S&P Global
Market Intelligence

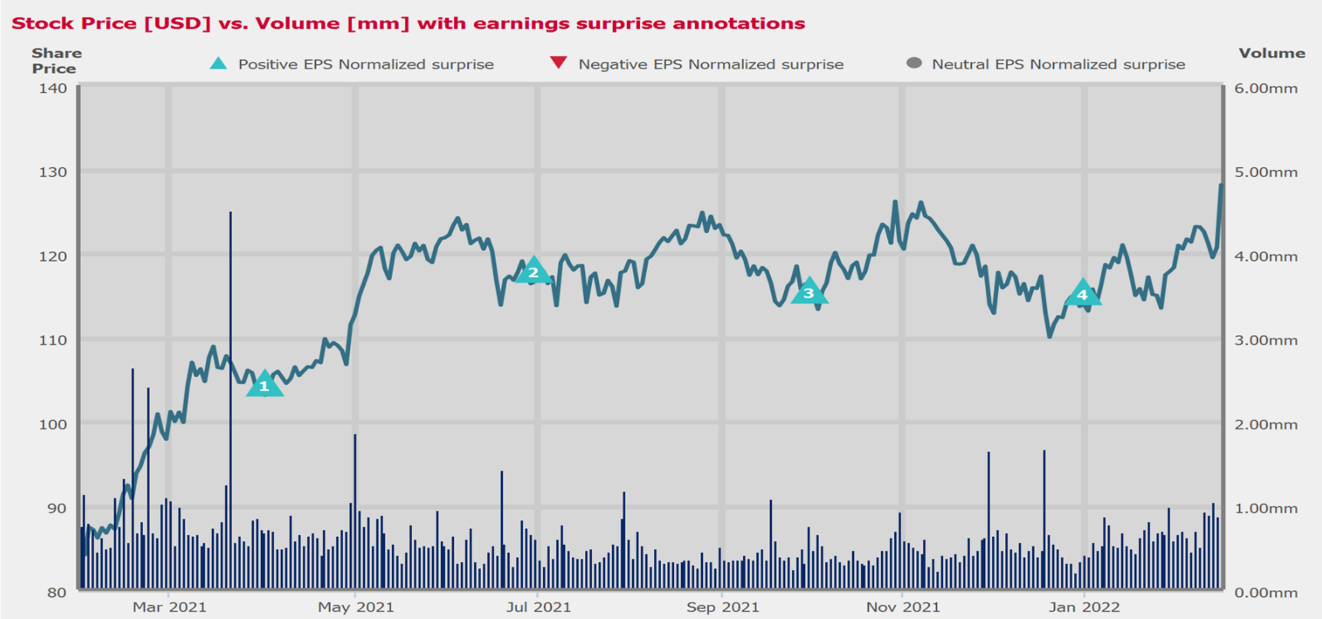
Cincinnati Financial Corporation NasdaqGS:CINF
FQ4 2021 Earnings Call Transcripts

Wednesday, February 16, 2022 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.36	1.97	▲44.85	1.37	5.79	6.41	▲10.71	5.27
Revenue (mm)	1771.30	3323.00	▲87.60	1847.80	8078.80	9630.00	▲19.20	7495.40

Currency: USD
Consensus as of Feb-16-2022 8:39 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	1.10	1.37	▲1 24.55 %
FQ2 2021	0.98	1.79	▲2 82.65 %
FQ3 2021	0.91	1.28	▲3 40.66 %
FQ4 2021	1.36	1.97	▲4 44.85 %

Table of Contents

Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

Martin Francis Hollenbeck
Chief Investment Officer, Executive VP, Assistant Secretary & Assistant Treasurer

Michael James Sewell
CFO, Principal Accounting Officer, Executive VP & Treasurer

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Steven Justus Johnston
Chairman, President & CEO

ANALYSTS

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

Michael David Zaremski
Wolfe Research, LLC

Paul Newsome
Piper Sandler & Co., Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the fourth quarter 2021 earnings conference call. [Operator Instructions]

I would now like to hand the conference over to your first speaker today, Mr. Dennis McDaniel, Investor Relations Officer. Please go ahead.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our fourth quarter and full year 2021 earnings conference call.

