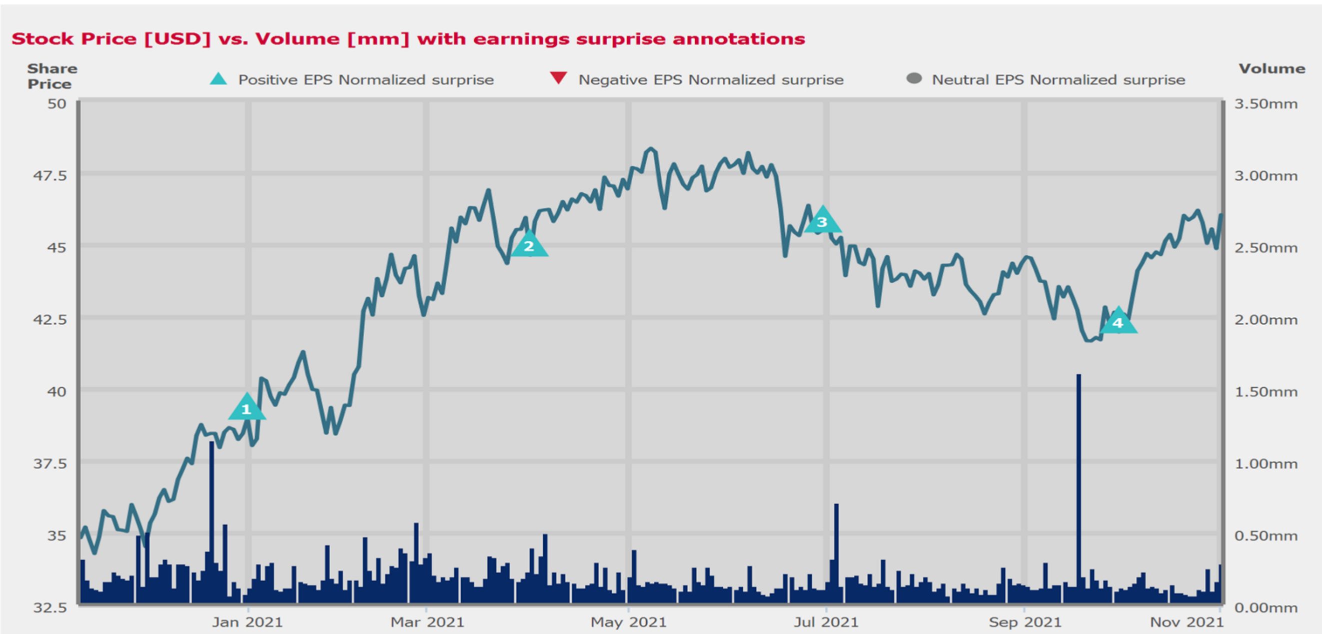
S&P Global
Market Intelligence

CNA Financial Corporation NYSE:CNA
FQ3 2021 Earnings Call Transcripts
Monday, November 01, 2021 1:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	0.87	▲27.94	0.92	4.00	NA
Revenue (mm)	NA	NA	NA	NA	NA	NA

Currency: USD
Consensus as of Nov-01-2021 8:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	1.00	1.23	▲1 23.00 %
FQ1 2021	0.93	0.96	▲2 3.23 %
FQ2 2021	1.12	1.25	▲3 11.61 %
FQ3 2021	0.68	0.87	▲4 27.94 %

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Call Participants

EXECUTIVES

Dino Ennio Robusto
Chairman & CEO

Lawrence Albert Haefner
Interim Chief Financial Officer

ANALYSTS

Joshua David Shanker
BofA Securities, Research Division

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

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

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

Speaking today will be Dino Robusto, CNA's Chairman and Chief Executive Officer; and Larry Haefner, CNA's Interim Chief Financial Officer. Following their prepared remarks, we will open the line for questions.

Today's call may include forward-looking statements 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 SEC filings.

In addition, the forward-looking statements speak only of today, Monday, November 1, 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 are reading the transcript of this call, please note that the transcript may not be reviewed for accuracy, thus, it may contain transcript 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, Jennifer, and good morning, everyone. CNA performed extremely well in the third quarter, with core income up 23% year-over-year despite the elevated catastrophe activity. In the third quarter, core income was $237 million or $0.87 per share, driven by improved underlying underwriting performance and favorable Life & Group results.

