S&P Capital IQ

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CNA Financial Corporation NYSE:CNA

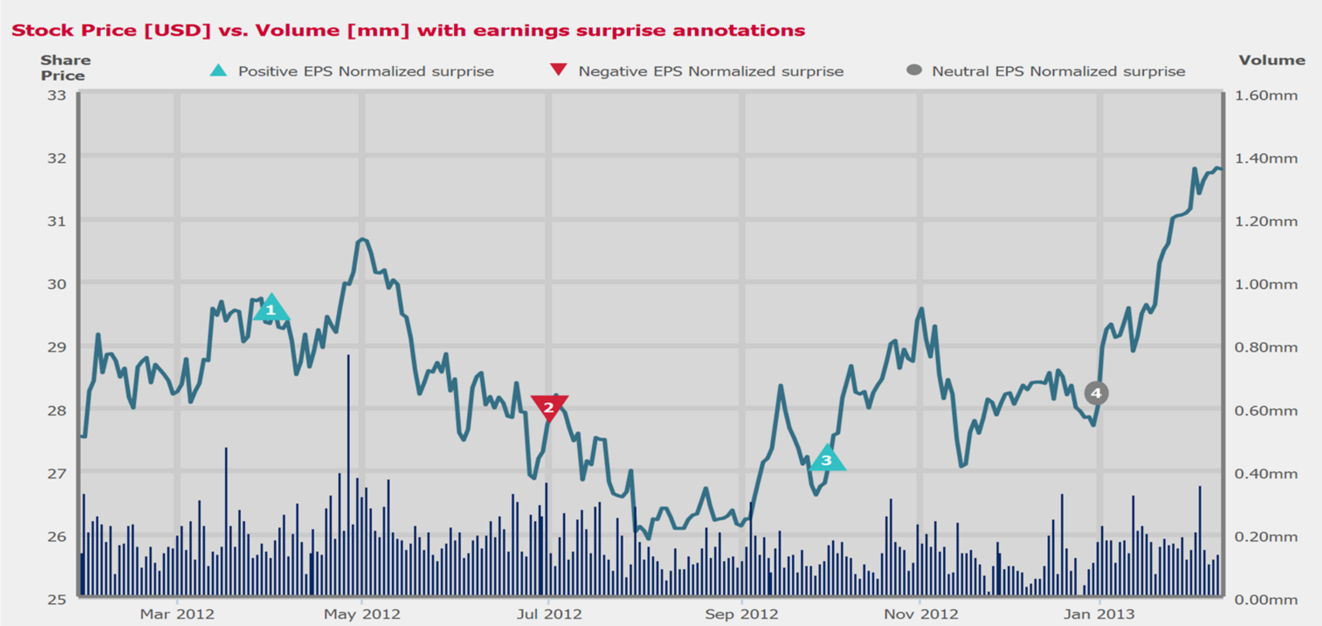
FQ1 2013 Earnings Call Transcripts

Monday, April 29, 2013 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.71	0.86	▲21.13	0.74	3.16	3.09
Revenue (mm)	1955.79	1776.00	▼(9.19 %)	1969.67	8486.43	8339.13

Currency: USD
Consensus as of Apr-29-2013 12:16 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	0.69	0.84	▲1 21.74 %
FQ2 2012	0.59	0.56	▼2 (5.08 %)
FQ3 2012	0.65	0.80	▲3 23.08 %
FQ4 2012	0.22	(0.03)	NM

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

Kevin Shields

Ronald David Bobman
Capital Returns Management, LLC

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to the CNA Financial Corporation's First Quarter 2013 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to James Anderson, Senior Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Jessica. Good morning, and welcome to CNA's discussion of our 2013 First Quarter Financial Results.

By now, hopefully all of you have seen our earnings release, financial supplement and presentation slides, which we are providing for the first time. If not, you may access these documents on our website, www.cna.com, under the Investor Relations menu.

In keeping with our expanding disclosures over the past few years, the slides are intended to provide further insight and transparency into our efforts to improve underwriting margins, enhance our financial strength and increase shareholder value.

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 our quarterly results, we will open it up for your questions.

Before turning it over to Tom, I'd like to advise everyone that during the 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 the call.

