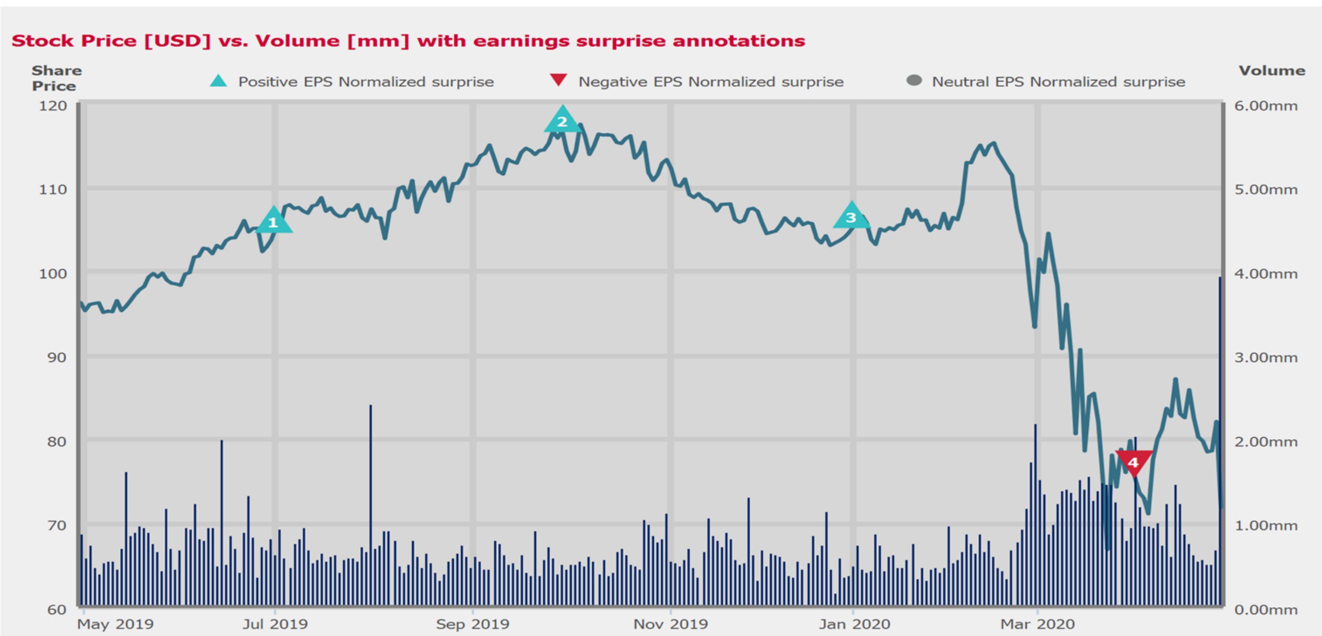
Cincinnati Financial Corporation NasdaqGS:CINF FQ1 2020 Earnings Call Transcripts

Tuesday, April 28, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.06	0.84	(20.75 %)	0.75	3.81	3.82
Revenue (mm)	1598.10	(99.00)	NM	1610.20	6440.43	6656.90

Currency: USD
Consensus as of Apr-28-2020 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.65	0.85	30.77 %
FQ3 2019	0.88	1.08	22.73 %
FQ4 2019	1.11	1.23	10.81 %
FQ1 2020	1.06	0.84	(20.75 %)

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Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

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

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Steven Justus Johnston
Chairman, President & CEO

ANALYSTS

Jon Paul Newsome
Piper Sandler & Co., Research Division

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Philip Michael Stefano
Deutsche Bank AG, Research Division

Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the First Quarter 2020 Earnings Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded. It is now my pleasure to hand the conference over to Mr. Dennis McDaniel, Investor Relations Officer for Cincinnati Financial.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello, this is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our first quarter 2020 earnings conference call. We know people everywhere face many challenges during this period of turbulence, and we sincerely hope that the things important to you improve over time. Late yesterday, we issued a news release on our results, along with our supplemental financial package, including our quarter 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 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 the call over to Steve.

