S&P Capital IQ

CONTENTS

CNA Financial Corporation NYSE:CNA

FQ4 2009 Earnings Call Transcripts

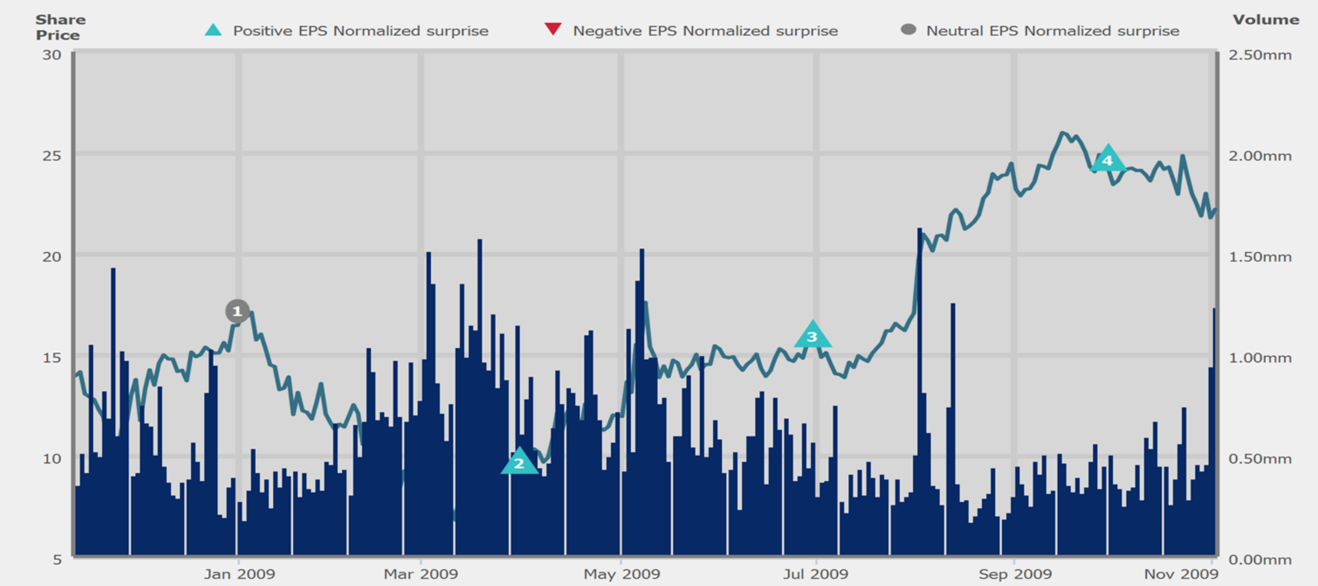
Monday, February 08, 2010 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.73	0.63	(13.70 %)	0.65	3.29	3.20

Currency: USD
Consensus as of Feb-08-2010 1:26 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2008	0.45	(0.15)	NM
FQ1 2009	0.30	0.44	46.67 %
FQ2 2009	0.68	1.02	47.83 %
FQ3 2009	0.87	1.11	27.59 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

John Hennessy
Senior Vice President of Sales & Distribution

Nancy M. Bufalino

Richard Scott

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Adam Starr

Dan Johnson
Citadel Investment Group

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Matthew John Carletti
Macquarie Research

Robert Ray Glasspiegel
Langen McAlenney

Presentation

Operator

Good day, everyone. Thanks very much for holding. Welcome to CNA Financial Corporation's Fourth Quarter and Full-Year 2009 Earnings Conference Call. [Operator Instructions] At this time, I'd like to turn the conference over to Nancy Bufalino. Please go ahead.

Nancy M. Bufalino

Thank you, Kevin, and welcome, all, to CNA's fourth quarter earnings call. Our press release was issued earlier this morning so hopefully everyone has had an opportunity to review it along with the financial supplement, which can be found on the CNA website.

With us this morning are Tom Motamed, our Chairman and CEO; and Craig Mense, our CFO. Tom and Craig will provide some prepared remarks before opening it up for questions.

Before we get started, I would like to advise everyone that during this call, there may be forward-looking statements made and references to non-GAAP financial measures. Please see the sections of the earnings release headed Financial Measures and Forward-Looking Statements for further detail.

In addition, the forward-looking statements speak only as of today, February 8, 2010. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call. This call is being recorded and webcast. During the next week, the call may be accessed again on CNA's website at www.cna.com.

