S&P Global
Market Intelligence

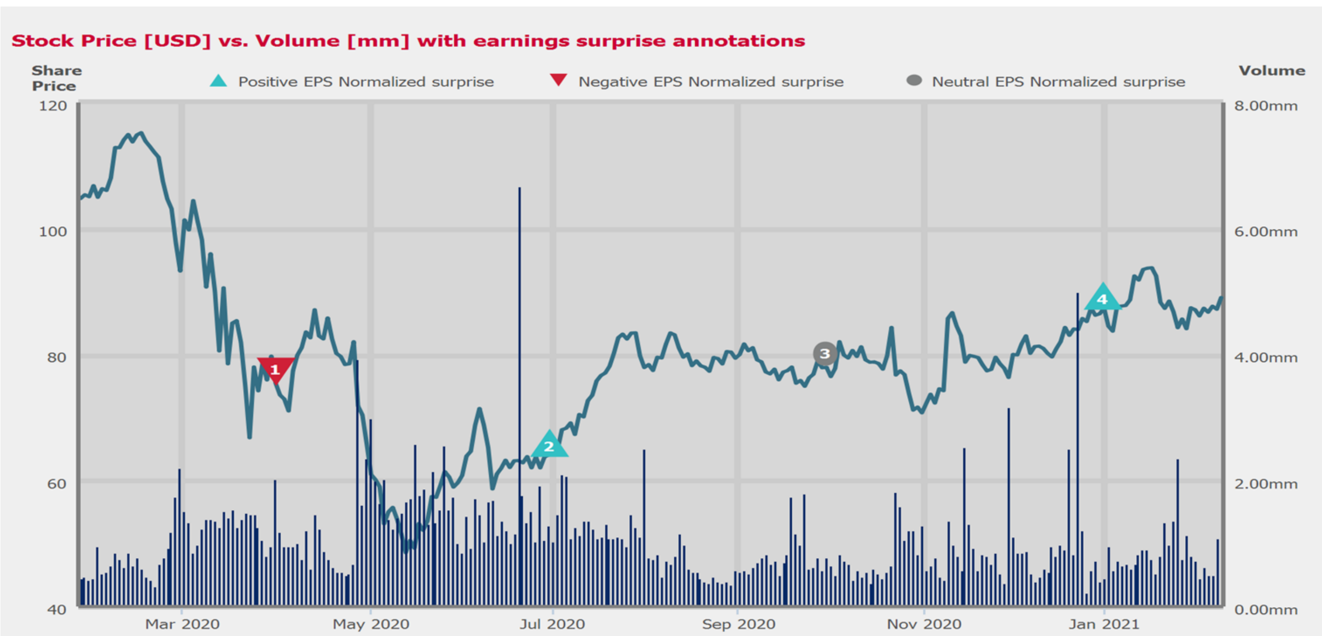
Cincinnati Financial Corporation NasdaqGS:CINF FQ4 2020 Earnings Call Transcripts

Thursday, February 11, 2021 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.20	1.61	34.17	1.06	2.87	3.28	14.29	3.88
Revenue (mm)	1631.30	2694.00	65.14	1668.23	6472.80	7536.00	16.43	6697.90

Currency: USD
Consensus as of Feb-01-2021 8:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	1.06	0.84	(20.75 %)
FQ2 2020	0.37	0.44	18.92 %
FQ3 2020	0.39	0.39	0.00 %
FQ4 2020	1.20	1.61	34.17 %

Table of Contents

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

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Philip Michael Stefano
Deutsche Bank AG, Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

SHAREHOLDERS

Unknown Shareholder

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Cincinnati Financial Corporation's Fourth Quarter and Full Year 2020 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 Dennis McDaniel, Investor Relations Officer. Thank you. Please go ahead, sir.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our 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 -- Chief Insurance Officer, Steve Spray; Chief Claims Officer, Marc Schambow; and Senior Vice President of Corporate Finance, Theresa Hoffer.

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, everyone, and thank you for joining us today.