Information concerning those risks is contained in the earnings release and in CNA's most recent 10-K on file with the SEC. In addition, the forward-looking statements speak only as of today, Monday, April 29, 2013. 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, 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.

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

Thank you, James. Good morning, everyone, and thank you for joining us today. CNA's first quarter net operating income of $231 million and net income of $250 million were strong financial results and consistent with last year's first quarter. We're especially pleased with the premium growth, accelerating rate increases and stable retentions reflected in this year's -- this quarter's results.

We still have work to do on the loss ratio, but we believe our strategies are coming together. Investment results were good and our capital position continued to improve. CNA's book value per share, excluding other comprehensive income, increased 2% from year-end 2012. Our core Property & Casualty operations produced net written premium growth of 10% in the first quarter, largely driven by rate increases across the portfolio. Hardy contributed 3 points of this growth. In addition, as shown on Slide 13, our target customer segments continue to represent an increasing share of total new business.

The first quarter combined ratio was 101.5%. Excluding the impact of catastrophes and prior year development, the ratio was 101, which was approximately 1 point better than both first quarter last year and full year 2012. Overall rates increased 8% in the first quarter, extending a trade of rate increases that began in early 2011.

Our Specialty business continued to deliver solid underwriting results with the first quarter combined ratio of 95%, more than 2 points better than last year's first quarter. The loss ratio before catastrophes and development improved nearly 1 point from last year's fourth quarter to 67%. We are pleased by Specialty's 5% growth. Rate increases in Specialty rose to 7%, with professional liability leading the way at 9%. Retention remains steady at 86%.

In Commercial, our first quarter combined ratio was 106.8% as compared with 106.2% in the first quarter of 2012. Commercial's combined ratio, excluding catastrophes and development, was 103.7%. This was 1.7 points better than last year's third quarter -- first quarter due to our improvement in the noncat accident year loss ratio. Commercial's underwriting margin improved approximately 0.5 point over full year 2012 in spite of some sizable noncatastrophe, weather-related losses during the quarter. Commercial's net written premiums grew 9%. Rates also increased 9%, while retention improved 1 point from the prior year quarter to 78%. We had double-digit rate increases in small business and middle market, which represent approximately 64% of the total Commercial book.

Hardy reported a net operating loss of $8 million in the first quarter on net written premiums of $55 million and a combined ratio of 105.5%. Excluding catastrophes and development, the ratio was 104.1% as compared with 105.8% in last year's fourth quarter. Hardy's first quarter loss ratios, x cats and development, was 47.3%, 4.1 points better than last year's fourth quarter.

With that, I will turn it over to Craig. Craig?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Thanks, Tom. Good morning, everyone. First quarter net operating income was $231 million and operating return on equity of 8%. Operating income available to common shareholders was $0.86 per share. Our overall financial results were solid driven by strong investment income and improved margins across all our businesses, including our Life & Group runoff business.

We are encouraged by the first quarter rate increases and margin improvement, as well as continued net written premium growth in our core P&C business. We continue to emphasize growth in targeted segments where we have specialized expertise and underwriting claim and risk control. Our core P&C operations produced first quarter net operating income of $257 million on a par with some of our best recent quarters.

Rate increases, steady retention and disciplined expense management were the key drivers of margin improvement in our Specialty and Commercial segments. The presentation slide we posted on our website for the first time provide some additional perspective on our rate and retention trends.

In Specialty, we are driving rate increases across the portfolio. As you can see on Slide 8 of those -- of that additional information, not only are the increases improving over time, but our most aggressive rate actions are in lines where loss trends have pressure on margins, such as private company management liability and lawyers professional liability. As for Commercial, Slide 10 shows rate and retention trends that reflect our disciplined risk selection. As Tom mentioned, small business and middle market reached double-digit rate increases in the current quarter. Our underwriting expense ratio improvement from year end reflects the growth in earned premium, coupled with a lower level of spend after adjusting for the addition of Hardy. Sustaining this improvement will be a major focus for us this year.

Beyond a very active approach to managing the portfolio, the 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 a par with last year's first quarter.

