S&P Global
Market Intelligence

Cincinnati Financial Corporation
NasdaqGS:CINF
FQ4 2019 Earnings Call Transcripts

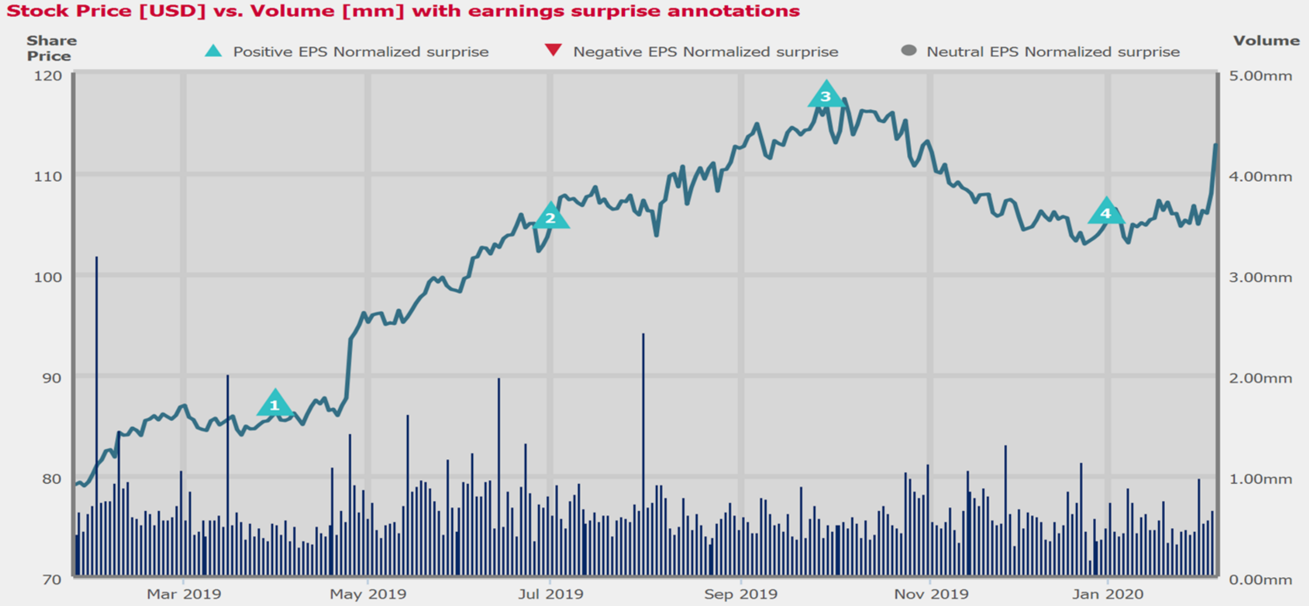
Thursday, February 06, 2020 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.11	1.23	▲10.81	0.95	4.08	4.20
Revenue (mm)	1552.00	2152.00	▲38.66	1586.63	7324.00	7924.00

Currency: USD
Consensus as of Feb-06-2020 10:33 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.88	1.05	▲19.32 %
FQ2 2019	0.65	0.85	▲30.77 %
FQ3 2019	0.88	1.08	▲22.73 %
FQ4 2019	1.11	1.23	▲10.81 %

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Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

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

Michael James Sewell
CFO, Senior VP & Treasurer

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Mark Alan Dwelle
RBC Capital Markets, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Fourth Quarter and Full Year 2019 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker for today, Mr. Dennis McDaniel, Cincinnati Financial's Investor Relations Officer. Thank you, sir. 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 2019 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 Steve Johnston, President and Chief Executive Officer; 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 Chairman of the Board, Ken Stecher; Chief Investment Officer, Marty Hollenbeck; and Cincinnati Insurance's Chief Insurance Officer, Steve Spray; Chief Claims Officer, Marty Mullen; 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.

Now I'll turn over the call to Steve.

Steven Justus Johnston
President, CEO & Director

Good morning. Thank you for joining us today to hear more about our 2019 results.

Operating results and overall financial performance for the fourth quarter and full year were excellent, and we also see reasons for confidence regarding future performance due to our proven strategy and demonstrated experience and execution.

