S&P Capital IQ

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Cincinnati Financial Corporation NasdaqGS:CINF

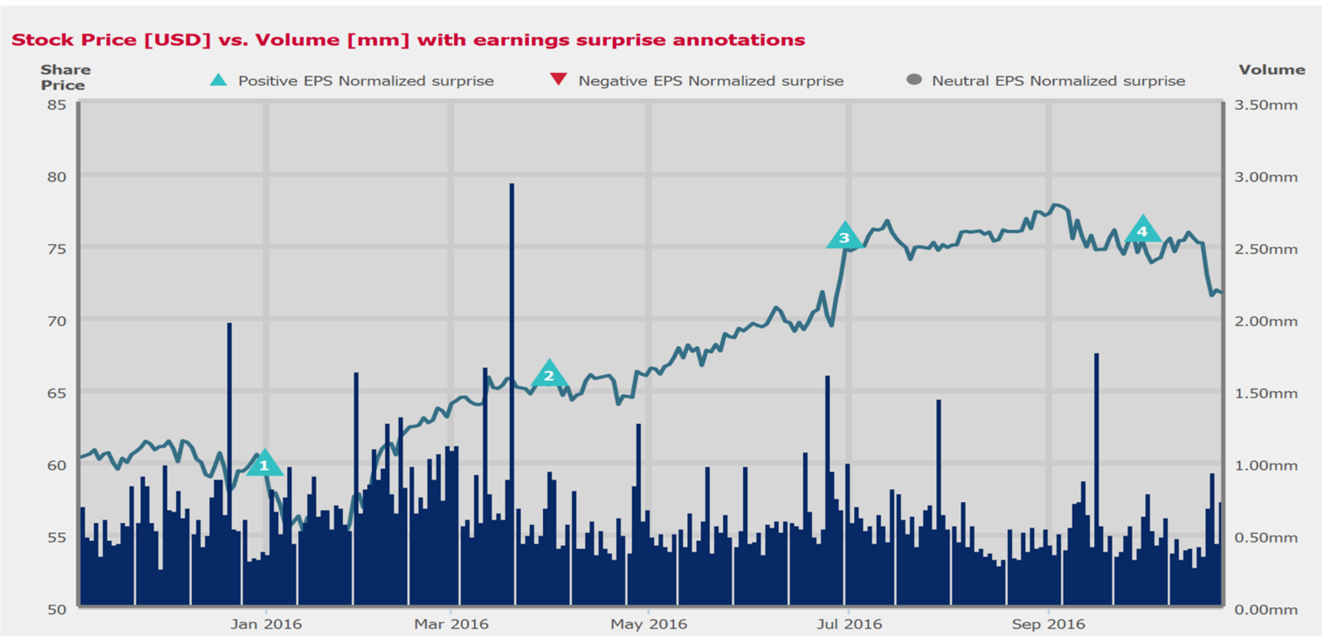
FQ4 2016 Earnings Call Transcripts

Thursday, February 09, 2017 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.65	0.75	▲15.38	0.74	2.97	3.07
Revenue (mm)	1348.50	1312.00	▼(2.71 %)	1374.80	5450.50	5449.00

Currency: USD
Consensus as of Feb-09-2017 10:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2015	0.87	1.10	▲1 26.44 %
FQ1 2016	0.72	0.89	▲2 23.61 %
FQ2 2016	0.39	0.57	▲3 46.15 %
FQ3 2016	0.78	0.86	▲4 10.26 %

Call Participants

EXECUTIVES

Dennis E. McDaniel
Vice President and Investor Relations Officer

Jacob Scherer

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

ANALYSTS

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Craig Nelson
D.A. Davidson & Co., Asset Management Arm

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good morning. My name is Amy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cincinnati Financial Fourth Quarter 2016 Earnings Conference Call. [Operator Instructions]

I would now like to turn the call over to Mr. Dennis McDaniel, Investor Relations Officer. You may begin.

