S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

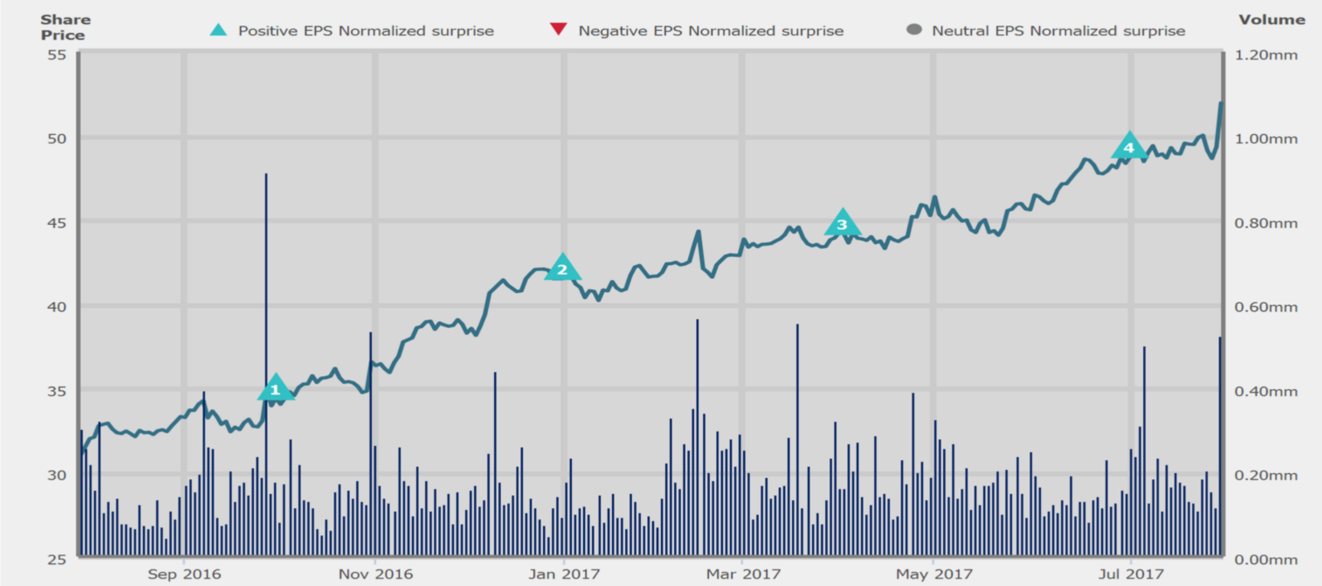
FQ3 2017 Earnings Call Transcripts

Monday, October 30, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.22	0.58	152.17	2.90	3.24

Currency: USD
Consensus as of Oct-30-2017 11:33 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.82	1.15	1 40.24 %
FQ4 2016	0.79	0.82	2 3.80 %
FQ1 2017	0.79	0.87	3 10.13 %
FQ2 2017	0.76	0.88	4 15.79 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

Dino E. Robusto
Chairman & CEO

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

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Well, good day, everyone, and welcome to today's CNA Financial Corporation Third Quarter 2017 Earnings Call. Just a reminder, today's call is being recorded. And now it's my pleasure 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, Laurie. Good morning, and welcome to CNA's discussion of our 2017 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 Dino Robusto, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. Following Dino and Craig's remarks about our quarterly results, we will open it up for your questions.

Before turning it over to Dino, I would like to advise everyone that during this call, there may be forward-looking statements made and references to non-GAAP financial measures. Any forward-looking statements 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 30, 2017. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call. Regarding non-GAAP measures, reconciliation to the most comparable GAAP measures and other information has also been provided in the financial supplement.

This call is being recorded and webcast. During the next week, the call may be accessed on CNA's website.

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

Dino E. Robusto
Chairman & CEO

Thank you, James. Good morning, everyone. Let me start by saying that our industry's response to the myriad of catastrophic events in the past 3 months is what defines the value of the property and casualty insurance business. I have been proud of the efforts of my colleagues here at CNA to ensure that our policyholders are able to regain stability as quickly and smoothly as possible.

