S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

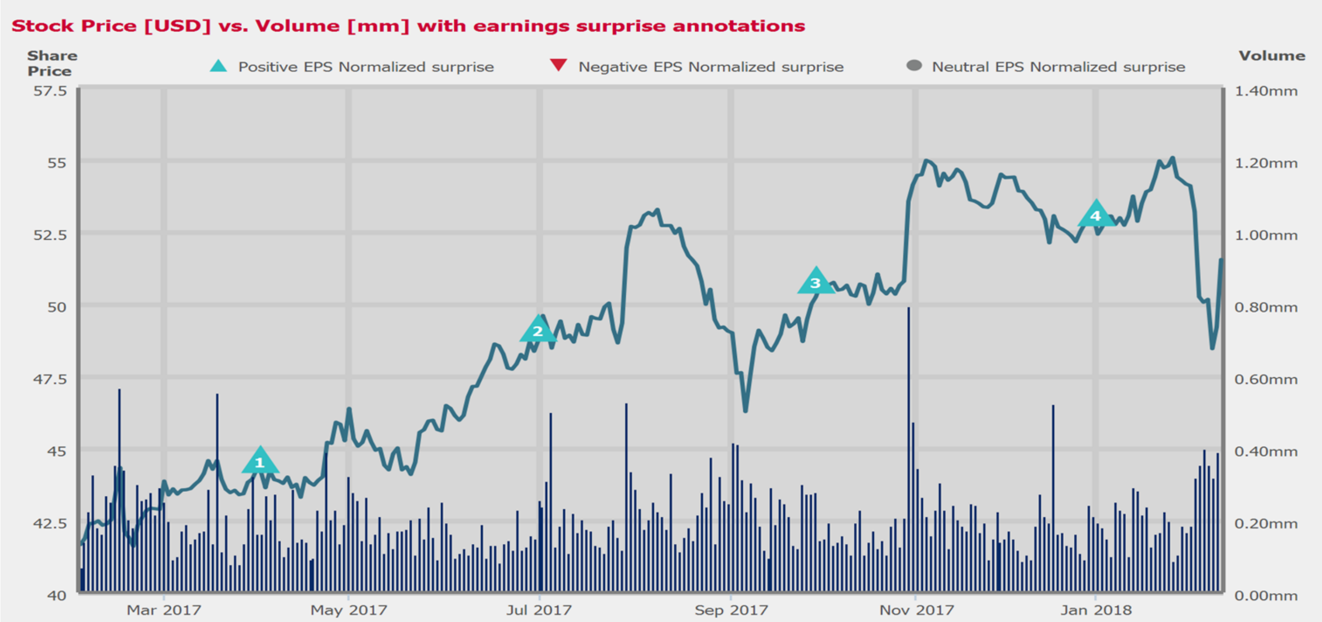
FQ1 2018 Earnings Call Transcripts

Monday, April 30, 2018 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.91	1.03	▲13.19	0.96	3.96	4.05
Revenue (mm)	1804.00	1813.00	▲0.50	1825.00	7380.00	7866.00

Currency: USD
Consensus as of Apr-30-2018 1:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	0.79	0.87	▲1 10.13 %
FQ2 2017	0.76	0.88	▲2 15.79 %
FQ3 2017	0.22	0.58	▲3 152.17 %
FQ4 2017	0.82	1.05	▲4 28.05 %

Call Participants

EXECUTIVES

Dino Ennio Robusto
Chairman of the Board & CEO

Donald Craig Mense
Executive VP & CFO

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Scott Frost

Presentation

Operator

Good day, and welcome to the CNA Financial Corporation quarterly earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. James Anderson. Please go ahead, sir.

James Michael Anderson
SVP Financial Planning & Analysis and Corporate Development

Thank you, Don. Good morning, and welcome to CNA's discussion of our 2018 first quarter financial results.