Net income for the fourth quarter rose nearly $1.1 billion, including more than $1 billion for changes in the fair value of equity securities. Non-GAAP operating income improved 28% for the quarter, and on a full year basis, it was 26% higher than 2018. Strong 2019 operating performance for both the fourth quarter and for the year again reflected efforts to carefully underwrite in price policies, provide outstanding service to our agencies and manage investments well. We also continue to benefit from risk diversification by product line and geography.

Our fourth quarter 91.6% combined ratio helped lower full year 2019 to 93.8%, 2.6 points better than 2018. More favorable catastrophe weather effects contributed slightly more than 1 full percentage point for the year, while improved underwriting was reflected in various underlying measures.

We continue to further segment our renewal and new business opportunities. Pricing precision and risk selection decisions that combine data models and underwriter expertise on a policy-by-policy basis are benefiting our underwriting results. We believe we can successfully balance prudent underwriting and business growth to maintain or improve on the 2019 combined ratio before catastrophe effects for a 2020 GAAP combined ratio in the low to mid-90% range. We also believe our 2020 property casualty premium growth rate can be 6% or more. We recognize that weather and significant changes in the industry market conditions that influence insurance policy pricing trends are some of the variables that will affect the property casualty results we ultimately report.

In 2019, we again managed our business to healthy levels of policy retention with average renewal price increases for each of our property casualty segments. Policy retention rates for both commercial and personal lines were similar to a year ago, continuing near the high end of the mid-80% range.

Part of our strategy for long-term growth is appointing more agencies in areas where we are underrepresented, while taking care to preserve relationships with established agencies and the franchise-like benefit they value. In 2019, we appointed 187 new independent agencies. In 2020, we plan to appoint approximately 125 additional agencies that will offer most, if not all, of our property casualty insurance products and another 35 that market only our personal lines products, primarily ones with a high net worth focus.

We continue to earn business through our agencies from a combination of superior service and expansion of insurance products for clients of those agencies. For full year 2019, new business written premium growth was strong and overall property casualty net written premiums grew 10%.

For renewal business, commercial lines' estimated average price increases for the fourth quarter were again in the low-single-digit percentage rate -- range, and the second half of the year was higher than the first half. The 2019 combined ratio for our commercial lines segment improved by 2.5 percentage points for the year to 92.9% with about half of the improvement due to lower catastrophe losses.

Our personal lines segment continued to experience average rate increases in the mid-single-digit range, with the fourth quarter 2019 similar to the third quarter. The personal lines combined ratio was profitable for both the quarter and year, and we're working towards further improvement.

Our excess and surplus lines segment had another excellent year, including growth in net written premiums exceeding 20% and a 2019 combined ratio of 81.5%. Cincinnati Re continued to grow as planned with a fourth quarter combined ratio below 100% and full year 2019 in the low 90s. Cincinnati Global had another profitable quarter and has post-acquisition combined ratio in the low 80s. Our life insurance subsidiary again grew term life insurance premiums, its largest product line, with fourth quarter earned premium growth of 4% and full year 2019 growth at 8%. Cincinnati Life producing $39 million of full year net income and supports account retention for our agents, while contributing to earnings with less correlation to weather than our property casualty business.

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 both our per-risk treaties and our property catastrophe treaty, terms and conditions for 2020 were mostly similar to 2019, except for not renewing our cat bond. Instead, we added approximately $90 million of broader coverage through our property catastrophe treaty, plus up to $60 million of coverage on top of that for earthquake events. Rates for our casualty treaty were nearly flat. Rates were somewhat higher for our property treaties, but we expect the total amount of 2020 ceded premiums to be fairly similar to 2019.

I'll conclude with the value creation ratio, our primary measure of long-term financial performance that reflects an outstanding year. Improved operating results and favorable securities markets resulted in a fourth quarter 2019 VCR of 6.5% and a VCR of 30.5% for the year, which is well above our targeted annual average of 10% to 13%. The contribution from our operations, measured as net income before investment gains, was up 8.9% for the year, up 1.5 percentage points from a year ago.

While our equity portfolio benefited VCR this year, we understand the risk of short-term variability due to market effects. We continue to believe this potential for long-term appreciation and dividend income growth is important for creating value for shareholders over time. Our confidence is also reflected in the recent decision by our Board of Directors to reward shareholders with a 7.1% increase in the regular cash dividend declared last month.

Next, our Chief Financial Officer, Mike Sewell, will highlight some of the important aspects of our financial performance.

Michael James Sewell
CFO, Senior VP & Treasurer

Great. Thank you, Steve, and thanks to all of you for joining us today.

