S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

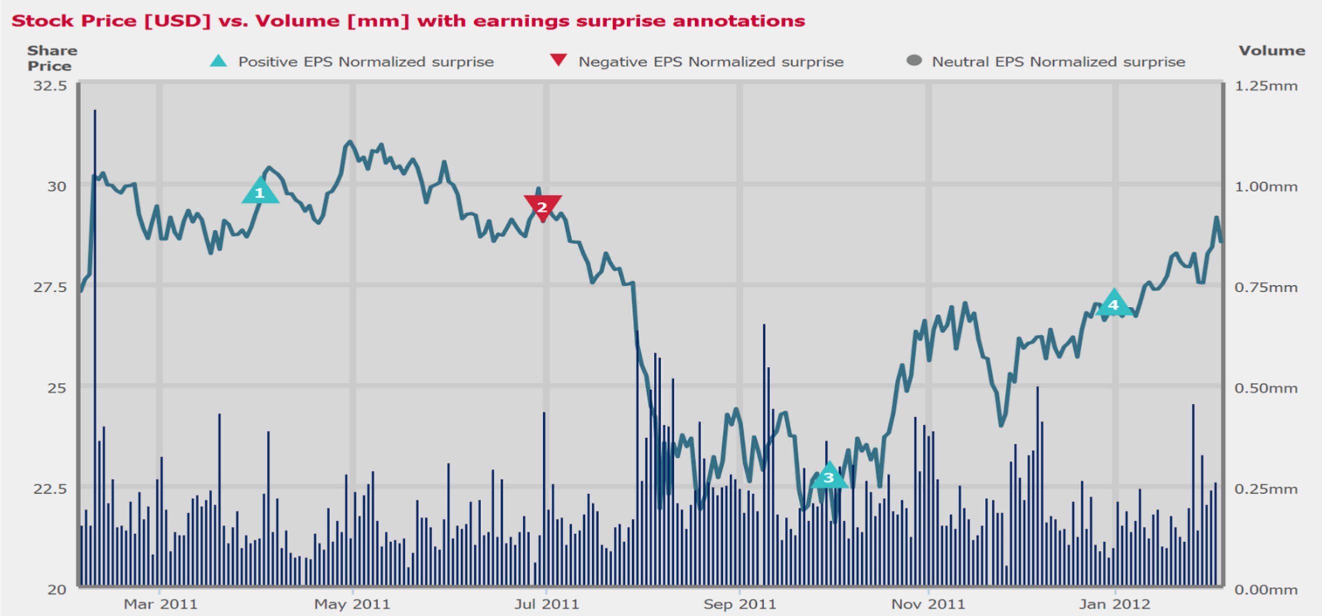
FQ1 2012 Earnings Call Transcripts

Monday, April 30, 2012 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.69	0.84	▲21.74	0.67	2.78	2.85
Revenue (mm)	1967.15	-	▲20.22	1979.68	8030.61	8379.16

Currency: USD
Consensus as of Apr-30-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.68	0.80	▲17.65 %
FQ2 2011	0.49	0.43	▼(12.24 %)
FQ3 2011	0.26	0.34	▲30.77 %
FQ4 2011	0.69	0.71	▲2.90 %

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Call Participants

EXECUTIVES

D. Craig Mense
Chief Financial Officer and Executive Vice President

Marie Hotza

Thomas F. Motamed
Former Chairman and Chief Executive Officer

ANALYSTS

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Ronald David Bobman
Capital Returns Management, LLC

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Presentation

Operator

Good day, and welcome to the CNA Financial Corporation's First Quarter 2012 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Marie Hotza of Investor Relations. Please go ahead.

Marie Hotza

Thank you, Roxanne. Good morning, and welcome to CNA's discussion of our first quarter 2012 financial results. 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's and Craig's remarks about the quarterly results, we will open it up for 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 and references to non-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during this call.

Information concerning those risks is contained in the earnings release and in CNA's most recent 10-K and 10-Q on file with the SEC. In addition, the forward-looking statements speak only as of today, Monday, April 30, 2012. 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 our most recent 10-K and 10-Q, as well as in the financial supplement.

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

Now 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, Marie. Good morning, everyone, and thank you for joining us today. Before Craig reviews our first quarter financial results, I would like to share a few highlights.