And with that, I'll turn the call over to CNA's Chairman and CEO, Tom Motamed.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thanks, Nancy. Good morning, everyone, and thank you for joining us today. We are pleased to report that our fourth quarter and full year results improved significantly in 2009. Fourth quarter net operating income was $197 million or $0.63 per common share in 2009 as compared to $21 million net operating loss or $0.15 per common share in 2008. Net income in the fourth quarter was $246 million or $0.81 per common share compared with a net loss of $336 million or $1.31 per common share in 2008. Key drivers of these improved results were investment income, favorable prior-year development and net realized investment results.

For the year, net operating income was $982 million or $3.20 per common share as compared to $533 million or $1.91 per common share in 2008. Net income was $419 million or $1.10 per common share compared with a net loss of $299 million or $1.18 per share in 2008. In addition to the drivers I just mentioned, our full year results benefited from lower catastrophe losses.

Turning to our core Property & Casualty Operations. The 2009 combined ratio was 96.9%, which included 6.5 points of favorable development compared to 4.4 points in 2008. Catastrophes added 1.4 points to the 2009 combined ratio and 5.7 points in the 2008 ratio. Before development and catastrophes, the 2009 combined ratio was 102% as compared to 96.7% in the prior year. The 2009 accident year loss ratio before catastrophes increased to approximately two points to 69.1%, driven by large loss activity in property lines early in 2009 and higher frequency and severity in certain areas of our Workers' Compensation business.

Property & Casualty operations net written premiums decreased 6% in 2009 to $6.1 billion. The decrease reflects the impact of the economy on our exposure base as well as our decision to push for improved pricing and risk selection. The impact of this work is evident in our rate and renewal trends.

In 2009, rate decreases averaged less than 1% compared to a 4% decrease in 2008. Our retention came down a point to 82%. The Property & Casualty operations' 2009 expense ratio increased three points to

32.6%. The major drivers were lower earned premium, higher employee-related expenses and industry assessments. I will come back to expenses at the end of my remarks.

CNA Specialty delivered an outstanding fourth quarter combined ratio of 78.4% in 2009 compared with 92.6% in 2008. This change was driven by a 10-point increase in favorable development. The other major driver was an improvement in the fourth quarter accident year loss ratio, which was much less affected by credit crisis-related losses than the prior-year period. These factors were partially offset by an increase in the expense ratio, once again mainly driven by employee-related expenses.

Specialty net written premiums declined 2% in the fourth quarter, largely due to competitive pressure. Renewal retention was down slightly to 84%, rate decrease is up 2%, represented a one point improvement from the prior-year period. We continued to achieve positive rate in our Financial Institutions business. In addition to competitive conditions, Specialty premiums were pressured by exposure decreases, notably in our Architects & Engineers and Surety businesses.

Overall, we remain very positive about our Specialty business which represents 52% of Property & Casualty Operations on a gross written premium basis. Combined ratios are excellent, and our competitive position is strong. We have market-leading positions in healthcare and professional services, which are industries we believe will do better than the overall economy in upcoming years.

While our Specialty Premium volume was down slightly, we continue to see opportunities for growth and profit. We are adding underwriters to drive growth in target segments, and the early indications are encouraging. Premium, New Business and Policy account are increasing in these segments. I will also mention that we continue to focus on smaller and mid-sized accounts. They have historically been less volatile and more profitable than larger risks for CNA.

We do not underestimate the challenges of the Specialty marketplace. Despite some favorable movement on rates, competition has been consistently intense across almost all lines. With new entrants coming in and reinsurance capacity in abundance, we anticipate a continuation of these conditions in 2010 and beyond. That being said, there are opportunities out there and we are well-positioned to compete very effectively for profitable Specialty business.

Turning to our other major segment, CNA Commercial, the fourth quarter combined ratio was 99.9% in 2009 compared with 86.5% in 2008. Approximately four points of this change is related to the impact of development in tax, and another four points is related to an increase in the 2009 accident year loss ratio. This was mainly driven by higher frequency and severity in our Workers' Compensation business. The remaining five points was from the expense ratio. Approximately half of this is related to industry-related assessments, the other half was from the factors I mentioned before, lower earned premium and higher employee-related cost.

Commercial net written premiums decreased 9% in the fourth quarter. 2/3 of the premium decline is related to the impact of the economy on exposures, especially in our Construction and Manufacturing segments. In fact, unauditable policy, such as workers' compensation and general liability, we returned premiums to policyholders when their exposure base drops off during the term of the policy. Also, when we renew the policy, the renewal premium reflects the lower exposure base. Therefore, exposure declines have a compounding effect.

The other major driver of our premium volume is our decision to increase pricing and improve risk selection. Commercial achieved a 1% rate increase in the fourth quarter, up four points from the prior-year period. Small Business, which represents 14% of our commercial premiums, has had five consecutive quarters of positive rate. These pricing initiatives have put pressure on new business and retention. Retention was down three points to 81%. Our fourth quarter new-to-loss business ratio was 0.8:1 versus 1.2:1 in 2008. We are prepared to write less new business and accept lower retention to improve profitability over time.