Investment income growth continued at 4% for both the fourth quarter and full year 2019, doubling the growth rate we experienced for the previous year. Dividends from our equity portfolio again drove the growth, up 10% during the fourth quarter of 2019 and 11% for the year. Interest income from our bond portfolio was essentially flat for the year. The pretax average yield was 4.12% for the fourth quarter 2019, down 9 basis points from 2018 fourth quarter.

We continue to invest in bonds, including $399 million in net purchases for the year. Taxable bonds purchased during 2019 had an average pretax yield of 4.31%, 17 basis points lower than we experienced a year ago. Tax-exempt bonds purchased averaged 3.31%, down 38 basis points from a year ago.

Investment portfolio valuation changes for the fourth quarter of 2019 were again favorable primarily for our stock portfolio. The overall net gain was $539 million before tax effects, including $541 million for our equity portfolio. We ended the quarter with net appreciated value of nearly $4.8 billion, including almost $4.2 billion in our equity portfolio.

Cash flow from operating activities continues to benefit investment income. Funds generated from net operating cash flows for the full year 2019 exceeded $1.2 billion.

Expense management is always important to us, while we continue to make strategic investments in our business. Our full year 2019 property casualty underwriting expense ratio remained within 0.1 percentage point of last year's ratio.

Loss reserves are another important area, and we intend to maintain a consistent approach as we target net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. We again experienced property casualty net favorable development on prior accident years in 2019 on both a fourth quarter and full year basis. 2019 marked our 31st consecutive year of net favorable reserve development. Full year 2019 favorable reserve development benefited our combined ratio by 4.7 percentage points, roughly a point better than the annual average during the past 5 years. Most of our major lines of business experienced favorable reserve development. On an all lines basis by accident year, it included 36% for accident year 2018, 24% for accident year 2017 and 40% for 2016 and prior accident years.

Regarding capital management, our approach in financial strength remains stable. We continue to have outstanding financial flexibility, including year-end holding company cash and marketable securities that rose 34% from a year ago. During the fourth quarter, we repurchased a total of nearly 554,000 shares at an average price per share of $111.94.

Steve noted good underwriting results for Cincinnati Global since we acquired it. Integration has gone well, and we remain confident in future prospects for its profitable growth.

I'll conclude my prepared remarks with the usual 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 $0.58. Life insurance operations added $0.06. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.46. Net investment gains and losses for the fixed income portfolio increased book value per share by $0.02. Net investment gains and losses for the equity portfolio increased book value by $2.62. And we declared $0.56

a share in dividends to shareholders. The net effect was a book value increase of $3.18 during the fourth quarter to a record high $60.55 per share.

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

Steven Justus Johnston
President, CEO & Director

Thanks, Mike. It was a good quarter, and 2019 overall was a great year. We see improving trends in several areas that give us confidence in the future for Cincinnati Financial.

Last week, A.M. Best recognized our capital strength and upward operating trends by affirming our A+ financial strength rating and raising our issuer credit rating to a little a from a little a-. At the same time, Best upgraded the financial strength rating of the Cincinnati Life insurance company to an A+ superior rating to match the rest of the Cincinnati companies. All ratings have a stable outlook.

We know our strategy works, and we'll continue to execute it as we target profitable growth, while providing great service to our appointed agencies. That should benefit all stakeholders of the company, creating shareholder value over time.

We appreciate this opportunity to respond to your questions and also look forward to meeting in person with many of you during the remainder of the year. As a reminder, with Mike and me today are Ken Stecher, Steve Spray, Marty Mullen, Marty Hollenbeck and Theresa Hoffer.
Catherine, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question. I believe the language in the earnings release was about commercial P&C pricing was low single digits, which didn't seem like a change from last quarter. It feels like, based on the surveys and some of your competitors who have released earnings, there seems to be some pricing momentum. Would you say that you just -- you don't need to take as much price given the results are good or maybe it has to do with your book being a little bit more multiyear-weighted? Any color there would be great.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes. Thanks, Mike. This is Steve Spray. It's a great question, one I believe certainly worth some further discussion. I'd tell you first, we've certainly witnessed the disruption that you mentioned: large rate increases; capacity contraction that you're hearing about in the industry. However, I think it's a little more complex than that, and I don't think you can simply paint the entire industry with a broad brush. I think it warrants peeling the layers back a little bit. And I think, from our perspective, the best way to do that is by line of business.