Notwithstanding the catastrophes in the quarter, we are pleased with our results and the progress we are making. Our net after-tax catastrophe losses were $191 million, a result that was within expectations in light of the multiple catastrophes for the quarter. Moreover, similar to the second quarter performance, our P&C underlying combined ratio was on par with the best quarters that we have posted in the past 10 years, driven by improvement in our underlying accident year loss ratio.

Additionally, our expense ratio continues to improve and is meaningfully lower than a year ago. We also had strong favorable prior-period reserve development. Core investment income remains steady while limited partnership income was slightly above expectations, and our Long Term Care business continued to perform slightly better than breakeven.

But before we go into more detail on our results, let me give you the latest installment on our operational progress. Over the past 3 earnings calls, I have described the goal of growing underwriting profits by institutionalizing an enduring, expert underwriting culture here at CNA, which would close the gap between CNA's historical combined ratios and those of our best-performing peers. Evolving the culture is an ongoing, everyday effort, and we are gaining significant momentum towards sustainable strong underwriting performance over the long term.

I have also talked about reenergizing the dialogue with our agents and brokers regarding CNA's value proposition and our focus on improving our talent through key development efforts as well as bringing in new talent from across the insurance value chain, both of which continued throughout the third quarter. For example, in July, we announced the hiring of Rob Thomas, a former chief actuary, to be our new Chief Analytics Officer in Claims. And our agents and brokers have confirmed that our efforts are indeed resonating with them as we heard at the recent CIAB conference. During over 40-plus meetings with them, they expressed real enthusiasm for growing their relationship with CNA.

This quarter, I want to talk about the operational aspects of the recent catastrophes. Facing an elevated level of catastrophes in my first year at CNA gave me the opportunity to understand, very early on, the company's effectiveness in responding to such events. Not surprisingly, it was very good. Nonetheless, the third quarter's cat events provided a unique challenge due to the sheer number of events all occurring within close proximity. We were all aware that we needed to perform even better than in recent years, a period that had a much smaller number and concentration of events. So we deployed new and additional capabilities that facilitated our effective handling of this unique series of events.

By way of example, we used better technology and analytics not previously used at CNA to more quickly identify our locations at risk of loss and had adjusters proactively contacting those insureds and agents early and often to mitigate damage and jump-start the adjusting and rebuilding process. The new technology included the use of sophisticated digital, geospatial software, combined with detailed flood zone maps, to identify which insurers were most likely to have damage and better understand their exposure.

Rob Thomas, whom I mentioned earlier, brought his experience to bear by leveraging his significant data analysis acumen to quickly develop a more robust process using multiple approaches to analyze our exposures, working closely with actuarial, claims, enterprise risk management and underwriting, to identify areas with the potential for severe damage so we could prioritize placing our most experienced adjusters where they would be needed most.

After landfall, we utilized sophisticated aerial imagery that provided real-time data that was captured 3 days post-landfall for both Harvey and Irma. This technology, along with our first-time use of drones, enabled us to gain information and insights early in the process for properties that were otherwise inaccessible due to the flooding.

In terms of our confidence in the estimates, let me start by noting that the vast majority of the locations impacted by hurricanes Harvey and Irma have been inspected, recognizing that we still have a few claims trickling in. Moreover, it is often the case that commercial losses from events like this are dominated by a small percentage of locations driving a large share of the losses. The third quarter cats were no exception. For example, almost half of our estimated Harvey losses are from less than 20 of our insured locations. On these locations, we have established detailed cost estimates for all aspects of the loss, and so we do not believe we will have any significant surprises from the larger-than-expected cost of repairs.

Hurricane Maria has certainly been more of a challenge from an access standpoint, but we do not have major exposures in the Caribbean. The other cat events of the quarter did not produce material losses for us. In light of all of this, we are confident in our estimates.

Even with what I believe was very good execution, there's always lessons learned, and I am certain our postmortem analysis, which we'll begin shortly, will uncover even more ways we can improve the next time a catastrophe hits.