By now, hopefully all of you have seen our earnings release, financial supplement and presentation slides. If not, you may access these documents on our website, www.cna.com. With us on this morning's call are Dino Robusto, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. Following Dino's 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 in references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during the call. Information concerning those risks is contained in the earnings release and at CNA's most recent 10-K on file with the SEC.

In addition, the forward-looking statements speak only as of today, Monday, April 30, 2018. 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 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 Ennio Robusto
Chairman of the Board & CEO

Thank you, James. Good morning, everyone. I am pleased to share our first quarter results with you today, which showed our continued progress in growing our underwriting profits.

Our pre-tax underlying underwriting income was $111 million in the first quarter, the highest quarterly amount at CNA in over 10 years and reflects the benefit of actions CNA has taken during the past several years and strengthened over the past year by our relentless focus on execution.

Driving the growth in our underlying underwriting income is an excellent underlying loss ratio of 60% for the quarter, a 2.2 point improvement from first quarter 2017. Our first quarter underlying combined ratio of 93.2% included an expense ratio of 32.8%, which was 2.1 points better than a year ago.

While the expense ratio comparison benefited from an unusually low net earned premium quarter a year ago due to the Small Business premium adjustment, it still improved to 1.2 points after adjusting for that impact.

Overall, our first quarter 2018 combined ratio of 93.1% improved by 4.1 points compared with last year's first quarter as the impacts on loss ratio from prior period development and catastrophe losses were essentially the same in both quarters.

We also had strong growth with net written premium in the quarter increasing 8% from last year after adjusting for Small Business. Our growth for the quarter benefited from favorable currency fluctuation impact of 1%, renewal premium change increase of 4% and growth in new business.

From an operational perspective, I am encouraged by the success our underwriters had in managing the rate-retention dynamics in the early stages of this transitional market. You will recall that this is a topic I discussed at length in last quarter's call.

Our results in the quarter evidenced our disciplined approach to receiving more rate. In the first quarter, we improved rate of a full point to plus 2%, our highest achievement in over 2 years. Of course, as we push for more rates, we are fully committed to walking away from accounts when we cannot get our required terms and conditions. And in the quarter, we had a trade-off of 2 points of retention but still achieved a healthy 83% retention ratio.

Our push for rate took place in each of our business units. In our Commercial middle market book, we successfully pushed for more rate on the accounts most in need. Specifically, 28% of the accounts that renewed in the first quarter received increases of more than 5%, which compares with 25% in the fourth quarter of 2017. This helped drive a full point of improvement for middle market rate. Slide 9 of the earnings presentation shows the trend detail.

Importantly, rate for Commercial middle market, excluding workers comp, was plus 2%, also up 1 point from the prior quarter. For middle market, the work comp decrease was about 3.5%, which was expected due to the favorable profitability trends.

We continue to push for more rate in Auto and achieved a 5% increase, which was up 1 point from the fourth quarter of 2017. But this push for rate did impact our Commercial middle market retention, which declined by 0.5 point from these efforts. Middle market retention was further affected as we intentionally walked away from a large poorly performing program that we could not get sufficient rate to make profitable.

In our Specialty segment, we achieved 2 points of rate overall, up from 1 point in the fourth quarter, and retention was down 3 points to 85%. The underwriters continued to execute effectively in pushing for rate where it is needed most. Specifically, we achieved a 10% rate increase in health care compared to an 8% increase in the fourth quarter of 2017, and March was even better at plus 15%.

Health care is an industry where we have been a meaningful player for many years and we remain fully committed to it, having built a tremendous amount of technical expertise, which we are now leveraging to successfully drive strong terms and conditions, especially rate.

Also in our Specialty segment, rate for our D&O product was up 2% for the first quarter as compared to an almost 4% decrease in the fourth quarter of 2017. In order to reverse the negative rate trend, we traded 2 points of retention compared with the fourth quarter.

And finally, in our International segment, rate was 2%, up 1 point from the fourth quarter. Here as well, we pushed for rate where most needed and achieved a 4% rate in our Hardy operation with both property and casualty lines experiencing increases.