I think commercial auto is still probably the best example of entire line struggling to make money, and the struggle seems to be rather universal across the industry. But the point is, is even within commercial auto, we see segments under more pressure or under more stress than others. Large fleets with heavy gross vehicle weight trucks, long-haul transportation risks seem to be really under pressure, both from a rate and a capacity standpoint. I think in commercial property, it seems to be experiencing more disruption with the higher hazard risks, larger limit, industrial properties, habitational and anything coastal. Those will be just a few examples.

On the casualty front, it feels like it's in a similar position as property. High-hazard-casualty risks such as manufacturers with tough product exposures, residential contractors that are in states where maybe construction defect jurisdictions are a little tougher. Professional liability, even for us, on skilled nursing home facilities, really, really tough. I would say, on the casualty segment, though, the thing that we've seen probably -- where there's been the most dislocation or disruption is an umbrella in excess liability and quite frankly, on tougher risks that I mentioned before in the auto and on the casualty.

Now I think I make that point in saying about the industry from a broad brush standpoint. While we certainly have risks in those types of business, it's not what we do on a day-to-day basis. It's not the lion's share of our book. Our average commercial account size is $11,000 in annual premium, and the marketplace for these risks, from our perspective, is certainly different.

And the biggest thing, I think, to get to your question is I don't think that average rate increases tell the full story. They -- at least not for the strategy that we're trying to execute in Cincinnati. And I would say it all starts day-to-day work with our agents, our field underwriters, our field marketing reps who handle all new commercial lines business and then the headquarters underwriters who are working on renewals. We're taking a risk-by-risk approach, trying to balance the art and science of underwriting. We just don't believe that from our perspective, the rising tide raising all boats is a sustainable strategy. And we're confident, going forward, that we've got the data and the professional underwriters to execute on a segmentation strategy like we have been and get the appropriate risk -- or excuse me, the appropriate price on the appropriate risk on a risk-adjusted basis.

On the business that we feel is the most adequately priced, Mike, we are really focused on retaining that business. And then on the segments where we feel that maybe the pricing isn't quite as adequate or that our opportunity for a profit there, we are really pushing the rate. And we're seeing the rate increases on that segment really at a much higher level, obviously, than the business that we feel is most adequately priced. Or if we're pushing really hard in that business, sometimes, we're losing it.

So it's changing the mix of our entire book, and I think it's showing up in our results. Anytime you have good results, I don't think it's any -- it's ever any just one thing. But from my perspective, being with -- here for 28 years, the pricing sophistication that we've been executing on over the last several years is certainly having an impact. And I think that's -- commercial lines has just completed 8 years of underwriting profit, and I don't think it's by any accident. I think it's that pricing segmentation strategy that we're going to continue to execute.

So probably a bit of a long-winded answer, but I -- it's a big topic, and I -- we're executing well on it. I think it's worthwhile having a discussion.

Michael David Zaremski
Crédit Suisse AG, Research Division

That's helpful. And I guess a couple of things that might dovetail with those comments. So do you feel like the industry -- like pricing should be biased higher just given the interest rate headwinds in the industry is facing, like, you -- or maybe you kind of feel you don't need to have in your book?

And I guess separately, were there any -- some companies have said that loss cost inflation on the casualty is going to inch up a little bit quarter-over-quarter or year-over-year. Are you guys seeing any changes in your trends? Those are two separate questions.

Steven Justus Johnston
President, CEO & Director

This is Steve Johnston, Mike. Really good questions. I agree 100% with the answer Steve Spray just gave. In terms of the interest rates, we certainly do consider them. They're really just low. I mean they're bouncing around your 50 basis points or a little bit more from time to time. But wherever they are and where they settle, it's really low against historic norms. And we recognize that in -- that we do have to make an underwriting profit and a good one every year. Just as Steve mentioned, 8 years in a row now that we've put in underwriting profits.

I think in terms of the trends, I guess, my main point is, and it buttresses what Steve said, is we do have very sophisticated pricing models. And we look at them in the results on a policy-by-policy basis. We aggregate them up, everything that we're seeing from our pricing models, which show that we're more adequately priced today than we were a year ago. And those trends look such that we feel will be more adequately priced next year. Hence, the comment in my prepared remarks that we feel that our combined ratio, we can perform next year to either match or exceed where we are today.