We are pleased to report improved net operating income of $226 million, up from $213 million in 2011. The improvement in our first quarter results was driven by lower catastrophe losses and strong investment income.

First quarter net income improved to $250 million from $220 million in 2011. Our Specialty business continues to deliver solid underwriting results with a first quarter combined ratio of 97.3%. We are pleased by Specialty's 4% growth, which was driven by improved rate and solid retention, as well as the new to loss business ratio of 1.5:1. Rates in Specialty increased 3% with retention holding steady at 87%.

Specialty hit ratios were down 1% reflecting our continuing focus on selective underwriting, increase in rates and disciplined new business pricing. In fact, new business pricing is stronger than on our renewals.

In Commercial, our first quarter combined ratio was 106.2%, an improvement of nearly 2 points over the prior year period due to lower catastrophe losses. Commercials non-cat accident year loss ratio improved modestly from 2011 full-year results, a reflection of ongoing improvements in both earned rate and risk selection.

Commercial's combined ratio excluding catastrophes and development was 105.4%, up 2.8 points from the prior year period. The unfavorable period-over-period comparison is due to a large insurance receivable recovery in the 2011 period which significantly decreased the expense ratio.

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As with Specialty, we are encouraged by Commercial's rate increases and premium growth. Commercial rates increased 5% with renewal retention down 1 point to 78%. The rate gains were broad-based with some lines achieving substantially higher rate gains. As we have said on previous calls, we are willing to accept lower retention to improve our margins and are pleased with the trade-off as well as the differentiated mix.

We have now had positive rate increases for 6 consecutive quarters in Commercial. In addition, rate increases accelerated over the course of the first quarter. Excluding the impact of the sale of First Insurance Company of Hawaii in last year's fourth quarter, Commercial net written premiums grew 6%. Commercial new business was strong with a new to loss ratio of 1.3:1, our pricing on new business is consistent with our renewal pricing. Commercial's first quarter submission activity increased 13%. Hit ratios increased 1% overall in Commercial. We believe this is indicative of improved appetite clarity with our agents and brokers.

Last week we were delighted when the shareholders of Hardy Underwriting Bermuda approved our proposed acquisition of Hardy. We expect the transaction to close by the end of the second quarter, subject to regulatory approvals. Acquiring Hardy brings us deep expertise in specialized markets. We will also be gaining a proven management team whose underwriting philosophy is similar to ours. We are very pleased that Hardy's senior leadership will continue to manage Hardy's operations. Craig will have a few more comments about Hardy in his remarks.

With that, I will turn it over to Craig.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. We had a solid first quarter from a financial and operating perspective. Earnings improved, our core P&C business demonstrated steady progress and we moved ahead on important acquisitions.

First quarter net operating income was $226 million, an operating return on equity of 8.1%. Operating income available to common shareholders was $0.84 per share. Period-over-period comparisons were favorable primarily as a result of lower catastrophe losses and increased investment income.

We're encouraged by the improved rate and the continued net written premium growth trend in our core P&C businesses. We continue to emphasize specialized expertise in underwriting claim and risk control, which we believe are the keys to profitable growth.

As you heard from Tom, we are excited to be moving forward with our proposed acquisition of Hardy. The addition of Hardy will provide an important expansion of our geographic and product reach, including access to the $35 billion Lloyd's marketplace. Hardy brings us deep expertise in certain chosen market and product segments, which aligns very well with our specialized approach to underwriting.

Hardy also brings diversification in terms of both distribution and product. Their 2011 gross premiums of approximately $430 million were predominantly short tail lines which will complement CNA's casualty driven book. Overall, the proposed acquisition will provide a solid platform for CNA's future international growth and an attractive opportunity for CNA to deploy capital.

First quarter results of our core P&C businesses continue to reflect our sustained disciplined reserving practices. We had a modest amount of favorable prior year loss development on par with last year's first quarter.

First quarter results from our Non-Core Life & Group and corporate segment were consistent with the prior year period and the longer-term trend.

CNA continues to build on financial strength and stability. All our capital adequacy metrics remain at or above our target levels and our liquidity profile remains very strong. Book value per common share increased to $44.48, up 4% from year end reflecting first quarter earnings and an improvement in our investment portfolio net unrealized gains position.

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Our investment portfolio's pretax net unrealized gains stood at approximately $3 billion at quarter end, an increase of approximately $400 million from year end 2011.