Late yesterday, we issued a news release on our results, along with our supplemental financial package, including our year-end investment portfolio. To find copies of any of these documents, please visit our investor website, cinfin.com/investors. The shortest route to the information is the quarterly results link in the navigation menu on the far left.

On this call, you'll first hear from Chairman, President and Chief Executive Officer Steve Johnston; and then from Chief Financial Officer Mike Sewell. After their prepared remarks, investors participating on the call may ask questions. At that time, some responses may be made by others in the room with us, including Chief Investment Officer Marty Hollenbeck; and Cincinnati Insurance's President, Steve Spray; Chief Claims Officer, Marc Schambow; and Senior Vice President of Corporate Finance, Theresa Hoffer.

First, please note that some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties. With respect to these risks and uncertainties, we direct your attention to our news release and to our various filings with the SEC. Also, a reconciliation of non-GAAP measures was provided with the news release. Statutory accounting data is prepared in accordance with statutory accounting rules and therefore is not reconciled to GAAP.

And now I'll turn over the call to Steve.

Steven Justus Johnston
Chairman, President & CEO

Thank you, Dennis, and good morning. Thank you for joining us today to hear more about our results. It's satisfying to see excellent operating results and overall financial performance in 2021 for both the fourth quarter and full year. As usual, we face challenges, but our strategy continues to work well. Thanks to outstanding efforts by our associates and the independent agents who represent Cincinnati Insurance.

Net income for the fourth quarter rose $421 million compared with the fourth quarter of last year, including $346 million more benefit on an after-tax basis in the fair value of securities held in our equity portfolio. Non-GAAP operating income for the fourth quarter 2021 was up $58 million or 22% versus a year ago. And on a full year basis, it was 96% higher than 2020.

Our 84.2% fourth quarter property casualty combined ratio was 3.1 percentage points better than last year, with decreased catastrophe losses this year representing 11 points of the improvement. An outstanding full year 2021 combined ratio of 88.3% was nearly 10 points better than last year, with lower catastrophe losses representing 4.1 points of the improvement. The current accident year combined ratio before catastrophe loss effects also continued to improve and was 1.5 percentage points better than accident year 2020 measured at 12 months.

We believe we can successfully balance prudent underwriting and business growth to maintain a 2022 GAAP combined ratio in the low to mid-90% range. We also believe our 2022 property casualty premium growth rate can be 8% or more. We recognize that weather and significant changes in industry market conditions that influence insurance policy pricing trends are some of the variables that will affect the property casualty results we ultimately report.

Premium growth continued at a strong pace during the quarter, reflecting a strengthening economy, generally steady pricing and the benefit of great relationships with our agents. Consolidated property casualty net written premiums rose 10% for both the fourth quarter and full year 2021.

Pricing segmentation continues to be an emphasis, with our underwriting working to retain and write more profitable accounts while taking appropriate action on opportunities that we determine have inadequate pricing. Renewal pricing during the fourth quarter continued to be ahead of our estimate for prospective loss cost trends for each property casualty segment.

Our commercial lines insurance segment again experienced mid-single-digit percentage range estimated average renewal price increases up a little for the third quarter. Our fourth quarter personal lines segment average renewal price increases slowed a little compared with the third quarter, remaining in the low single-digit range, while the excess and surplus lines insurance segment was near the low end of the high single-digit range. Our commercial lines segment had a superb year with its 83.8% combined ratio improving by 14.5 percentage points compared with 2020 and growing net written premiums by 8%.