In terms of the inflation, we've always measured inflation. We do that explicitly in our reserving models. I do think -- and I'd like to talk a little bit about the size of policy. As Steve mentioned, our average policy is about $11,000. For CSU, it's about $6,000. 93% of our commercial GL policies have occurrence limits of $1 million or less. 92% of our umbrella and excess policies have limits of $5 million or less. So we don't feel that insulates us from inflation or if you want to call it social inflation. However, we do believe the effects on those companies that write the smaller limits would be less. In actuarial circles, we kind of refer to that as the leveraged effect of inflation. And basically, if you would look at it to give a simple example, I'm picking a number out of here. I would say -- let's say 10% since it's a round number. I'm not suggesting we see 10% inflation, but just picking a number, and you have $1 million limits. If you had a claim last year that was over $910,000 and you'd had it again this year, that would hit the limit and would not be a 10% increase. It would be held down by the limit. And also it would go over the $1 million limit and compound the inflation in the next layer up. So that's the leveraged effect of inflation. And so we do think -- and we do not think that it would insulate us from what we're seeing in inflation. But we do think, for those of us that write lower limits due to this leveraged effect of inflation, it's going to have less of an impact on us.

We haven't seen any surprises. I mean we talked about that in our last call in terms of seeing, back in 2015, an uptick in inflation. We increased our reserves on the casualty side by 27% since then. The IBNR portion of that is up 50%. And that's against, over that period of time, about a 12% increase in earned premiums. On the commercial auto side, our reserves since 2015, up 44%. Our total reserves, IBNR component, up 140%, while the earned premiums have been up 26%.

So we're not being surprised by anything. We believe in our models. We think we understand the impact of inflation on us. And we really feel confident that our pricing is adequate and improving. And we throw in with that all the good work that's going on in just old-fashioned underwriting, loss control, claims. Everybody is chipping in. And that's why we feel confident in saying that we're going to give information that we think our combined ratio next year will be at least as good as it is this year. A little bit long-winded, but I think that's the essence of where a lot of the questions are coming now, Mike.

Operator

Your next question comes from the line of Amit Kumar from Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Maybe I'll follow up Mike's question in a different manner. So staying on the discussion on, I guess, the guidance and maybe let's start with commercial lines. I would have imagined, with all the discussion that's going on, your guidance probably would have gotten better than what you suggested. And maybe if you were to look at this in a different manner, what number are you sort of picking or thinking for loss cost inflation versus earned rate?

Steven Justus Johnston
President, CEO & Director

Well, we feel with our rate that it is above what we see in the loss cost inflation. We've talked about our commercial lines, our average rate being in the low single digits, so it's going to be a little bit less than that. And again, I think, to Steve's point, it has to do with segmentation. When we look at loss cost trends, it's not historic. When we look at loss cost trends, it's prospective. Rate making from an actuarial perspective is rate -- is prospective. So you always want to try to be projecting how much will loss cost increase into the prospective policy period. And that is impacted by the great segmentation that Steve and his people are doing as we move the book away from those policies with the less profit potential to those with the highest profit potential.

And so it's a matter of every company having a different mix, a different position, a different geography. Everything is different. And we can't look at our premium as -- our total commercial premium as if it's one policy, and it gets that rate increase. It's thousands of policies all being treated individually by local underwriters that can go out and put the decision at the intersection of the art and science of underwriting to see risks, to meet management teams. And we really feel confident, as our results would show, that we're doing a good job in that respect.

Amit Kumar
The Buckingham Research Group Incorporated

So as a follow-up to that question, when you look at the buckets of different policies, et cetera, or subsegments, if you will, many companies will talk about there is a bucket of business, which still needs rate and then there's a bucket, which is adequate, and other is obviously benefiting from the hardening. Can you sort of talk about -- even in a broader sense, are there buckets in your overall, which could definitely use more rate acceleration from here? And maybe what percent is sort of adequately priced here?

Steven Justus Johnston
President, CEO & Director

Sure. And it's not so much buckets. We do summarize to groupings, but it's looked at with each single policy. It's the technology. It's the skill that we have now. And we're not the only one in the industry in this position. But it's -- by a long shot, it's looking at each policy on its overall merits. And I do think we add -- in addition to the science that we bring to the table, which I think is substantial, we bring people on the ground, working from their homes, living in the communities with the agents that go out, see the risks, meet the management teams. And so we have worked the percentage of those that are, we believe, those with the most profit potential to be a substantial part of our book.