Based upon our execution, at this more granular level across all our business segments, I remain encouraged by the trajectory of our rate-retention efforts and believe that we will be increasingly effective for the remainder of the year.

Now I would like to update you on a key operational focus for CNA over the past year. You might recall that back in July, I mentioned we were beginning to gain traction with our distribution partners and getting opportunities to quote on high-quality accounts that historically had not been available to CNA.

High-quality accounts do indeed get marketed for a variety of reasons, notably: exposures associated with the commercial business can and do evolve over time, and the producer wants to know their commercial client is benefiting from the best product, services and overall protection at appropriate terms and conditions. But which underwriters those high-quality accounts get marketed to has been the issue facing CNA.

At the time, I described how each member of our underwriting management team was highly focused on this effort. I commented on subsequent calls about the progress we were making each quarter through our continued efforts to attract top talent, develop existing talent and leveraging the ongoing deep involvement of the executive underwriting management team to further improve the capabilities and solutions we bring to our customers. This work is ongoing and I feel good about our progress.

We are seeing more and more opportunities each quarter to quote high-quality new business accounts. And in the first quarter, we were more successful at writing a good share those accounts. Part of the increase came from a sizable new program that we spent 6 months working to get.

However, writing new business was still a challenge in the first quarter. While we were successful at landing more accounts, we also worked hard for a number of other accounts that we had targeted. In the end, we were not able to obtain the terms and condition that we deemed appropriate and so we pulled back.

As I have stated before, courting new high-quality accounts does take time when the objective is to showcase the caliber of our expertise and breadth of our products and services along with a fair price. So we will continue our efforts throughout the year and revisit quoting next year those clients that value our overall offering.

Bottom line, I am pleased with the overall results of our new business production, but this is only one quarter in an ongoing effort towards better production success, and our expectation is to sustain our improved performance. However, I stress, and I always will, that our mission is to grow underwriting profit, and if this marketplace continues to evolve, our new business production will fluctuate based on our ability to secure the appropriate terms and conditions, and when we can't, we will continue to walk away.

One last operational comment. We continue to invest in our existing talent through more technical training, providing more development opportunities and greater access to senior leadership. For example, our Commercial leadership team spent a significant part of the first quarter visiting our branch offices as part of their overall training to support underwriters through this transitional market. We also continue to attract new talent to the organization, most recently evidenced by the hiring of Mark James to coordinate our global reinsurance placements and Doug Kortfelt to oversee our corporate procurement and vendor management operations.

I will end by giving you a few additional financial highlights for the quarter and then turn it over to Craig for detail. For the quarter, core income was $281 million or $1.03 per share, just $46 million higher than a year ago. Core return on equity was 9.3%. Net income was $291 million or $1.07 per share. Our Life & Group segment had core income of $14 million for the quarter, and this is now more than 2 years of stable earnings.

The conservative set of assumptions that underlie our carried reserves and our runoff long-term care business, along with our active management of all aspects of this business, continue to drive these results, and you can fully expect that we will maintain this disciplined approach going forward. And finally, we are pleased to announce our regular quarterly dividend of $0.30 per share.

Now before I turn it over to Craig, I'm sure that you all saw the press release last week announcing Craig's decision to retire at the end of this year. While I have only had the privilege of working with Craig for 1.5 years, his countless contributions to CNA over the past 14 years have resulted in the financial strength that CNA enjoys today.

I am sure you'll all agree that Craig's disciplined leadership has engendered confidence from the investor community as well as rating agencies, regulators and employees, among others. Craig, while I know you will be here for a while, let me just say on behalf of CNA, thank you for everything that you have done to make this place better.

Finally, and as expected of Craig, he developed a succession plan that resulted in an excellent internal candidate, James Anderson, who will be succeeding Craig. Many of you know James from his investor relations responsibilities. James joined CNA in 2012 and has been a key member of the finance leadership team.

In addition to investor relations, James oversees financial planning and analysis as well as corporate development. During his tenure here at CNA, he has proven himself an astute financial leader with a strong drive for results.