Steven Justus Johnston
Chairman, President & CEO

Thank you, Dennis. Good morning, and thank you for joining us today to hear more about our first quarter results. As I reflect on the past quarter, I find myself feeling thankful. I applaud the efforts of our health care industry to stand on the front lines of the pandemic, working tirelessly to protect us all. I thank our associates for their dedication and creativity to keep our business moving forward. And I appreciate working with the best independent agents in the business. This pandemic has illuminated the leadership and professionalism they deliver to their clients, guiding them through much uncertainty.

I'm thankful to be a part of this noble industry. Spring storms didn't relent in the face of the pandemic, and we stood ready to respond, helping policyholders rebuild what was lost. I'm undeterred by the recent volatility we've experienced in the stock market, even though that volatility led to negative total revenues and a net loss for us in the first quarter. Since 2018, accounting rules require us to report the increase or decrease and the level of appreciated value of stocks we continue to hold in our portfolio through our income statement. Mike will provide additional thoughts on this rule change in his remarks.

The stock portfolio still has a nice net gain over its cost basis, even more than the quarter end total of $2.5 billion. The dividend yield to cost is 5.9% and the portfolio has strong potential to appreciate in value over the long term, reasons why we believe a significant portion of our investment portfolio and stocks is superior to a bond-only portfolio as we work to increase shareholder value over time. While weather-related catastrophe losses were roughly double, a typical first quarter, our operating performance otherwise was good, and we continue to profitably grow our insurance business and investment income. We remain confident in our agency-centered strategy and our investment approach as well as our abilities to execute on our plans.

Non-GAAP operating income decreased 20% or $35 million from last year's first quarter, reflecting a $41 million unfavorable effect from higher catastrophe losses. Our 98.5% combined -- property casualty combined ratio was 5.5 percentage points higher than a year ago. Elevated catastrophe losses represented 3 points of the increase. The current accident year loss-and-loss expense ratio before catastrophe loss effects improved by 2.1 percentage points. Overall reserve development on prior accident years was still favorable at a satisfactory level, but it was not as strong as the first quarter of last year, which was the second highest quarterly ratio in the past 16 quarters. The benefit of efforts to diversify risk by product line and geography, plus our ongoing segmentation of risks continue to benefit operating results. Our underwriters worked diligently to segment opportunities on a policy-by-policy basis, retaining more profitable accounts and improving pricing on less profitable business. That reinforces confidence to decline new business or renewals when we determine profit margins are unsatisfactory.

Outstanding independent insurance agents representing the company also help operating performance. They work with us to communicate the value of our superior claim service and industry-leading financial strength to their clients. They continue to produce more premium revenues for us as we earn a larger share of their business. Our consolidated property casualty net written premiums rose 10%, including renewal price increases generally at higher levels than in 2019 and growth in each insurance segment. We continue to believe our overall strong growth in new business written premiums is healthy. The pace of agents [indiscernible] for us to quote new business rose for the first quarter in total. However, in the past few weeks, we've seen the mission counts decline due to effects of the pandemic. For renewal business in our commercial line segment, first quarter 2020 estimated average price increases were near the high end of the low single-digit percent range, higher than in any quarter during 2019. Because many of our renewals are processed well in advance of the policy expiration date, it's too soon to assess pandemic effects on renewal premiums. The combined ratio for commercial lines rose 11.7 percentage points compared with first quarter a year ago as catastrophe losses tripled, while net written premiums grew 8%.

While the Nashville, Tennessee area has grown profitably over time for our agents and us, the recent tornado losses represented 3/4 of total commercial catastrophe losses in the first quarter or 7.4 points of the segment's combined ratio. Our personal lines segment also continued to experience rate increases, including homeowners average pricing that was higher than in 2019. The combined ratio for personal lines continued to improve with the first quarter 2020 combined ratio below 95%. Our excess and surplus line segment grew net written premiums by 20% and had a combined ratio below 90%. About 90% of our E&S premiums are for casualty risks, and we've been carefully luring defense and cost containment ratios for E&S and our standard market commercial casualty line of business. Each had a full year 2019 paid defense and cost containment ratio similar to 2018.