Dennis E. McDaniel
Vice President and Investor Relations Officer

Hello. This is Dennis McDaniel from Cincinnati Financial. Thank you for joining us for our fourth quarter 2016 earnings conference call. 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 Cincinnati Financial Director, Jack Schiff, Jr.; Chief Insurance Officer for Cincinnati Insurance, J.F. Scherer; Chief Investment Officer, Marty Hollenbeck; Chief Claims Officer for Cincinnati Insurance, Marty Mullen; and Senior Vice President, Theresa Hoffer.

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

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

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Thank you, Dennis. Good morning, everyone, and thank you for joining us today to hear more about our fourth quarter and full year 2016 results. While our 96.2% fourth quarter combined ratio was higher than we like, weather effects are inherently variable, and we are comfortable with taking a more prudent position on loss reserves for various parts of our business. We find it satisfying that the full year 2016 combined ratio before catastrophe losses improved compared to 2015 while we steadily improved our premium growth.

On a calendar year basis, our 2016 combined ratio before catastrophe losses improved by 0.1 percentage points to 87.3%. On a current accident year basis, our 2016 combined ratio before catastrophe losses improved by 0.5 percentage points to 90.8%. We believe we can successfully balance prudent underwriting and business growth to maintain our 2017 combined ratio in the low to mid-90% range, and maintain or slightly improve on the 2016 result before catastrophe effects. We also believe our 2017 property casualty premium growth rate can be within 1 percentage point of 2016.

Our full year 2016 catastrophe loss ratio was 1.6 percentage points above the average of the previous 10 years. We recognize that weather, the significant changes in industry market conditions that influence insurance policy pricing trends are some variables that will affect the property casualty results we ultimately report.

While our reserve development on catastrophe losses during the fourth quarter of 2016 was favorable, the quarter was unusual in the sense that we experienced loss effects from significant catastrophe events so late in the year.

Early in the quarter, we announced a preliminary estimate of Hurricane Matthew losses with the range midpoint at $52.5 million. Our year-end 2016 estimate was $48 million, including $3 million for Cincinnati Re.

Our fourth quarter results also included $9 million of favorable development in total for 2 large second quarter 2016 events and $4 million for events prior to 2016.

It was great to see another quarter of good overall investment performance. And Mike will be adding comments regarding investment income growth and portfolio valuation gains. As usual, I'll highlight several important areas of our insurance operations.

Each of our insurance segments experienced another quarter and year of what we consider to be healthy premium growth. Ongoing efforts toward greater pricing precision allow us to underwrite each individual policy with confidence. Property casualty new business written premiums for the fourth quarter of 2016 were down 4% from a year ago, when we reported a strong growth of 15%. We believe it's more meaningful to look at longer time periods. And on a full year basis, new business written premiums were up 4%.

Policy retention rates for commercial and personal lines were fairly consistent with a year ago. For commercial lines, our policy retention continued near the high end of the mid-80% range, and for personal lines, it continued in a low to mid-90% range.

Pricing in the fourth quarter was generally in line with the third quarter. Consistent with where loss ratios for us and the industry indicate the most need for higher premium rates, our commercial auto and personal auto policies experienced fourth quarter average renewal price increases that were the highest among our major lines of business. Both had average percentage increases in the mid-single-digit range, with personal auto near the high end of that range.

Cincinnati Re continue to grow as planned and made a nice contribution to property casualty underwriting profit, with combined ratios of 84.7% for the fourth quarter and 82.5% for full year 2016. Our seasoned team of reinsurance underwriting and analytics professionals produced $71 million of well-diversified net written premiums in 2016. Nearly half of the 2016 premiums are for property exposures that do include risk of loss from natural catastrophes. The remainder is primarily for casualty exposures from various liability risks.

Our personal lines segment continues to be fundamentally made up of middle-market accounts that represent nearly 90% of our personal lines premium, with both the homeowner and other personal lines book producing a healthy underwriting profit. Our personal lines operation also continued to perform as planned in its expansion of personal lines products and services offered to our agencies higher net worth clients.

In 2016, we improved our high net worth offerings in nearly all of the states where agencies have actively marketed our personal lines products for many years by introducing endorsements which provide agents the option to add coverages similar to our Executive Capstone product suite.