In our Non-Core Life & Group segment, improved results were attributable to favorable experience in our long-term care business, driven by improved morbidity and persistency. We did benefit from favorable mortality results this quarter across all of the Life Group businesses. While the results were welcomed, we do not think they reflect a longer-term trend at this time. We continue to actively manage our runoff business for improved operational effectiveness. In addition, we continue to evaluate the pricing on our long-term care business and seek rate increases where appropriate.

Our Corporate segment, which primarily includes corporate expenses, reported a $26 million first quarter net operating loss consistent with the prior year's first quarter. We believe our first quarter results reflect our progress, as well as our potential to further improve our earnings power. Meanwhile, we continue to build on our balance sheet's 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 at the end of the first quarter was $46, a modest increase from year end 2012, driven by earnings but partially offset by a small decrease in our investment portfolio's net unrealized gain.

Our pretax unrealized gain position at quarter end was approximately $4.3 billion. Our common shareholders' equity, excluding other comprehensive income, was $11.7 billion or $43.30 per common share at quarter end, a 2% increase over year-end 2012.

Our statutory surplus at quarter end was essentially unchanged from year-end 2012 at approximately $10 billion. This is after a $100 million dividend paid to the holding company during the quarter. We continue to maintain significant dividend capacity at the insurance operating company level.

Cash and short-term investments at the holding company level were approximately $460 million at quarter end. We continue to target cash at the holding company equal to about 1 year of our annual net corporate obligations.

Operating cash flow, excluding trading activity, during the quarter was approximately $240 million, including approximately $125 million in Sandy-paid losses. Cash principal repayments through pay-downs, bond calls and maturities were approximately $870 million in the first quarter.

Net investment income was $633 million pretax in the first quarter as compared to $648 million in the prior year period. Our LP investments performed very well in the first quarter of 2013, delivering pretax income of $131 million, which was consistent with last year's first quarter. The first quarter rate of return in 2013 was 5.4%.

In Slide 17, you can see historical data on the performance of our LP investments, which on a 10-year annualized basis have outperformed the S&P 500 by approximately 160 basis points, with less volatility.

Net investment income for fixed maturity securities was $499 million pretax, a $17 million decrease from the prior year period. The effect of investing at lower yields was partially offset by the year-over-year increase in invested assets.

We made relatively minor changes to our investment portfolio sector allocations this quarter. The investment-grade corporate bond sector continues to represent the largest component of our invested assets. The average credit quality of our fixed maturity portfolio remained at A. The fixed income assets that support our long-duration life-like liabilities had an effective duration of 11.1 years at quarter end, a slight decrease from 11.3 years at year end 2012 and in line with portfolio targets.

The effective duration of the fixed income assets that support our traditional P&C liabilities was 4.1 years at quarter end, a slight increase from 3.9 years at year end 2012. Our investment portfolio remains well diversified, liquid, high-quality and in line with our business objectives. One last point, we declared a quarterly dividend of $0.20 per share.
Now we will be happy to take your questions.

Question and Answer

Operator

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

Amit Kumar
Macquarie Research

Thanks for the expanded disclosure on the slide show, it's very helpful. Using Slide 13 as a backdrop, how would you quantify what percent of your P&C book is focus versus nonfocus?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

You're saying the segments?

Amit Kumar
Macquarie Research

No, just as an overall percent. What would you say is your focus, just looking at the P&C portion? Not looking for exact numbers. I'm just looking for a percentage.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Yes. Right now, Amit, I would say in terms of what's in -- what's written about 2/3 is in focus segments.

Amit Kumar
Macquarie Research

Okay. I guess related to that would be what would be the loss ratio bench, if you will, for the focus versus non-focus portion?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, the loss ratio has been improving. It's roughly, I'd say this year, it's roughly equivalent, has become equivalent. Over past years, there had been about a 5- to 10-point loss ratio disadvantage from the non-focus segments. But as we've shrunk the segments, the non-focus segments, as well as repriced those non-focus, there's not a big loss ratio differential.