Net income for the quarter was $256 million or $0.94 per share. Gross written premium, excluding our captive business, grew by 10% this quarter, fueled by excellent new business growth and continued strong price increases. And importantly, momentum continued to build throughout the quarter.

As we expected, the transactional capability limitations that we mentioned last quarter, following the cybersecurity incidents, are now behind us. Earned rate was 11% in the quarter and written rate was 8%, which remains well above loss cost trends and which we believe portends continued progress towards building margin, as the written premium earns in over a third renewal cycle in 2022.

Additionally, the tighter terms and conditions we have been able to secure during the hard market persist with no early signs of pressure to relax them. I'll have more to say about production performance in a moment. The all-in combined ratio was 100% this quarter, about 1 point lower than the third quarter of 2020, which included elevated catastrophes in both periods.

In the third quarter of 2021, pretax catastrophe losses were $178 million or 9.2 points of the combined ratio, which included $114 million for Hurricane Ida. The P&C underlying combined ratio was 91.1%, a 1.5 point improvement over last year's third quarter results. This is a record low for the third consecutive quarter.

After adjusting for the impacts of COVID in last year's third quarter, the improvement in our underlying combined ratio is actually 2.1 points. The underlying loss ratio in the third quarter of 2021 was 60.2%, which is down 0.3 points compared to the third quarter of 2020. Excluding the impacts of COVID in the prior year quarter, underlying loss ratio improved by 0.9 points, and the decrease reflects our prudent acknowledgment of margin improvement.

As I've mentioned before, we increased our loss cost trends about 2 points over the last couple of years and classes impacted by social inflation. This quarter, we increased our loss cost trends in property lines about 2 points because of the supply chain shortages, which have increased the cost of material and labor and don't look like they will revert back lower anytime soon. This change pushed up our overall P&C loss cost trends marginally and are now about 5%.

During the third quarter, earned rates are running close to 11%. So earned rate is exceeding loss cost trend by about 6 points. Applying that to a 60% loss ratio should portend about 3 points of improvement in the quarter. We have reflected about 1 point of improvement in the underlying loss ratio in the third quarter.

In the first half of the year, we acknowledged slightly less than 0.5 point improvement in the underlying loss ratio. We are going to continue to be prudent in terms of acknowledging margins since the courts are just starting to open up and the dockets are only starting to clear.

The underlying combined ratio for Specialty was 89.6%, a 0.9 point improvement compared to last year, entirely from an improvement in the underlying loss ratio, while the expense ratio was comparable to the third quarter of 2020. The all-in combined ratio was 88.2%, a 1.3 point improvement compared to the third quarter of 2020.

The all-in combined ratio for Commercial was 111.6%, including 18.6 points of cat, compared to 111.3 in last year's third quarter, including 17 points of cat. The underlying combined ratio for Commercial was 92.5%, which is the lowest on record, and is 1.2 points lower compared to last year and 2.3 points lower, excluding the COVID frequency impacts that reduced the loss ratio in 2020. The underlying loss ratio improved by 0.4 points, excluding the COVID frequency impacts last year, while the expense ratio improved by 2 points.

Incidentally, compared to the second quarter of 2021, the underlying loss ratio is higher simply because of the resulting mix change between Property & Casualty net earned premium due to the new property quota share treaty we purchased in June. In ceding an annual estimate of property earned premium to the reinsurers in June, it altered the underlying loss ratio with a higher casualty mix going forward.

The underlying combined ratio for International improved by 4 full points to a record low of 91%. This reflects a 2.8 point improvement in the expense ratio and a 1.2 point improvement in the underlying loss ratio, which was 58.9% in the quarter.

Importantly, as our re-underwriting has largely been completed in International, we've continued to see that benefit in the underlying loss ratio as well as a more modest catastrophe ratio from the meaningful reduction in our P&L exposures. The all-in combined ratio of 95.5% compared to 98.1% in the third quarter of 2020 reflects the success of our re-underwriting strategy.

Now turning back to production statistics. As indicated earlier, our P&C operations had 10% growth in gross written premiums, ex captive, which was 2 points above what we achieved in the first half of 2021 and 1 point above full year 2020. Our growth in the quarter was fueled by strong new business growth of 24% and written rate of 8%, while retention was stable at 81%. Net written premium growth for P&C was plus 5% for the quarter, up 4 points over the first half of the year.