Overall, we believe our Commercial segment has the potential to be a much stronger performer over time. We have positive brand awareness and a strong franchise with our agents. We continue to reprofile our commercial book to improve its profitability and position it for growth going forward. And as I mentioned, we are pushing rate and writing less new business. We are walking away from inadequately-priced accounts. We continue to exit lines and segments that have been problematic.

With respect to growth, we are being increasingly clear with our producers on our underwriting appetite, which we have focused on classes where we have superior customer insight and where we can offer distinctive value at competitive prices. The response from producers has been encouraging. In the fourth quarter, the majority of the submissions and new business was in these preferred classes. We also had higher retention in the preferred versus non-preferred classes. We are also encouraged by our progress in the excess and surplus lines arena. This was our first growth initiative out of the box. We brought in new leadership last April and finalized an opportunistic growth strategy. The results are evident in the fourth quarter premium growth of 18% in this area.

With respect to market conditions, the commercial market remains very competitive. New business pricing continues to be very aggressive and carriers are fighting to hold on to their renewals. Again, we don't underestimate the challenges, but we believe that our strategies will produce meaningful improvement in our commercial results and will position us well as the market begins to recover.

Before turning it over to Craig, I would like to spend a few moments on expense. Last quarter, I told you we were conducting a cost benchmarking project to help us identify potential cost-saving opportunities and process improvements to drive efficiencies across the entire organization. Based on this review, we will be focusing on several areas within our support functions to improve overall efficiency and effectiveness. In fact, actions have already been taken as evidenced by the roughly 7% reduction in support function headcount in 2009. Our intention is to reinvest these in future savings to help fund our strategies, which will enable us to grow both the top and bottom line.

With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom, and good morning, everyone. As has been the pattern from past calls, I would like to review our financial results both for the fourth quarter and full year, with particular attention to our performance against the financial priorities that we established at the beginning of 2009.

We reported operating earnings of $197 million for the quarter and $982 million for the year. These earnings represent operating ROEs of 7% and 9% for the same respective periods. While these results are below our longer-term target and the performance of some of our leading peers, they're still at respectable levels and mark our sixth straight year of operating profits.

Our balance sheet and capital position remain very strong and showed consistent improvement this quarter. We continue to maintain a very conservative capital structure and to exhibit a strong cash flow and liquidity profile.

The dramatic recovery of our investment portfolio was a major highlight of the year. Earnings and the sustained recovery of our investment portfolio continue to drive capital growth this quarter. Book value per share has now increased 72% from year-end 2008 to $35.91 a share.

With respect to our capital position, we ended the year with GAAP common shareholder's equity of $9.7 billion, up 72% from $5.6 billion at the end of 2008. Our debt to total capital ratio is now 17.8% as compared to 23% at the beginning of 2009. Our earnings coverage ratio was a healthy six times the interest on our public debt and preferred stock dividends.

Our regulatory capital showed similar improvement. Statutory surplus increased 19% from $7.8 billion to $9.3 billion over the course of 2009. Importantly, we have also generated significant dividend capacity in our primary insurance subsidiary. In addition, the holding company has approximately $400 million in cash and short-term investments, which is more than 2x our annual net corporate obligations.

We continue to evaluate our capital adequacy against regulatory, internal and rating agency metrics. Against all these measures, we believe our capital is more than sufficient to support our current ratings.

In other items of note, I wanted to mention that as a result of the recent regulatory modeling of non-agency RMBS holding and the related NAIC ratings, the statutory value of our investment portfolio increased by approximately $150 million. We believe this outcome validates our views of the sector and our disciplined impairment process.

We are also pleased to report that a result of recent actions, our financial strength ratings have been affirmed at their already strong levels and our outlook is now stable across all three major rating agencies. Finally, we completed a $350 million debt offering in the fourth quarter that provided a modest increase to the efficiency of our capital structure.

Our operating income continues to reflect improved investment income, primarily from limited partnerships, with continued favorable reserve development from Property & Casualty Operations. We have now recorded 12 straight quarters of favorable development.

Fourth quarter net investment income totaled $565 million, up from $170 million in the prior-year period. The improvement was driven by our LP investments which produced fourth quarter pretax income of $75 million compared with the $309 million loss in 2008. Our fixed income result decreased 6% from the prior-year period, reflecting low short-term rates as well as a high level of our holdings in short-term investments.