In addition, we successfully launched the full Capstone product to agents in New Jersey, California and Colorado. The reception by California agencies was particularly enthusiastic. They produced $2 million in 2016 premiums written in aggregate for us in just 5 months. We'll continue our steady progress in 2017, bringing the Capstone product to agents in Texas, Massachusetts, Washington State and Washington D.C.

Performance was again quite good for our commercial lines segment, with full year combined ratio below 95%, and our excess and surplus line segment had another excellent year with a combined ratio below 70%.

For our life insurance subsidiary, full year 2016 earned premiums grew 9%, and net income grew by 17%.

On January 1 of this year, we again renewed all 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 as well as rates for 2017 are similar to 2016.

During January, we replaced our existing catastrophe bond program with the new collateralized reinsurance structure providing $200 million of earthquake coverage and $80 million of severe convective storm coverage. The coverage period is for 3 years and expires December 31, 2019. The earthquake coverage applies to all states except California, and the severe convective storm coverage applies to all states except Florida. The storm aggregate coverage provides loss recovery when storm losses for all events in aggregate exceed $190 million after an $8 million deductible per event.

In conclusion, our primary measure of long-term financial performance, the value creation ratio, was 14.5% for full year 2016. Contributions included 7.9 percentage points from operating income, 6.8 points from our stock portfolio and negative 0.2 points from our bond portfolio. For 2017 and beyond, we'll continue to diligently manage insurance profitability and drive premium growth. We think our insurance business is in excellent shape, and we remain quite confident that the steady efforts of our outstanding associates working with what we believe are the best independent agencies in the business will continue to produce excellent financial performance to benefit shareholders and all other stakeholders.

With that, our Chief Financial Officer, Mike Sewell, will comment on other areas of our financial performance.

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Great. Thank you, Steve, and thanks to all of you for joining us today. I'll begin my comments with a few fourth quarter investment highlights.

Fourth quarter 2016 was our 14th consecutive quarter of investment income growth, rising 2% on a pretax basis and bringing full year growth to 4%. That growth continues to reflect an increase in both interest and dividend income. Our equity portfolio experienced 10% growth in unrealized gains and offset about 2/3 of the $314 million decrease in the bond portfolio's pretax unrealized gains. In total, we ended 2016 with a net unrealized gain of more than $2.6 billion before taxes, including more than $2.3 billion in our equity portfolio.

The bond portfolio's pretax average yield reported at 4.52% for the fourth quarter was below the 4.66% from last year's fourth quarter.

During the last half of 2016, we experienced an uptick in dispositions of higher-yielding bonds that were called by issuers, contributing to that decline in average yield. Taxable bonds purchased during 2016 had an average pretax yield of 4.11%, 37 basis points lower than we experienced a year ago. Tax-exempt bonds purchased averaged 3.04%, 30 basis points lower than a year ago. And our bond portfolio's effective duration at December 31 was 5 years, up slightly from 4.9 years at the end of September. Cash flow from operating activities continued to provide funds for our investment portfolio. Funds generated from net operating cash flows for full year 2016 rose 4% compared with a year ago and helped generate $442 million of net purchases of securities.

As always, we work to carefully manage our expenses, at the same time, strategically investing in our business. Our full year 2016 property casualty underwriting expense ratio rose slightly, up 0.1 percentage points compared with a year ago.

Now for some comments on reserves for losses and loss expenses. 2016 was our 28th consecutive year of reporting favorable development as we continue our consistent approach to setting overall reserves. For full year 2016, favorable reserve development benefited our combined ratio by 3.7 percentage points, down slightly from full year 2015. Favorable reserve development for full year 2016 occurred in all major lines of businesses except for auto and, by accident year, included 55% for accident year 2015, 24% for accident year 2014, 16% for accident year 2013 and 5% for 2012 and prior accident years.

Overall, reserves at the end of December, including accident year 2016 and net of reinsurance ceded rose 8% from last year, with IBNR representing more than 60% of that increase.

