S&P Capital IQ

CONTENTS

CNA Financial Corporation NYSE:CNA

FQ2 2015 Earnings Call Transcripts

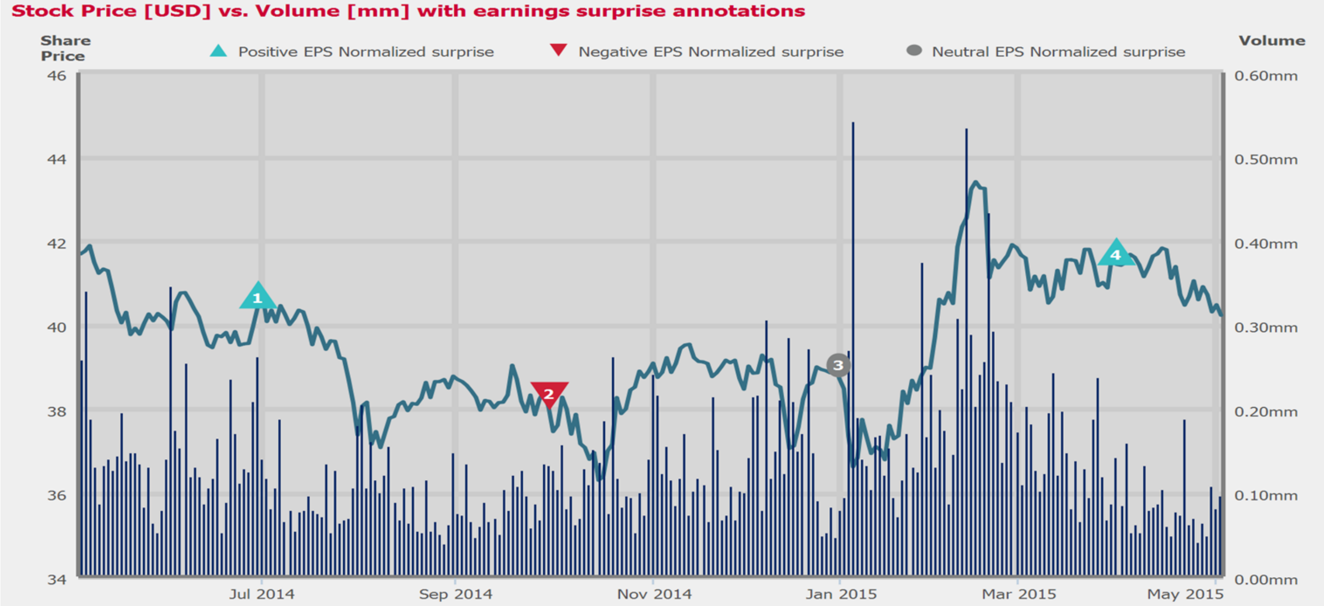
Monday, August 03, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	0.49	(37.97 %)	0.81	3.28	3.48
Revenue (mm)	-	-	-	-	7045.00	-

Currency: USD

Consensus as of Aug-03-2015 11:27 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	0.82	1.00	1 21.95 %
FQ3 2014	0.78	0.68	2 (12.82 %)
FQ4 2014	0.76	0.76	3 0.00 %
FQ1 2015	0.81	0.83	4 2.47 %

Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

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

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jeffrey Paul Schmitt

Joshua David Shanker
Deutsche Bank AG, Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, and welcome to the CNA Financial Corp.'s Second Quarter 2015 Earnings Call. Today's conference is being recorded. And at this time, I'd like to turn the call over to James Anderson. Please go ahead, sir.

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

Thank you, Danny. Good morning, and welcome to CNA's discussion of our 2015's second 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 Tom Motamed, our Chairman and Chief Executive Officer; and Craig Mense, our Chief Financial Officer. Following Tom and Craig's remarks about our quarterly results, we will open it up to your questions.

Before turning it over to Tom, 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 in CNA's most recent 10-Q and 10-K on file with the SEC.