With respect to LP investment, our fourth quarter rate of return was approximately 4%. For the year, the rate of return was 18%. While LPs represent less than 5% of our total invested assets, they remain an important part of our ongoing investment strategy. Over the last 10 years, these assets have outperformed equities with less volatility with an average annualized return of 10% over that period. You will recall that a distinctive characteristic of our LP investment are the timeliness of their reporting. Over 89% are on a one month or less lag. They overwhelmingly represent investments in marketable securities, with valuations driven by the fair value of the LPs underlying security holdings. There is little private equity or real estate.

Net income for the quarter was $246 million included a $49 million of realized investment gains. A key driver of our realized investment results was an after-tax gain of $240 million from the sale of Verisk holdings as we discussed with you last quarter. The quarter's results also included after-tax other-than-temporary impairments, recognizing earnings of $127 million. The impairments went across several asset classes with almost half in structured securities.

Our impairment decisions were driven both by our assessment of likely future performance of these securities as well as intent-to-sell decisions consistent with our ongoing management of risk and volatility in our portfolio. We are also pleased to report our continued progress to reposition our investment portfolio to manage risk and volatility, and to drive more consistent performance in the future.

At year-end 2009, our investment portfolio had a pretax net unrealized gain of $25 million. This compares to $176 million gain at the end of the third quarter, and $5.4 billion loss at year-end 2008. The recovery in our investment portfolio was driven by the recovery of the broader financial market and the repositioning of the portfolio. While the recovery took place across virtually all asset classes, corporate bonds led the way as credit spreads narrowed.

In 2009, we reduced our exposures by $4.2 billion in certain high-risk asset classes through net sales and principal repayment. As measured by amortized cost, non-agency, residential and commercial mortgage-backed securities were reduced by $2.5 billion or 33%. The low investment grade corporate bonds were reduced by $1.5 billion or 45%. Non-redeemable preferred stock was reduced by $250 million or 29%.

I do want to point out that when you receive our 10-K, you will note that despite the changes I've just noted, the fair value of all securities rate at less than investment grade in the portfolio is higher at year-end 2009 than at year-end 2008, with an amortized cost base that is substantially the same, actually, it's slightly lower. This was a result of significant price appreciation as well as downgrade to securities during the year that we continue to hold. The downgrade centered around structured securities, as you can see reflected in the financial supplement you received this morning.

The majority of our investment purchases were centered in investment grade corporate bonds and agency-collateralized structured securities. This is true for both the fourth quarter and the full year. During the quarter, we made net purchases of $2.1 billion in investment grade corporates, which increased its asset class to 42% of invested assets at fair value as compared to 24% at year-end 2008. Over the full year, we made net purchases of $7.4 billion in this asset class. We also added approximately $1.7 billion of agency-collateralized pass-throughs and CMOs to our portfolio for the full year, including $1 billion in the fourth quarter.

Overall, our investment decisions reflect our emphasis on diversification, quality and liquidity. We continue to manage the portfolio to align with the needs of our insurance businesses. The effective duration of the overall portfolio was 5.8 years at year-end compared with 6.2 years at the end of the third quarter, and similar, 5.8 at the end of 2008. The effective duration of the asset backing of our PNC liabilities was 4.0 years at year-end 2009, at the low end of our target range.

About a quarter of our total fixed income investments are held in a separately-segmented portfolio to match our long-duration, lifelike liabilities associated with the businesses and run-off. These assets had an effective duration of 11.2 years, which is in line with portfolio targets.

Our overall portfolio liquidity and substantial positive cash flow continue to be major advantages. Our operating company cash flow remains strong. In 2009, we had $2.8 billion of principal cash payment and we generated another $1.3 billion of operating cash flow. Between the holding company and the operating companies, our cash and short-term holdings totaled $4.1 billion at year-end 2009. I would add that our holdings of cash and short-term exceeded our liquidity needs. We will continue to make prudent purchases of longer-term investments as our confidence in the market improves.

Now I would like to report briefly on our non-core businesses. The Corporate segment recorded a fourth quarter net operating loss of $112 million. The loss relates to our annual ground-up review of our Asbestos, Environmental & Mass Tort exposures. We increased reserves $175 million pretax to reflect increased defense and coverage counsel costs, as well as higher cost for pollution cleanup. On the whole, our view of the underlying Asbestos, Environmental & Mass Tort landscape has not changed in any meaningful way from recent periods.

Our Life & Group Non-Core segment had a fourth quarter net operating loss of $19 million in 2009 compared with a net operating loss of $39 million in 2008. The improvement was primarily the result of improved investment performance in our Pension Deposit business.