Having worked closely with James since my arrival, I have every confidence in his leadership and financial capabilities. I enthusiastically welcome him as my partner. Craig, James, congratulations to you both. And with that, here is Craig.

Donald Craig Mense
Executive VP & CFO

Good morning, everyone, and, Dino, thank you for the kind words. As I look back over my time here at CNA, I'm extremely proud of what has been accomplished by all of us over those 14-plus years. And I'm especially excited about the bright future that CNA has in front of it. And further, I'm absolutely confident that James is well positioned to build upon the strong foundation that is in place today. So with that said, let's turn back to the quarter.

In the first quarter of 2018, we produced core income of $281 million and net income of $291 million, both of which included a noneconomic charge of $32 million related to the retroactive reinsurance accounting for our 2010 loss portfolio transfer of asbestos and environmental liabilities to National Indemnity Company.

Core income was $46 million higher than a year ago. And while we certainly benefited from the change in the corporate tax rate, the fundamental driver of the improvement was increased Property & Casualty underwriting profit. Our Property & Casualty operations produced core income of $327 million, up 22% from the prior year quarter's $268 million of core income.

Pre-tax underwriting income nearly tripled from $43 million to $113 million. The earnings contribution from investment income was down given lower limited partnership results. Our improving underwriting discipline is again evident in our Property & Casualty underwriting loss ratio of 60%, which is over 2 points better than the fourth -- first quarter of 2017 and consistent with the results that we've posted each of the past 3 quarters.

In addition, we benefited from $39 million or 2 points of favorable loss reserve development. Throughout my tenure, we have worked very hard to build a high-quality disciplined reserving process and to create and sustain a strong loss reserve position.

The first quarter of 2018 represents the 12th straight quarter of favorable loss reserve development reflective of the benefits of our disciplined and sound approach to reserving. I believe that our P&C reserve position has never been stronger. I fully expect that James, working with our Chief Actuary, will ensure that our disciplined approach will continue.

For the first quarter, our net pre-tax catastrophe losses were $34 million, a modest 2 points on the loss ratio and in line with the prior year's quarter. Our expense ratio also improved and at 32.8% is over 2 points lower than the prior year's quarter.

You'll recall that last year's Small Business premium adjustment inflated the first quarter '17 expense ratio by a little under 1 point. So the normalized comparison would be to 34% rather than 34.9%. The remaining 1.2 points of improvement was primarily driven by earned premium growth but also helped by some improvement in the expense base as we continue to balance investing in the business with harvesting efficiencies.

First quarter did have some onetime favorable items included. As we think about our expense ratio run rate, we currently see it in the mid-33s. Our Specialty segment's combined ratio was 87.5%, including 4.5 points of favorable development. The favorable development was primarily in accident years 2015 and prior and driven by financial institutions and management liability as well as surety, all of which showed favorable frequency. The timing of the surety review this quarter reflects the strategy we have put in place a year ago to perform reserve reviews more frequently across the portfolio.

Specialty's underlying combined ratio for the quarter was 91.5%, a little under a 3.5-point improvement as compared with the prior year's first quarter. The underlying loss ratio of 60.3% was over 2.5 points lower than the prior year's quarter and about 1 point better than the past 3 quarters. While the underwriting improvements were broad based, health care contributed meaningfully to this improvement as our underwriting actions are taking hold.

Specialty net written premiums grew 2% in the quarter. Specialty demonstrated a strong rate-retention dynamic. Renewal premium change was up 2.7% with the rate up nearly 2 points, while retention was down about 3 points to 85%. You'll notice that positive dynamic as well as the growth in new business in the Specialty production metrics on Page 8 of the earnings slides.

Our Commercial segment's combined ratio was 97.1%. This result included almost 4 points of catastrophe losses and a little under 1 point of favorable loss development. Commercial's underlying combined ratio was 93.9%, over 4 points better than the prior year's quarter after adjusting for the Small Business premium rate impact, driven by both loss and expense ratio improvement. The underlying loss ratio of 59.8% was 2.4 points better than last year's first quarter and in line with more recent quarters. Expense ratio improved almost 2 points driven by the growth in earned premium.