In addition, these forward-looking statements speak only as of today, Monday, August 3, 2015. 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 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, Tom Motamed.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, James. Good morning, everyone, and thank you for joining us today. In the second quarter, CNA produced net operating income of $132 million, which included a noneconomic $54 million charge related to retroactive reinsurance. Excluding this charge, net operating income was $186 million compared with an adjusted $216 million last year, with higher underwriting income offset by lower limited partnership income. Our adjusted return on equity was 6.2%. Our Property & Casualty operation continues to show steady improvement, with the combined ratio 3 points better than last year's second quarter. This improvement was driven by lower non-cat accident year loss ratios in both Specialty and Commercial. Excluding catastrophes and development, the Property & Casualty combined ratio was 95.3%, 1 point better than the prior year quarter.

Our Specialty segment produced a solid quarter, while the combined ratio of 91.2% was higher than last year as a result of less favorable development. The current accident year loss ratio improved 0.6 points. Excluding catastrophes and development, the combined ratio was 92.6%. Rates increased 1% and retention was strong at 85%. Specialty's net written premium was down 4% in the quarter as the market becomes increasingly competitive, especially for larger accounts. We are very proud of the Specialty franchise that we have built over decades and expect to grow it over time. However, we also value the margins that this business generates and we'll be stubborn in giving those up. In other words, we will sacrifice the top line to protect the bottom line if necessary, as was the case this quarter.

Moving to Commercial, we continue to make good progress. The combined ratio of 107.2% was an 11-point improvement over the prior year quarter but was hampered by 7.7 points of catastrophe. Excluding catastrophes and development, the combined ratio was 97.7%. I would expect to sustain our progress from here. Commercial rates increased 2% and retention improved to 79%, with our core middle market business achieving 83% retention this quarter. Commercial premium increased 4% as our underwriting actions affected a smaller portion of our book this quarter. New business was up in our focus customer segments. We're achieving a higher level of success, attracting new Commercial customers in our focus segments, especially those segments where we are strong in Specialty, such as professional services and financial institutions. Our previously discussed underwriting actions are working and are reflected in our improved loss ratio and bottom line results. I'll remind you that these individual underwriting actions are ongoing and will affect retention rates from quarter-to-quarter.

International's second quarter combined ratio was 92.2%. Excluding catastrophes and development, the combined ratio was 95.8%, 1.5 points better than the prior year quarter. Excluding the effect of foreign currency exchange rates, net written premiums increased 5% for the quarter compared with the prior year quarter. International rates decreased 1% and retention was 71%. While business in our International segment, particularly Lloyd's, remains very competitive, we've been able to navigate effectively to find profitable growth opportunities. With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. Our core Property & Casualty operations produced net operating income of $237 million, consistent with the $236 million in the prior year quarter. Our improved underwriting result was offset by lower limited partnership investment income. Our P&C underwriting results continue to improve. As you can see on Slide 11 of our earnings presentation, the quarter's underlying loss ratio of 61.7% was more than a point better than the prior year quarter, driven by Commercial's 2.3-point improvement, with Specialty improving by more than 0.5 point. Another important measure of our continuous improvement is our year-to-date underwriting results as compared to where we ended full year 2014. Property & Casualty's underlying loss ratio has been lowered by almost a point from the end of 2014, driven by International's 2.6-point improvement and Commercial's improvement of 1.3 points. Specialty's current result is relatively consistent with full year 2014.

Our second quarter expense ratio was 33.4%. While it was flat with the prior year quarter, we expect our run rate to be slightly higher in the second half of the year, driven by ongoing investments in underwriting resources and technology. Life & Group produced a $24 million net operating loss in the quarter compared with a $9 million gain in the second quarter of last year. The prior year quarter benefited from unusually favorable morbidity and persistency experience in our long-term care business as compared with modestly unfavorable morbidity in the current year quarter. As one of a number of initiatives to improve our long-term care business, we are implementing a new long-term care reserving system that we expect will be used for this year's reserve adequacy testing. Unlike our prior process where the review of claimed reserves occurred in the third quarter and the review of act of life reserves occurred in the fourth quarter, we now intend to follow a single-integrated review process, evaluating both reserve components together. We expect to conclude the 2015 reserve adequacy testing for both reserves in the fourth quarter.