One last comment before I turn it over to Tom. I'm sure that you have noted that our PNC business segments were realigned. We revived our segments due to a realignment of management responsibilities. Previously, international operations were treated as a separate business unit within CNA Specialty. The products sold through international operations are now reflected within CNA Specialty and CNA Commercial, in a manner that aligns with the products within each segment. Additionally, the company's assets and surplus lines, which were previously included in CNA Specialty, are now included in CNA Commercial, which we refer to as CNA Select Risk.

With that, I will turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thanks, Craig. Before we open it up for questions, I would like to close with some summary observations. Last May, we announced a three-part strategy to drive top and bottom line growth: First, developing and deepening our expertise to serve our chosen industry segments while also maintaining an appetite for a broad range of good risks; second, manage our mix of business to improve profitability; third, extend our geographic reach and improve our capabilities at the point of sale.

We have put our strategy into action on many fronts. We have developed and implemented 11 industry segment strategies aimed at delivering differentiated products and services. We upgraded leadership talent in Commercial and Small Business, and we upgraded field operations leadership at the home office zone and branch levels. These leaders are fully aligned with our strategy and have a track record of delivering results. We put a structure in place to support our strategy of enterprise segmentation and cross selling within Specialty and Commercial. This structure includes new underwriting and business development positions to extend our underwriting outreach and drive sales across CNA. To better align our field structure with our agency plant, we opened a new branch office in Chicago. This year, we are planning to open offices in Washington, D.C., Los Angeles, Birmingham, Alabama and Westchester County in New York.

We provided front-line underwriters with improved pricing metrics who made the branches fully responsible for profit and loss in their territories. We have launched a range of initiatives to manage the mix by shifting towards focused industries and commercial, exiting poorly performing accounts and segments and launching growth initiatives in Specialty. We are strengthening producer relationships by improving our organizational sales capability. I'm pleased with the progress we have made so far. However, looking ahead, the market will remain very challenging.

We expect the competition in 2010 will be a continuation of 2009, with the fiercest battles being fought over good, new business. We expect that the economy will continue to struggle, but we don't see it getting worse. Exposure to clients should start to bottom out. We also expect rates will continue to creep up. Finally, we expect premium growth to be a mixed bag, varying by territory, industry segment and account size. There is opportunity out there for carriers staying close to their producers and differentiating themselves through service and expertise.
Against this backdrop, you should expect CNA to stay focused on the fundamentals in 2010 and beyond, continuing to build underwriting and pricing discipline, growing Specialty as measured by premium in-force policy count and new customers and fixing and growing commercial, making CNA a producer-friendly company with a sales and service orientation as measured by submission activity, hit ratio and retention, continuing to manage our expenses wisely and also continuing to build human capital. We continue to believe that CNA's people, strategy and financial strength will enable us to manage through this cycle and emerge as a top-performing underwriter. With that, we'll take your questions.

Question and Answer

Operator

[Operator Instructions] First up, we have Jay Cohen at Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

First is the expense ratio ticked up and you mentioned some of the issues behind that, but some of it sounds, I guess, somewhat not permanent, but it's not just all obviously one-time in nature. And I'm wondering if you have a target for next year. Obviously, you're taking a closer look at expenses. Do you think you can get it back down to where it was in 2008 given the environment?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, I think, Jay, number one, we're cognizant that it ticked up. As we said, if you look at the quarter, the decrease in net earned premium was equivalent to about 7/10 of a point, employee-related expenses 1.7 points and the increase in industry assessments is 1.3 points. Overall, for the year, the headcount was up 2%. As I mentioned in the areas that we focused on relative to our expense focus in the staff areas, the one area we looked at, headcount was down 7%. So we're looking at headcount, but we're looking at it in a controlled way based on what expertise we need to execute the strategy, but we will continue to work on pushing it down. But obviously, premium has a lot to do with it. If we can stabilize our premium, get growth up to flat, that's going to help quite a bit. And then, I think the employee-related expenses, we should be able to manage that over time. We did invest in a quite a few number of new jobs in the field in 2009, particularly in the Specialty area and Excess Surplus [Excess & Surplus] lines, which we both see as areas we want to grow. They are profitable. So part of is shifting headcount around and looking for greater efficiency and effectiveness. We have not picked the target, that was your question, but rather we're going to manage the pieces and eventually get it to a lower number over time.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Part of the question was, you had suggested that these cost savings that you're focusing on for, I guess, more of the support areas, you're going to "reinvest in the business", which would suggest maybe you don't see a drop in the expense ratio.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Good question, but the fact is we've already invested in the business by putting these jobs on the ground, creating different jobs such as business development, more senior underwriting jobs in the field. That's already in place. So we've kind of spent the money first and now we're taking some of the cost out.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