Everyone knows that this past year was full of challenges. We work closely with the independent agents who represent us to react quickly to changing needs of their clients as the pandemic progressed and to keep business flowing. The communities we serve saw an unusually high level of catastrophe activity. While no one likes to witness the pain and destruction these events bring, it is when our field claims representatives shine, delivering support with empathy and warmth.

Our headquarter's associates remain focused on our key priorities, even though they've had to adapt to working at home, balancing family and business responsibilities in new ways. Despite those challenges, our associates and agents responded with determination and focus, helping us to produce the healthy financial performance we reported today.

Net income for the fourth quarter of 2020 rose 68% compared with the fourth quarter a year ago, including increases in the fair value of our equity security portfolio. Non-GAAP operating income increased 29% or $59 million for the quarter despite higher catastrophe losses, reducing it by $19 million more than last year on an after-tax basis.

Our 87.3% property casualty combined ratio was 4.3 percentage points better than a year ago, even with a catastrophe loss ratio that was 1.4 points worse. The current accident year loss and loss expense ratio before catastrophe loss effects continued to improve and was 3.9 percentage points better than last year. Some of that is due to improving -- improved underwriting and some of it is attributable to the pandemic, such as fewer auto accidents resulting from reduced driving.

We believe a major reason that our underwriting performance continues to improve over time is from the ongoing segmentation of our business, retaining more profitable accounts and getting better pricing on less profitable business, while walking away from opportunities when we judge profit margins to be too thin. At the same time, our financial results continue to benefit from efforts to diversify risks by product line and geography. We believe we can successfully balance prudent underwriting and business growth to maintain the 2020 combined ratio before catastrophe effects for a 2021 GAAP combined ratio in the low to mid-90% range. We also believe our 2021 property casualty growth rate can be 6% 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.

Turning to performance by operating unit. We work to earn new business by offering superior service, a focus on personal relationships and a commitment to helping agents attain success. Consolidated property casualty net written premiums rose 7% in the fourth quarter of 2020 and 6% for the year. We believe our premium growth in each of our insurance segments included underwriting and pricing discipline.

In 2020, we again managed our business to healthy levels of policy retention and with meaningful 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. The combined ratio for our commercial line segment was 0.4 percentage points higher compared with the fourth quarter a year ago due to an increase of 3.8 points for the catastrophe loss ratio that included 2.3 points for the Nashville bombing. Net written premiums grew 3% for the quarter despite the fact that the pandemic continued to cause adverse economic effects.

Our personal lines segment grew fourth quarter net written premiums by 5%. Our high net worth business continues to progress as planned and included $3 million in fourth quarter excess and surplus lines homeowners policies we began offering in early 2020. A combined ratio -- the combined ratio for personal lines was 18 percentage points better than the fourth quarter a year ago, including catastrophe losses that were 6.3 points better.

Our excess and surplus lines segment again performed well, producing an 83.2% fourth quarter combined ratio and growing fourth quarter and full year net written premiums by 15%.

Both Cincinnati Re and Cincinnati Global experienced strong growth in 2020, in excess of 25% on a full year basis. Conditions in markets where they operate improved during the year, and both businesses are well positioned for targeted profitable growth in 2021. While catastrophe and pandemic losses took a toll on both of those businesses, Cincinnati Re had an underwriting profit for the year. Cincinnati Global experienced an underwriting loss in 2020. But looking back since our acquisition, it's only about $3 million shy of an underwriting profit and is profitable if you consider its investment income.

Our life insurance subsidiary continued its strong performance, with fourth quarter net income up 67% last year -- from last year, and non-GAAP operating income up 30%. Term life insurance earned premiums grew by 6%.

Fourth quarter was again active regarding developments in the litigation landscape of pandemic-related business interruption claims. We continue to vigorously defend the lawsuits filed against the company that seek coverage for economic losses caused by the pandemic. Recent courts have granted several of our motions to dismiss based on lack of physical loss or damage to property, and plaintiffs have voluntarily dismissed others.