Our corporate segment produced a net operating loss of $81 million compared with the gain of $27 million in the second quarter of 2014. Last year's second quarter was positively affected by a post-retirement plan curtailment benefit of $56 million after-tax. The current quarter includes a $54 million after-tax charge arising from the accounting-related to the 2010 asbestos and environmental loss portfolio transfer with National Indemnity. Adjusted for these unusual items, our corporate segment operating loss was $27 million this quarter compared with the loss of $29 million in the prior year quarter. You will recall that in 2010, we transferred our legacy asbestos and environmental pollution liabilities to National Indemnity Company, a subsidiary of Berkshire Hathaway, through our retroactive reinsurance transaction. At that time, we seated approximately $1.6 billion of net liabilities and paid approximately $2.2 billion for our reinsurance contract, with a $4 billion aggregate limit. As further outlined on Slide 14 of our earnings presentation, our estimate of inception, the date ultimate seeded losses were increased by $150 million this quarter to $2.6 billion. Since the seeded losses are above the consideration paid, also known as a gain threshold, the gain must be deferred and recognized in proportion to paid recoveries. These deferred gains will be subsequently recognized in future periods as seeded paid losses increase. While the accounting negatively affected our reported results during the current period by $54 million after-tax, there is no cash or economic impact. We expect to fully recover these seeded amounts over the course of that contract. The charge is GAAP-only, with no impact on statutory surplus.

Net investment income was $500 million in the second quarter. Income from limited partnership investments was $48 million, a return of 1.6% compared with $97 million or a return of 3.5% in the prior year period. Income from our fixed maturity securities in the second quarter was $452 million, consistent with the prior year period. Our investment portfolio of net unrealized gain stood at approximately $2.7 billion at quarter end, a decrease of $1.1 billion since the end of the first quarter. At June 30, shareholders equity was $12.2 billion and book value per share was $45.27. Excluding accumulated other comprehensive income, book value per share of $44.37 increased 3% from year-end 2014 adjusted for dividends. Statutory surplus at June 30 was an estimated $10.9 billion for the combined insurance operating companies and we continue to maintain adequate dividend capacity. Cash and short-term investments at the holding company were approximately $460 million at quarter end. We continue to target cash at the holding company equal to approximately one year of our annual net corporate obligations.

In the second quarter, operating cash flow, excluding trading activity, was $458 million. Cash principal repayments through pay down, bond calls and maturities were approximately $1.1 billion. Fixed income assets that support our long-duration Life & Group liabilities had an effective duration of 10.5 years at quarter end. The effective duration of the fixed income assets, which support our traditional P&C liabilities, was 4.4 years at quarter end. These durations are both in line with portfolio targets. Average credit quality of our fixed maturity portfolio remained at A. Overall our investment portfolio remains well-diversified, liquid, high-quality and aligned with our business objectives. 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 Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, Craig. Before we take your questions, I'd like to address the topic of M&A. Much of the chatter in recent weeks revolves around scale and the ability to compete for different-sized companies, and I'd like to give you my thoughts on CNA in this regard.

Today, as we have for years, we compete with companies that are larger than us and we believe we are building a business that can stand on its own. Our strategy is one built around focus rather than size. That being said, we have demonstrated the desire and ability to acquire businesses, and we continue to look for M&A opportunities, with the key being that any deal must work for us both strategically and financially. We are not interested in simply being bigger. We have a very strong Specialty business, a Commercial business that has shown great improvement in recent years and an International business that is building momentum, 3 pillars of CNA that is getting stronger each quarter. So while I'd like to see CNA continue to grow and gain scale, both organically and inorganically, we will do so rationally with our customers, agents and shareholders in mind.
With that, we're glad to take your questions.