For our personal lines segment, net written premiums grew 8% for the quarter and 6% for the year, driven by planned expansion of high net worth business produced by our agencies. Its full year 2021 combined ratio of 94.0% improved 3.1 percentage points from a year ago, including an excellent 80.0% for the fourth quarter. Our excess and surplus lines segment produced a sub-90% combined ratio for the fourth quarter and the year and grew full year net written premiums by 22%, another terrific year.

Cincinnati Re and Cincinnati Global, each had another year of healthy growth. Cincinnati Re grew net written premiums by 53% for the full year 2021 as reinsurance market conditions improved. It experienced a modest underwriting loss that included significant losses from Hurricane Ida. Those losses remained within our expectations of loss potential for events of Ida's magnitude based on our models. Cincinnati Global grew its 2021 premiums by 6% with a combined ratio below 90%. Our life insurance subsidiary generated full year 2021 net income of $44 million, up 38% from a year ago, and grew term life insurance earned premiums by 7%.

On January 1 of this year, we again renewed each of our primary property casualty treaties that transfer part of our risk to reinsurers. For our per risk treaties, terms and conditions for 2022 are fairly similar to 2021. The main change for our property casualty treaty is retaining an additional $43 million of losses for the layers between $100 million and $600 million, while adding $47 million of coverage in a new layer between $800 million and $900 million. Rates for our property casualty treaties generally rose in the high single-digit range. We expect 2022 ceded premiums for these treaties in total to be approximately $110 million, about 3% higher than last year.

I'll conclude with the value creation ratio, our primary measure of long-term financial performance. Strong operating results, measured as net income before investment gains and improved valuation of our investment portfolio, each made large contributions to VCR for both the fourth quarter and on a full year basis. With VCR of 12.1% for the quarter, VCR for the full year was 25.7%, far exceeding our average annual target range of 10% to 13%.

Now our Chief Financial Officer, Mike Sewell, will comment on some other important aspects of our financial performance.

Michael James Sewell
CFO, Principal Accounting Officer, Executive VP & Treasurer

Thank you, Steve, and thanks to all of you for joining us today. Investment income continued to grow at a strong pace, up 8% for the fourth quarter and 7% for the full year 2021 compared with the same periods a year ago. Fourth quarter dividend income was up 14%, and net equity security purchases totaled $177 million for the year. Bond interest income grew 4% in the fourth quarter, while the pretax average yield of 4.05% for the year was down 1 basis point from a year ago. The average pretax yield for the total of purchased taxable and tax-exempt bonds during the full year 2021 was 3.47%. Investing in fixed maturity securities continues to be a priority, with net purchases during the year totaling $927 million.

Valuation changes for our investment portfolio during the fourth quarter of 2021 were favorable for our stock holdings in aggregate, but unfavorable for our bond holdings. The overall fourth quarter net gain was nearly $1.4 billion before tax effects despite a decrease of $82 million for unrealized gains in our bond portfolio. At the end of the fourth quarter, total investment portfolio net appreciated value was approximately $8 billion, including $7.2 billion for our equity securities.

Cash flow was very strong in the fourth quarter, as it has been all year. It contributes to investment income and was a major factor in the 5% increase in interest income we reported for the year. Cash flow from operating activities for full year 2021 generated just shy of $2 billion, a 33% increase compared with a year ago. Expense management efforts in 2021 were very good, and we continue to carefully balance strategic business investments and expense controls.

The full year 2021 property casualty underwriting expense ratio was 0.5 percentage points lower than last year even with an increase of 0.7 points from higher accruals for agency profit-sharing commissions. Regarding loss reserves, our approach to reserving remains consistent and aims for net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. As we do each quarter, we considered new information such as paid losses and case reserves and then updated estimate ultimate losses and loss expenses by accident year and line of business.

During full year 2021, we experienced $428 million of property casualty net favorable development on prior accident years. It favorably contributed to the combined ratio by 7.0%. On an all-lines basis by accident year, net reserves developed for the year was favorable by $283 million for 2020, $56 million for 2019, $44 million for 2018 and $45 million in aggregate for accident years prior to 2018. We believe overall reserves remain adequate. During 2021, net loss and loss expense reserves in total increased by 8%. The IBNR portion increased by 6% in 2021, which followed an increase of 18% in 2020 for IBNR.