In Ohio, a federal court in the Northern District recently granted our request to certify a question to the Ohio Supreme Court. If accepted, the state Supreme Court will have an opportunity to settle the question under Ohio law of whether the presence of the coronavirus constitutes direct physical loss or damage to property, and thereby, answer the basic question underlying the majority of business interruption claims.

In those cases that have produced -- that have preceded past initial motions, including North State Deli case in North Carolina that is working its way through the appellate process, we continue to believe that business interruption coverage under our policy does not apply. We feel that courts ultimately should decide that economic loss alone without physical alteration of property does not constitute the direct physical loss or damage to property that is required to trigger coverage under a commercial property policy of insurance. We are confident in our legal strategy given our understanding of the law and decisions made in the majority of other BI court cases throughout the country to date. To the extent we have setbacks, we'll continue to pursue the judicial process.

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 2021 are fairly similar to 2020, except that they now exclude -- now include exclusions for communicable diseases such as viruses and cyber losses. Keep in mind that parts of these treaties include terms and conditions that cover multiple years. As a result, $114 million of coverage in effect for 2021 does not exclude communicable diseases or cyber losses.

Rates for our casualty treaty rose in the mid-single-digit percent range, rates rose in the high single-digit percent range for our property treaties, and we expect 2021 seeded premiums for these casualty and property treaties to total -- in total to be approximately $103 million.

I'll conclude my prepared remarks for now with the value creation ratio, our primary measure of long-term financial performance. Our VCR was 11.7% for the fourth quarter of 2020, including 9.1 percentage points contributed by improved valuation of our investment portfolio. That brought our full year VCR to 14.7%.

Now our Chief Financial Officer, Mike Sewell, will highlight other areas of financial results.

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

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

The fourth quarter of 2020 included very good investment performance. Investment income grew 2%, and full year 2020 growth at 4% matched 2019. Dividend income rose 7% for the fourth quarter. Net purchases for the equity portfolio during 2020 totaled $184 million. Interest income for our bond portfolio grew 2% on both a fourth quarter and full year basis. The pretax average yield was 4.11% for the fourth quarter, 1 basis point below the same period a year ago. The average pretax yield for purchase bonds during full year 2020 was 3.97% compared with 4.14% the prior year. We continue to invest in the fixed maturity portfolio with net purchases during the year totaling $291 million. Investment portfolio valuation changes for the fourth quarter of 2020 were again favorable for both our bond and stock portfolios. The overall net gain was just over $1.1 billion before tax effects, including $975 million for our equity portfolio and $149 million for our bond portfolio. We ended the quarter with total investment portfolio of net appreciated value of nearly $6 billion, including almost $5 billion in our equity portfolio.

Strong cash flow again fueled investment income. Cash flow from operating activities for the year 2020 generated nearly $1.5 billion, up 23% from a year ago.

As always, we work at expense management while also making strategic business investments. Our full year 2020 property casualty underwriting expense ratio was 0.3 percentage points lower than last year.

During the fourth quarter and much of the year, the pandemic caused lower spending for several items such as business travel. As governmental restrictions ease, we continue to expect some of those expenses will return to levels fairly similar to 2019 as a ratio of earned premiums. Also, if future catastrophe losses are at levels closer to our historical average, agency profit-sharing ratios should return to a more usual level.

Next, I'll comment on reserves for losses and loss expenses. First, our approach aims for net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. During the fourth quarter of 2020, we recorded a satisfactory 2.8 ratio points for property casualty net favorable development on prior accident years. We now have 32 consecutive years of net favorable reserve development.

Full year 2020 favorable reserve development benefited our combined ratio by 2.3 percentage points, about 1 point lower than the annual average during the past 3 years, but nearly matching the 2.5% ratio for 2017. On an all lines basis by accident year, net favorable reserve development for 2020 included $81 million for 2019, $56 million for 2018, $8 million for 2017. In aggregate, accident years prior to 2017 were unfavorable by $14 million.