Question and Answer

Operator

[Operator Instructions] And we'll begin with our Q&A, starting with Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Please excuse me being a little alarmist, but whenever I hear people about changing their methodology for how they do a major reserve study, I get a little nervous. Was there something wrong with your previous system for looking into your long-term care reserves? And why should I not be particularly concerned about a change in method?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, first, Josh, I didn't say change in method. So it's not a change in methodology, it's simply enhanced data. It's what we've been saying we've been doing in long-term care, relative to our investments in the business over the past couple of years. So all we're doing is allowing ourselves that ability to more clearly see more granular data and ability to relate more clearly and simultaneously healthy lives and unhealthy lives. So there's nothing in there signaling anything more than an improved ability to see data and trends more clearly.

Joshua David Shanker
Deutsche Bank AG, Research Division

Are you concerned that last year, you weren't seeing them clearly enough?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No we're not. We're simply trying to improve our ability to manage the business. Remember, we're also investing and building a new long-term care claim; our own long-term care claim administrative platform and bringing claims back in-house that have been outsourced. This has enabled us also to put those lessons we learned in seeing things better to work. So certainly, there's nothing in this -- the fact that we're have -- the timing of the reserve reviews are different. What we're doing is just suggesting to you that the claim and active life reserve reviews are being conducted simultaneously this year; that was the important point we wanted to make, so we weren't looking for something different and we certainly weren't trying to signal anything beyond that.

Joshua David Shanker
Deutsche Bank AG, Research Division

And in terms of looking at the reserve redundancies and whatnot, they're not as strong as they were a couple of years ago. I know you're trying to get -- be accurate not to -- trying to create favorable development. Do you feel there's been a change in the benign claims environment, given where we were 2 years ago?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I wouldn't say there's been any particular change in the claim environment where we were a couple of years ago. I'd suggest to you that what you've seen in our patterns has been more of a return to the steadiness on the Commercial side, where we had -- had been plagued by both some workers' comp reserves, inadequacies and automobile inadequacies a year ago. And this year, the last 2 reserve reviews you've seen are really relatively unchanged Commercial lines. At least that's how I would characterize the Commercial lines change, and you've seen some modest -- continued modest favorable development coming out of both Specialty and International, and those are both relatively consistent trends even though they might be quite as much as they were a year ago.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And finally, I don't want to minimize all the hard work that you've been doing, but when you think about the turnaround of CNA, what inning is it? Are we coming to a steady state here, where this is the new CNA? Or do you think there's still a lot of work to do?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

We'd probably say sixth inning, maybe getting near the seventh inning stretch. So we think we're making progress.

Operator

Our next question comes from Rob Glasspiegel with Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Tom, I really appreciate your thoughts on consolidation. I just have 2 follow-ups, both on P&C and long-term care. It seems like some of your competitors, Bill Berkley, are griping about sort of the tax angle of competing in the marketplace and your alma mater, to some extent aligning with these tax inversion may have been part of their thought process. Where are you on whether you have the right tax structure to compete in the current world?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Bob, this is Craig. And I would tell you that we think it's important to not complain, but simply to play the field that you're on. And I don't think we feel any terrific disadvantage. Whether that's investing in the current market or whether that's competing under the U.S. tax code, so I -- we waste little to no time really worrying over that. I think -- yes, we think we have plenty of other advantages relative to the position of our company, the broad retail reach of our company, the number of agents and distributors are important for them, the breadth of product offering we have, our critical importance, particularly in these customer segments, and the size of the market share and the importance we are to the customers across that, and that's all more important. So we don't spend any time crying over spilled milk.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, I would add to that, Bob, we're trying to improve underwriting and improve our margins. Our strategy is based on writing Commercial and Specialty business in the U.S. and abroad and doing it at better margins. And if we can do that, we think we can compete with anybody. And as Craig mentioned, we have some very strong market-leading positions that are probably the envy of the industry. So we're not in business to find a tax advantage. We're in business to build a business, so that's what we're going to do and we're improving every day.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Got you. On the Life side, I mean, you did the great -- you did one nice sale, are there -- is there a growing market for options in long-term care where you can either sell or reinsure pieces?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Not that I've seen or heard of so far, Bob. They're little nibbles around edges and some people trying to become more and better acquainted with it, but there are certainly no signs of any meaningful market that would afford us an opportunity to do anything.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay, one last question, numbers question on Page 8 of your supplement. Remind me why the tax credit rate on Life Group is running 70% plus? The after-tax loss of 24% compares to a pretax of 73%.