The first quarter 2020 ratio was a little lower than a year ago for our standard commercial casualty business. But for E&S casualty business, it rose by 0.5 point. So we prudently increased the E&S segment reserve for defense and cost containment expenses, resulting in its first quarter 2020 net unfavorable reserve development despite loss experience that was similar to a year ago. Cincinnati Re continued to perform well with the combined ratio below 90% and net written premium growth of 25%. Cincinnati Global also had another fine quarter, including a combined ratio just below 80%. Our life insurance subsidiary again grew earn premiums with term life insurance, up 4%. We impaired several bonds in this portfolio, mostly for the energy sector, resulting in a net loss, although income was 9% on an operating basis.

Finally, regarding future loss experience, effects of the COVID-19 pandemic for our insurance segments, we don't have enough information yet to determine meaningful trends for future loss experience other than seeing a reduction in personal auto reported claims as a result of reduced driving in March and early April.

Now our Chief Financial Officer, Mike Sewell, will comment on other important areas of our financial results.

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

Thank you, Steve, and thanks for all of you joining us today. Some reviewing our results may be startled by our net loss and negative total revenues. Reporting negative total revenues is quite unusual, but has been possible since 2018 when new accounting rules from the FASB required changes in the fair value of equity securities to be reported through the income statement resulting in unnecessary variability. The fair value of equity securities, we continue to hold at March 31 decreased during the first quarter by $1.6 billion before taxes. That offset revenues from premiums and investment income, which grew 9% and 5%, respectively, from a year ago.

On an after-tax basis, the equity portfolio decrease had a negative income effect of nearly $1.3 billion and offset all of the income generated by our operations. It's interesting to compare that -- to the first quarter of last year when a strong stock market boosted net income by $550 million and similar to last year's fourth quarter with a positive effect of $428 million. The volatility like this in revenues and net income does not seem to give a clear picture to investors trying to understand the business of operations of insurance. Changes in fair value of equity securities still held are better reported in other comprehensive income, consistent with fixed maturity securities, where it still affects book value and investors can see it more clearly. Hopefully, FASB will revisit this in the near future.

Turning to more customary topics. Investment income continued to grow, up 5% for the first quarter of 2020, including 15% growth for dividend income. Net purchases of stocks during the quarter totaled $125 million. Interest income from our bond portfolio rose 1% compared with the same quarter a year ago. The pretax average yield was 4.04%, down 11 basis points from the first quarter of last year. While we continue to invest in bonds, we reported first quarter net sales of $6 million as many bonds we purchased near the end of the quarter had not settled as of March 31. As we reported in our 10-Q, the average pretax yield for the total of purchased taxable and tax-exempt bonds was roughly 74 basis points lower than the same period in 2019, further pressuring interest income. Investment portfolio valuation changes for the first quarter of 2020 were unfavorable for both our bond and stock portfolios. The overall net decrease was just over $2 billion before tax effects, including $324 million for our bond portfolio. We ended the quarter with net appreciated value of nearly $2.8 billion, including $2.5 billion in our equity portfolio. Cash flow continued to help grow investment income. Cash flow from operating activities generated $167 million for the first 3 months of 2020, although it was down 17% from a year ago.

Balancing strategic investments in our business with expense containment initiatives continues to be a priority. The first quarter 2020 property casualty underwriting expense ratio was 0.9 percentage points higher than last year's first quarter. The majority of that increase was due to higher employee-related expenses and premium taxes, plus the full effect of Cincinnati Global. Regarding loss reserves, we aim for a consistent approach by targeting net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. During the first quarter of 2020, we experienced a satisfactory amount of property casualty net favorable development on prior accident years. Favorable reserve development for the quarter benefited our combined ratio by 2.4 percentage points. We consider new information such as paid losses and estimated ultimate losses by accident year and line of business every quarter. This quarter, most of the revised estimates were for the shorter tail lines in our personal lines segment. The first quarter of last year, longer tail lines in our commercial line segment experienced more revisions. As we obtain more data through the year, we'll update estimates as needed.

On an all lines basis by accident year, net reserve development included 91% for accident year 2019 and 9% for 2018 and prior accident years.