Our Specialty gross written premium growth, ex captive, was plus 10%, driven by excellent new business growth of 40%, concentrated in Affinity Programs and Management Liability, and continued strong rate of 9%. This is our fifth consecutive quarter of double-digit growth in Specialty, notwithstanding that our retention in the third quarter was down about 5 points to 80%.

In the quarter, we continued our re-underwriting of the Healthcare portfolio, and we nonrenewed a portion of our hospital Medical Malpractice business because we could not achieve our required returns even after the rate increases we secured to date. Nonrenewing this segment also lowered the rate increase for Specialty this quarter because it was the segment achieving some of our highest rate increases in recent quarters. But improving our profitability is always our first priority, and walking away from this business was the right action to take.

In Commercial, our gross written premiums, ex captives, grew 10% in the quarter, representing an 8-point improvement over the second quarter's growth. As we mentioned last quarter, Commercial was disproportionately impacted by the cyber incident as the majority of the underwriters in the branches are in the Commercial business unit. And so we expected to see the biggest rebound in Commercial now that it's behind us, and we did indeed see that this quarter.

Commercial new business growth grew by 21% in the quarter, with all segments contributing, and retention increased 3 points to 83% compared to last quarter and rates increased 6%. Although rates moderated in certain segments like national accounts, where rate increases were lower by 3 points, we still achieved a very strong 13% increase in the quarter, which is well above loss cost trends.

Our middle market rates were lower by 1 point this quarter, but we had a 7-point increase in retention to 84%. We also achieved 2 points of exposure increase in Commercial in the quarter from higher payroll and sales compared to the third quarter of 2020.

Our International gross written premium growth was 16% for the quarter, or 11%, excluding currency fluctuation. As we mentioned, with the re-underwriting actions behind us, we are focusing on growing the portfolio. We continue to achieve strong rate in International at 13%, consistent with the second quarter. Retentions have improved each quarter this year and stand at 79% in the quarter, up from 77% last quarter and 74% in the first quarter. For P&C overall, prior period development was favorable by 0.3 points on the combined ratio.

Turning to Life & Group. We conducted our annual gross premium valuation, or GPV analysis, on our active life reserves as well as a claim reserve review on our disabled life reserves. There was no result in unlocking of the assumptions, which we believe is due to our continued prudent management of this runoff book, and we now have $72 million of GAAP margin on the active life reserves. The claim reserve review resulted in favorable development of $40 million on a pretax basis. And Larry will have more detail on the Life & Group reserve analysis and our P&C prior period development.

And before I turn it over to Larry for his remarks, just a few comments on Larry and our CFO search. Larry, of course, is no stranger to CNA. He retired as CNA's Chief Actuary in August of last year after serving over a decade as CNA's Chief Actuary, during which time he worked hand in hand with the finance function. Larry's willingness to come out of retirement has afforded us the time to accomplish a thorough search for this vital role, which is going well, and we expect to complete it soon. Larry will also help facilitate a smooth transition with the incoming CFO.

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

Lawrence Albert Haefner
Interim Chief Financial Officer

Thank you for that, Dino. I must say, it has been both a professional and personal pleasure working with the CNA executive team once again these past 2 months. Good morning, everyone. As Dino highlighted, the 23% increase in core income for the third quarter produced a core ROE of 7.7%.

Before providing more information on the financials, I will first discuss Life & Group. As you know, each quarter -- each year in the third quarter, we complete our annual reserve reviews for Life & Group. These reviews include our long-term care active life reserves, which we refer to as gross premium valuation, or GPV, as well as our long-term care and structured settlements claim reserves.

Before going over the results of these reviews, I will point you to Slides 12 through 14 of our earnings presentation. Slide 12 contains key demographic information about both our individual and group long-term care blocks. As a reminder, both blocks are closed, with no new policies issued for individual since 2004 and no new group certificates since 2016.

As a result, the average attained age for the individual block is 80 years old and the group block is 67. While the group block is less mature in age, you can see from the table on the top right of Slide 12 that the benefit features, on average, for the group block are less rich.

As we have discussed on past calls, we have proactively reduced risk in both blocks while obtaining meaningful rate increases and using a prudent approach to setting assumptions in our reserve analysis, both for active life and claim reserves. One clear result of our efforts is the 35% reduction in policy counts since 2015, which is shown on the bottom left graph on Slide 12.