With that, let me make a few high-level comments on our third quarter financial results, and then Craig will provide additional detail by business unit. Net operating income was $159 million or $0.58 per share in the third quarter of 2017. Operating return on equity was 5.3% for the quarter and 7% on a year-to-date basis. Despite the elevated catastrophes, we achieved higher net operating income for the first 9 months of 2017 than the same period in 2016. Specifically, our 2017 year-to-date net operating income is $633 million, which is $30 million higher than last year even with an additional $200 million of pretax losses this year compared to 2016.

Our P&C business generated a 103.7% combined ratio in the third quarter, which includes 16.5 points from catastrophes. Our underlying combined ratio was 94.6%, nearly 3 points better than the third quarter of 2016. Our underlying loss ratio improved by a full point on a year-over-year basis, driven by favorable frequency and severity trends, while the expense ratio contributed 1.7 points to the improvement.

As I indicated on prior calls, in addition to the strides we continue to make in underwriting performance, we are similarly focused on the expense ratio. Our year-to-date underwriting expense is more than 6% below the first 3 quarters of 2016, even as we continue to make investments in talent.

Our P&C net written premiums in the quarter were down 2% due to the result of the small business adjustments that we referenced in the first quarter and we stated would impact our results through the third quarter as well as some timing issues on some renewals. We had strong overall retention, and written renewal premium change was nearly 1.5 points, which remains consistent with our loss cost trends.

In addition, as I mentioned last quarter, although broker and agent relationships don't turn on a dime, we continue to strengthen those relationships, and importantly, we continue to see more quality new business in our higher-margin businesses, such as our niches within our middle market operation, where we achieved net written premium and new business growth of mid-single digits in the quarter.

I will conclude my comments on P&C by making a similar observation to the one I made the last 2 quarters. The market remains competitive in the third quarter, especially for the best business, and I am confident that I will say next quarter the market remains competitive because it always does. However, after roughly 12 quarters of rate decreases, coupled with the recent elevated catastrophe activity, there is, in general, a greater awareness and expectation by agents and brokers that insurance pricing, in particular, property pricing, will experience increases.

For us, pricing is a one-over-one effort, and we will continue to differentiate by pursuing appropriate terms and conditions on each risk, and we will walk away from accounts when we cannot achieve our profitability targets. For example, in the third quarter, 15% of our commercial policies received rate increases of more than 10% while 11% of our policies received decreases of more than 10%, and of course, there are gradations in between. We achieved this kind of differentiation because our underwriters understand the risk-adjusted returns required on their accounts as well as how to effectively manage the complexity of the rate retention trade-off.

Now I will say as part of the enduring underwriting culture we are institutionalizing at CNA, we have been intensely focused on strengthening the underwriters' awareness and capability across these 2 dynamics because both determine, to a large extent, our success regardless of the various market environment inherent to our industry.

Of course, our differentiation efforts have boundaries, given overall industry pricing practices. This is why we walk away from accounts. Our expertise tells us we need more rates, and we push at those boundaries, but market pricing, at times, won't allow it. As the market improvement starts to take place, at the very least for the cat-exposed property, we will be even more successful in our efforts to push the market boundaries, which, in turn, will supplement our ability to further grow our underwriting profits.

Now inflection points in industry pricing are hard to predict well in advance. You learn more as you push for needed rate increases, and over time, you gain certainty. Upfront, we only know our strategy, tactics and desired outcomes with certainty. Actual outcomes will be what they are. Success during this period, therefore, is having marketplace sensory acuity and agility to make each subsequent account differentiation push even more effective. This is the process we are consumed with rather than honing our ability to predict the future.

Moving to our Life & Group segment. Net operating income was $10 million for the quarter. For long-term care, favorable morbidity trends continue to exceed expeditions. Overall, the long-term care book continues to perform as anticipated, and we are continuing to get approval for needed rate actions from many state regulators.

We are also pleased to announce our regular quarterly dividend of $0.30 per share.

And with that, I'll turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Dino. Good morning, everyone. Our third quarter 2017 net operating income of $159 million and net income of $144 million are quite strong, given the $191 million of after-tax catastrophe losses.