Various past disclosures described how historical paid loss patterns are a key assumption use to make projections necessary for estimating IBNR reserves. As we reported earlier, paid losses for commercial casualty emerged at levels higher than we previously expected. That included paid losses or reestimates of case reserves for a large 2007 umbrella claim and a large 2012 general liability claim that in recent months increased in aggregate by over $6 million. Considering updated loss of data, during the fourth quarter, we estimated commercial casualty IBNR reserves for several accident years at levels more likely to be adequate compared with recent quarters. You can see in our financial supplement on Page 17 that we recorded an increase of $56 million in commercial casualty total loss and loss expense reserves during the fourth quarter of 2016. Included in that $56 million was $45 million for IBNR, nearly as much as the $58 million we recorded for the first 9 months of 2016.

Despite those increases in reserves, our full year 2016 loss and loss expense ratio for our commercial casualty line of business was 57.5%. Adding an estimated underwriting expense ratio of 31% or so indicates an estimated commercial casualty combined ratio of under 90%.

Our assessment of the company's capital strength, liquidity and financial flexibility is that they remain at healthy levels. During the fourth quarter, we repurchased a total of 522,428 shares at an average price per share of $70.13. Capital management objectives continue to support the future profitable growth of our insurance operations plus other areas, such as returning capital to shareholders.

I'll conclude my remarks with a summary of contributions during the fourth quarter to book value per share. They represent the main drivers of our value creation ratio. Property casualty underwriting increased book value by $0.18. Life insurance operations added $0.09. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.50. The change in unrealized gains at December 31 for the fixed income portfolio, net of realized gains and losses, decreased book value per share by $1.21. The change in unrealized gains at December 31 for the equity portfolio, net of realized gains and losses, increased book value by $0.63. And we declared $0.48 per share in dividends to shareholders. The net effect was a book value decrease of $0.29 during the fourth quarter to $42.95 per share.

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

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Thanks, Michael. In concluding our prepared remarks, I want to again acknowledge our field claims professionals, who work quickly and compassionately to care for policyholders around the country who were impacted by catastrophes late in the year. They represented our company well and, at the same time, strengthening the relationships we have with our independent agents.

During the fourth quarter, we also received affirmation of our financial strength ratings from both A.M. Best company and Fitch Ratings services. With all major areas of the company performing well, we remain confident that we can deliver long-term shareholder value for years to come. The Board of Directors demonstrated that they share that confidence by recently increasing the quarterly cash dividend to $0.50 per share, setting the stage for 57 consecutive years of shareholder dividend increases by your company. 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 Jack Schiff, Jr., J.F. Scherer, Marty Mullen, Marty Hollenbeck and Theresa Hoffer. Amy, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question today comes from the line of Arash Soleimani of KBW.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Just a few questions. So back to the commercial casualty, is the takeaway there basically that we should not expect the adverse development there to continue? You kind of feel like you've gotten a handle on it, and it's now set at the appropriate levels going forward?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Yes, Arash. I think that's a fair way to say that. I think we took prudent action, and we look at the long term. I think if we look at the full year, things look to be in a good position. And with a streak of 28 years of consecutive favorable development, you can count on us to take appropriate measure here in the short term to put ourselves in a position where we're good for the long term. And as we look back at year-end '16, and 5 years from now, we want to be able to look back at it and feel good about it. And we feel we're in a good place.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And the other question, so it looks like the core loss ratio there this quarter, excluding development was 61.1%, versus about 61.5% last year in the fourth quarter. Can you just talk about -- just given the development issues that you had mentioned, what allowed it to actually go down on a core basis year-over-year?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Well as we -- as our actuaries take a look at that, they're looking at all sorts of trends for many different years. And so the development that we would see pertains to what we saw in paid loss trends that would go back to some of the years that Mike described in his prepared comments, back 2012, 2007. So in addition to taking note of that, I think we prudently increased the IBNR. We could have taken those one-offs and ignored -- kind of ignored that, but we took the opportunity to be prudent, increase the IBNR. And that's not necessarily going to impact our view of the business as we currently stand for the current accident year. And I think also, as Mike pointed out, we feel good about the profitability of the casualty line, and we feel good about the solid reserve position we're in.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And can you just talk about -- you had some expense ratio improvement in the quarter, just what drove that? Looks like [indiscernible] in the commercial segment.