D. Craig Mense
Chief Financial Officer and Executive Vice President

That's because of the heavy amount of tax exempt munis that our investment income that are devoted to that portfolio. So what you're seeing on a -- you're seeing the pretax basis, and then you're seeing the tax effect of the muni benefit effect.

Operator

And our next question is from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just a few follow-up questions. First of all, just going back to the LPT, what was the cause of the additional adverse development?

D. Craig Mense
Chief Financial Officer and Executive Vice President

There were really 2 causes. One was built into asbestos, a reduced estimate of the amount of the reinsurance recoveries. And recall, this agreement does exceed the reinsurance credit losses, net impact of losses to Berkshire Hathaway. So on the asbestos side, it was really the lowered amount of reinsurance recoveries and then, there were a couple of larger pollution losses in terms of where the individual outcomes were higher than we had expected.

Amit Kumar
Macquarie Research

And on those larger pollution losses, do you get the sense that the noise from at least that piece was sort of one time in nature as of now? Or should -- could we see more noise in the remainder of 2015 from that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Our estimates are at management's best estimate at the time, so I wouldn't suggest you see or expect any trends from that. Certainly, we look at what you do, industry trends, and you see in terms of competitors, et cetera. So I wouldn't want to really engage any conjecture. But certainly, there's more than sufficient limit left in the loss portfolio transfer to deal with any additional adverse trend.

Amit Kumar
Macquarie Research

Correct. The other question I had was -- I guess, as a follow-up to Josh's point, you talked about enhanced data, I think you're responding to him granular data. As outsiders those aren't terms we hear often, and I'm not sure what to make of it, is this -- do you have, I guess, more sets of eyes looking at the same data? Or what exactly has changed? How can we, as outsiders, get comfort on that fact and then better understand it? What really changed? Is it a ton of new IT resources analyzing the data, or just better people? Maybe just talk a bit more about that.

D. Craig Mense

Chief Financial Officer and Executive Vice President

Well, I can take you back. I think we may be honestly overdoing the conversation here. So -- and I'm sorry we've made you anxious if we have, it certainly wasn't our intention. What we're doing is just continuing, just like we do in all parts of our business, invest in the business and maybe the right word is refining our capabilities and continuously improving our capabilities. So that's what we do across all our businesses, looking at lost data, Amit. We're investing pretty heavily in technology and data analytics, that across our Property & Casualty business as well as long-term care. So it's really nothing more than that, all right? But again, I did say to you, and we have said before, that we have invested in the business, meaning, we have more actuaries to make sure that we're looking at things more clearly, but it's just -- it's -- view it as just ongoing refinement and improvement.

