasons why that happened in the past, do you think any of those reasons might apply to today where we are in the cycle now?

Dino Ennio Robusto
Chairman & CEO

It's -- that's something we -- you think about every day. I mean I -- even when I was commenting on how I sort of contextualize the loss ratio and rate adequacy in my prepared remarks, it's -- you look back at the cycle and you see many quarters, as I said, it was about 22 quarters in our case where rate increases were below long-run loss cost trends and now we're at 5. And so you think if that plays out, you have to, at least from my vantage point, think about rate adequacy and loss ratios in a little bit of a longer context.

Of course, one can make the observation that this cycle, not having hit the same highs, could be different than the other ones. And social inflation clearly is unlike really anything I've seen in the last several decades. And so it's hard to know. We've seen it impact our casualty lines, not being really changed during the pandemic, not sure whether the pandemic emboldens the plaintiffs' bar.

So look, I -- we try to do the best that we can, adding a little bit of maybe bias for prudence as we suggested and try to be as transparent as we can be for you in how we think about it, right? So difficult to know for sure, Gary, whether it's going to play out as it did in the past. But we take what's there in front of us, and we think we're making the right decisions.

Operator

[Operator Instructions] We'll take our next question from Meyer Shields of KBW.

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

Great. So I was hoping for a little bit more color in small business within Commercial, because on year-over-year, on a sequential basis, it's the only broken-out line where we saw higher retention and higher rates. And I'm curious as to what's going on there in the market.

Dino Ennio Robusto
Chairman & CEO

So our small business has been a real positive for us, Meyer. We continue to see opportunities to be able to grow the small business, to hold on to more retention. We're seeing a little less rate headwind pressure on work comp. So -- and it's been historically very, very strong, the loss ratio. And we envision it continuing to contribute significantly, both on the production side and the profitability side, going forward. We're highly focused on the small business.

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

When we hear macroeconomic commentary about new business formation or new small business formation, does that flow into Specialty or Commercial?

Dino Ennio Robusto
Chairman & CEO

Say that again. I'm sorry, Meyer. Where our small business shows up?

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

Well, I know it shows up in Commercial. But when we hear about new business formation that tends to hit the excess and surplus lines market, I'm wondering whether that shows up in the Specialty or Commercial segment.

Dino Ennio Robusto
Chairman & CEO

I'm not sure if I'm following all of that. The small Affinity -- the Affinity programs on the professional E&O obviously show up all in the Specialty. And everything else, all other P&C lines for the small business, show up in Commercial. So if, for example, architects and engineers, the professional E&O for the singular architect and engineer will show up in Specialty's Affinity program; the P&C components of it, just like law firms as an example, will show up on the Commercial. And if -- I'm not sure if that helps, Meyer.

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

It does. Yes, that was exactly what I was looking for. And then a follow-up question, I guess. The P&C fixed maturity duration moved up relatively abruptly, I guess, compared to what still looks like long-term low interest rates. And I was hoping you could talk us through what's driving that.

Albert Joseph Miralles
Executive VP & CFO

Meyer, it's Al. Yes, sure. Yes, the P&C duration went from 4.5 to 4.9. That's largely driven by -- with the backup in rates here, we have an agency RMBS portfolio. So as you'd imagine, with rates backing up, you get slower prepayment speed, and therefore the duration extends a bit. So that's a predominant driver of what's -- of that duration pickup there.

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

Okay. Is that also what drove the average rating?

Albert Joseph Miralles
Executive VP & CFO

Yes, there is a little bit of that. But also from my commentary, we held a higher level of short-term investments at the end of the year and then made the payment from that LPT. So obviously, our short-term investments would be higher rated, so that dropped. But just to be clear, on the P&C portfolio, we've really toggled between A-minus and A, so we're kind of right on that line. So it's pretty easy to move -- to flip from one to the other.

Operator

And there are no further questions at this time. I would like to hand the call back to Dino.

Dino Ennio Robusto

Chairman & CEO

Great. Thank you, everyone, and we look forward to chatting with you next quarter. Be safe.

Operator

Thank you. That now concludes the call. Thank you for your participation. You may now disconnect.