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Yes. On the expense ratio, we're increasing what we're spending currently right now. And so it did go up a little bit for the year, so overall for the year, it was up 0.1, but for the quarter, as you rightfully pointed out, it was down 0.4. And so some of that driver was because of some of the higher catastrophe losses that we did occur -- or did occur in the fourth quarter, that did affect some of the profit-sharing that goes out to agents and so forth. And so that was really -- the main driver was that. So the higher loss is in the fourth quarter.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And my very last question. The premium growth was a bit slower this quarter than it was in the past few quarters. Just anything to read into there?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

I think we still feel strong about our prospects for growth. I think we tend to, again, look to the longer term, look to the full year. We feel confident in our growth. And as I mentioned in my comments, we feel that we can be in that range of growth as we go forward into 2017, and just know that we're always going to prudently look at each policy that's presented to us risk-by-risk, try to make the best decisions we can. And we always counsel that the very next policy that we write, we want to make sure that it's priced well on a risk-adjusted basis. And we feel confident that we're doing that and feel good about both our prospects for growth and profitability going into 2017.

Operator

Your next question comes from the line of Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

My -- last year, you had a special dividend. This year, you didn't. I'm curious as to what was different in the thought pattern in the -- and as well as the facts, this year versus last with respect to the dividend policy.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

That's a good question, Paul. And we look at all of our dividend decisions very carefully. Last year, and we were trying our best to get the word out that it was a special dividend, that it was in reflection of operating performance in 2015, that was just what we felt to be above and beyond with that 91.1% combined ratio that we posted in 2015, and we were really trying to make sure that we were communicating that it was in fact a one-time dividend that was reflective of that operating performance last year, or specifically 2015. But we are going to, with our board, very thoughtful when it comes to all of our capital management decisions, and that would include the regular dividend, repurchases, any other special dividends that we might do. And we'll keep a close eye and shareholders in mind there.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

So does that imply that if we have another year, knock on wood, of a very low combined ratio in 2017, that there's a good chance for a special dividend at the end of the year?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

I wouldn't say that. I would say that we will look at the operating performance, the capital position, tax rates, changes in the economy. Our board is very good at looking at all considerations when it comes to dividends. Our streak of now going on 57 years of increases is something that we take very seriously, and returning cash to current shareholders very seriously. And so we will, in conjunction with the board, look at all relevant operating and balance sheet and economy type information as we make our decisions.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

And then I'd like to beat the commercial casualty dead horse one more time. As I understand it, you had a couple of very large case reserves that proved efficient. Did those -- could you give us a sense of like how much of those case reserves, in particular, would affect the view of what happened with the increase in

IBNR, or were they completely excluded? It sounds like they were one-off. But maybe they weren't. Maybe they were part of the bigger picture there as well.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Yes. It's good, and it's good that we talk about it. And it's a good question to raise again. I think one thing to keep in mind, when you look at -- and you'll get a chance when the K comes out, Schedule P is available, when you look at the casualty line, for every accident year at our initial pick, we're under that. We're under those initial pick numbers now. There's been favorable development. What we did see, as we kind of hit a bottom as those accident years aged, we did see some claims that emerged. But keep in mind, that would be an increase of over where we had the year picked last year that's still well below the initial pick. And so then you have a decision to make. Is that a one-off? Is it something that we should just ignore? And I think given the prudence that we've displayed every year, the decision was more to be cautious and say is that maybe a forbearer of things to come, and should we raise the IBNR, which we did. And again, emphasizing the point Mike made that we still feel very good about the prospects for commercial casualty, its profitability, as he put out the kind of the hypothetical expense ratio there, we're running in the 90% range combined and feel good about it. But you know the way we are. We're not going to take anything that we've seen in the reserves lightly, and we're going to react to them. We're not going to worry about the short term as much as we are going to look at long term. Everything we do involves long-term thinking.

Operator

Your next question comes from the line of Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

So I read that you changed some technology on the personal lines. I think it's to get more in line with technology today to be successful with comparative raters. Can you talk a little bit about what's going on and why that's a good move for Cincinnati?