Next, I'll comment on capital management. We believe our financial strength remains excellent, and we have ample financial flexibility. Our debt to total capital remains relatively low. The fair value of our bond portfolio exceeded quarter end insurance reserves by 25%. While the equity market decline during March drove the 23% decrease since year-end in the parent company cash and marketable securities, the March 31 balance was more than $2.5 billion. Rating agencies rate our financial strength very high. Fitch Ratings recently reviewed our position, considering their beliefs about the impact of the pandemic on the insurance industry and Cincinnati Financial and affirmed their rating earlier this month. Repurchasing shares to help offset grants and incentive compensation continues to be one of our capital management objectives. And during the first quarter, we repurchased a total of 2.5 million shares at an average price per share of $102.62.

I'll end my prepared remarks in typical fashion, a summary of the first quarter contributions to book value per share. They represent the main drivers of our value creation ratio. Property Casualty underwriting increased book value by $0.12, life insurance operations added $0.08. Investment income, other than life insurance and reduced by noninsurance items decreased book value per share by $0.05. Net investment gains and losses for the fixed income portfolio decreased book value per share by $1.96. Net investment gains and losses for the equity portfolio decreased book value by $8.12. And we declared $0.60 per share in dividends to shareholders. The net effect was a book value decrease of $10.53 during the first quarter to $50.02 per share.

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

Steven Justus Johnston
Chairman, President & CEO

Thanks, Mike. There is another point about future loss experience uncertainty that I want to emphasize, and we've heard investors ask related questions on other calls. Virtually, all of our commercial property policies do not provide coverage for business interruption claims unless there is direct physical damage or loss to property. Because the virus does not produce direct physical damage or loss to property, no coverage exists for this peril, rendering an exclusion unnecessary. For this reason, most of our standard market commercial property policies in states where we actively write business do not contain a specific exclusion for COVID-19. While we will evaluate each claim based on the specific facts and circumstance involved, our commercial property policies do not provide coverage for business interruption claims unless there is direct physical damage or loss to property. Throughout our company's 70-year history, we've weathered many storms, and we have the technology, the risk management expertise and the financial strength to weather this one.
We have the best people in the industry. Together, we'll take care of our Cincinnati family, protecting the health of our associates, serving agents and policyholders and emerging as an organization with new strengths to carry us forward.
As a reminder, with Mike and me today are Steve Spray, Marty Mullen, Marty Hollenbeck, Theresa Hoffer and Ken Stecher. Please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Mike Zaremski with CrÃ©dit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question is going to be on business interruption. I guess the stock market investors kind of appear to be taking the language you offered us about your policies, most of them are not having a specific virus exclusion. I think everyone does appreciate that the policies need to be -- are triggered by property damage and COVID doesn't constitute property damage. But given -- if I'm correct in interpreting language that most of your policies don't have the virus exclusion, are your customers filing business disruption claims trying to kind of stating that the policies don't have the virus exclusion? Basically, do -- is there more risk of potential litigation because of that?

Steven Justus Johnston
Chairman, President & CEO

Mike, I think like every other insurance company, we expect that we're going to receive our fair share of COVID-19 claims. I think that's just natural, but we feel strong in our position with our coverage language.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Understood. Switching gears to the stock buyback. I might have missed it in the prepared remarks. Are you continuing to buy back stock in the second quarter? Or are you kind of taking a pause given the more uncertain business environment for all -- in the industry?

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

Yes. This is Mike Sewell. And we will likely not and we will not be buying the rest of the year. We've always said or I've always said, Steve has always said that we have a maintenance buyback philosophy. And so we've done that again so far this year. So even though it is a little higher that we bought back here in the first quarter, 2.5 million shares, when you look at it over time, we've been running at 1 million shares that is kind of really required. And I was looking back, the maintenance that we did this year actually got us back to the same level of shares that we were about 10 years ago. So we've achieved what we've done, and I probably do not see any other buybacks through the remainder of the year as part of our maintenance program.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Understood. And one last one, if I may, going back to business interruption. Given you stated that there are some claims coming through and you don't expect to pay them, though, I mean everyone in the -- your peers are also seeing those claims being attempted to be made. So should we at least expect some type of provision and -- later in the year to account for some types of adjustment costs or potential legal costs? Or are we just -- should we just kind of assume this is not a material event in the near term?