Our common shareholder's equity, excluding other comprehensive income, was $11.2 billion or $41.64 per common share, up approximately 2% from year end 2011.

As previously announced, we adopted the new accounting guidance on deferred acquisition cost. The application of this new accounting change reduced book value by $69 million or $0.26 per common share.

Our statutory surplus increased to $10 billion at quarter end, up from $9.9 billion at prior year end. During the quarter, our primary insurance operating company made a $100 million repayment on a surplus note issued in 2008, as well as declared and paid a $150 million dividend. Those funds were earmarked to fund the Hardy acquisition.

The outstanding balance on the surplus note is now $150 million. We continued to maintain approximately $850 million of dividend capacity at the insurance operating company level.

Cash and short-term investments at the holding company level were approximately $270 million at quarter end. We continued to target cash at the holding company equal to about 1 year of our looking-forward corporate dividend and debt obligation. Our liquidity profile also includes a new $250 million 4-year revolving credit facility, finalized in April. This credit arrangement replaced an existing facility of the same amount that was scheduled to expire in the third quarter.

In the first quarter of 2012, operating cash flow improved to approximately $300 million. Additionally, we received approximately $700 million of cash principal repayments through pay down, bond calls and maturities.

Net investment income was $648 million pretax in the first quarter, a 5% increase over the prior year period. Our limited partnership investments, which had a strong first quarter last year, had an even stronger first quarter this year helped by both favorable equity market returns and the overall improvement in the credit markets.

In 2012, pretax income from these investments increased to $130 million, a return of 5.8%. Net investment income from fixed maturity securities increased to $516 million from $506 million. This increase reflects a larger base of invested assets and favorable prepayment speed adjustment for asset-backed securities, which more than offset the effect of lower market yields. We made relatively minor changes to our investment portfolio of sector allocations in this quarter. The investment grade corporate bonds sector continues to have the largest allocation of invested assets.

Overall, our investment portfolio remains well diversified, liquid, high-quality and aligned with our business objectives.

The average credit quality of our fixed maturity portfolio remained at A. The fixed income assets, which support our long-duration lifelike liabilities had an effective duration of 11.7 years at quarter end, inline with portfolio targets. The effective duration of the fixed income assets, which support our traditional P&C liabilities, was 4.2 years at quarter end.

With that, I'll turn it back to Tom.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you, Craig. Before we open it up for questions, I would like to close with some observations.

All in all, we had a good first quarter. Net operating income and net income improved 6% and 14% respectively. Investment results were strong and our capital position continued to improve. Positive rate momentum continued to build across our Specialty and Commercial businesses with solid retention.

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Submission activity is strong while hit ratios reflected selected underwriting and disciplined new business pricing. Net written premiums for our Property and Casualty businesses grew 5%, excluding the impact of the sale of First Insurance Company of Hawaii.

Lastly, Hardy's [ph] shareholders approved our proposed acquisition. We are delighted to have completed another important step in the acquisition process.
Lastly, we declared a quarterly dividend of $0.15. With that, we'd be glad to take your questions.

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Question and Answer

Operator

[Operator Instructions] We'll go first to Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

I guess let's start with a few questions on the Hardy acquisition. I was looking at the premium mix and they have a property treaty book, which has been more volatile and it has reported an underwriting loss for 2010 and 2011. Can you talk about Hardy's business mix? You mentioned a premium base number of $430 million. How much of that do you think you intend to renew going forward?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think I would start with probably a little bit different look. First of all, if you look at Hardy, excluding the last 2 years, where natural catastrophe has impacted the global insurance industry, this is a highly profitable franchise. So if you go back and you look at 2007 to 2010 most recent years, combined ratio under 90%, probably pretty close to 87%. So the one segment where they encountered some difficulty was the property treaty business. They have already scaled that back in their 2012 Lloyd's plan. And as you know from other calls, reinsurers are getting significant rate increases on property treaty business around the globe, whether that's Japan or Australia, Asia, et cetera. So they have identified weakness. They are dealing with it and we're pretty confident that over time, they will go back to historic profitability levels. So the other businesses have all done very well through all the years, all the recent years. And if you go back, Hardy's been around for 35 years. So this is not a bunch of new underwriters getting together. They have a very proven track record in all their segments, albeit the property tax has got away from the industry the last 2 years. So we're pretty pleased that they're dealing with it.