Our Property & Casualty operations produced net operating income of $167 million, down from the prior-year quarter's $329 million of operating income. The $162 million decrease was entirely attributable to the $180 million increase in cat losses this quarter. Last year's third quarter had only $11 million of after-tax cat losses as compared to the $191 million of cat losses that I just referenced this quarter. Our accident year non-cat underwriting profit nearly doubled, and our net favorable development was largely consistent year-over-year. Excluding the impact of catastrophes, P&C net operating income in the quarter was up 5% to $358 million compared with $339 million in the prior year.

Our improving underlying discipline is again evident in P&C operations underlying loss ratio of 60.8%, which is a point better than the third quarter of 2016. In addition, we benefited from $115 million of favorable loss reserve development. Our net pre-tax catastrophe losses, inclusive of reinstatements, were $275 million this quarter and reflected loss estimates of approximately $150 million for Harvey, $100 million for Irma and $20 million for Maria. We had minor losses from the other events in the quarter. While the California wildfires are still an active fourth quarter event and it's too early to offer an estimate of our losses, I would remind you that we do not write personal lines and, therefore, we do not expect this to be a big cat event for CNA.

Our expense ratio of 33.5% is more than 1.5 points lower than the prior-year's quarter and nearly 1.5 points better than our 2016 full year result. The improvement was driven by the expense reduction actions put in place last year as well as the heightened emphasis on expense discipline that Dino has stressed, allowing us to continue to find areas of additional savings this year.

Our Specialty segment had another strong quarter with a calendar year combined ratio of 82.3%, which included a little under 5.5 points of catastrophe losses. The results also reflected the positive impact of nearly 16 points of favorable net prior-year development. The favorable loss reserve development of $109 million was primarily driven by our surety business, but also included favorable outcomes from the reviews of several of our professional and management liability products, predominantly across accident years 2012 through 2015.

Specialty's underlying combined ratio for the quarter was 92.7%, nearly 3 points better than the prior-year's third quarter, driven equally by improvement in the underlying loss ratio and the expense ratio. Specialty's year-to-date underlying combined ratio of 93.4% is approximately 1.5 points better than 2016's 9-month results, driven by loss ratio improvement.

Specialty net written premiums were down 4% in the quarter, driven by the timing of certain renewals. Renewal premium change was flat with the rate down less than a point in the quarter and exposure growth offsetting the negative rate. Retention remained very strong at 89%. New business volumes were relatively consistent as compared to the prior year.

Our Commercial segment's calendar year combined ratio was 117.2%, including nearly 24 points from catastrophes. The results also reflect a modest amount of favorable loss reserve development, a little under 1.5 points, attributable largely to positive outcomes from our review of Commercial Auto this quarter.

Commercial's underlying combined ratio was 94.7%, 4 points better than the prior year's quarter, driven primarily by expense ratio improvement, which was nearly 3 points lower than the prior year. The results were also boosted by ongoing non-cat accident year loss ratio improvement. The underlying loss ratio of 59.9% was more than a point better than last year's third quarter, reflecting continued favorable frequency and severity trends in workers' compensation and Commercial Auto. Commercial's year-to-date underlying combined ratio of 96.3% is now over 2 points lower than 2016's 9-month results, driven equally by loss and expense ratio improvement.

Commercial's net written premiums in the quarter were consistent with the prior year. Renewal premium change was a little more than 2 points, with the rate flat and exposure growth just above 2%. Retention was 85%. While new business volumes across the entire segment were generally consistent year-over-year, new business within our middle market operation, which contains our higher-margin niche industry business segments, was up 5%.

Our International segment generated a calendar year combined ratio of 125.9% this quarter, including 27.5 points from catastrophes. International had favorable prior year reserve development of 1.5 points in the quarter, driven by favorable outcomes of our Canadian business reviews. This quarter's underlying combined ratio was just below 100%, on par with 2016's third quarter underlying combined ratio. International's year-to-date underlying combined ratio of 99.2% was 5.5 points lower than 2016's 9-month result, driven by a much-improved loss ratio.

International's net written premiums were also consistent with the prior year with renewal premium change up 3.5 points. Positive rate contributed just under one point, and exposure growth was up over 2.5 points. Retention was 73%, influenced by the characteristics of our Lloyd business, whereas retention in the traditional branch operations in Canada and Europe was in the low '80s.