Jacob Scherer

Josh, this is J.F. I'm not so sure that I know what you're referring to there. We did say that we had filed endorsements to our homeowner program in both of the states we do business to make it more closely aligned with our Capstone, which is our high net worth program. But as far as any real technology changes, I don't think we've done any of that. We make certain that our technology is able to work in comparative raters, though if we could do away with comparative raters, we would. But really haven't made any changes there. I think the big change or the development this year has been, in personal lines, has been related to the rollout of high net worth, the rollout of the Capstone endorsements through our traditional program, expansion of high net worth into the new states that was mentioned. So those are probably the primary changes there, Josh.

Joshua David Shanker
Deutsche Bank AG, Research Division

Is auto a good business for Cincinnati, is personal auto? Could you write the home and let a competitor have the auto portion and be just as successful? Or is the bundle a key to it? Is it adding marginals or adding exceptional value on the auto side?

Jacob Scherer

Well, right now, the auto is not adding value, obviously, in commercial auto or personal auto. But we've always been a package-writing company throughout our history, and policyholders and agents alike would prefer that it all be part of a package. There's no question about the fact that the persistence of that business is improved when you write everything together in a package. So we've taken some, we think, some good actions in the auto side, put through some fairly significant rate increases throughout 2016 that are currently earning their way into the book of business, in some cases, double-digit increases. So in terms of private passenger auto, we're feeling pretty good that as 2017 earns in, that, that will improve. But it's a pretty unusual circumstance that we're submitted an account that doesn't include the entire package.

Joshua David Shanker
Deutsche Bank AG, Research Division

And I mean, it's early, and there's not so many policies. But do capstone auto policies behave the same way as other auto policies?

Jacob Scherer

Well, as a general statement, high net worth are -- and keeping in mind that the high net worth we wrote previous to Will Van Den Heuvel joining the company was more mass affluent than it was high net worth. But even with our book of business across the book, it performed about 10 points better. So we -- yes, we believe that the auto in high net worth is a more profitable line of business. Josh, it's just not that price-sensitive. In the middle-market personal lines, a huge percentage of the business that gets quoted for us is in comparative raters. And there's a bit of a tendency on the part of the agencies. Though we do get the knot [ph] in terms of the quality we bring to them and their policyholders, that tends to be a bit more of a "price is the only object" kind of a circumstance, whereas in high net worth, it's more consultative. And so we like the fact that we and our agencies are getting paid, if you will, for the value we're bringing in that area.

Joshua David Shanker
Deutsche Bank AG, Research Division

All right. And in terms of looking at a relationship between dividend increases and earnings, obviously, you guys have increased the dividend consistently for a very, very long time. How do you think about as -- over a 5-year period, at what rate the relationship should be between earnings growth and dividend growth?

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Good question. I think we don't look at any 1 particular metric, along with our board, in making that decision. That would be one of them, how it is doing in relationship to the profit on earned premium. We're also looking at investments, the balance sheet, the economy, our forecast to future. As we look back to the financial crisis when there were a lot of companies cutting their dividend or not raising their dividend for sure, at that point, we felt comfortable to continue to increase the dividend because of what we saw in terms of our forecast and our estimates of where we were going in the future. And so I think it's hard to describe the discussion that goes on about our capital management as a ratio for 1 particular item. It's more holistic in terms of how we look at a broad spectrum of metrics.

Operator

[Operator Instructions] Your next question comes from the line of Scott Heleniak of RBC Capital.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

The first question I had was just on new business. In commercial lines and E&S, it was down for the quarter, it was up for the year. But I was just wondering if you saw anything in Q4 specifically that was a little bit different from either a competitive standpoint or just people being more aggressive in pricing in Q4 that you didn't see the rest of the year.