Commercial's net written premiums were up 15% versus the prior year's first quarter. However, net written premium in the first quarter last year was negatively affected by the premium adjustment in our small business unit. Normalizing for this, net written premiums grew 8%, driven by new business, along with positive renewal premium change.

New business growth was predominantly in our target customer segments in middle markets. Renewal premium change was up 2.7%, with the rate up 1.1%, its highest level in 11 quarters. Retention was 84%, down slightly as we continue to effectively manage the rate retention trade-off.

Our International segment generated a combined ratio of 96.6% in the first quarter, including less than 1 point of catastrophe losses. The underlying combined ratio was 96.1% with a strong underlying loss ratio of 59.9%, in line with the prior year quarter, and the expense ratio showed about a 0.5-point improvement at 36.2%.

International's net written premium grew 24% or 14% when excluding currency fluctuations. Renewal premium change of 7.6% accounted for about half the growth. Rate increased 2.4% and retention was 80%, up from 78% in the prior year's quarter.

Our Life & Group segment produced $14 million of core income this quarter driven by favorable persistency. Rate increases, favorable investment income and reduced expenses also helped.

Morbidity continues to be within our expectations.

The favorable persistency this quarter was driven by a high proportion of policyholders choosing to reduce benefits in lieu of rate increases for one of our newer initiatives. This marks the ninth consecutive quarter of stable results since our long-term care reserve estimates were reset in the fourth quarter of 2015.

We completed our Annual Asbestos and Environmental reserve review in the first quarter. This year's review resulted in a $97 million increase to reserves for asbestos and environmental liabilities that have been ceded to National Indemnity as part of our 2010 loss portfolio transfer. The resulting noneconomic $32 million after-tax charge contributed to the core segment core loss of $60 million in the quarter.

Pre-tax investment income was $490 million in the first quarter compared with $545 million in the prior year quarter. Pre-tax income from our fixed income security portfolio was $455 million this quarter as compared with $456 million in the prior year quarter. The pre-tax effective yield on the fixed income portfolio was 4.7% in the quarter, a level that we've been able to keep relatively stable over recent years without taking on more risk.

Our limited partnership and common equity portfolio produced $31 million of pre-tax income, a 1.3% return, compared with $90 million of pre-tax income, a 3.8% return, in the prior year quarter.

Our investment portfolio's net unrealized gain was $2.3 billion at quarter end. 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 Property & Casualty liabilities had an effective duration of 4.5 years at quarter end, in line with portfolio targets. The effective duration of the fixed income assets that support our long-duration Life & Group liabilities was 8.3 years at quarter end.

The effective tax rate in the first quarter was just under 16%, and we'd estimate the impact of tax reform to have added approximately $30 million to core income.

At March 31, 2018, shareholders' equity was $11.4 billion or $42.10 per share. And shareholders' equity, excluding accumulated other comprehensive income, was $11.8 billion or $43.57 per share, an increase of 2% from year-end 2017 when adjusted for the $2.30 of dividends paid in the quarter.

In the first quarter, operating cash flow was $218 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 Ennio Robusto
Chairman of the Board & CEO

Thanks, Craig. Before we move to the question-and-answer portion of the call, let me leave you with some summary thoughts on the quarter's performance.

Our first quarter core income of $281 million was $46 million higher than our Q1 2017 despite lower LP investment returns. We had pre-tax underlying underwriting income of $111 million, our highest amount since 2006. Strong growth of 8% in adjusted net written premium fueled by higher rate and exposure as well as growth in new business.

We had favorable prior period loss development impact on our combined ratio, consistent with Q1 of 2017. We had positive earnings in our long-term care business in the quarter, broadly consistent with the assumptions incorporated in the 2017 GPV analysis. Our 2018 first quarter core return on equity is 9.3%. We announced our regular quarterly dividend of $0.30 per share.
And with that, we'll be glad to take your questions.