Amit Kumar
Macquarie Research

Got it. The third question I had, maybe this is a two-part question. The discussion on consolidation and M&A and looking at other entities, and you talked about continuously looking at things but not necessarily being out there just because everyone is talking about M&A. I want you to sort of loop that discussion back into -- if you look at where the stock is trading at on a price-to-book basis. Then if you look at the ROE because of the payment equity leverage, and then sort of also add some of your competitors into the mix, where do we go from here? Does -- when does CNA get to the multiples where a traveler is trading at? Do we even get there in the current cycle, especially with the leverage issue in terms of how your top line is versus the capital you're carrying? Maybe, Tom, just share your views as to how do you think that gap closes.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, I think if I go back to my arrival at CNA, there were a couple of issues that confronted us. The first were underwriting margins were unacceptable in Commercial and we have worked very hard to improve the underlying accident year loss ratios. That required a shift in strategy on many fronts: underwriting, pricing, producer management, segmentation, and actually coming up with a strategy that was going to be successful for the long term, and we believe that the customer segment strategy is serving us very well in that regard. It is probably the only strategy out there that blends Commercial and Specialty products, which is very appealing to producers and customers. So we think that's working very well. We did have an asbestos issue and we have addressed that, and we think that was the right thing to do at that time. We still believe that. And after we did it, a few other people followed. So the fact of the matter is we addressed that, we got rid of nonperforming businesses outside of the U.S. and Hawaii, and we have done the bolt-ons of Surety and Hardy, Hardy leading to the platform that will serve us well internationally. So all of those are moving pieces. Have we had to fix things along the way? Yes, we've certainly had to do that and we think we're continuing to gain on that. We're still getting rate increases. They have decelerated, but that's industry wide, but we are cautious on the new business we write. So we think we're moving all of that in the right direction. Long-term care is still out there, you know that and we know that. We don't see a solution for that right now, so we're going to manage it as hard as we can and invest in it so that we can do a better job in the meantime. So we expect things will improve. But this is about focus. Getting big for big's sake doesn't mean you're going to be better. It doesn't mean that the margins are going to be better. It doesn't mean you're going to have more command of the marketplace. Like I said, Amit, we compete with bigger companies every day. And the fact is, we win our share, they win their share. So that doesn't worry us. We think we have a good offering to the market and we're going to stick with it. So this takes time and we're gaining on it. So I think that it's a good story and we think it's going to continue to go in the right direction.

Amit Kumar
Macquarie Research

And in terms of the capital level, I guess, what I was trying to get to is if you look at the premium per equity and then you compare it to some of the other names, I mean, I think what I'm hearing from you is that, all else being equal, this is -- we're in it for the sort of long haul. And the price-to-book, reflective of where the premiums equity is, you're sort of okay with where things are, at least midterm, as to where the status rating.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, let me say this. As far as capital is concerned, as Craig mentioned and we've mentioned on many calls, we are investing in the business. We have done some acquisitions, although they are small. If there was something out there that made sense strategically and financially, we'd take a look at that, but we have returned money to our shareholders in the meantime. So whether that's the regular dividend, whether it's the special dividend, but that's all part of capital management. And there's a lot of action going on out there and I'm not going to say what we are going to do, but we are going to be very thoughtful in what we do and how we do it because we're in an improving position, we believe and we're not going to take away from that. So we're not going just to do a transaction and screw up everything we worked on. So I would leave it at that.