The E&S business, I think to recall this, what have been called Standard Commercial has moved to Specialty, and now you're moving it back to CNA Commercial. It sounds like a Specialty-type business. I'm wondering what's the reason you're putting it back in the Commercial business.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

We look at it as a line of business issue. So if they're selling general liability policies or they're selling property policies, that aligns with Commercial not Specialty. The definition of Specialty around the industry bounces around quite a bit, but we are really taking kind of a line of business approach as to how we put businesses within Commercial or Specialty.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

If it's possible if you could get us some prior quarters restated so our models don't get too screwed up.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Those should all be out there. We filed an 8-K January 21. We stated '07 and '08 and all the quarters of '09, Jay.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

The debt offering, it didn't looked like you had an additional debt coming due until August 11. And I was wondering what the rationale was for issuing debt here.

D. Craig Mense
Chief Financial Officer and Executive Vice President

We used the proceeds to repay a portion of the preferred. The reason we did it was capital efficiency. So we eliminated 10% non-tax-deductible preferred, and in its place put a seven and 7 35 tax-deductible debt.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

How much of the preferred is left at this point?

D. Craig Mense
Chief Financial Officer and Executive Vice President

A billion is left.

Operator

Next up in the roster is Bob Glasspiegel of Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

Assessments you said was 1.3 points. Do you have a dollar amount? And was that sort of incremental or absolute?

D. Craig Mense
Chief Financial Officer and Executive Vice President

That was incremental increases, Bob. It's Craig. And I don't have an exact dollar amount for you. Across a bunch of different second injury funds in New York, Department of Labor, new stuff in a few other states.

Robert Ray Glasspiegel
Langen McAlenney

So that's overall expense ratio on PC if I want to do the calculations.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, Bob, what you have to think is that the expense ratio is up about three points from the prior year. And what we've given you is where that three points is allocated. It doesn't come up exactly. There’s some miscellaneous in there.

Robert Ray Glasspiegel
Langen McAlenney

Do you view that's going to be an incremental pressure prospectively at this rate? Or do you just try to get ahead of the curve?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would say number one, we don't believe that it’s going to tick up. I think we've got our finger on all the components including the controllable expenses. So we did a much tighter job when we did our planning for 2010 on where our expenses are and what they actually are. So yes, I don't expect that getting worse. Our hope is over time it’ll get better. I don't think we're going to see the real benefits until 2011 as we work through this efficiency and effectiveness piece of the expense strategy.

Robert Ray Glasspiegel
Langen McAlenney

You didn't do your Investor Day. I was wondering if -- is John or Ken [ph] on the line? They’ll be able to talk about Asbestos and Environmental or if you could just give us a couple paragraphs on what wiggled this quarter. I'd appreciate that.

John Hennessy
Senior Vice President of Sales & Distribution

I think as Craig said, there are no secular changes in asbestos or pollution. And you may want to take a look at the AM Best report that came out in the beginning of December which confirms that. Just around the edges, more independents deciding to try cases in the asbestos arena. Trial activity is up in some key jurisdictions like New York and California. So that would be the key take away in asbestos for this quarter. In pollution, it's just a matter of you have remediation cost developing over quite a bit of time in some of the larger sites. And you do get -- you tend to get an increase in remediation costs over time as some of these big size. And what AM Best correctly notes is that cat [ph] losses in the pollution area have remained stubbornly high, higher than expected but they are coming down. And that is very much our experience as well.

Robert Ray Glasspiegel
Langen McAlenney

So just concluding, would it be fair to say minor wiggle in what's been sort of a secular improving segment? Or am I oversimplifying?

John Hennessy
Senior Vice President of Sales & Distribution

What I'm saying is that there are many trends but the overall trend is downward over time in

terms of paid losses and incurred losses for the industry. But it's a bumpy ride and there will be lumpy years and lumpy quarters along the way.

Robert Ray Glasspiegel
Langen McAlenney

Craig, where are you on these investment portfolio being where you want to be from a de-risk basis? You’ve talked about what you’ve done but where’s the end-zone timing?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Richard Scott is here as well, but I ask him to comment after I comment. But I'd say, repositioning portfolio is never really done, right, as you’re thinking about reacting to the market. But I think what you ought to expect from us going forward is likely continued reduction in the non-agency structured run-off. And obviously, we'd like to, as our comment to the market improves, put more of the cash to work. I think that's generally what you should expect to see from us.