Steven Justus Johnston
Chairman, President & CEO

I think as -- we're still in the middle of this storm. And I think as more facts and circumstances come out here in the second quarter, third quarter, we will provide that information to the extent it's material.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And just maybe lastly, if you're able to answer this, is there a general rule of thumb in terms of what percentage of property policies have a business interruption endorsement, if you can answer that?

Steven Justus Johnston
Chairman, President & CEO

Yes, it's about half, Mike.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Mike, this is Steve Spray. And Steve's right, it's about half of our policies where the policyholder increases their limit, our standard property Form like many others, includes a sub limit automatically for business income of $25,000.

Operator

Our next question will come from the line of Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had a question on the property cat reinsurance treaty. What -- the $800 million tower, what perils are covered by that treaty?

Steven Justus Johnston
Chairman, President & CEO

Well, I would say that there's not a virus exclusion in there.

Ronald David Bobman
Capital Returns Management, LLC

I'm sorry, so I understand, so is -- it covers all perils?

Steven Justus Johnston
Chairman, President & CEO

It's generally a property-- it's a property catastrophe risk policy and they follow our fortunes, and we'd have a virus exclusion in there.

Ronald David Bobman
Capital Returns Management, LLC

And -- but now the one other sort of strange twist will be, if it ever becomes relevant, which I think it's low, mind you, but what are the implications of the hours clause on that treaty and whether the pandemic and losses from it would be considered a single event or multiple events or somewhere in between?

Steven Justus Johnston
Chairman, President & CEO

Yes, that would be determined. If we ever got to that point, the hours clause for us is 120 hours, but our expectation is that we wouldn't be in that position.

Ronald David Bobman
Capital Returns Management, LLC

Okay. And any thoughts or plans to modify policy wordings on the BI subject?

Steven Justus Johnston
Chairman, President & CEO

I don't think so at this point, but that's something, again, as second quarter, third quarter here evolve, we'll keep an eye on things, and we feel strong in our wording. We feel that an exclusion to those policies would just be belts and suspenders. And we feel that the policies do require physical damage or loss to the property.

Operator

Our next question will come from the line of Mark Dwelle with RBC.

Mark Alan Dwelle
RBC Capital Markets, Research Division

First, I wanted to follow up on the comments Steve Spray made just a minute or 2 ago about sublimits related to BI endorsements. Could you just go through that again?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Sure. Mark, this is Steve Spray. We -- our commercial standard property policies automatically include a sublimit in them of $25,000 of business income. And then obviously, like many other coverages, policyholders can elect to increase that limit based on their exposure. So it's not uncommon for property policies to include automatically a sublimit for business income across the industry. And ours just happens to be $25,000. But again, even for that $25,000, you still need to have the direct physical damage or loss in the insuring agreement to trigger coverage.

Mark Alan Dwelle
RBC Capital Markets, Research Division

So just to make sure I'm following the full flow of information. So you had said initially that around 50% of the typical policies have BI endorsement. And then, within those, the sublimit would start at $25,000 and then to the extent somebody bought it up, it would be to whatever level they chose to pay incremental premium to get to a higher limit?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

That's correct.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Got it. Okay. That's helpful. Changing gears a little bit. In the quarter, there was some continued reserve pressure related to commercial auto. There was also, for first time in a while, a little bit of -- second quarter in a row rather, some pressure in the E&S segment on reserving. Can you just comment a little bit what we're seeing there and how the reserves are faring?

Steven Justus Johnston
Chairman, President & CEO

Yes. We obviously feel good in our reserve position overall. It's -- we've developed favorably for 30 years now. And we look at each line as it stands on its own. We do our best to make our best estimate. We think with the commercial auto, given the way it's been over the past several years, given what we saw with some of the paid trends that it was appropriate to do what we did with the commercial auto. In terms of the E&S, again, we feel strong in terms of our best estimate there. We did take a look at what was going on with defense and cost containment. And we looked at that just across the casualty lines for the standard and the E&S. For the standard, we saw some favorable movements in paid losses. For the excess and surplus lines, we saw that go up by about 0.5%. And so we just felt appropriate to take the prudent action there, but we do feel good with the best estimate we've got in place.