Our Life & Group business produced $10 million of net operating income this quarter, an outcome consistent with the last few quarters and our expectations. This marks the seventh consecutive quarter of stable results since our long-term care reserve estimates were reset in the fourth quarter of 2015.

Pretax net investment income was $509 million in the third quarter compared with $524 million in the prior year quarter. We continued to deliver a consistent level of pretax income from our fixed maturity portfolio, which was $455 million this quarter as compared with $457 million in the prior year quarter. Our limited partnership portfolio had a solid quarter, producing $51 million of pretax income, a 2.2% return, compared with $65 million of pretax income, a 2.6% return in the prior year quarter. Our year-to-date return from our LP portfolio was just under 7%, a very respectable result.

Our investment portfolio's net unrealized gain was $3.3 billion at quarter-end, a 6% increase since the end of the second quarter. The composition of our investment portfolio was 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 under 4.5 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, 2017, shareholders' equity was $12.2 billion, and book value per share was $44.88 a share, an increase of 8% since December 31, adjusting for the $2.80 of dividends. Shareholders' equity, excluding accumulated other comprehensive income, was a little over $12 billion. Book value per share x AOCI was $44.48 a share, a 5% increase from year-end 2016, adjusting for the $2.80 of dividends. More notably, the year-over-year increase was 8%, adjusting for the $3.05 of dividends.

Cash and short-term investments at the holding company were $603 million at quarter-end, which is above our normal level of liquidity and reflects funds that we've earmarked to retire the $150 million of senior debt that matures in January of 2018. In the third quarter, operating cash flow was $379 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 Dino.

Dino E. Robusto
Chairman & CEO

Thanks, Craig. Before we move to the question-and-answer portion the call, let me leave you with some summary points. Our 9 months' net operating income is $633 million compared to $603 million in 2016 despite the Q3 cat events. Our return on equity is 7% on a year-to-date basis. The third quarter underlying combined ratio of 94.6% equaled the second quarter result and was also one of our best in the last 10 years. Underlying loss ratio was 60.8%, a one-point improvement from last year's third quarter.

Our catastrophe losses in the quarter were within expectations. The expense ratio was more than 1.5 points lower than a year ago, and the Long-term care business continues to be stable and executing efficiently.
With that, we'll be glad to take your questions.

Question and Answer

Operator

[Operator Instructions] And we'll go first to Josh Shanker at Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Congratulations on a -- your relatively good outcome in the unfortunate events this year. So my first question involves the dividends and how the board and you think about it. In the past, your partners over at Loews had talked about the dividend -- the special dividend as a great opportunity when the stock dipped below 30 as if it was paying -- the company was paying a 10% dividend yield. How safe is the special portion of the dividend? And -- or how do we think about it? And would you be willing to fund the dividend, given your strong capital position this year?

Dino E. Robusto
Chairman & CEO

Okay. Josh, so good question. Look, I mean, the cat losses were significant in the quarter, right? But as we said, 9 months earnings were better than a year ago. So that's a good thing. Of course -- just look, there's a quarter still to go. So we're going to review the full year earnings at year-end like we usually do, and we'll -- and our capital position as well as any other opportunities that might be to -- to put capital work attractively, and we'll make a decision then. But clearly, our -- we're in a good position after 9 months.

Joshua David Shanker
Deutsche Bank AG, Research Division

And two, do you have any comments around pricing and how you think that might affect the outwards reinsurance book and what impact that might have on the opportunity for the new year?

Dino E. Robusto
Chairman & CEO

I'm sorry. Just to make sure, the reinsurance book -- Josh, I want to make sure I understand the question.

Joshua David Shanker
Deutsche Bank AG, Research Division

Your purchases of reinsurance.

Dino E. Robusto
Chairman & CEO

Yes. Well, we'll see what -- we'll see how it plays out. Our cat reinsurance comes up on January 1. Now we did not -- our corporate -- our North American corporate cat treaty got a retention of $250 million, and we didn't hit it. So we're going to remind everyone of that over and over and over again. So that hopefully, it doesn't hit us that much. But we'll -- because I think, to a certain extent, it'll be a function of individual performance against potentially what could be a little bit of a rising tide on reinsurance pricing. So -- but we didn't hit the cat -- the corporate cat treaty. We hit a couple of smaller ones that we used that we had a little bit of reinstatement premium on.