As we continue to push for needed rate, we also offer benefit reduction options to our policyholders as a means to avoid or mitigate rate increases. This reduces the cost of future claims while providing a viable option for our policyholders. Also worth noting on Slide 12, our claim counts are down significantly over the past 2 years, as can be seen in the graph on the bottom right.

Starting with the GPV analysis, the results of which are shown on Slide 13. Our efforts involved a thorough review of all of our reserving assumptions, including critical factors related to morbidity, persistency, rate increases and discount rate.

The key result is that we did not have an unlocking event, but we now have margin in our GAAP carry reserves of $72 million.

Starting with the discount rate. Recall that last year, we moved meaningfully on our assumption by lowering the normative risk-free rate to 2.75% and increasing the grade-in period for the risk-free rate to rise to that level to 10 years. For the first 3 years of that 10-year period, as you might recall from last year's analysis, we used the forward curve.

We followed the same approach this year and the current forward curve as interest rates that are higher than the assumptions we locked in last year to creating margin. Given the higher rate -- interest rate environment, we also reviewed our estimates around the cost of care assumptions and determined a small increase was warranted, which decreased margin. Taken together, the changes result in creating the $65 million of margin disclosed in the table.

Turning next to morbidity. We refined our claim severity assumptions, specifically those related to utilization rates in our group block, expected recovery rates and claim situs mix, which, together, drove margin improvement of $205 million. Importantly, we did not include our favorable experience in 2020 due to COVID-19 as part of the data sets that are analyzed to update the long-term assumptions. Not including the 2020 experience is further evidence of the prudent approach we take with our reserving assumptions.

With respect to persistency, the key assumption change was a decrease in healthy life mortality. While this result may seem counterintuitive as the pandemic caused elevated mortality, we excluded the impacts from the pandemic when setting our long-term GPV assumptions, as we do not believe this recent elevated mortality will persist over the duration of our liabilities. Rather, the assumption change is from a periodic review of past policy terminations to better determine their attribution between mortality and lapse.

For this year's review, we used external data sources, obtaining data at a more granular level to examine the terminations over multiple past years. The result of that effort was a slightly lower level of mortality than we had used in the 2020 assumptions. Of course, even a slight change in mortality rate applied against the entire tail of the portfolio will have a leveraged effect, and these assumption changes resulted in margin deterioration of $233 million. We will continue to monitor active life mortality relative to our revised assumptions to see how our approach plays out.

Regarding future premium rate increases, our actual rate achievement over the past year exceeded our assumption in last year's analysis, contributing $27 million to the favorable margin increase. As you may recall, our prudent approach is to include rate increases that have been approved, filed but not yet approved or that we plan to file as part of a current rate increase program. As a result, the weighted average duration of future rate increase approvals assumed in the reserves is less than 2 years.

As you can see on Slide 13, the cumulative impact of these changes, including a slight margin improvement of $8 million from lower operating expenses, resulted in a reserve margin of $72 million in our carried reserves while continuing to use a prudent set of reserve assumptions. As a result, there is no need to have an unlocking event, and we feel good about the reserves.

In addition to the GPV, we concluded our annual long-term care claims reserve review, which is a review of the sufficiency of our reserves for current claims. The impact from this review was favorable, driven by lower-than-expected claims severity. Specifically, we observed higher claim closure rates, most notably driven by mortalities. The favorability, which flows through to our bottom line, was a pretax benefit of $40 million or $31 million on an after-tax basis.

Turning to Slide 14. Our overall Life & Group segment produced core income of $41 million in the third quarter, which compares to a third quarter 2020 loss of $35 million. In addition to the $31 million favorable impact from the annual long-term care claims review that I just discussed, activity in the quarter contributed another $10 million to core income as we had strong net investment income performance, predominantly from our alternative investments portfolio.

Turning now to financial results. Our third quarter 2021 pretax underlying underwriting profits increased 28% on a year-over-year basis, driven by the 6% growth in net earned premium and the record low underlying combined ratio. A key component of the combined ratio improvement is the expense ratio. The third quarter 2021 expense ratio of 30.7% was 1.1 points lower than last year's third quarter. Our Commercial and International segments drove the overall improvement, as Commercial improved 1.9 points to 30.4% and International improved 2.8 points to 32.1%.