Mark Alan Dwelle
RBC Capital Markets, Research Division

What do the rate increases look like in each of those segments, commercial auto and E&S in general?

Steven Justus Johnston
Chairman, President & CEO

Yes. For the commercial auto, we've been getting in the mid-single digits this past quarter. I think with the E&S, the way I would describe that has been more of the lower single digits over time, but we have increased that quarter after quarter, month after month for years now. It's just a nice, steady, keeping up, if not exceeding, inflationary trends and producing excellent combined ratios over long periods of time. It's just been a very steady approach there.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And then I know you spend a lot of time in the sales offices and with the field underwriting staff and whatnot. Can you just give us a sense of your customers and what they're doing? How they're changing policies? Your own just anecdotal impression of how many people or what proportion are struggling to pay and so forth? Just trying to kind of get a mosaic of what you're seeing on the ground amongst your small and mid-market customer base.

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

Yes, sure. It's kind of -- it's all over the board there, Mark, on -- and we're being extremely flexible, as you would expect, with our policyholders and that. So many of our liability policies are based on payroll and sales. We're working with our customers to reduce those exposures here midterm so that it will reduce their premium. They're contacting us with some concerns on being able to pay. We've instituted -- we're putting a moratorium on cancellations for nonpayment of premium up until May 31 or later if a state mandates it. The key here is we want to help our policyholders and our agents through this. And anything we can do to help that, we will. I would say it's probably still a little too early to understand or have a full picture on premium collections over the long pull. So far, things have been good.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Most of your underwriting is not really in areas that have been particularly hard hit by virus outbreak itself. I mean do you -- I mean -- how to best ask the question. But I mean are you seeing regional differences? Or is what you're seeing just generally kind of across the base?

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

You mean as far as the collections?

Mark Alan Dwelle
RBC Capital Markets, Research Division

Collections, pressure on wanting to change business or change policy terms and so forth. I guess what I'm trying to get at is if you're seeing any regional variation that is notable or exceptional?

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

Yes. I think this is pretty broad-based. We're not as -- on the commercial line side, which would be most impacted here, we are -- we were to the Northeast, which would be -- would certainly be more impacted by COVID. But I would say, as far as the collections and individuals wanting to put lay-up credits on their fleets or reduce their exposures on their liability for payroll and sales, I'd say that's pretty much across the board.

Operator

The next question will come from the line of Meyer Shields with KBW.

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

Great. Mike, I think in your comments, you mentioned that personal auto driving was down. And also, accordingly, so was claim frequency. Can you give us an update in terms of what you're seeing with commercial auto?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes. This is Steve Spray. I would say we are seeing a little reduced frequency in commercial auto, but it's still too early to tell on that. That's something that we'll probably have to report back to you at a later date, something we're watching closely. I do think that commercial auto and personal auto are kind of apples and oranges here because so many businesses are still up and running. I think everyone knows that almost 40% of our GL premium is in contractor classes.

Construction, knock on wood, so far, has been able to continue for the most part across the country. So those vehicles are still out operating. One of the other areas that we're helping our policyholders on is many restaurants or other retail businesses have moved to delivery to help their communities and we are extending their coverage. It's adding exposure to us, but it's something that we feel is the right thing to do. And so our exposures are going up on the hired, non-owned commercial auto from a delivery standpoint that we didn't anticipate at the beginning of the policy period.

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

Okay. No, that makes perfect sense. Can you give us your sort of long-term historical perspective on the influence of declining unemployment on workers' compensation frequency?

Steven Justus Johnston
Chairman, President & CEO

Yes. There's a couple of ways to look at that, Meyer, especially coming out of the financial crisis, there could be the thought that before somebody gets laid off, they get injured and that there could be an increase in frequency. They're offsetting that, there could be with employers as they determine which employees they keep. They tend to keep the more experienced ones that would be safer. I think also with the another consideration would be what we're seeing with unemployment insurance and some of the increases in the payments for unemployment insurance I think would have a mitigating effect there, too. So I think it's too early to really tell, but in terms of -- as you ask a long-term perspective, those would be some of the considerations that we would be looking at.