Amit Kumar
The Buckingham Research Group Incorporated

Okay. The other question I had was just staying on the topic of social inflation. And I was looking at the claim count data, and that's probably closed claim count data. Maybe you can talk about your own book. And if you look at it over the past, I don't know, 3, 6, 9, 12, 24 months, have you seen any pressure -- or noticeable pressure from social inflation in terms of attorney involvement, et cetera? I know you talked about how the small size of the book insulates it to a great extent, et cetera, and you're confident of the changes. But in your book, are you noticing trends where you're like, "Okay. That is interesting, and that is exactly what we thought it would be or maybe in pockets where it's coming in better than what you expected?"

Steven Justus Johnston
President, CEO & Director

We -- this is Steve Johnston again. We have seen trends over a period of years. There's nothing that just jumped up here in the last 6 months and surprised us. I think if we go back to 2015, we did see some movement there. We did -- you'd have to have a good memory, but we did, as I just gave the numbers, increase our reserves over the last few years, took some adverse development back then, feel that puts us in a very strong position. We just said back then that for somebody who wants to have 31 years of favorable development, you have to react to trends as soon as you see them. We saw them, we reacted and we feel good about our position. I think it's -- the answer would be it's just been more of a stable look at inflation over the last several years rather than something that we've seen jump up in the last 6 months.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's helpful. Last question. On the E&S segment, obviously, it's seeing good growth. And I was sort of wondering, when you look at the different businesses and the rates versus returns, how are you thinking about sort of capital allocation for 2020? Clearly, E&S is where a lot of rate movement is happening and submission activity is happening. I was just wondering, I mean, we've seen great growth in the past few quarters. Is that sustainable? Or are you saying, "Okay. You know what? This is where we want to be in our broader pie chart?" Maybe just talk about that.

Steven Justus Johnston
President, CEO & Director

Sure. This is Steve Johnston again, and maybe Steve Spray would want to chime in. But what we preach is that the next policy that we write, we want to be adequately priced on a risk-adjusted basis.

In the E&S space, under the leadership of Don Doyle, they've just been doing a fantastic job. I mean over the last -- they have increased rates in the mid-single-digit range for 113 straight quarters. I mean that's 9.5 years, every quarter. And so we're going to continue to allow them, on a policy-by-policy basis, to pick the risks that they think are best. We think that business model that we have, with our excess and surplus lines company, gives us a great advantage in work. So we're going to continue to ask them to do that policy by policy.

I sometimes love to demand, matching this year's growth rate or especially when it's that high because it might put pressure to accept risks that have less profit potential. So we just want them to be out in the agent's offices, which they do a tremendous job of doing, look at every policy on its merits, write the ones that we think that we can write at the very profitable levels that they've been doing over the years.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes. And this is -- yes, this is Steve. I'm sorry...

Steven Justus Johnston
President, CEO & Director

I'm sorry. Go ahead.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

No, this is Steve Spray. I would -- to the other part of your question, too, I just -- for 2020 anyway, we still feel the submission counts are up. We don't see any change in the marketplace that would think that we can't continue to grow the E&S business.

Steven Justus Johnston
President, CEO & Director

And Steve wrote me a note correcting that it's 113 months, not 113 quarters. I had the 9.5 years.

Operator

Your next question comes from the line of Meyer Shields with KBW.

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

Obviously, we're seeing tremendous success on the pricing sophistication. And I'm trying to get a handle on continued potential upside, so I'm going to frame the question this way. Is there any quantification or description of, let's say, the current profitability gap between the best and worst 10% of your book and what that looked like 3 years ago?

Steven Justus Johnston
President, CEO & Director

Yes. We have all that in detail. I don't think we're in a position to make a disclosure on it, but it has made a really substantial improvement over that period of time.

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

Okay. Fair enough. And then 2 really smaller questions. First, are you seeing any increase in workers' compensation severity? We're seeing medical costs fill up and maybe wages going up, and I'm wondering how that's running to the book.

Steven Justus Johnston
President, CEO & Director

We look at the loss costs pretty much in total. It has been a mix of increasing inflation. I don't know that I would say that it's picked up or spiked. It's been just a pretty steady inflationary increase. Our frequency, and again, I think it has to do with the segmentation and so forth, has still continued to be down. And over the last many years, it's down by a substantial amount.