Turning to capital management, we also follow a consistent approach, including share repurchases as part of maintenance intended to offset the issuance of shares through equity compensation plans. We believe that our year-end financial strength remained in good shape and provides plenty of financial flexibility. During the quarter, we repurchased approximately 866,000 shares at an average price per share of $119.56.

I'll conclude my prepared remarks as I typically do, with a summary of fourth quarter contributions to book value per share. They represent the main drivers of our value creation ratio. Property casualty underwriting increased book value by $1.26. Life insurance operations increased book value $0.04. Investment income other than life insurance and net of noninsurance items included $0.98. Net investment gains and losses for the fixed income portfolio decreased book value per share by $0.35. Net investment gains and losses for the equity portfolio increased book value by $6.93, and we declared $0.63 per share in dividends to shareholders. The net effect was a book value increase of $8.23 per share during the fourth quarter to a record $81.72 per share.

And now I'll turn the call back over to Steve.

Steven Justus Johnston
Chairman, President & CEO

Thanks, Mike. As I said in my opening remarks, 2021 ended with many positives. We again achieved excellent premium growth and completed a tenth straight year of underwriting profit. We extended our record of annual dividend increases to 61 years and have already set the stage for a second -- 62nd year. Earlier this month, A.M. Best recognized our capital strength and strong operating trends by affirming our A+ financial strength rating with a stable outlook. The key to our consistent results lies with our associates, who deliver -- who continue to deliver outstanding service to our agents and their clients, deepening our relationships with our agents and executing on our strategies for long-term success.

Before we open the call for questions, I want to take a minute to recognize Steve Spray's recent promotion to President of the Cincinnati Insurance Company and all of our U.S. subsidiary companies. This promotion is a natural next step in the evolution of our executive leadership team that began several years ago. Because he's been in leadership roles across our organization, Steve has a deep understanding of what it will take to succeed far into the future. I'm confident that under his direction, our insurance subsidiaries will continue to grow, deepening the products, services and capabilities we have to support our agents and create shareholder value. As a reminder, with Mike, Steve and me today are Marc Schambow, Marty Hollenbeck and Theresa Hoffer.
Joanna, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question is from Mike Zaremski of Wolfe Research.

Michael David Zaremski
Wolfe Research, LLC

My first question is probably for Mike Sewell on reserves. And I believe I heard some of your prepared remarks, but I guess just -- we're getting -- we've been getting a lot of questions. So if -- and you have -- Cincy has best-in-class disclosure, so this is going to be specific. But if we look at Page 8 of the supplement -- maybe you don't have it open, but I'll try to ask the question clearly -- you show -- if we focus on commercial lines, for example, Cincy discloses losses incurred but not reported. And those numbers -- those ratios have increased materially versus their historical averages in terms of the -- in 2020, and they've been negative in 2021. And just -- I wanted to confirm that, are those accident years, so vintage -- like for this year's increase in commercial lines losses incurred but not reported of 6.9 points for the -- or sorry, negative 2.3 points for year -- the year 2021, is that for the accident year '21 vintage only? Or is that for all vintages?

Steven Justus Johnston
Chairman, President & CEO

Let's make sure we're clear about what you're asking here, Mike. And just if we look at the favorable development that we show in the press release and so forth that we have shown here for the quarter and the year, are you now trying to break it down by the quarters shown in...

Michael David Zaremski
Wolfe Research, LLC

Yes. I'm trying to just look at the losses incurred but not reported line item, which is in the loss ratio detail page, Page 8 of the supplement, which for the -- yes.

Michael James Sewell
CFO, Principal Accounting Officer, Executive VP & Treasurer

Yes.

Steven Justus Johnston
Chairman, President & CEO

We got it.