Operator

Our next question will come from the line of Phil Stefano with Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

I wanted to talk about premium volumes. And the way it feels like it's been messaged by some peers is that we'll get a short-term shock in written premiums and the second quarter, third quarter may have some pressures. But I was just hoping you could kind of talk about it from what you're seeing. I don't know to the extent that the distribution is a little more reliant upon face-to-face contact with agents to the extent that the shelter in place may go longer than some are expecting? How do you feel about the business trajectory? I mean, retention likely to go up, but new business likely to slow? Maybe qualitatively, you can just help us think about, directionally, what this might mean.

Steven Justus Johnston
Chairman, President & CEO

Yes. I think for the long term, Phil, our model is working extremely well. Steve Spray likes to say it's built for a situation like this. And I'll let him have a chance to comment. But I think we're just naturally going to see submissions go down as the economy is in the shape that it's in. What we are seeing though is we see -- as that pie shrinks, we seem to be getting a bigger piece of the pie. And I think as we come out of this, all the work that we're doing with our agency-facing model with the great relationships and our field people, every discipline, working in the communities with the agencies and so forth, I think will come out with that bigger piece of the pie as the pie grows. So I feel for the long pull, we're in good shape. I would invite Steve to add anything if you would like to.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

No, I think that's perfect. I spent 10 years in the field, Phil, and I do say that if any company is built for this, it's Cincinnati Insurance Company. Having a few agencies as we do, having that limited franchise, I think, helps us. We have fewer relationships to manage. We have deep relationships with each of them, our field strategy, taking the company out into the communities where our agents and policyholders are. 1,900 of our 5,200 associates work from their homes in the communities where our agents are, and they have since 1950. So it sets us up well there in the community, deep relationships, able to handle claims just like we literally are out handling storm claims as we sit here and speak today, just delivering on that promise. So I agree with Steve. I think that submission counts, although they have dipped, they've flattened in that dip, too. But our hit ratio has gone up a bit. And I think, like Steve said, I think our shot at a bigger piece of the pie, because of those deep relationships and being local with our agents, is key.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Understood. Look, to revisit the workers' compensation conversation just for a minute, I mean, it's a line that's clearly had pricing pressure. We've seen favorable development slow down. Just given some of the maybe regulatory changes that are happening with workers' compensation and the potential for increasing loss cost, does it feel like the COVID impact may be something that changes the trajectory of this line of business?

Steven Justus Johnston
Chairman, President & CEO

Yes. I think it would. And I think we're in a pretty good position here with workers' comp only being about 5% of our premiums. Our largest state here, Ohio, is a monopolistic state fund. We really don't have any California workers' comp to speak of. It's very small. And we've been disciplined, I feel, in terms of, as we've seen the pricing soften, we haven't done crazy things with commissions. We've done our best to -- as I mentioned in the opening comments, to really segment the book, make sure that we're getting rate on the ones that need it and that we're retaining the ones with the highest profit potential. And I do think that I would expect that there would be some firming given the points that you made as we go forward.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Got it. Okay. And the last one I'll ask, and I'm not quite sure how to ask it. So I apologize if this comes out awkward. But it feels like the messaging is, our primary policies do not have an explicit virus exclusion, but it is not something to worry about. It's not notable, but our reinsurance program doesn't have a virus exclusion, and that is something that's notable. Like I guess to the extent I wanted to play devil's advocate, it feels like there might be incongruity there. Can you help me understand that?

Steven Justus Johnston
Chairman, President & CEO

Yes. And I'm very glad that you brought it up, actually, because I think maybe I was zigging when somebody was zagging there. When I talk about our reinsurance program, I was talking about what we see to our reinsurers not what we would assume what we would see to our reinsurers. So it's basically that they are following the fortunes of us in terms of we are aligned with our policy provisions with the reinsurance that we see to.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. So one way or another, so goes the primary policy, so goes the reinsurance session?

Steven Justus Johnston
Chairman, President & CEO

Yes.