Operator

We'll go next to Bob Glasspiegel at Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Looking at Page 10, it looks like you've got more momentum in your small and middle market pricing than other. In fact, there's been sort of a 4 basis point swing in small business pricing versus the trend of a year ago. What's in other, where the rate seems to be going a little bit the other direction? And why are you getting a bit more pricing power in your small business?

Dino E. Robusto
Chairman & CEO

Bob, Dino. So both small business and middle market, big areas of focus for us. We've got what we would consider to be a real solid value proposition there, and you hear us talk about it a lot, right. It's not only our coverages, it's our claims handling capability, it's our underwriting expertise, but it's also our risk control, right, that's always so. Now having said that, as I mentioned in the prepared remarks, look, you're going to see there's quite a bit of differentiation in some accounts. You get good rate increases in some, you get less on others where we have some of the more individual, larger, monoline-type product, monoline casualty. You have the marine in there. It -- the larger ones, usually a little bit more pressure on the pricing side and middle market and small where we really, really hone in on our value proposition. But there's differentiation even on the other, right? You'll get rate increases, and we have gotten rate increases on certain umbrella accounts and certain -- on the larger property and you get some a little bit less, but always a little bit more pressure the larger the premiums you contend with.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

My follow-up is just on long-term care. As we get to sort of the year-end, look at the reserves, the commentary along the quarters is that everything is performing in line with your recast assumptions of 10 quarters ago, I believe you said. And I guess the other variables that we don't get a look in are rate increases, investment income, looks like yields are flattish year-over-year persistency. Anything else that we should be thinking about that will be looked at in the reserve study that is an obvious swing factor one way or another?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Listen, I appreciate the question, Bob. There's nothing that's an obvious swing factor. We are hard at the work. We conduct a very extensive review of all those different assumptions as well as the outcomes against them, and we'll complete them in the fourth quarter. So that -- as I remind you, it's for both the claim reserve and the active life reserve that's completed in the fourth quarter. So we're hard at it, but it's too early to draw any conclusions.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Anything on rate increases you want to just remind us of what you've been able to achieve year-to-date?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. We've been able to achieve quite -- the rate increase tailwind is very favorable and has been. We've been doing -- that's an important lever that we've been pulling, a big part of why we invested in changing our operating model, bringing claims back in-house, bringing the pricing function -- investing in the pricing function, and that's paying pretty significant dividends across-the-board.

Operator

We'll go next to Jay Cohen at Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

My question is on Commercial Auto. You seem to suggest the trends here are somewhat favorable, which feels counter to what we're hearing from other companies. Can you talk a bit more about that business?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Maybe just to try to put it in some context. It's -- our trends -- the loss trends there are still elevated. They're just less than we had expected. So we still see loss trends in the mid-single digits, and by the way, we're still getting rate in the mid-single digits because of it. So what we're seeing is just we had a lot of large losses a bunch of years ago. We increased our reserves for that. We've had favorable outcomes on large losses the last couple of years so we're seeing a little positive from both of that. So it's running a little better than our expectations. But we'd say as we look at our loss ratios, they're basically worse than the industry and now they're in line with the industry.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's helpful. The other question is in the International business. The underlying combined ratio has been hovering around a breakeven for a while now. Is this disappointing to you? Is this an okay result, given the tail on the business? It feels as if the bigger effort has been made on the domestic side, but is there a similar effort to improve the combined ratio on the international side?

Dino E. Robusto
Chairman & CEO

Yes, there clearly is. There have been a lot of good actions taken on the international, particularly on the Lloyd's side. And although the quarter was relatively flat, again, on a year-to-date basis, the underlying combined ratio improved substantially. And so we view that very, very positively. We're clearly -- we're focused on international, just like other things. And in particular, on the Hardy-Lloyd's portfolio, we have some real pockets of real profitability in a lot of the traditional branch. And the -- again, at 9-months, the underlying is down substantially year-over-year. And we consider that really a function of the efforts that Dave Brosnan and his team that manage the International operation directly correlated to their actions.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Last question -- actually, you know what? I'm -- that was the answer to that. I'm good.