Each quarter, we consider new information and estimate ultimate losses and loss expenses by accident year and line of business. As we obtain and study new data during the year, we update estimates as needed. While we've accrued no material amounts for pandemic-related losses from policies written by Cincinnati Insurance, we added $8 million during the fourth quarter to the reserve for legal expenses in defense of business interruption claims. We reviewed the original assumptions and made adjustments to reflect our experience, including an extended motion practice to respond to amended complaints and generally favorable litigation trends and decisions issued across the country in cases filed against the company and other insurance companies. We also added $3 million to loss reserves for Cincinnati Re and $2 million for Cincinnati Global. As previously disclosed, both have some exposure to affirmative coverage for pandemic-related business interruption. None of Cincinnati Global's policies have language that applies to the U.K. Supreme Court ruling in January on the FCA's business interruption insurance test case.

Capital management continues to be an important matter to management and shareholders. The events of 2020 tested our financial strength and financial flexibility. We believe both remain strong as we enter 2021, and last year demonstrated the critical nature of our strong capital.

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 $0.92. Life insurance operations increased book value by $0.08. Investment income other than life insurance and reduced by noninsurance items added $0.56. Net investment gains and losses for the fixed income portfolio increased book value per share by $0.72. Net investment gains and losses on the equity portfolio increased book value by $4.79, and we declared $0.60 per share in dividends to shareholders. The net effect was a book value increase of $6.47 per share during the fourth quarter to a record high $67.04 per share.

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

Steven Justus Johnston
Chairman, President & CEO

Thank you, Mike. 2020 gave us ample opportunity to demonstrate our ingenuity and our flexibility. It's been a year we won't soon forget, and it's been a year that illustrated the strength of our company, giving me great confidence in the future of Cincinnati Financial.
As a reminder, with Mike and me today are Steve Spray, Marc Schambow, Marty Hollenbeck and Theresa Hoffer. Erica, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Phil Stefano with Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Congrats on the quarter. Sorry if I missed this in the prepared remarks. The 90 basis point of pandemic of losses and expenses in the quarter, could you just provide some details on the actual geography or what comprised of those reserves?

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

Yes. So related to the pandemic for the fourth quarter, so we reported in total, it's going to be $13.4 million, which is 0.9 points on the estimated combined ratio. So related to that, so $8 million was related to legal expenses to defend ourselves on the CIC policies that do not cover there. And then there was 3 -- just a little over $3 million for Cincinnati Re and then a little over $2 million for CGU, and those are the ones that have the affirmative coverage. So when you add all that up, the $8 million, $3 million, $2 million, it's about $13 million. So it's about 0.9 on the combined ratio.

If you want, on a year-to-date basis, in total now for the legal defense, that was $30 million that we had reported. And then for Cinci Re, it was $19 million. For CGU, it was just under $12 million.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Got it. And look, understood, these are small numbers, but how are you thinking about the ongoing nature of the pandemic versus the affirmative coverage that you have from Cinci Re and Cinci Global and the potential for any COVID charges to continue into next year?

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

Yes. No. That's a great question. And we watch this every quarter. Every quarter, as we close the books, we've got to nail the reserves the best we can. So we do go through a process, a lot of folks that are involved in estimating. And so in this case, there's really 3 camps. You've got the Cincinnati Global, the Cincinnati Re folks, and then you've got the CIC primary business side, which is primarily the claims side of the house, along with legal counsel, as they look at the number of claims that have been filed, the number of claims that are coming off, are we doing -- settling them quicker. There's just multiple factors that go into those estimates, and those estimates are redone each quarter.

Of course, when you take a look at the Cincinnati Re side, the Cincinnati Global side, they're looking at the policies that they've written that have the affirmative coverage. They know which ones they have. And so they're monitoring those throughout the quarter and then looking at, I'll say, case basis reserves on those and making their best pick. So we are coming and reporting to the ultimate that we believe at the end of each quarter. So that's a great question. Hopefully, I answered the question.