Operator

The next question will come from the line of Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I wanted to ask a little bit more about what might be happening with retention and sales. My sense from other conference calls is that at least in the last couple of weeks of March and may be in the April, agents, in general, are just not selling much and they're also not pulling business from other carriers as well. So I think there's a presumption that we'll see retentions go up and new sales go down. Is that kind of what you're seeing in margin here or not?

Steven Justus Johnston
Chairman, President & CEO

Paul, I think that's very astute. And I think it's still probably a bit early, but I think your take on it is what we're hearing in the marketplace as well. I can tell you, though, that we're still active trying to write new business, where maybe other carriers aren't able to maybe meet the needs of the agent or the policyholder or that we feel that we can write that risk on a risk-adjusted basis and make margin. But I think your general sense is right and it's something we're going to have to watch going forward, but that's kind of the feedback we're getting from the agents as well. It's just that the new business has slowed a bit, but retentions are real solid.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Outside of -- is there sort of an option and -- I'm curious if you're seeing or have any anticipation of increased liability claims in things like your liability? And do you know, et cetera, though I know you rate a very small -- I'm thinking lawsuits for nursing homes and hospitals and doctors and factories that they didn't protect their workers enough. Is there any sense that some of that may be happening? Or it's just too early?

Steven Justus Johnston
Chairman, President & CEO

I think it's too early. I think that we're just in unprecedented times here. And I think some of that will play out here over the next quarters. But from what we're seeing now, we're not really seeing that.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Paul, this is Steve Spray. I would just -- I would add to what Steve was talking about earlier on the workers' compensation being only 5% of our premiums. And on top of that is we don't have a large account number or a large policy number of municipalities or hospitals where we write the workers' compensation or the small book of skilled health care facilities that we do have, it would be rare that we would write the workers' compensation. So exposure to first responders to us, I think is going to be minimal as well.

Operator

[Operator Instructions] The next question will come from the line of Larry Greenberg with Janney Montgomery, South Carolina.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

We're not in South Carolina, but that's okay.

Steven Justus Johnston
Chairman, President & CEO

Where you are, Larry?

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Yes. So I think the statement on business interruption was that most of your standard market policies don't have the virus exclusion. I'm just curious where your policies would have a virus exclusion?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes. Larry, Steve Spray. That would typically be in states where we are inactive and where we have filed straight ISO. So where we don't have agents on the ground, we don't have associates there. So where we would write secondary coverages outside of our active states. So inactive states where we file straight ISO, we would have some virus exclusion.

Steven Justus Johnston
Chairman, President & CEO

And also on our excess and surplus lines company on CSU, they have that as well as the binders we write out of Lloyd's.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay. Great. And then just an accounting question. How you're going to treat the Stay-at-Home premium credits coming up, whether that's going to be a premium offset or will you account for it in the losses line?

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

Yes, this is Mike Sewell. It will be in the expense line as of right now. We understand there might be groups, the NAIC and others that might be looking at that issue, but as of right now, it will be an expense.

Operator

The next question will come from the line of Mike Zaremski with CrÃ©dit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Just a follow-up on reinsurance. Can you remind us to the extent, for some reason, some business interruption policies or just COVID-related claims were required to be paid out, how do we think about where the reinsurance program would start assisting in those payments?

Steven Justus Johnston
Chairman, President & CEO

Our program attaches at $100 million, which is why we feel confident that we won't get there, but it's nice to know if there would be some legislative action or something that's just unanticipated that we have the program and that we're in a follow-as-the-fortune situation.

Operator

With no further audio questions showing, I'll hand it back for closing remarks.

Dennis E. McDaniel
VP & Investor Relations Officer

Okay. Thank you very much, Nicole. And thanks to all of you for joining us today. We hope some of you will join us for our first ever virtual shareholder meeting on Saturday, May 2, at 9:30 a.m. Eastern. While we intend to resume in-person meetings in 2021, we felt moving the meeting online was the best way to keep shareholders and associates safe during the pandemic. Please visit www.cinfin.com for details on how to register for the meeting. If you can't make to meeting, we look forward to speaking with you again on our second quarter call. Thank you all very much, and have a great day.

Operator
This does conclude today's conference call. We thank you for your participation and ask that you please disconnect your line.