Operator

[Operator Instructions] And next, we'll hear from Meyer Shields at KBW.

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

So this is clearly not evident in the reported results. But beneath the surface, is there any change in frequency trends for some of the Commercial casualty lines?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No. I think they're both -- they're all very stable. They went through standard commercial. I tell you that frequency and severity trends are favorable, and workers' comp -- continue to be favorable worker's comp. I've already commented on the Auto so you've got that. The rest of the loss trends have been relatively benign across the standard Commercial book. In Specialty, just to offer you -- I don't know if you were really asking, but just to be comprehensive in the answer. In Specialty, we continue to see favorable frequency trends across the professional liability book. In the healthcare sector, it's -- they're stable, but we still see -- as we mentioned before, we haven't -- we've seen an elevated frequency trend in some parts of the health care book, specifically, the nursing home business. In management liability, the -- and by that I mean public D&O, private D&O, employment practice liability, the trends have been stable.

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

Okay, that's tremendously helpful. Bigger picture question I guess, probably for Dino, is that you've had considerable success in expanding the underlying underwriting margins. At what point, though, you convert that into lower prices to produce more growth, more, I guess, long-term value?

Dino E. Robusto
Chairman & CEO

Okay. I mean, it's a good question. Look, let's just go back to what we considered as the target, right? And I said we tried to close that combined ratio gap between the historical ratios at CNA. And as I said, right, think about '15, '16 competitive -- break them up in a quartile -- big top quartile. We looked at it over a 3-year basis, what are their averages, and we had to improve it about 5 or 6 points. Now it -- look, it's come down. It's about 3 points. But keep in mind that 2 quarters of this improvement against the 3-year average is not what I consider success yet, right? So there's a lot of focus on sustaining the improvement in the underlying combined ratio and improving it a little bit more. That's what we're principally focused on. Now it's interesting. I can see why you generate a little bit of a correlation between sort of your lower rates, you get more business. The reality is, as I think I indicated on the last call, one of the real areas of focus for us is just -- it's been this whole reinvigorating our relationships with the agents and brokers, bringing that value proposition to them and making them realize that, look, we're committed to being very talented underwriters to the segments that we want. We brought in a lot of talent. So we're getting access. I think I mentioned it last quarter and it happened again in this quarter, as evidenced by, in particular, in the middle market niches, we're up mid-single digits, but -- and Craig mentioned the 5 points. So the reality is we're seeing better business, that's what's really important to us and we're competing with it. Now interesting, like last quarter, we went after a few this quarter that we really wanted and we thought we had a great value proposition, had all the right people at the table and you don't get them all. And -- but that had more to do with -- as we try to understand so why don't we get it, you liked our claims, you liked our risk controls. And so the reality is it's not about if you had a better price you would've got it, right? The issue is CNA is getting reengagement in the marketplace. The agents and brokers like it. Accounts just take time, right? It takes time to build those relationships. And so we think there's so much for us to do that, albeit there's some correlation there, as you suggest, that's not necessarily what we need to do to get access to the best business. And having said all of that, first and foremost, keep in mind, we're going after that target on the combined ratio in a big way.

Operator

[Operator Instructions] And we'll go next to Gary Ransom at Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a question also on loss cost trends. It sounds like they're benign or maybe even a little bit better this quarter. And I was trying to get a sense of whether you thought the underlying loss ratio this quarter was actually a little bit better than what you might have expected as a run rate.

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, I think it's very much on. I mean, if you look at this quarter or you look at the year-to-date, which is just a slight variation, those are real. And so we're pleased with the improvement.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Is it fair to say that the loss -- the underlying loss ratio that you have this quarter, if you could keep that for a full year, that you've reached your destination?