Philip Michael Stefano
Deutsche Bank AG, Research Division

No, no. That's good. And just one more, and I'll re-queue. Switching gears and thinking about new business. I saw in the earnings release, there was commentary, new business premiums were down. And in some ways, it reflected increased competition with fewer policies at adequate pricing levels. At the same time, it feels like we're in this firming or firm or hard market, however you want to put the terminology around it. But your renewal pricing is up mid-single digits. How do we reconcile this firming market that we're in versus the adequate pricing levels maybe not being where they need to be in some lines?

Stephen Michael Spray

Senior VP, Chief Insurance Officer & Director

Phil, Steve Spray here. I would answer that with the fact that just we're in -- our industry is in such a dynamic environment. And some of the classes of business or segments that you see that hit the headlines as far as the highest -- the firming market or hardening market would be maybe in larger D&O policies, larger excess casualty policies, commercial property that would be catastrophe-exposed or cat-exposed coastal, those are certainly hardening. And it just varies across industry segment and class. When you get into more, I'll call it, Main Street business, we're looking at every single risk on a case-by-case basis. We're trying to determine an adequate price for that business. And I'd say our field underwriters, our agents are working through each of those accounts, again, risk by risk and just doing a great job. We've continued to see the metrics of our pricing on new business, and renewals improve throughout the year. So I think that's part of it.

Another part of it that I would say that we've gotten a lot of feedback from agencies and talked to enough of them that one of the phenomenons in the pandemic was just that fewer policyholders were going to market with their insurance. And it typically was around -- let's say, there was no pain with the incumbent carrier. They weren't getting a large rate increase. They didn't have prior loss ratio problems or challenges. And so they might just be sitting tight for the year. They've got other things to concern themselves with. So again, it really gets back to adequate pricing.

Operator

Your next question is from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Maybe you can kind of talk to -- excellent underlying margins again this quarter. Curious if you guys -- if you and your colleagues are recognizing what we've been seeing is -- and hearing is kind of a more benign frequency trend in 2020, especially -- obviously, we can see in personal lines, but speaking more to the commercial lines. Kind of curious if you've been reflecting some of that frequency benefit within the numbers.

Steven Justus Johnston
Chairman, President & CEO

Yes, Mike. This is Steve Johnston. And we have seen improving trends. And I think a part of it comes from the ongoing effort that we've been doing and -- that Steve described in terms of our discipline in pricing and underwriting, what we're doing with the segmentation of risks and using all the tools that we bring to the market, including our claims service and everything that all of our field representatives do. And so we've seen ongoing improvement over time pre-COVID in terms of our results.

No doubt, COVID and its impact on the economy have had some benefits. And it's just hard to bifurcate between the 2 how much you apply to one and how much that you apply to the other. I think the key point is that we're well positioned as we go forward with our field force, with all the expertise that we have as we look forward to appropriately pricing and writing risks in the future.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. I understand it's complicated, and there's a lot of moving parts. Maybe ask a different way, maybe you can give us some color on kind of what loss trend you're assuming on the more recent accident years. Is that -- is it kind of a low single-digit loss trend you're sticking with? And maybe that could give us more color.

Steven Justus Johnston
Chairman, President & CEO

I think the key point with the loss trend is that ratemaking perspective. And so when we talk about a loss trend, we're always talking about, well, what's our estimate of the trend that's going to be applicable prospectively in this prospective rating policy period. So we'll be making rates for policies that will be in effect in 2021 and beyond.

And so when we think about trends, we think about with everything that would affect loss costs, including what we're doing with loss control, underwriting, the segmentation of our book. And so that's the way we look at loss cost trends, not necessarily just this past year, over the previous year, something historic. In that -- in regard to that, we do feel that the rates that we are promulgating are in excess of the loss cost trends that we're estimating.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Great. And one last question, and I'll probably get back in the queue. You -- thanks for bringing up the Ohio Supreme Court to certify to request, an answer to a key question. Is that -- if you can remind us, was that accepted by the court? And is there a time line or time frame we should think about?