Our focus on expense discipline as we grow the company has driven meaningful expense improvement, and this quarter's result reinforces the success of our strategy. Of course, as we have mentioned before, the improvement will not be a straight line down because we continue to make investments in talent, technology and analytics, which, in any one period, can materially vary. As this quarter's expense ratio reflected somewhat less investment, we believe a more appropriate expectation on run rate is 31%.

For the third quarter, overall P&C net prior period development impact on the combined ratio was 0.3 points favorable compared to 0.4 points favorable in the prior year quarter. Favorable development was driven by Surety in the Specialty segment, somewhat offset by amortization of workers' comp tabular reserves in the Commercial segment. In terms of our COVID reserves, we made no changes to our COVID catastrophe loss estimate following an in-depth review during the quarter, and our loss estimate is still virtually all in IBNR.

Turning to investments. Total pretax net investment income was $513 million in the third quarter compared with $517 million in the prior year quarter. The results included income of $77 million from our limited partnership in common stock portfolios as compared to $71 million on these investments from the prior year quarter.

The strong LP returns for the quarter across both the P&C and Life & Group segments were significantly driven by private equity investments and reflected the lag reporting results from the second quarter. As a reminder, our private equity funds primarily report results on a 3-month lag basis, whereas our hedge funds primarily report results on a real-time basis. Our fixed income portfolio continues to provide consistent net investment income, stable relative to the last few quarters and modestly down relative to the prior year quarter.

The year-over-year decrease reflects lower reinvestment yields due to the ongoing low interest rate environment, with pretax effective yields on our fixed income holdings of 4.3% during the third quarter of 2021 compared to 4.5% during the third quarter of 2020. However, our strong operating cash flows have fueled a higher investment base, with the book value of the fixed income portfolio growing by $1.5 billion over the past year.

From a balance sheet perspective, the unrealized gain position of our fixed income portfolio was $4.8 billion at quarter end, down from $5.1 billion at the end of the second quarter, reflecting the slightly higher interest rate environment. Fixed income-invested assets that support our P&C liabilities and Life & Group liabilities had effective durations of 5.1 years and 9.3 years, respectively, at quarter end. Slides 17 and 18 in our earnings presentation provide you with additional details of the composition of our investment portfolio and our investment results.

Our balance sheet continues to be very solid. At quarter end, shareholders' equity was $12.7 billion or $46.67 per share. Shareholders' equity, excluding accumulated other comprehensive income, was $12.3 billion or $45.39 per share, an increase of 8% from year-end 2020 adjusting for dividends. We have a conservative capital structure with a leverage ratio of 18% and continue to maintain capital above target levels in support of our ratings.

In the third quarter, operating cash flow was strong once again at $669 million. In our P&C segment, the paid-to-incurred ratio was 0.75, consistent with the last 2 quarters. Contributors to this include: our growth, which increases the incurred losses while paid losses lags, especially for casualty lines; as well as the ongoing impact of slowed court dockets. Certainly, the occurrence of catastrophe events in a given quarter and the payout over subsequent quarters impact this ratio as well.

In addition to strong operating cash flow, we continue to maintain liquidity in the form of cash and short-term investments, and together, they provide ample liquidity to meet obligations and withstand significant business variability. Finally, we are pleased to announce our regular quarterly dividend of $0.38 per share.

Before turning it back to Dino, I wanted to let you know that our 2021 Virtual Investor Day presentation is posted on the CNA Investor Relations website. The strategic discussion that accompanies the presentation is hosted by Dino and myself. We invite you to view the presentation and hope that you find it informative.

With that, I will turn it back to Dino.

Dino Ennio Robusto
Chairman & CEO

Thanks, Larry. Before opening the call to the Q&A session, I'd like to offer a few comments about how we see the marketplace that we compete in evolving. Most importantly, we see the market remain very favorable throughout 2022.

We continue to build momentum in new business growth, and retention and rate increases should remain above long-run loss cost trends for most of 2022 in light of the headwinds of social inflation, elevated cat activity, low interest rates and the additional headwind of economic inflation emanating from the protracted supply chain dynamics. Although rates have moderated from the high watermark of the fourth quarter of last year, it is premature to assume it will continue down on a straight line due to the uncertainty of the strength of the headwinds.