Dino E. Robusto
Chairman & CEO

Gary, Dino. I don't -- and reach our destination, as I was just commenting on the prior question, right, I mean, destination is to continue to be even a little bit better. But is this kind of a loss ratio sustainable? We do believe so because you just -- we continue to focus on so many aspects of the underwriting culture. And I recognize that as you get better and better, it gets harder and harder, but we came from a place where we were much more elevated. And so I think it's fair to assume, right, that everybody pulls levers. But if you're a little bit further away from the better performing, your levers are going to make a difference. And as you get closer and closer, right, it's a diminishing marginal curve. And there's no question about that, Gary. But we come from a different place, and we're pushing really hard. It's a different environment, a clear intensity around the underwriting, a lot of work and effort being done with the new global underwriting committee under the new Chief Underwriting Officer, a lot of this collaboration I talked about. It's not to be underestimated, right, between claims, risk control. All of that makes the difference. And over time, as that plays itself out, then it has a little bit less impact. But we think we have some room, and we feel good about it.

Gary Kent Ransom
Dowling & Partners Securities, LLC

That's helpful. One other question, back on the reserve development. I was wondering, could you give us a sense for how -- which accident years the favorable development came from, if there was any concentration of it?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think I did in my remarks, and I'm happy to repeat it. As far as Auto, it was the last 2, '15 and '16, some -- so just claim outcomes, large losses less than we thought, Commercial auto. In surety, it's '15 and prior. Accident years and professional liability lines I said -- professional liability and management liability lines, it was '12 through '15 were the preponderance of the favorable developments.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So nothing that was significant from older years?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No.

Gary Kent Ransom
Dowling & Partners Securities, LLC

No, okay. And if I could, just one more. Just on the catastrophe losses and how you handle all of that. I know that was an issue for a number of companies to get enough people on site. Did you find that you have to use outside adjusters more? Or were you able to handle this mostly internally?

Dino E. Robusto
Chairman & CEO

No, we do use outside adjusters. And Gary, keep -- as you know, right, we don't write personal lines. And -- so you're going to have adjusters in what is a lot less frequency, from a commercial standpoint. And so you have one of these catastrophes, you're fine. When 3 of them, it's like the knock on your door, when in close proximity, you're going to use them. But because we are a commercial -- we're a commercial underwriter, we know that, right? So we have certain relationships. They're all well-honed. We bring them into play. Having said that, though, once you start to use some of the better technologies, some of the mapping that's out there now, you can deploy that against your own internal resources and the partnerships that you have that are well-suited. And then what we do is because -- again, it's just statistically, it's always the same, right? You get -- in this case, it was maybe 2%, 3% of our losses in Harvey; generated about 50% in Irma; wind event, a little bit different, maybe it was about -- it was about 6%. But still a small percentage. So what you want to try to do there is get your people to those, because you can identify them, because those are the ones that are going to generate a huge component and can go south on you if you don't have good estimates and repair costs, et cetera. So you want to wrap your arms around those ones, and then you get pretty comfortable -- relatively high confidence levels. And so that's what we do in a combination with our own and the external ones.

Operator

And we will go back to Jay Cohen at Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I was just -- wanted to ask from a pricing standpoint. The Lloyd's market seemed to have gotten hit fairly hard this year. Are you a bit more optimistic regarding the Lloyd's market, say, versus the U.S., that you might see some improvement again, given the property losses?

Dino E. Robusto
Chairman & CEO

Yes. That's -- it's a great question. So if you look at it very, very early on, you're clearly more optimistic on the Lloyd's just because it reacted very quickly, because to your point -- but if you -- hit a period there. And so there was a lot more conversation. And so again, what you -- as I said, right, you have sensory acuity, right? You're always pushing the boundaries, and you're going to push a little bit harder on boundaries. And you're -- and the boundaries are going to be a little bit less rigid. They're clearly going to be a little bit less rigid in Lloyd's. The U.S., as I said, right -- I mean, listen, we got to -- you push every day, you learn, you keep going, you keep pushing, you keep teaching your underwriters how to better manage the rate retention trade-off, you watch for it in your audits, you talk about it and you keep going. But specifically, the answer to your question is that -- it clearly appears that in Lloyd's it's going to be easier to push those boundaries, in particular, on a cat-exposed property, without a doubt.

Operator

And gentlemen, I have no additional questions at this time. I'll turn the call back over to you for any additional remarks.

Dino E. Robusto
Chairman & CEO

No, that's great. Thanks very much. We'll see you next quarter.

Operator
Ladies and gentlemen, once again, that does conclude today's conference. And again, I'd like to thank everyone for joining us today.