Steven Justus Johnston
Chairman, President & CEO

No. That is still open to the court. They have not decided one way or the other on that yet.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. So they haven't decided to see the question, just to be clear, or they -- or...

Steven Justus Johnston
Chairman, President & CEO

It's an -- that's correct. It's -- they haven't decided one way or the other whether they will see the question. It's still in process.

Operator

[Operator Instructions] Our next question is from Meyer Shields with KBW.

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

One really quick one on BI, if I can. Can you disclose how much protection remains on your 2020 catastrophe reinsurance?

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

I'm trying to think if we used any on the ratio. It would have been just a little bit if we did. Maybe like in the $2 million, $3 million of the layer.

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

Okay. So that's fantastic. Bigger-picture question, Steve, how much credibility are your actuaries using for loss experience in 2020, given how unusual the year was?

Steven Justus Johnston
Chairman, President & CEO

Yes. And that's the balance between -- I'm somebody that don't need to be told this, you're very knowledgeable, but it's just the balance that they're using between responsiveness and stability to the trends. They're looking at it really in detail. It's not like one answer across the company as they do rate work and so forth that's going on by state, by coverage, by line, by year. And I think they're doing a good job of prudently reflecting responsiveness and stability. It's a season that's experienced and talented group of actuaries. And I think again to that key point of where we'll be prospectively rate adequacy wise, I think we're going to be in good position.

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

Okay. Fantastic. And then I know you've talked in the past about your comfort with the language in, I guess, the CIC policies. Are there any policy language changes planned for, I guess, excess and surplus or CGU or on reinsurance to exclude communicable diseases?

Steven Justus Johnston

Chairman, President & CEO

I would say on our Cincinnati Re, they have -- as they've renewed policies that we reinsure, there have been some changes there, be the one that comes to mind.

Operator

Your next question is from Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Wondering if you could first talk on the 6% premium growth expectation you're talking about. Can you just kind of flush that in, in terms of the areas that you might find most attractive on that? Is it going to be kind of similar to Q4 where you had the specialty reinsurance and E&S kind of driving that? Or how are you looking at that kind of more by segment?

Steven Justus Johnston
Chairman, President & CEO

That's an overall number. I do think it's consistent with a continuation of what we've seen. Obviously, we're out there competing every day in the market. And as the market ebbs and flows and changes, it may change as we go out through the year. But it reflects more of, I think, what you've seen with an emphasis towards those that are maybe growing a little bit slower to grow a little bit faster.

I think personal lines, in particular, is trended pretty nicely here over the last quarter. Of course, excess and surplus lines has been double digits. So yes, I think it's going to be not inconsistent with what we've seen.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. And then along those lines, on personal lines, and you mentioned in the press release, too, the significant growth that you've seen in the high net worth business, which was up 25%. And just wondering if you can talk about sort of the long-term opportunities there. And it does seem like it's becoming a little bit of a more competitive environment there, but just your plans on -- you've come a long way with that, but your plans on scaling that up over kind of the next 3 to 5 years, just geography or distribution or just any other thoughts on that.

Steven Justus Johnston
Chairman, President & CEO

Sure, Scott. Yes, we're extremely pleased with what we're doing, not just in high net worth. But I think a key point here is we -- our strategy has always been an agency strategy. So I think we've got ourselves in a really good position with our agents. Historically, we were predominantly a middle market personal lines company. It's about $1 billion of our $1.5 billion. And over the last 7 years through expertise, product, service, you name it, we've grown that high net worth to where it's $500 million plus today. And I think we are in a really good position. Sophisticated pricing tools that we have, the expertise that we've brought on board that we can -- as we've always wanted to be, just to be the most important partner for our agents across the entire personal lines segment.