Amit Kumar
Macquarie Research

And then eventually, does that keep on diminishing or as you take underwriting actions as you just said that the loss ratio is equivalent. Did this -- the non-focus end up becoming focus over time?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, I think we just -- we would drive more growth as we said. And that's really been our strategy has been to specialize. Remember, as we've said in the past, and right so that we sell outward through producers and to customers that fit our specialized appetite. So we would expect the percentage of focused business, meaning where we think we have the expertise, the price and we can deliver a distinctive solution beyond just price in terms of risk control and claims become a larger and larger portion of our business. And that's what we would expect to drive the growth and to drive improved profitability in the business.

Amit Kumar
Macquarie Research

Got it. The second question is you've talked about in the press release non-rate underwriting actions for 2013 and 2014. I know we've spent a lot of time talking about this in the past. What other specific actions do you foresee for 2013 and 2014?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well I think what we talk is managing the mix. So we are looking at problematic lines in Commercial, like auto and workers' comp, and addressing those. We address them by line, we address them by geography. We have told you on prior calls that we've had a bit of a temperature in lawyers professional liability, so we're kind of reevaluating our approach in that, not only from a pricing standpoint but risk selection. So I think going back to Craig's earlier comments, we're focused on customer segments, which we believe over time will be profitable for CNA. And within those segments, managing the mix from a line of business perspective, we believe, will improve our returns over time.

Amit Kumar
Macquarie Research

Got it. And the final question and I will requeue. This is a broader question on excess and surplus lines marketplace, there has been a lot of chatter about a team moving from the leading surplus lines writer to another company. If you look at sort of the broader excess and surplus lines, and I think you're the seventh or eighth largest writer, how do you expect this to play out, and how could this possibly impact your business going forward?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Yes, I think, first of all, we have some funny business in the E&S business that you quoted us being eighth. We have some cell phone warranty business and some other things right now. And also we have the malpractice would be in there. But from our standpoint, what you are talking about, that pipe of business is pretty small for us. What we call CNA Select, it's pretty small. It's been a weak performer over time. We're reunderwriting the book. We've gotten out of habitational property. We've told you in the past. We've gotten out of transportation. So it's very, very small to us. So we don't think this has any impact. Now I would tell you this. We are getting rate increases in the low teens in our surplus lines business, the -- what I'd call the casualty business that you're reading about. So I think for us, we're trying to improve that. We like our medical malpractice business, that's a good business. So -- but that's not what they're talking about that you're describing. So I think that's probably the story.

Amit Kumar
Macquarie Research

And then what is the large account business as a percent of your surplus lines?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I don't know, surplus lines. We -- of the other, if you looked at the other number on the slide, it's 17% of the other premium. About $50 million, I think.

Operator

[Operator Instructions] And we'll go to Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. I guess starting with Hardy. We don't have a great history with the numbers, obviously. I guess in a quarter where there's no major catastrophes, I found it a little disappointing to see that number, the combined ratio comfortably over 100%. What's going on there? What would be your expectations for a business like that over the course of a year?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think remember, Jay, we had said we're still relatively early in. And most of the integration effort and expenses will be reflected in 2013. So you do have some integration expense and still PGAAP amortization expense running through there. And recall that given the year of account underwriting, and we're taking 100% of the 2000 year of account, you really just start to earn that premium and that increase kind of slowly over the course of the year. So what we've said in the past is don't expect a material either positive or negative for the majority of this year. But we would expect that to improve pretty considerably late in '13, and we'd expect Hardy to make a meaningful contribution to both growth and earnings starting in '14. I think what we had also said to you is that the loss ratio that you're seeing there is a reasonable expectation, and that we thought the expense ratio would come down about 10 points over the course of the time as we finish the integration, if that helps you.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's very helpful. Yes, good reminder. Numbers question. The investment income from P&C operations. Do you have a breakout between limited partnerships and fixed income? You use to break that out separately. I don't see that in the supplement. Do you happen to have that data?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well I would tell you that all of the limited partnership income is attributed to the P&C. And I think you ought to be able to see in the P&L, I think you'd be able to see in the P&Ls of the -- that are in the supplement and the press release, and we can go back and find it for you, Jay, exactly what the pretax investment income. As I recall, the pretax investment income in Life & Group is a little over $200 million, like $204 million. So if we add $490 million, something, almost $500 million, the remainder would be in P&C and Corporate.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Now you break out the investment income for P&C and Corporate, we just modeled just the P&C. And I was wondering the breakdown between that number, which you do give that number between limited partnerships and other, but I can work offline on that one. That's not a big deal. And I think you had mentioned in one of the segments and the call you had said that non-cat weather was a little elevated. I just -- I didn't catch where you were talking about.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

There were a couple of storms in the Southeast that didn't qualify for the ISO definition of cat, but they were weather related. They added about just over 1 point to the loss ratio.