In the third quarter, we saw pricing inflections as a response to pressure on those headwinds. As an example, momentum on cat-exposed property pricing picked up immediately after Hurricane Ida. And the supply chain issues creating higher costs of labor and materials are partially offsetting the benefit of the price increases, leading to a greater awareness that additional rate is required in property for a longer period of time.

Similarly, notices of seemingly outsized jury awards in the industry reminds us that social inflation was merely obfuscated during the pandemic and by no means extinguished, which should allow continued strong pricing in most casualty lines. Indeed, we are seeing similar strength in our price increases early in the fourth quarter.

Bottom line, we believe written rate increases will persist above loss cost trends in 2022, leading to earned rates above loss cost trends for a third year in a row, which portends well for margin build, all else equal. And we remain very bullish about our ability to increasingly take advantage of the opportunities this continuing favorable marketplace affords us.
And with that, we'd be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And we'll go first to Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I was curious about the hospitalization and medical business you decided to nonrenew given the pricing. It feels like you've been taking huge rate increases on that. And finally, in 3Q, you decided it wasn't worth it anymore. What does that mean for the business you wrote last quarter and the last few years?

Dino Ennio Robusto
Chairman & CEO

Yes. Josh, thank you for the question. This is Dino. Look, we've been at this game of medical malpractice for a couple of decades. And over the last few years with the impact of, in particular, social inflation, we talked about how it increased our loss cost trends. We started a process of getting rate increases well before anyone else did, and we've been making some excellent headway.

However, in the quarter, there was a portion of hospital portfolio, an excess liability portion that we just didn't see an ability to be able to get to the required return as well as some of the others. We've seen a marked improvement in areas like our aging services. And we did it in this and a good portion of it because of how it's written came up in the quarter, and we just decided that we were going to nonrenew it.

But in general, Josh, look, we remain committed to medical malpractice. And clearly, with all the activity we've taken, not only in the pricing, but terms and conditions and our re-underwriting, it is getting better. But we're going to make the decisions we need to make on portions of the portfolio, like we just did in the third quarter, and it's really isolated to that.

Joshua David Shanker
BofA Securities, Research Division

And does that mean a 3-quarter forward drag as well because not all renews in the third quarter? Or is this one chunk only written in the third quarter?

Lawrence Albert Haefner
Interim Chief Financial Officer

Yes. Josh, this is Larry. There will be some additional in future quarters, but the significant portion of it was occurred in the third quarter, July date.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then a question on the discount rate on the LTC reserves. Clearly, your formula -- is your formula -- I just want to think about philosophically what GAAP advises, what you think internally? When it comes to bonds -- when you take a bond loss, you mark it to market. But when that bond recovers, you amortize the gain over time and don't take it upfront. Given your view of being very conservative about good news, how does that factor into your thoughts on the discount rate in the long-term care book?

Lawrence Albert Haefner
Interim Chief Financial Officer

Well, Josh, it certainly goes back to the approach that we take. And as we discussed, we do look at the forward rate for the first 3 years compared to the normative rate going forward and how it rises up to that. And if you think about what's happened over the past year, I mean, last year, at the time, the forward rates were below 1%, significantly below 1%.

And in the assumptions that we put in and we locked in last year, our -- we did not assume that the forward rates would get above 1% until 2023. And they're currently running about 1.5%. So that difference is what drives the improvement in the margin that we have. In terms of bonds, I mean, we're looking at investing longer term and the returns. So we're buying to hold, and we're looking towards that as part of our investment decisions.

Joshua David Shanker
BofA Securities, Research Division

And so every third quarter, we should expect a mark to market on the discount rate, whether favorable or adverse?

Lawrence Albert Haefner
Interim Chief Financial Officer

Well, longer term, obviously, the long-duration accounting will change that, but that's not until 2023. But third quarter next year will be the next time that we look -- take a look at it, yes.

Joshua David Shanker
BofA Securities, Research Division

Okay. And one more quick one, if I may. It would seem that in the -- you called out some frequency benefits in the loss ratio from 3Q '20, which you're not alone in doing that. As we think about 4Q '20 and 1Q '21, are there frequency benefits in the underlying numbers that we should be thinking about as we forecast our loss ratio expectations for the next couple of quarters?

Dino Ennio Robusto
Chairman & CEO

Yes. Really, the biggest impact was the second quarter of last year and the third quarter a little bit, but really, incidental in the fourth quarter and forward. So it's been a little bit...