So we look at the total loss cost trend, and that is one line where we feel we're losing some ground to that in terms of where we are with the rate, but we're losing it like much of the industry from a very profitable position. And you don't want to do anything rash that would run off good profitable business. We've got a real long-term focus.

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

Okay. Now that makes perfect sense. And then finally, I think you did a great job explaining the whole inflation leverage. But I'm wondering whether the social inflation phenomenon that we're hearing a lot about, is that more pronounced at accounts that have higher limits? In other words, is there a deep pocket phenomenon also?

Steven Justus Johnston
President, CEO & Director

I've wondered about that. It's not just by size of limit, but by geography as well. If you're going to have increased attorney involvement, they're going to, I would think, seek deep pockets. They would seek jurisdictions maybe where they think they might have a higher likelihood of success. But at this point, it's just kind of a thought experiment more than anything we're seeing in the data.

Operator

[Operator Instructions] So we'll take the next question from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I think my esteemed colleagues have already exhausted quite a lot of the questions that I had hoped to ask, but a couple of others to hit on. Any -- given the pricing trends and things that you're seeing, do you contemplate any changes in business appetite in either Cincinnati Re or Cincinnati Global? And maybe while you're at it, just a little bit of an update on how those businesses are performing and what your thoughts are there.

Steven Justus Johnston
President, CEO & Director

Yes. It's pretty much steady, go the course with both. They're just doing a great job. I mean from what you could see in the numbers there, the combined ratio for Cincinnati Re for the year, it came in at -- in the low 90s. The growth, 44%. I think they're doing it in a disciplined fashion. The submission flow for the fourth quarter was up 31% from where it was a year ago. And the hit ratio went down. It's actually accepting less than 20% of those that are submitted to them. And that's very consistent with what we wanted to do from the beginning, which was have an allocated capital model. We didn't set up a company and put capital in there such that they would feel compelled to grow maybe recklessly against that capital. We want them to just look at each of the contracts that they're faced with and make good decisions there. They've really staffed up with some very, very skilled underwriters, actuaries, technicians.

It's actually, without that being the plan, been quite steady over time. On an inception date -- inception-to-now basis, the property premiums have been about 33%; the casualty, 54%; the specialty, 13%. For this year, it was 32%, 51% and 17%. So very consistent with the way they've been operating. And so we're happy there, and we encourage them as markets change to look at opportunities.

The Cincinnati Global, couldn't be more happy with the way that, that started out. We know there'll be volatility therein in Cincinnati Re, but we hadn't done an acquisition for many, many years. And it's always better to start off on the right foot than in a loss position. They've had good growth. They've come in, in the low 80s with their combined ratio. One thing I can say there is as they file their business plan with Lloyd's, it's for good growth. They're going to add 2 new lines. One of them is going to be terrorism. The other one is going to be political risk. And so they've already hired seasoned underwriters to start to write those lines of business and take advantage of a -- what we think to be affirming -- and trade credit, I'm sorry. So there's terrorism, political risk and trade credit. So there's the higher experienced underwriters in those 2 areas. They're going to, I think, take advantage of a firming market over there at Lloyd's.

Mark Alan Dwelle
RBC Capital Markets, Research Division

That's helpful. I appreciate the update. And then the other question I had probably for Marty. Just with equity markets at kind of record levels and bond yields, I don't know, thrashing around in the 1s, anything you're doing differently from a portfolio management perspective just to balance exposures and so forth?

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

Nothing dramatic. What we do is look for opportunity in the yield curve where we see it. We might put a little more money short term, maybe try to wait out a little bit, try to get a surge in yields, that kind of thing, but not a lot. We're getting the dividend increases, which have been very healthy last couple of years, so that protects us a little bit. So nothing on the scale that would be particularly meaningful.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Anything on the equity side? You're harvesting any gains or otherwise repositioning there.

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

Not too much. No, we're kind of staying in the course there as well. Not seeing, as you might expect, as you alluded to, a whole lot of values out there, but there's pockets to be had out there. So we generally don't make big macro calls and really move portfolio around a whole lot. So fairly steady.

Operator

And with no further questions at this time, I'd like to turn the call back over to Mr. Steve Johnston for any closing remarks.

Steven Justus Johnston
President, CEO & Director

Thank you, Catherine, and thanks to everyone for joining us today. We look forward to speaking with you again on our first quarter 2020 call. Thank you very much, and have a great day.

Operator
Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation. You may now disconnect.