Michael James Sewell
CFO, Principal Accounting Officer, Executive VP & Treasurer

Yes, that's a great question. Yes, that's going to be really calendar year numbers, and seeing that negative, you're right, that's -- I'm going to say you typically don't see that. But if I were to think about the reserves, the reserve development and what we've added in IBNR last year compared to this year, there was a bit of a difference. Last year, we -- it was early on with COVID. There was a lot of uncertainty that was going on last year. And so with that, we had added about $456 million in IBNR in 2020 across many different lines. This year, we added about $135 million. And so you'll see that there is a decrease, and that -- you'll see that on Page 13 of the supplement.

So as time passes, we obviously know a little bit more of what the experience is. We did see favorable development in the 2020 accident year. And a lot of that was coming from the short-tailed lines, as you might expect, because we can see that a little quicker. For the long-tailed lines such as casualty, workers' comp, I think it's going to take a little bit longer to see development there. But as we've reported, and you'll see more of it coming out in our K, we did have development, a favorable development in the long-term lines. And similar to the past, it was over multiple years, so 2020, 2019, 2018 and before. And so you'll see some of our charts that we'll kind of lay that out.

I always like to talk about the consistent approach we do to reserving. Looking at 1 or 2 quarters does not set a trend. We've got very competent actuaries. And fact is, I don't think we've had any turnover with that group over the year. So it's a very consistent approach, looking at being in the upper half of the range. And so I'm just going to follow our actuaries' lead and what they're seeing. That's a great question. Thank you for that.

Michael David Zaremski
Wolfe Research, LLC

Okay. No, that's -- and sorry for not asking it probably clear enough. That's very helpful. Maybe shifting gears a little bit to personal lines, and maybe focusing on auto since it comes up a lot with investors too, given the loss inflation environment. Would you -- results, at least versus, I think, consensus expectations, continue to be better than expected. Obviously, they've deteriorated year-over-year on an underlying basis. But just curious, I know you -- Cincy's has a more unique portfolio regional-wise, you're also moving into -- increasingly into the high net worth space, just curious, has anything surprised you, maybe not just auto, too, it could be homeowners results as well, but anything that we should be thinking about as we think about how results have come in versus your expectations? And I also -- I know a long-winded question, but you mentioned in the prepared remarks that pricing is ahead of prospective loss cost trends for each segment. And you also mentioned that personalized pricing is in the low single digits, I believe. And so I'm just curious if your view is that personal lines loss cost trends are also in the low single digits?

Steven Justus Johnston
Chairman, President & CEO

And yes, as we look at trends, we're very prospective with our loss cost trends. So what we're doing is looking at what we estimate to be the loss costs in the prospective rating period, the prospective policy period. It's kind of actuarial 101 to be prospective with our pricing. And so affecting the loss cost trend would be a lot of aspects of what we're doing. We would see the inflationary trends that we all know about and read about. And we would also see what we're doing on the underwriting side, what's happening, as you mentioned, with change in mix, going to more high net worth. We've introduced a new rating tier. And so there are a lot of things that on a prospective basis are impacting the loss cost trends. And we feel really good about the direction of personal lines. If you think about for the 11 years -- this is a little bit of history, but it shows our long-term focus -- if you look at the 11 years from 2008 through 2018, we only made an underwriting profit for personal lines in 2 of those years, and we had a total underwriting loss of roughly $500 million. We earned a -- we earned an underwriting profit in each of the last 3 years, with a total underwriting gain of just under $140 million. And the calendar year GAAP combined ratio for each of these last 3 years has really trended positively, from 99.8% to 97.1% to 94.0%. So we really feel that we're on the right track. We've got good momentum. And we feel really good about the future prospects of personal lines.

Michael David Zaremski
Wolfe Research, LLC

That's helpful. So I'm just curious, we know that you're willing to give an overall company combined ratio goal. Given the mix shift change in personal lines, can you remind us -- have you offered a combined ratio goal that you strive for in personal lines?