But as far as expanding territories for high net worth, we've pretty much done that over the last 5 years. We've gotten into the territories where that business is -- predominantly resides. And I think we've got ourselves in a good position with our agents. They've shown a lot of confidence in us. Obviously, with the growth, we've -- I think we've responded as we would expect with claims and our coverage forms and such. So just really feel good about the direction we're going with personal lines in general, both on pricing -- excuse me, on profitability and growth.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful detail. And then just the last one was on the reserve releases. It kind of returned to sort of the run rate you saw in the first half of the year during the fourth quarter. And I wonder if you get a little more detail on 2 specific areas. The first is the commercial casualty, which saw about 6 points of releases. And then you had a modest reserve addition in homeowners of 3 points. Just wondering if you could provide a little more detail on both those areas.

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

LYes. This is Mike. And thanks for the question. So yes, you're right. So overall, for the year, 2.3 points, overall, that was a little bit on the -- probably, I'll say, the lower side. We've been running, I'll say, 3 to 5 points in any given year. But the 2.3 points just overall is very similar to 2017 and actually 2014. And so last year was probably a little bit on the higher end of the range. This year, a little bit on the lower end. .

Thinking about it on a year-to-date basis where we added reserves, it was unfavorable, was commercial auto. That was up $17 million. That was mainly due to some large losses in 2016. So the incurreds were coming in a little bit higher. So we adjusted the ultimate looking back at that year.

As it relates to -- we also added a little bit on Cinci Re and also on the surplus. So on the surplus on the E&S, that was 2016 and prior, primarily that was coming in. Cinci Re, that was a little bit more of a current accident year.

Related to commercial casualty, workers' comp, that was actually -- we were just seeing favorable development across several years. And so when you take a look at that on a year-to-date basis, I'm going to say it was kind of evenly spread between accident year '19, '18, '17 and so forth. So just not one specific item that made that jump up with that favorable development, but over the various accident years.

So as I said in my prepared comments, we follow a consistent approach, and we've got some of the great same professionals that are coming up with the ultimate reserve pick. So we'll follow their guidance. Great question. Thank you.

Operator

Your final question is from [Fred Nelson], a private investor.

Unknown Shareholder

A couple of questions. Forward-thinking, income taxes with the new administration, any possibility? Any thought? Are you working on that? The other thing that concerns me, insuring automobiles here in California, I pay $0.50 a gallon tax to the state for the road repairs, and I think the Feds were $0.17. My neighbor bought electric car and is bragging that he doesn't have to pay any of that. Any thought on how that's going to be done? And is it going to affect the auto policies at all?

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

[Fred], this is Mike. I'll take the first question, and then we'll let the second question -- someone else pick that up. So yes, you're right. With the new administration, there was a lot of talk before the election of which direction it would go in. When you look at Capitol Hill and who's running what, we would suspect that there probably will be, at some point, tax changes that will be coming. We've heard things of 25%, 28%. What will it be? When will it be? We are looking at that, modeling it out and so forth. But over the years, tax rates have changed, and we've changed with it. So we'll go with what comes at us and work to win.

Steven Justus Johnston
Chairman, President & CEO

I think on the cars, Fred, we'll just continue to look closely at those trends in terms of the -- how the driving goes in California and in other states and how government policy interacts with that and be in a position to reflect it. Good question. Good question.

Unknown Shareholder

No. I appreciate that. There's a lot of changes coming in. I appreciate. I just want to say thank you, Jim Miller, too.

Steven Justus Johnston
Chairman, President & CEO

Yes. Thank you, Jim Miller. For those of you who don't know, he was our Chief Investment Officer and just passed away here in the last couple of weeks. And he'll be greatly missed by his family, the community and the company. Thank you for mentioning that, [Fred].

Unknown Shareholder

Appreciate you, too. Guys, I've been a shareholder since 1992 when the book value was below $28. It's hard to believe.

Steven Justus Johnston
Chairman, President & CEO

We appreciate your enthusiasm for our company, [Fred].

Operator

And there are no further questions in queue at this time. Management, your closing remarks, please.

Steven Justus Johnston
Chairman, President & CEO

Thank you, Erica, and thanks to all of you for joining us today. We look forward to speaking with you again on our first quarter 2021 call. Thank you, and have a great day.

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