Operator

Up next from Bank of America Merrill Lynch, we have Jay Cohen.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of other questions. In the Commercial segment, after several years of declining premiums, this was the first time we've seen premiums go up on a gross and a net basis. And you suggested that there has been a bit of a change. I guess my question is, do you see this growth as sustainable? Or was there anything unusual in the quarter, which would suggest it would fall back to a pattern of no growth or shrinkage?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, first of all, the second quarter historically is a good quarter for new business opportunities, and I think we cashed in on those in the Commercial space, particularly what we'd call the middle market segments, financial institutions, technology, professional services, white-collar business, which we think adds better loss ratios over time than some of the industrial blue-collar stuff. So we think a little bit of that is timing, but new business was up. It had been down for a while. We have had less to fix, and commercially, the amount of business to be fixed is going down. We still have some to go, which I mentioned in my comments, but we're pleased with what we we're seeing in the middle market space and we're retaining more of that business. The retention has gone up. When you look at the tiers, the better business, the higher-tiered business, the retention has improved in those as well. So we're pretty happy with where Commercial is going. This is a marathon, this is not a sprint. So it's very granular. It's like 3 yards and a cloud of dust, right? So we keep pushing on that. So the retention was better in the middle market segments. We got some rate. New business was better and we keep pushing it along. But don't think we're going to be growing this at 5% or 10%. We think that'd be irresponsible in this kind of pricing environment. So low single-digit growth would be okay, we'll take that.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great. On the Specialty side, you talked about getting a little bit more defensive when you said the premium shrink had been more on a net basis. But on a gross basis and according to our numbers, it looks like it was up pretty nicely. So what's happening there? Because obviously you seem to be buying reinsurance a bit differently. Is that fair?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, we have a cellphone captive, which we book as gross written premium. There's no net on that. We get a fee for that. So that's the difference between the gross and net, other than reinsurance costs. But to address your other comment. In the health care space, particularly the hospital business where we're a pretty strong market, we find that to be very competitive. A lot of new entrants, a lot of people going after healthcare in particularly the hospital business. So we don't like what's going on there, pricing -- new entrants trying to push the price down to get share. Also, a public D&O doesn't look too exciting to us these days. And when you look at the M&A activity, you're also finding 1 plus 1 does not necessarily equal 2, from an insurance premium standpoint. So as there are mergers, some of those accounts or the 2 accounts become less than 2. But public D&O is pretty competitive. Once again, we said larger accounts, people are going after and that's what you see in public D&O and in the hospital business. So we would also see there's a lot of competition in assisted living business as well as life science business. So a lot of competition, driving the price down and we're prepared to walk away and not jeopardize the margins that we've established over time in Specialty.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful, a good thorough answer. Last question on the holding company resources. The dividend capacity from the insurance, I assume that would be used up this year?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Unlikely, it'll be fully used up. But it'll certainly be maintained.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. And then could you remind us, in the past, when you've paid special dividends, did you end up using the credit facility, or was it really just cash-on-hand?

D. Craig Mense
Chief Financial Officer and Executive Vice President

It was dividends from the insurance subsidiaries, upstreamed, to meet it.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. But it looks like, already, you've got holding company cash in excess of your annual corporate obligation?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. Now remember, and you can see that on the slide, and I don't recall exactly what page, Jay, but we could point you to it. The way we define corporate obligations would be the interest expense on the debt and the annual dollar being $0.25 a share quarterly dividend, and that's when we get enough cash to fund that over the course of a full year.

Operator

And we'll take our next question from Jeff Schmitt with William Blair.

Jeffrey Paul Schmitt

A couple of quick questions, one on the International segment. Did I hear it right? You said excluding the negative impact of x growth would've been plus 5% versus minus 5%?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Correct.

Jeffrey Paul Schmitt

Okay. And then, on the tax rate, after adjusting for the retro charge, it looks like it came in at 25% versus 28% on the second quarter last year. Could you maybe discuss what's driving that difference?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Just the higher proportion of income that's coming from tax exempt investments.

Jeffrey Paul Schmitt

Just, driven by the -- okay.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, invested income.

Jeffrey Paul Schmitt

Okay. And is there anything more you could say on the limited partnership, at all? Just the lower return this quarter? I mean, any detail on that?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I don't think there's any. I mean, I think that's -- just remember that we're marking the large majority of our limited partnership to a real-time market adjustment, 7% or 8%, and that less than 20% of our limited partnerships are private equity or would be lagging indicators. So it's really -- those returns are reflecting the market, particularly at the end of June.

Operator

[Operator Instructions] And we have a follow-up question from Amit Kumar from Macquarie.

Amit Kumar
Macquarie Research

Just one quick follow-up to, I think, it was Jay's question on special dividend. I know you did a special dividend of $2 previously. Is the special dividend still one of the tools, which could be utilized going forward when looking at the capital position? Or was that special dividend discussion et cetera, is that more in the rearview mirror?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think, Amit, we said we're going to use capital to invest in the business, maybe an acquisition or return it to shareholders. So we've got flexibility, and we have options. Time will tell.

Amit Kumar
Macquarie Research

And special dividend is still on the table?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes.

Operator

At this time, we have no further questions in our queue.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you very much. See you next quarter.

Operator
Ladies and gentlemen, that does conclude today's presentation and we appreciate everyone's participation.