Amit Kumar
Macquarie Research

I agree with your comments regarding the rest of the book. I'm just wondering, it does introduce a new level of volatility in your results. And are you okay with that?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Amit, remember 2 things here. They had cut that debt to 50% of where they were, so that's a significant cutback. And #2, if you look at CNA, 79% of our business is Casualty, only 21% is Property. They are much short -- more short-tail oriented or first-party oriented. So we kind of like the blend. We think [indiscernible] as you know this is a business of risk and reward, and sometimes you take a little bit more risk in something like property tax reinsurance. But I don't have to remind you, if you look at CNA's catastrophe loss ratios over the last few years, they are very low on a percentage basis compared to our competitors. So it's introducing a little bit more, I prefer to call it complexity. But we think we've got a great group over there at Hardy and they will manage it effectively going forward, along with the CNA portfolio that we manage here.

Amit Kumar
Macquarie Research

Got it. And what's your view on their loss reserves? I mean, when you look at their book, did you walk away with a great degree of comfort?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

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I would say we are comfortable. But as -- when you look at an acquisition and you make an offer or you make a price, you build in various assumptions as to loss reserves, expected growth, et cetera. So we had built that all into our purchase price and we are very comfortable with what they're doing and we're okay.

Amit Kumar
Macquarie Research

Got it. And I guess, the next question is you mentioned in the opening comments that the senior leadership will remain. Is there some sort of an earn-out period which will result in them sticking around for the next few years? Maybe just expand on that.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

First of all, they want to stick around. They're a very close group, very loyal. We have built certain things into the transaction and going forward relative to compensation and benefits, which we think will be helpful. But as you also know in the London market, there's something called garden leave. So when people leave, they don't go to work for 6 months or 1 year. And we believe that these people want to stay on board and they'll be treated well, compensated well. And quite honestly, their senior management stays in place, which should give them great comfort that they're going to be managed and led by the same people that have managed and led them over time.

Amit Kumar
Macquarie Research

I mean, are there any -- the reason why I'm asking is there have been several acquisitions of Lloyd's entities where the senior management has in fact walked away. And I'm wondering if there is anything specific in the contracts which would prevent them from moving to another shop down the road. Is there like a specific lock up or some sort of a specific requirement which would prevent them from moving on apart from the garden leaves.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

They don't have any contracts. We don't have any contracts here. You either want to work for us or you want to work for Hardy. That's the way we run the place. So is it conceivable that somebody could leave? Yes, that's true. But I can tell you a lot of people have left CNA too and some of that has been desirable. So the reality is we think we've got a good business. They've been around for 35 years and we believe they're committed to continuing to build their business. And with our capital, they have a lot of room to do things that they were unable to do before. And that's what was attractive about them selling to us.

Amit Kumar
Macquarie Research

Got it. Last question and I will requeue. Can you talk about some of the expenses apart from the acquisition price associated with this deal near term and maybe expense benefit of some sort going forward. Is there any expenses we should be thinking about regarding this deal apart from the deal deed price?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Amit, this is Craig. So I assume you're asking what sort of earnings impact it might have within the year and [ph] longer and I would say, so I would expect the -- nothing, expecting nothing material either positive or negative in '12 because there will be transaction costs and integration costs and we're not really even certain yet exactly the close date, and we haven't settled in on some purchase accounting adjustments. So I think the best way to think of it, nothing material one way or the other in '12, and it will be moderately accretive in '13.

Operator

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We'll take our next question from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just one quick number's question, I missed when you said it on the call. The cash at the holding company level?

D. Craig Mense
Chief Financial Officer and Executive Vice President

It's $270 million.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And did that include the dividends that were just paid from the P&C sub?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, it would have -- it does include it, Jay. But actually, if you're trying to reconcile where the money that's been put aside for the Hardy acquisition, that's actually shown in cash and short-term investments on the investment schedule. So that $270 million does not include the $250 million earmark for Hardy.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay, that's what I was trying to get at. Okay, next, when I look at the statutory surplus, when you break out the surplus from the Life company and runoff, what would be the key differences in the statutory surplus of the Life business and the GAAP equity associated with that business as well?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, it would just be the -- when we cost new -- first, remember that the Life company houses the majority of the payout annuity and structured settlement reserves. But the Life company does not house the liability associated with long-term care. So just keep that in mind as a starting point. So other than -- with that starting point, so you've got about $2.5 billion of structured settlements from institutional market and other reserves, so $2.5 billion to $3 billion are reserves. Then the key difference would just be the discount rate on the reserves, which would be more conservative in the stat results than they would be in the GAAP results.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. And do we know the amount of statutory surplus associated with the long-term care business? Is that just locked up in the P&C stat surplus?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

It's not a separate company is what I'm saying.