Richard Scott

I would comment on a couple of things. One, if you think about what has happened to the market over the last several years, two of the major asset classes that had historically been AAA asset classes, mainly municipal bonds and non-agency structured securities, are fundamentally no longer AAA asset classes. We, for a variety of reasons, have been reducing both of those asset classes and would expect to continue to do so, not so much because of rating, but because of just uncertainties on the structured side as to the amount of cash flow that's going to come off. Now no matter where they're rated or no matter where you want them, that is an area that is yet to crystallize in terms of ultimately result. And I think that so long as the structured market is more of us close to do issuance, it will continue to struggle a little bit in the market. We're also on a tax position where we don't get the full current benefit of tax-exempt interest income, but you should expect to see our tax-exempt municipal portfolio continue to shrink. To some degree, that will be offset by increases in the holdings of taxable municipals, particularly VATs. But from a perspective of de-risking per se, I think most of what I would view is circumstances where we were in the position of wanting to reduce the volatility, most of that is already done.

Operator

[Operator Instructions] With that, we'll move on to Matt Carletti at Macquarie.

Matthew John Carletti
Macquarie Research

I just want to ask a question on capital. Capital has rebounded very nicely, both stat and GAAP, from a year ago. You've paid down a little of the preferred, but I was hoping you could comment on your appetite or willingness to pay that down further, and what, I guess, given the terms of it, Loews' appetite might be to allow you to pay it down.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Matt, it's Craig. And I just really repeat and reference you to back what we said last quarter that we certainly would like to pay it down as soon as it's practical, but neither anybody here nor anybody at Loews is anxious about getting it done. So we're trying to balance our longer-term objective, or really short-term objective to get an upgrade from the rating agencies. And as I said, last quarter is the natural and that's moved Loews -- moved to stable, which has now happened with the AM Best's announcement this morning. So we're going to balance that objective of getting the upgrade and positioning some of these upgrades with the payback. So I think you should expect us to be cautious in terms of our movement, and likely, we'll move incrementally like we did last quarter. And as our confidence in the earnings and in the investment market improves, you can expect us to act over time.

Operator

We have a question now from Adam Starr at Gulfside Asset Management.

Adam Starr

Could you just give a little more color on the adverse development in the fourth quarter, the Commercial lines, and whether there is any indication as to whether our future underwriting will reflect the different assumptions?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Could you repeat it. You're not coming across very clearly on the mic.

Adam Starr

Could you just discuss the adverse reserve development in the Commercial lines during the fourth quarter and whether that has any implication for future results in those lines?

D. Craig Mense
Chief Financial Officer and Executive Vice President

This is Craig. The reserve development in Commercial lines was positive, it was favorable for the quarter and for the year, over 100 million pretax this quarter. So the unfavorable development was in our Asbestos and Pollution and Mass Tort reserves.

Adam Starr

And will there be future reserving patterns reflecting that, or do you think you've got it pretty much behind you?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, it's in the current accident year, so the deterioration is already in the number. The other thing is we had workers' comp deteriorated in the quarter.

Adam Starr

Because the press release indicates that it's in the Commercial, but I guess hearing -- in the press release you're including the yield conflict [ph] (51:59) towards within that? For the year [indiscernible] (52:06) current accident year in the press release.

D. Craig Mense
Chief Financial Officer and Executive Vice President

So maybe we're [ph] (52:11) a very favorable prior-year development in general in Commercial. There was some deterioration in prior-year comp in Commercial, but it was more than offset by the favorable stuff [ph] (52:26) and then there were some strengthening of the current accident year in Commercial and workers' comp. Separate discussion you'll see in the press release related to the Corporate segment, which is where the Asbestos Solution and Mass Tort is centered.

Adam Starr

That I saw. I just misunderstood you. But the current accident year, that was largely workers comp or was it new business or new account or was it just old business where patterns have changed?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

The workers comp piece, both the prior-year adverse development, which was more than offset by favorable development in Property lines and the current accident year increase was related to one area of our workers comp book. And it's a smaller segment but noticeable, we think we've got within, got it behind us.

Operator

We have Dan Johnson at Citadel.

Dan Johnson
Citadel Investment Group

Would you guys maybe provide a little more color around the support function changes that you may be, a, have already completed; b, you plan to complete, maybe trying to scope out, sizing in terms of potential savings so we get a sense of the magnitude of the reinvestment dollars that are going back into the business. And are we pretty much assuming that, that's a one-for-one initiative, in terms of reinvesting the savings?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Complicated question, complicated answer. What I would say is that what we are focused on is most of the staff functions within the organizations so this would be non-production related. So think of that as the field as production related, the staff positions would be for the most part focused in the home office as well as various processing areas around the company. So that's where we're focusing on. We're kind of go in one area at a time. We have not, I'll say, finalized the number as to potential total spend, but we think it's pretty significant but we're clearly doing this from the standpoint of making as more efficient and more effective. This is not an attempt or I should say a draconian attempt, to just say we're going to cut out 5% or 10%. It's really going area by area doing a pretty deep dive as to workflow process function. So we're encouraged as we said one area that we've looked at already, the headcount is off about 7% in that area. We expect over time that it will be less, but we are not prepared to put anything out there that says, this is exactly what the cuts are going to be by when, et cetera. It will show up as we move forward. And as I said earlier, a lot of this will not show up until 2011.