Steven Justus Johnston
Chairman, President & CEO

We haven't. That is not something that we have a disclosure on.

Operator

Your next question is from Paul Newsome of Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the quarter, folks. I was hoping you could just maybe bang a little bit more on the mid-90%s combined ratio goal. I think that might be a deterioration over this year. And how does that reconcile with the idea that, particularly in commercial insurance, you're getting pricing, hopefully, better than underlying claims costs? Are there some pieces in there, reserve [development], whatever, that we're -- we should be thinking about?

Steven Justus Johnston
Chairman, President & CEO

No, Paul, we don't feel that that's a forecast for a deterioration. It's the all-in GAAP combined ratio that would be comparable to the 88.3% that we turned in this year. We had 7 points of favorable loss development this year. So even if it was -- you make the pick, but say it was 3.5%, that would take us to 91.8%. So we don't feel that's forecasting any kind of a deterioration. We just think that we're looking at long-term trends. And the way we are, we're prudent around here, and we'd rather undercommunicate and overdeliver.

Paul Newsome
Piper Sandler & Co., Research Division

Understood. And then back to the personal lines. Your results really have differed from the industry from a -- it appears like a frequency-severity perspective. Can you maybe talk to those levels in auto, where -- why perhaps you haven't seen the biggest -- the inflationary impact that others have seen on the severity side? And if frequency for you folks is stabilized back where it was pre-pandemic? Or just thinking if you could talk a little bit to the underlying components and how they may differ from what we're seeing with the rest of the industry.

Steven Justus Johnston
Chairman, President & CEO

Yes. And there's just been a lot of hard work, Paul, over -- these things don't happen overnight. It's over a period of years. And just kind of as I described that improvement in the personal lines combined ratio over the last 3 years, it started some time before that. It's -- you don't turn a battleship on a dime, and the personal lines leadership has just done a great job of addressing issues, whether it be on the state level, change in mix, change in underwriting, introducing new models, new pricing tiers. And again, the shift towards more high net worth, that's where we're getting a lot of the new business. And when you look at what we disclosed in terms of rate changes, that's going to be more on the renewal book. So to the extent we're having great new business growth and what we feel to be a profitable segment, that affects things. So it's really the accumulation of just a lot of hard, detailed work over a number of years by the personal lines leadership.

Paul Newsome
Piper Sandler & Co., Research Division

No. Absolutely understood. I guess if you adjust for that, do you think you're seeing the same sort of [series] in frequency and severity that others are seeing and it's all about the reentering mix shift? Or is there something unique about your book that might make it just different from others seeing these broader trends?

Steven Justus Johnston
Chairman, President & CEO

Paul, I hate to say it, but I don't pay that much of attention to others. They -- other companies have different strategies, different -- a lot of different things. So we give you what we're seeing, what we're doing. I think we're pretty open in our disclosure, and again, feel very confident with our personal lines with the improvement we've seen now over 3 years steadily and just recognize all the hard work that's going on within our company.

Paul Newsome
Piper Sandler & Co., Research Division

Absolutely. Congratulations on the quarter, guys. It's great.

Operator

Your next question is from Meyer Shields of KBW.

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

I want to start, if I can, on commercial lines. Steve, hopefully you can explain what is it that drove the acceleration in pricing from the third quarter to the fourth quarter? The general sense we have is that outside of cyber, rate increases are slowing down a little bit and your experience is moving the other direction.

Stephen Michael Spray

Senior VP, Chief Insurance Officer & Director

Meyer, this is Steve Spray. Good question. I think for us, it's risk-by-risk. It's agency-by-agency, location-by-location. We just -- you really can't look at the average with us. There's so much more in the full distribution of our rate. And I think that over time, the pricing sophistication, the segmentation, our execution of that, working with agents, has just allowed us to execute on that.