D. Craig Mense
Chief Financial Officer and Executive Vice President

It is not a separate company, correct.

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Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. I know in the past you have not given out sort of the GAAP equity associated with the runoff businesses. Is that something you'd consider doing?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We haven't at this point considered doing it. I know we've been asked at it on several occasions. But we have not disclosed that at this moment.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

From our standpoint, held from an analytical standpoint, to really get a better sense -- because clearly your ROEs are a lot lower than your comps, this a big reason why. And even though we know it's an issue, it's hard for us to quantify that issue.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Understood.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just one other question. Obviously, you talked about the pricing trends and those are encouraging to see them moving in the right direction. From a claims standpoint, just I guess, talk about some of the major lines of business and some of the claims trends you're seeing, and specifically if there's been any changes in those trends.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Boy, that's the big question. Yes, I would say overall...

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Take out the big lines of business then.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, I would say overall when we look at claim costs they're going up 2% to 3%. So when we look at written rate, clearly higher in Commercial and we believe we're exceeding our loss cost trend in Commercial on an earned basis, that's starting to come through. On Specialty, the written rate is pretty good it's up 3%, but it hasn't earned-through. Once again lost cost kind of 2% to 3%. [indiscernible] I'd say frequency is down. Severity is up a little bit in Commercial auto and workers comp. Probably if there was 2 other areas where frequency might be up a little bit it's employment practices liability, that doesn't appear to be something strictly occurring at CNA. It seems to be a market issue. And then we have attorney's errors and omissions, that has kicked up. And I think those 2 really relate to the economic lows, they're just starting to come through. So overall, frequency down, severity up a little bit in some places, loss costs are pretty benign, 2% to 3% and the rate is coming through. So we don't think we're losing ground, if that's what your question is. We think we're gaining on it.

Operator

[Operator Instructions] We'll take our next question from Ron Bobman with Capital Returns.

Ronald David Bobman

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Capital Returns Management, LLC

I've got a few questions. We've heard this from your peers, as well, at least a couple of times, that new business rates are exceeding renewals. Could you discuss that just a little bit more and help me understand or help us understand this phenomena, which I sort of feel is from a -- brainwashed the other way for 7 years as market rates went down.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I can understand why you're perplexed. Probably the easiest way to look at it is, if you look at our Specialty business, new business pricing is stronger than renewal pricing. And I think that's just because we've been pretty insistent at writing new business at adequate rates, so that we don't come back to customers and say, "By the way, we didn't charge you enough. Let's get more this time." So we're trying to be tougher on new business pricing and really write the right kind of business. And quite honestly, if you look at our Specialty business, whether it's HealthPro area or some of the Commercial program business, where we have significant market share and competency, we are able to deliver higher new business pricing because customers recognize, as Craig mentioned earlier, the claims skill, the risk control skill and the underwriting knowledge. So we think it's important that if you're not talking about a commodity and you're talking about a specialized approach from an underwriting and service standpoint, you should be able to get better new business pricing. Now what always happens is as your renewals go up, the strength of your book goes up. And therefore, you don't want to dilute the strength of your book, so you push new business pricing harder. So that's what we're seeing in Specialty, alright? If you go to Commercial, our new business and renewal business is pretty comfortable, pretty close. But then, of course, the renewals are stronger. Renewal rate increases are stronger in Commercial than they are in Specialty. So you might say, on the new business, it's a longer bridge to cross because the renewal book is getting stronger and stronger. So I think that's how you have to look at it.

Ronald David Bobman
Capital Returns Management, LLC

And the new business, whether it's Specialty or Commercial, Tom, is it -- how is the rate you're quoting -- and you told us that the win, the new to loss was 1.3. So it's quite attractive, the ratio, you're winning a lot of new business, I guess. What is the rate level on your new business compared to the legacy rate that the insured was paying prior? Do you have any insight into that or that's data you're not privy to?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

If you're asking about new business pricing relative to the renewal book, it's about 2.5 points better.