Operator

We'll go next to Meyer Shields with KBW.

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

A couple of quick questions, if I can. One, I think you mentioned higher property loss trends assumed in the third quarter. Is that just for the quarter? Or did that also apply to prior quarters in 2021 prior year's reserves for property?

Lawrence Albert Haefner
Interim Chief Financial Officer

Yes. We made the change -- Meyer, this is Larry. We made the change in terms of our long-run -- loss cost trend assumptions, so we incorporate that into our pricing and our reserving. Obviously, this is property, so it's relatively short-tailed from a reserving perspective, but we have incorporated those higher cost assumptions going forward.

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

Okay. Perfect. And then, I mean, I got the details wrong, but I think you had talked about lower medical costs than anticipated within long-term care. Broadly speaking, are you seeing any signs of accelerating medical cost inflation in terms of actual, I guess, claim payments, and that's long-term care and the medical cost in the P&C books?

Lawrence Albert Haefner
Interim Chief Financial Officer

I'll start with the long-term care piece. There's a couple of things going on that we've seen. We are beginning to see a little bit of evidence of higher cost in particularly facility care. However, there's a countervailing that is the impact of people being more willing to take care of people at home. So in-home care is becoming more prominent, and that's significantly lower than facility care.

So while were seeing some evidence of higher cost in facilities, in particular, and a little bit home care, the shift has actually been a -- favorable for us overall. And then Healthcare -- in our medical cost book, we had -- that was a book of business, parts of it that were impacted by social inflation. We have incorporated our assumptions into that. We've talked about that in the past, and we made no revision. We're not seeing that accelerate, really, to this -- in the quarter.

Operator

[Operator Instructions] We'll go next to Tom Gallagher with Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Just a follow-up on long-term care. I heard your comment, Larry, about the shift away from facility care to home health care and that being a positive. Can you comment on how big of a change that's been? Maybe you have numbers around proportion of total claims that, in the past, were home health care and what they are now? Like how big is that change in trend been?

Lawrence Albert Haefner
Interim Chief Financial Officer

Yes. Tom, I wouldn't say it's dramatic, but we're probably seeing somewhere in the 5% to 10% kind of shifts in those -- in that mix, which, as I mentioned, is helping us overall in severity.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. Got you. And then are you guys considering risk transfer on this block? And if so, what are your overall thoughts for what you're seeing in the market?

Lawrence Albert Haefner
Interim Chief Financial Officer

The market is still not conducive. We don't believe to doing a transaction. And clearly, we'd want to do something that we could be comfortable with that didn't come back to us. So our focus has been managing this business extremely well, which we think we do, reducing risk wherever we can. We think that's the right thing to do in managing the book of business.

And obviously, that will help with a potential buyer in the future. So we look -- we're a P&C company. That's our focus going forward. So we do look in the market to see, but we feel comfortable with how we're managing the book. We feel comfortable with the reserves. So we'll see what happens as market conditions change.

Dino, anything you'd add to that?

Dino Ennio Robusto
Chairman & CEO

No, I think that you captured it perfectly. Our derisking at the policy level is having a meaningful impact.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Yes. And I guess, just one final follow-up, if I could. Your reserving claim counts declined pretty meaningfully in 2021, down 6.5%. And I know you mentioned that that's COVID-driven or, I believe, you said that's COVID-driven. Are you -- is your book old enough where we should -- how would you see that playing out if COVID normalizes? Would you expect that to go back up? Or based on the age of your block, at some point, I'd presume that's going to decline.

Lawrence Albert Haefner
Interim Chief Financial Officer

Yes. And Tom, I don't think I said specifically, but we do prescribe or believe that COVID has had an impact on the reduction in the claim costs because we would not have expected that degree of decline. But in the individual book, we're coming in close to peak claim time period within a year or so. So we would expect that to have been flattening out. On the group book, obviously, that's a younger book of business. And so that we would expect those to -- once we're through COVID, that would start to climb a little bit again. But that is the smaller portion of the book.

Operator

And at this time, there are no further questions. I will turn the call back to Dino Robusto for any additional or closing remarks.

Dino Ennio Robusto
Chairman & CEO

That's great. Thank you very much, Jennifer, and thank you all for your questions. We look forward to chatting with you again in a quarter. Thank you.

Operator
This does conclude today's conference. We thank you for your participation.