D. Craig Mense
Chief Financial Officer and Executive Vice President

That will be the Commercial lines.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

The overall...

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Commercial lines. Commercial lines.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Commercial lines loss ratio. Got it. And then lastly, overall claims trends, can you talk about what you're seeing, and if there are any changes in what you're seeing?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, I'd say that general claim trends are -- have been pretty steady. Elevated a little bit in auto, which I think we mentioned before. But if you're looking for claim trend percentages, we think, in Specialty lines, something around 3% or 3.5% in the general inflation trend. And in Commercial lines, somewhere between 3.5% to maybe 4% as a general claim inflation trend. But relative to frequency, no particular upticks or changes in frequency from what we've seen in the past.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

I think the point, too, Jay, when you look at loss trends. In Commercial, earned rate is clearly exceeding the loss trends, the same thing is happening in Specialty, and that kind of what we would call improvement on the margin really didn't start until the second half of 2012, but is now picking up. So pretty good differential between earned -- earned rate and loss trends. So we're pleased with that. But that's going to take a little time to kick in.

Operator

We'll go next to Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I want to follow up on Jay's question about Hardy. I'm looking at the slide, Page 11. The $3 million of pretax development items, the impact, is that $3 million favorable?

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, that was unfavorable.

Ronald David Bobman
Capital Returns Management, LLC

Okay, unfavorable. And then my -- just so I understand your comments, Craig, 10 points of improvement, I think you were sort of saying on the expense ratio, from here or from some earlier point in time as far as the expense ratio. I mean, so I think of 10 points lower than 57%?

D. Craig Mense
Chief Financial Officer and Executive Vice President

From here. From here, Ron.

Ronald David Bobman
Capital Returns Management, LLC

Okay. So obviously, I take 10 points off of 104%, it's a 94%, we had no cats, thankfully, but we had some adverse development. But did you really -- is the target really for Hardy over the cycle or over the course of the year to be at a 94% when my basis got no cats in it? It just seems surprisingly high from what I believe is a severity writer.

D. Craig Mense
Chief Financial Officer and Executive Vice President

No, and we would consider that to be with cats loaded in, Ron, in terms of what we'd expect.

Ronald David Bobman
Capital Returns Management, LLC

So you expect to do -- okay, with some cat load at a 94%, but that -- okay, I'm surprised your target isn't lower.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well I think that you're -- maybe you're thinking of -- I mean, Hardy is not a heavy -- they are Lloyd's participant, but they are not a heavy cat writer. They wrote a small amount of property treaty, and they are heavy first-party writer, so they do have cat-related exposures to their property business. But we're not talking about a property cat reinsurer here. That's a very small component of their book of business.

Ronald David Bobman
Capital Returns Management, LLC

With my understanding, it was definitely a Specialty writer, but it was sort of severity minded, whether it was writing marine and other lines book.

Operator

We'll go next to Kevin Shields with Pine River Capital.

Kevin Shields

I had a couple of questions. Could you give us anything that was unusual in the paid losses this quarter, and give us the paid losses for cat this quarter and last?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, first of all, Superstorm or Hurricane Sandy, that's why you're seeing the paid to incurred being higher in Commercial. It's clearly related. We're paying those claims now, so that would be the answer. I think I'd said in the -- go ahead, Kevin.

Kevin Shields

Do you have a reestimated C&D loss estimate and the percentage that's been paid at this point?

D. Craig Mense
Chief Financial Officer and Executive Vice President

We do not have. We have not reestimated or we haven't changed our estimate, I should say see, of Sandy. And what I said in my remarks is we paid about $125 million of claims over the course of this quarter.

Operator

[Operator Instructions] And we'll take a follow-up question from Amit Kumar.