Ronald David Bobman
Capital Returns Management, LLC

No, no. I was asking sort of, you have a health care account, they're coming to you, you're getting more than your like-for-like health care account. That health care account is coming to CNA because their legacy carrier is pushing rate even more aggressively, their legacy carrier is capital impaired like...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I have no idea what they're doing. So we just, we look at it from an individual risk selection perspective. So when you look at it account by account, you look at what the technical price is, what do you really need to generate your return. And that's what we do. And we're not, to answer it another way, we're not writing it on the cheek just to get it, that's not our intention.

Ronald David Bobman
Capital Returns Management, LLC

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Okay. And another business question. It's sort of this question about lapping, we will soon be lapping renewal rate increases so the companies will be -- the insureds will be facing their second renewal where the rate that carriers are asking to increase will be up further. So maybe they went from minus 3 points 2 years ago to a renewal where they paid plus 1 or plus 2 for their insurance, and then we're approaching a point where it looks like we're trending to then asking the insured to pay plus 3, plus 5, I don't know, plus 7, depending upon obviously the type of coverage. Is it easier as we -- to lap the second time a second increase than it was going from negative to positive? Or am I overthinking it?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

A couple of points. #1, yes, the industry and CNA is getting rate increases today, first quarter of 2012. We've got -- we were basically flat in Specialty last year. We were up a couple of points in Commercial. So this hasn't been going on a long time, let's be clear about that.#2, we have as an industry, been giving back rates since about 2004, '05. So customers have been getting rate decreases year after year. So on a cumulative basis, they have gotten significant rate increases -- or decreases. You can go back and look at what's happened over those 6, 7 years, they've gotten major decreases compared to the 2% to 3% you're talking about today from an increase perspective. So if you look over the cycle, they are paying prices today that are more equivalent to the early 2000's. So they've gotten a heck of a deal. And if rates are going up by single digits, they're still way ahead of the game over the last 6, 7, 8 years. Did I answer your question? I think most agents and brokers are going out there and saying, "Look, the market isn't giving the product away anymore. They want more and you've got a heck of a good deal for the last half dozen years. So if you're happy with the service, if you're happy with the product, you want to stick with that company."

Ronald David Bobman
Capital Returns Management, LLC

Okay, I'm going to move onto a couple of questions about Hardy. Hardy recognizes sort of over its long history as you said really, a top-tier performer albeit with 2 rough years. Some would say they diversified, and I presume, in fact, that they did and the mix included a growing amount of property cat and maybe international property cat. And you mentioned a 50% reduction. I assume you mean 50% reduction in property cat writings. Would the number be more dramatic if -- the reduction, would it be a much even more significant number if you said, the people refer to it as international property cat, sort of non-U.S., non-peak zone?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, much of their loss activity was international, non-U.S. And that was true really of the industry.

Ronald David Bobman
Capital Returns Management, LLC

Now I assume that they've paired that back because they had to prepare for continuing on their own balance sheet. Now they're part of a much, much larger group whose mix could support a meaningful amount candidly of volatility. As it relates to their dialing back now inside of the CNA or soon to be inside the CNA umbrella, might we go back the other way in that you'll actually welcome them reversing themselves, sort of again on property cat exposures? Or you like this current level to start out at for the, I don't know, for the coming year or maybe next year?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Okay. First of all, you have to remember that Hardy is part of the Lloyd's world, and Lloyd's approves their business plan every year. So whatever the strategy becomes for 2013 and beyond, it would have to be approved by Lloyd's. So that's #1. #2, we're not going to tell you how we're going to manage our mix of business in Hardy today. That would be premature. The deal has not closed yet. And clearly, we continue

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to have ongoing discussions on how we build the Hardy brand as well as the CNA brand. But don't expect any wild and crazy things coming out of Hardy or coming out of CNA.

Ronald David Bobman
Capital Returns Management, LLC

Okay. And just last question, could you just remind us, is it one syndicate? Is it more than one syndicate? Is it 100% corporate owned or not? And then I'll bow out.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, it's just one syndicate. But at the moment, remember that they're trading on capital support from a couple of other venues. So I think in '12, 25% of the capital support is coming from third parties.

Ronald David Bobman
Capital Returns Management, LLC

Via reinsurance?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes, essentially.

Ronald David Bobman
Capital Returns Management, LLC

And so that sort of comes up for renewal at 1/1/13?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Correct.