Dan Johnson
Citadel Investment Group

In terms of the savings or in terms of impact of the reinvestment?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

The savings.

Dan Johnson
Citadel Investment Group

And the reinvestments maybe just -- I know you said you're opening up in the new branches, anything else you're going to highlight?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

As we've said earlier, we already have put more people on the ground in the field whether those are Specialty underwriters, Excess Surplus lines, Underwriters business, Development Marketing people and also Commercial underwriters at a pretty high level of expertise. So we have already done that, that's kind of baked in and overtime, we expect that there will become more effective, more efficient and will get some other cost out of the place. We kind of done the investment first and now we're going to start harvesting some cost.

Dan Johnson
Citadel Investment Group

So there has been some spend up front, so that we may see some benefits but instead not exactly...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

What we are trying to do is number one, we want to get the loss ratio down and we want to grow in those segments where we think there are profitable margins and we have kind of put that piece into motion, we're pretty pleased with that. The next thing is identifying cost savings whether that's redundancy, inefficiencies, et cetera and most of that will come out of what we would call the staff areas many of which are support areas.

Operator

We will return to Jay Cohen for our next question.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

First is on the investment side, I guess you suggested you have still a fair amount of short-term and cash in the portfolio. And I guess you suggested that you are looking to redeploy it when the market looks better. And I'm wondering, when do you think that's going to be? You're looking to do this relatively soon or over the course of the next two years?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Jay, it's Craig. No, we're not looking to do it relatively soon. We'll do it as just as Richard said, as our outlook in the market and depending on the direction of interest rates and our general confidence in the stability to market improves. It's not something you should look for us to do. We're not anxious to go do it immediately. Expect us to do it over time.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Jay, one way I would phrase it to you is from a target duration including cash on the general account, we're not that far off from where we want to be. I would characterize our long-term intent there us be more to do with where we want to be positioned on the curve necessary than necessary much of anything else. It's more of a duration targeting than a amount of cash targeting exercise.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

On the favorable reserve development, which looks like, both in the Specialty business and in the Commercial business, jumped up quite a bit from the pace we had been seeing. And I'm wondering, was there any change in the methodology at all? Or was it just simply the claims trend looked a little bit better than you had been seeing?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

First of all in the fourth quarter, we looked at much of our global affiliate book and surety. And so therefore, we looked at Europe, we looked at Canada, we looked to the Surety business. And clearly, these were areas that had significant favorable development. So just a question of what we looked at. On the property side, we were able to release some reserves related to hurricane Gustav and Ike. So this was kind of convergence of a lot of things just happening in the fourth quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess in general on the reserves, have you made any changes in the reserving methodology in general? Tom, since you've gotten there given that Chubb has sort of a defined way of looking at reserves, have you changed the way CNA approaches reserves at all?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I would say no, but we are doing I think a much better job getting reserves up on a case basis which is very helpful. As you know, most of the reserves in a given year start with IBNR and as claims people put up case reserves, the two kind of balance ultimately, it all goes into case. But clearly, I think we're doing a much better job on the claims side, getting the reserves up in a timely fashion and a more accurate fashion. So I wouldn't say it's a new process. I would say, it's better execution at the claim level and we are also investing resources in our actuarial area, which we believe will also have the benefit to.

Operator

We'll go back to Matt Carletti.

Matthew John Carletti
Macquarie Research

I just want to ask a question relating to insider trading activity, can you just generally remind when management is able to buy or not buy this one, the blockout periods are generally around the quarter for CNA and when you might be able to be in the market?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

John, you want to answer that.

John Hennessy
Senior Vice President of Sales & Distribution

Our rule of thumb is 30 days. That can be extended if there's really -- if everything is quite and it does not know a material information at the time, but the general rule of thumb is at company, it's 30 days.

Matthew John Carletti
Macquarie Research

Go quiet 30 days before the end of the quarter?

John Hennessy
Senior Vice President of Sales & Distribution

The window is 30 days from earnings.

Operator

With that there are no other questions holding. I'll turn things back over to our speakers for any additional or closing comments today.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you very much. See you next quarter.

Operator
With that, ladies and gentlemen, we'll conclude today's call. Again, thank you for joining us. And once more, have a good day.