Amit Kumar
Macquarie Research

A few follow-ups. Just going back to, I guess, Slide 8 and Slide 10 regarding the new business production. Can you sort of talk about which segments is that going into for -- I guess, which subsegment is it going into for those 2 segments? Is that in some specific segment? Just remind us or refresh us where that is coming from.

Thomas F. Motamed
Former Chairman and Chief Executive Officer

All right. So Amit, just so we understand the question, are you looking for...

Amit Kumar
Macquarie Research

The distribution of new business amongst the subsegments.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Between HealthPro, management liability, international surety?

Amit Kumar
Macquarie Research

Yes, yes, yes.

D. Craig Mense
Chief Financial Officer and Executive Vice President

Okay. Well, we have not provided that disclosure. I don't think I have this right here with us to give you. But we did share with you on the later slide what percentage were going in -- what percentage of that total were going into identified customers segments, which would include small business. So I don't have a breakdown of new business by each of those subsegments here today.

Amit Kumar
Macquarie Research

Maybe I can follow up offline on that. The second question is the prior discussion on, I guess, professional liability, and maybe I missed this. Was there any adverse development in this quarter which was more than offset by prior period reserve releases?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Order in professional liability?

Amit Kumar
Macquarie Research

Yes, or any other segments specifically which was more than maybe adverse development in the recent years, more than offset by prior period reserve releases?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

No, really, I would tell you that in general, both the '11 and '12 years, where -- when we looked at them relatively unchanged. We did have -- and we did have a small amount of prior development, most of that in Commercial was general liability lines, but those are owed to in prior years. And in professional liability, I should say in Specialty, the favorable development was really driven by Med-Mal, and that's more prior years. Current years, that's been a little worse than prior. But as kind of things bump around, I don't think anything that's significant -- wouldn't point out, I think, anything significant trend wise. And some of the Specialty businesses we write the property casualty covers alongside and a couple of those segments, particularly aging services and some of the HealthPro segments, and we had some positive development out of health -- really out of the property-related businesses in the HealthPro. So those were where the favorable development was. But I don't know if that's exactly your question there. There's always going to be a little movement here and there, but nothing significant.

Amit Kumar
Macquarie Research

Got it. So that's what I was looking for if anything had changed just based on, I guess, commentary coming out of one other company. The only -- the last question I had was on the runoff segment. You said in your opening remarks you're evaluating pricing and I guess, seeking rate increases where appropriate. Can you just expand on that and maybe give a specific example?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, we have been, as you know, most of that older generation business, you've heard it from other writers, has been underpriced. And as those products have come off rate guarantees, we have looked at those products' performance and we filed for rate increases where they had been appropriate and where we've -- so far I'd say, we've been generally successful with regulators at getting those or at least getting a portion of those. The only really -- and maybe the most meaningful contribution you could look at is you could look at the net written premium in that noncore health segment, which is about $151 million both this quarter and last. So really that's about $6 million of rates increase in this year's quarter, which is the reason it's flat despite the fact we've had lapses in debts that come from past. So we continue to push additional rate increases through the book. And we think that will make -- should make a more meaningful contribution going forward. But it's a little early to count that.

Operator

And we'll take our next question from Vinay Misquith.

Vinay Gerard Misquith
Evercore ISI, Research Division

Question on the ROE. This quarter we saw an 8% ROE for the company. What do you think would be a reasonable ROE for the company given the low interest rate environment and given the competitive landscape right now?

Thomas F. Motamed
Former Chairman and Chief Executive Officer

Well, I think that we -- is that a target or where are we today?

Vinay Gerard Misquith
Evercore ISI, Research Division

What would be a target and when do you think you can get there?

D. Craig Mense
Chief Financial Officer and Executive Vice President

Well, I think that what we said in the past was that we thought the run rate -- I mean, last quarter I said the run rate was about 6. I would tell you that we're trending more closer to 7 at the moment. And we believe we could even, in this low interest rate environment and with the drag, get close to 10. I don't think we have given exactly a time period for that. It will be up over the next several years.

Operator

And it appears that there are no more questions at this time. I would like to turn the conference back over to today's speakers for any closing or additional remarks.

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

Thank you.

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