Ronald David Bobman
Capital Returns Management, LLC

So it's 75% corporate capital and 25% third party capital? Is that generally right?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Right.

Operator

We'll now take a follow-up from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just a few follow-ups. Just going back to Ron's question. For Hardy, the property treaty book, 60% is international and 40% is U.S. I didn't quite catch what proportion are you going to roll back by how much? When you were discussing. . .

Thomas F. Motamed
Former Chairman and Chief Executive Officer

We're not going to get into that right now. You're asking us to talk about strategy. And we're not going to talk about that right now.

Amit Kumar
Macquarie Research

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Okay. Maybe this might be an easier question. In terms of the price paid for the acquisition, the 1.5x tangible book, I'm wondering what sort of ROEs did you factor in for Hardy going forward on a normalized basis if you take out '10 and '11. Internally, what do you think they can earn?

D. Craig Mense
Chief Financial Officer and Executive Vice President

I think we, Amit, we think they can earn some very attractive returns. Remember it was -- we bought this strategically because it fit our specialized underwriting expertise. We bought it because it brought a highly competent management team. We bought it because it came with, we thought, a great group of core underwriters who were capable of producing superior returns. And they've been, as Tom said, and even in the '10 and '11 years when they had a property cat treaty, the treaty kind of blew up on them internationally, if you look underneath it, the other businesses are Aviation, Marine, Specialty, the other segments they are -- they have including the other property, Direct impact property business they had written, they performed superiorly. Superior to the market and superior to others. So I think you can look at kind of those historical numbers and that's what -- we think our expectation was we were investing in and providing capital to a group that had -- was highly confident and has some very attractive prospects.

Amit Kumar
Macquarie Research

I mean, would you say mid-teens returns? Is that what very attractive return is?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, Amit, I think you can kind of calculate it yourself on looking at those kind of ratios they did in the past versus what we paid. But we do not give earnings guidance.

Amit Kumar
Macquarie Research

No, I was just wondering what your definition of "very attractive return" was. Anyway, just moving on. I guess, 1 or 2 cleanup questions. We did not touch upon the reserve releases during the quarter maybe just refresh us, and I apologize if I missed that in the opening comments, did you mention what time period those releases came from?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, I didn't. And Specialty releases -- I mean, they were pretty modest, right? But special releases came from medical liability and the years were '08 and prior. And in Commercial lines, the releases were '01 and prior and related to actually workers comp, whole [ph] year's workers comp.

Amit Kumar
Macquarie Research

Okay. Final question, just on the expense ratio. I know you mentioned that the comparison was obviously skewed. How should we think about the expense ratio from here? I mean, does it stay at this level? Or I presume it will diminish going forward. Maybe just expand on that.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Sure. And I think we've said in the past, there's really, there's no asterisk in the expenses this quarter or the other ratios. I think in the past we've kind of said, you want to look at run rate expense ratio at the moment or P&C overall at 33%, 5%, and that's pretty much exactly where we are this quarter. And in Commercial lines, 35%, 5% which is where we are this quarter. So there's nothing unusual to take out of those. And to the extent we drive improved top line and rate and continue to manage those in a disciplined fashion, we expect those to decline over time.

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Operator

We'll take another follow-up from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. The first is when does the board consider the common dividend again?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, we talked about it -- we talk about capital management every quarter, Jay.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

So there's no, not necessarily some seasonal time period with it, so as discussed it could -- any board meeting this comes up, every board meeting I should say this comes up?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes. You should think that every quarter, as Craig said, we talk about capital management and that includes shareholder dividends.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. And then secondly with the sale of First Hawaii, was there any notable seasonality in that business? And if you can just give us a kind of a run rate of net written premiums quarterly that, that business was generating, that would be helpful just for modeling purposes.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Sure. That last -- it was pretty even, Jay. And lastly in the first quarter, I think the net written was $35 million. So second quarter last year was maybe a touch above that. But it was in the -- you expect that it was $35 million, and then it was like somewhere between $35 million and $38 million each of the next 2. And then in the fourth quarter we sold it midway, so it was small or probably below $20 million in the fourth quarter of '11 as far as comparisons.

Operator

It appears we have no further questions at this time. Mr. Motamed, I'll turn the conference back to you for any additional or closing remarks.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Thank you. Have a good day.

Operator
That conclude today's conference. Thank you for your participation.

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