Question and Answer

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Craig, congratulations. James, congratulations. Lots of things going on. Wanted to ask a question about the health care rate increases. 8% in 4Q, 10% in 1Q with 15% in March alone. Those rate increases sound like they were responding to losses. Can we talk about the margin in that business and what's going on there?

Dino Ennio Robusto
Chairman of the Board & CEO

Josh, right, I'll make some observations. And then if there's any other detail, I'll turn it over to Craig. Look, we've had a long history in health care and profitable results in a broad sort of range of the areas within health care. We've also built a lot of expertise across our underwriting, our claims, our risk control, actuarial. And frankly, we really have data that I think no one else has. And over the sort of 2 decades that we've been in it, we've generated a lot of profits. Now we have talked about in the past, on past calls, that we had some challenges in recent history driven by some higher frequency and severity trends, which incidentally newer entrants, over the last few years, with their sort of naïve pricing, are now seeing an exiting from it. But look, we're an industry leader. We know what to do to mitigate the trends that we've seen. I've spoken about and given you some pretty detailed examples of our rate retention dynamic and we had another quarter of some strong performance. Now you'll lose a little bit of retention in some of the areas like Aging Services probably in the mid-70s, but that's okay. We know what we have to do, and it's starting to really look good. Health care, so we are committed to it. We're going to stick with it and remain an industry leader.

Joshua David Shanker
Deutsche Bank AG, Research Division

And when you say health care, there's a lot of lines in health care. Which lines in particular are we talking about here?

Dino Ennio Robusto
Chairman of the Board & CEO

The segments Aging Services and Hospitals principally are the 2 areas. And Craig, I think over several calls, had talked about the frequency and severity trends, some of the litigation jury awards that were higher. So we see it, we know it. Risk control, exceptionally talented at CNA in this area because we've been at it so long. They know what to look for. And I think we're responding very effectively. And because we have called Josh in, in this segment, I think we can continue to lead with the right terms and conditions, and the March results was really strong. [indiscernible]

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you think with this pricing, you're at -- you're getting to where the loss costs are? Or do you think there's still multiyear pricing to happen to get to where you want to be?

Dino Ennio Robusto
Chairman of the Board & CEO

I wouldn't say multiyear, but I know we're there. Now -- right now, no, right? We're going to -- it depends how we continue to play this. But how quickly we can get big rate increases where we need it, keep in mind that in the short term, even when you drop your retention, right, 20%, 25%, that has an immediate effect because you dump the frequency of the losses. So it's not there today. It's not a multiyear process, so shorter than that.

Operator

We'll go for our next question to Jeff Schmidt with William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Just looking at the underlying loss ratio in the commercial side. You'd mentioned in recent quarters that you'd seen sort of severity tick up, maybe an increase in legal costs. Are you seeing a shift there, maybe a more favorable trend? Or is that decline, I think it was 240 basis points -- is that really just being driven by sort of re-underwriting, better business mix?

Donald Craig Mense
Executive VP & CFO

It's by the latter, by re-underwriting better business mix. And Jeff, I don't recall mentioning seeing expenses. And those in -- really, in health care, we had mentioned -- actually, in Architecture & Engineers, we had mentioned we're seeing declining legal costs affecting and improving the loss ratio in some of our specialty businesses. So no, we're not seeing any increasing legal expenses that are having a negative effect on losses.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And then I don't know if it was mentioned. But did you discuss what are rates doing in workers comp? And how does that compare to loss cost trends there?

Dino Ennio Robusto
Chairman of the Board & CEO

So I mentioned the rate decrease, in particular for middle market, which was minus 3.2%. But we have, again, a lot of profitability in the line of business. We're comfortable with the line of business, with the mix that we have, work comp is a state by state, right, so you've got to play it differently by different states, but we continue to feel comfortable with our work comp.

Operator

For our next question, we'll go to Meyer Shields with KBW.

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

Again, congratulations, both Craig and James on this move. 2 quick questions, I guess, on reserves. The first is, can you give us a sense of what the revised schedule looks like for the rest of the year? In other words, when there are prominent reserve reviews scheduled?