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

Okay. No, that's helpful. If I can go back to personal lines, obviously the results in the fourth quarter were fantastic. But when we look broadly at the combination of the targeted customer groups and your geographic footprint, what sort of seasonality should we expect in the accident year ex cat loss ratio for auto and home?

Steven Justus Johnston
Chairman, President & CEO

I think it's best to focus on the full year. And I think generally the way that we promulgate our loss ratio picks, we're looking at a full year as we go through time. There will be some seasonality, certainly, with catastrophe losses and so forth. But I think we've shown pretty stable results throughout the year. I think it's come from efforts of geographic diversification. An example would be what happened here in the fourth quarter with losses that -- and really bad damage that came to Kentucky. Our claims representatives just did a fantastic job of taking care of people down there. Kentucky's a smaller percentage of what used to be to us as we've grown geographically and by product line, diversifying the company, and we're in a position where we think that any given catastrophe loss now has less of an impact on us than it did before. So I would focus on the annual picks. We're long term. We don't go quarter-by-quarter. We do our best to make our best estimates for reserves at every quarter and keep a longer-term view of the business.

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

Okay. Perfect. And if I can throw one more in. The reserving history of Cincinnati is sort of unquestionable. Have you adjusted the inputs in terms of loss trend for -- in the guidance for 2022?

Steven Justus Johnston
Chairman, President & CEO

I think our actuaries do a really good job. And you and I have talked about this before on the calls, of really balancing the stability and the responsiveness of the picks. And so as we look at trends, I think we've been stable over time, not overdoing it in terms of being overly optimistic in the 2020 year when there was so much uncertainty and you really didn't know what you were seeing in terms of the reporting patterns when you had everything to consider in terms of the economy, potential slowdown in court cases. And so I think we've been quite stable through the period of time in making our picks and they're doing the same thing as we think about 2022.

Operator

[Operator Instructions] Your next question is from Scott Heleniak of RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

I wanted to ask about the -- you had given the guidance about the premium growth rate of 8% or more for 2022. And I'm just wondering if that assumes a similar amount of agency appointments that you had, you had around 200 or so? And does it also contemplate similar growth rates by unit that you saw in 2021? I'm just wondering if you can give more detail on that 8% or better number.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes, Scott, Steve Spray. Yes, you can consider -- or you can expect us to continue to add agencies across the country. We do it whether -- where maybe the population would dictate it or for whatever reason, an area, our growth would slow, that's when we would make agency appointments. So you can expect us to continue to add high-quality agencies to the overall percentage.

As far as the -- by segment, just feel really good about the runway ahead of us in all those areas. The way we do business locally face-to-face, take the company out into the community where our agents are, make decisions locally, have our field reps to drive everything for us, and their primary function is to underwrite and price all new commercial lines business that can meet with policyholders. We just think our model, and continuing to add product, services for our agents, we think across all lines of business that we can continue to contribute to that growth.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

All right. I appreciate that. I wanted to ask, too, about -- this is switching gears a little bit, but just the -- I wanted to talk about where you're deploying the proceeds. You had $1.4 billion in net realized gains, you obviously had some sales in the quarter, and wonder if you can touch a little more on that where you're deploying capital. I think you had mentioned in the prepared remarks about fixed income is a priority, but just any more detail on that just because it was a larger number than normal?

Michael James Sewell
CFO, Principal Accounting Officer, Executive VP & Treasurer

No, that's a great question. And with the operating cash flow that we did have this year, obviously, there's different ways to deploy the capital. Steve mentioned about increasing the dividends, and we're doing that again here in 2022 with the Board's -- it was about 9.5% increase. But keeping some of the funds, capital within the company for future growth that Steve Spray just talked about, but then really turning it over to Marty Hollenbeck, and maybe he'll make a comment here, but adding to our investment portfolio that's growing investment overall income and having the financial strength to pay claims when they come up and are needed is very critical for us. But we turned a lot over to Marty, and I'm not sure if, Marty, you might want to make a few comments?