Donald Craig Mense
Executive VP & CFO

They are actively across the year. We've been stepping it up, Meyer, so that we're looking at most all lines at least twice a year, but we're really -- if we're not doing an in-depth review, we're doing actual expected and some other analytics on them. So you shouldn't expect it's going to be -- there's some seasonality to our reviews. You should expect more frequency and then more reaction. I think that surety is one example that I've mentioned this quarter where we've stepped up the frequency of our review schedule.

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

Okay. Yes, I was asking about seasonality, so that's perfect. And second, the -- does the -- so you mentioned that the asbestos and environmental charge this quarter is noneconomic. Does the charge in the first quarter -- like what's the future quarterly impact of the unwind of the charge in this quarter? Is there any way of [indiscernible] that?

Donald Craig Mense
Executive VP & CFO

Well, yes -- well, that's what I meant. When you mean -- I don't want to get into accounting exercise, obviously. I'm sure you don't either. You -- feel free to call us and we're happy to lead you through. But remember that the deferred gain, because we're in a deferred gain on the contract, we only get to recognize that percentage of the gain that is equal to the paid losses against the ultimate expected loss. So we're about -- we have a little over $750 million of deferred gain. We recognize slightly more than 50% of it because that's kind of where we are. The paid losses are a little less than $1.6 billion against an estimated ultimate of about $3 billion right now. So there's another $350 million plus of deferred gain that will get unwound as the contract runs out over many years.

Operator

[Operator Instructions] We'll go next to Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask about small commercial. There has been other peers talking about entering that business, the amount of technology needed to get into it and stay in it and be strong in it. And I just wondered if you have any technology investments that you may need to make to defend yourself in that area or if there's any other comments you might have on what's going on in the smaller commercial area.

Dino Ennio Robusto
Chairman of the Board & CEO

Hi Gary, Dino. So look, we've actually been in small business for, I guess, about 15 years now, and we have some good premium in the business. And -- but to your point, you've got to continue to evolve the technology. We have invested significantly over the last year in upgrading our rating plans. We have a newer online presence that you probably saw in the last couple of quarters. So it's an area we're interested in continuing to invest in because we've been at it a long time. We have many agents and brokers that we partner with, that have favored us. And as long as we keep making it easy to do business, that the rating plans are in line with the target segments that we tell them that we're interested in, this is going to continue to be an important business for us. Now just as a point when I indicated about the online, the online is not any direct. It is just an ability to get quote indication. But if you do want to proceed, then you get directed to an agent and broker, which is the way we're going to continue to do this business.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Can you give us a sense of the size, average size of your small commercial premium size? I just was kind of wondering how small it is.

Dino Ennio Robusto
Chairman of the Board & CEO

Small business? So about $2,000 roughly, the average size of our policies.

Operator

We'll take our next question from Scott Frost with SSGA.

Scott Frost

Do you think these types results are what NRSROs are looking for in terms of upgrade track? And are higher ratings desirable? Or should we think of capital management in the context of your current rating stand as a BBB name?

Donald Craig Mense
Executive VP & CFO

I think that -- I think what we've said before, Scott, or I said to investors I met before, our objective is to get upgrades from here. Last year, recall, we were upgraded by Standard & Poor's to BBB+. And we're kind of at that same level with Moody's right now. I think if you look at the credit metrics, whether it's leverage ratio or fixed coverage charge or even our improvements in the level of capital, all are indicative of a higher rated firm. So the -- our hope and expectation over time. Now it's up to the rating agencies' perspective, as we said before, would be that we would be -- continue to be upgraded from here.

Operator

[Operator Instructions] And it appears there are no further questions. So at this time, I'd like to turn the conference back to Mr. Dino Robusto for any closing comments.

Dino Ennio Robusto
Chairman of the Board & CEO

Great. Thank you, and we look forward to chatting with you in a quarter.

Operator
This does conclude today's conference. Thank you for your participation. You may now disconnect.