Martin Francis Hollenbeck
Chief Investment Officer, Executive VP, Assistant Secretary & Assistant Treasurer

Mike, you nailed it. Yes, we were heavy investors in the bond market, the most we have, I believe, in history. Cash is not a really good alternative right now, so we were consistently in the bond market. We did add to our equity positions to some degree. We do have internal monitoring controls there as to how high we would let that get. So it was a very active year for the fixed income market, particularly the taxable side of the bond portfolio.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. Great. That's helpful. Just one last one, too, on the expense ratio. I don't know if there's any commentary or thoughts you can give on 2022. You had some improvement. It was up for Q4, but it was improved for the year. And I'm just wondering how you're thinking about that for 2022 versus 2021.

Michael James Sewell
CFO, Principal Accounting Officer, Executive VP & Treasurer

That's great. And sometimes it really is hard to kind of give a projection because, as we just saw here in the fourth quarter and on a year-to-date basis, what's the profitability going to be for the underwriting, which is a big driver is the profit sharing and commissions for the agencies. So that was a big driver this year. If you were to normalize that, I might go back to -- our goal is to have a 30% expense ratio and moving towards that. The way we do that is by watching every dollar that we spend. Of course we're going to increase spending, everything costs more. But if we can keep that increased spending to a level that is lower than the growth of the premiums, we should be making headwinds on that or making progress towards a 30% expense ratio. So it's really hard to give guidance on that unless I already really know what underwriting performance is going to be. But I think I'm really excited for 2022 here.

Operator

Presenters, I am no longer seeing any other -- I think we do have a follow-up question from Mike Zaremski.

Michael David Zaremski

Wolfe Research, LLC

Great. Quick question on personal lines. Can you update us on just approximately what percentage of the portfolio is considered high net worth now? I think the last math we did was it was approaching 50% of the book. And maybe the answer is just a simple yes. But do you expect the high net worth profitability level to be materially different than the non-high net worth portfolio?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes, Mike, Steve Spray again. Yes, our high net worth book, all in, is about 42% now on net written premium basis of all personal lines. We could not be happier with the way our high net worth initiative over time has produced and progressed. We've added a lot of expertise. We've continued to grow it. We think we're in a unique position as well because we've got -- we're -- I think we're one of the only markets out there that has both a very sizable middle-market personal lines book and a high net worth, and we have expertise in both, and it's important to our agents. It fits into our agency strategy, we can attract that much more business for our agents.

And I would say, over time, if you look at just the industry over time, high net worth personal lines has outperformed middle market. Cat losses in the last few years have certainly impacted the industry, but we believe, again, over time, that that high net worth segment will potentially outperform the middle market. But we do -- I will say this, we do expect both segments to make a profit. And with what we've done with pricing sophistication, segmentation, as Steve mentioned earlier, additional tiers, we're very confident in what we can do in the middle market space, too.

Michael David Zaremski
Wolfe Research, LLC

So earlier, when you kind of talked about the 10-plus year history of personal lines and how it's doing a lot better, it sounds like it's not just due to potentially the high net worth portfolio. And you're basically not biting and telling me that the high net worth portfolio is a lot more profitable yet. Maybe there's a new business penalty, even in the -- as you grow the high net worth portion of the book?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Well, yes, the answer to that -- the first part of that, yes, middle market has continued to perform well and has driven its fair share of that profitability overall. We expect both segments to be profitable. We're not going to -- we don't want to have one segment subsidizing the other. They both do behave differently. But I think, again, we've got the expertise on both fronts to make them both grow and grow profitably, and feel very good, like Steve said, about our prospects for the future for personal lines and what we're bringing to our agencies.

Operator

Presenters, I am no longer seeing any questions on the queue. I'd like to turn the call over back to Mr. Steve Johnston, CEO.

Steven Justus Johnston
Chairman, President & CEO

Thank you, Joanna. And thank you all for joining us today. We look forward to speaking with you again on our first quarter 2022 call. Have a great day.

Operator
Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.