Jacob Scherer

Scott, I think throughout the year, competition has ratcheted up somewhat, so fourth quarter would've been, I would say, slightly more competitive. I think a lot of carriers tend to put a full-court press on towards the end of the year to meet a goal. We try to resist doing that, because we just don't want to ask our people to underprice business to hit a top line target. Last year's fourth quarter was a pretty big -- a tougher comparison. I think as we kind of look at the new business and how it went last year and looking forward, a few -- there -- no one thing affected it. The 4% increase was good, I would've like it to have been slightly better. We're optimistic about this year. The submission rates right now in CSU and in commercial lines are all up, so we're seeing more accounts. We're getting at-bats at more accounts. So that's positive. Because of the competition and because of our desire to be more disciplined, our hit ratio is down a little bit. But once again, we're pleased with how things are going. CSU, in terms of what they're facing, particularly on some of their larger accounts, and keeping in mind that ours is a relatively conservative appetite for E&S business. But our excess and surplus lines company is losing some of the larger accounts to the standard side of the business. And so once it gets quoted on the standard side, there's -- we just -- we don't compete with it. Our opinion would be that some of the business that's going to the standard side should stay in the E&S side of the business. If we think an account has reached a point where it probably does deserve standard market treatment, then Cincinnati Insurance Company will quote on it. We'll retain it in our standard side. On the personal lines side, as far as new growth would be concerned, we did put through some very healthy rate increases in auto in 2016. And in the middle-market segment of our business that had a depressing effect on the new business there. High net worth more than made up for that. We're very, very pleased about how things went last year in terms of high net worth new business, not only in New York, but as was mentioned earlier, in California, which, obviously, is a significant state in high net worth. The reception by our agents there was just terrific. We wrote a good bit of new business, even though we really did not have all that many agencies appointed for the 5 months that was referred to earlier. So -- and then a few other things. Last year, we had maybe slightly more turnover than normal in our field underwriting and commercial lines, field reps that were retiring or moving to different territories. That has a slightly disrupting effect. We started the year out this year basically with all territories staffed. And so we think that, that will create a little bit of momentum relative to new business. So as Steve mentioned earlier, and sorry to be so long-winded about this, we're feeling pretty good right now about the prospects for growing. We'll continue to appoint more agencies. We could always appoint more than we do. That's a balance as well, but we're confident about our ability to grow the company.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Is the -- that's very helpful. Is the sort of -- is the agency appointment scheduled for this year, is that ramping up versus last year?

Jacob Scherer

Not versus last year. It will be about the same level. We've been pointing on a full lines appointment, which include commercial lines and personal lines, in the 100 agency range. And then in personal lines, in states where we're not active in commercial lines, now those would be New Jersey and California, we'll be appointing agencies in addition to that 100. So it will be a healthy year as far as new agency appointments, keeping in mind that, that too is a matter of balance for us. It's not our intent to appoint as many agencies as we can. It's to appoint a few real good agencies and gain a lot of share in those few agencies.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

And then on the share buybacks, you guys mentioned that you did 500,000 shares or so. Is that just -- was that just to kind of offset some options that were maybe getting due [ph]? Or does that signal that more regular buybacks might be on the way?

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

This is Mike. It's really -- we call it a maintenance type of buyback, for the exact purpose that you just mentioned. In total this year, 557,000 shares is what we did. Prior year, we did 1 million; the year before that, 450,000. So it's kind of really -- I'll call it maintenance, but it's a part of that capital management that Steve talked about as we return capital back to shareholders.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

And just the final question is just on workers' comp. That's been a very good line for you guys. You've had good reserve leases and good margins. And I was wondering if you can talk about some of the drivers behind that, whether it's frequency, severity, mix, just anything you can add to that a little bit, because that line has been very, very profitable for a while now.

Jacob Scherer

Well, Marty Mullen is sitting here in the room from our claims department, and if I have to point to anyone relative to the improvement in workers' comp, it would be Marty, followed closely behind in our loss control area. We put together a tremendous amount of specialization in workers comp and claims handling, both in the form of specialists out in the field and then people here in headquarters that are reviewing bills. That, I think, was a significant area of improvement for us. On the loss control side, we have protocols now that we didn't have 6 years ago or so when we really went full board to working on this line of business, where policyholders are visited and scored. We provide consultative services to a greater degree than we had in the past. So we've been able to reduce loss cost in workers' comp when natural and medical inflation would've taken it up for others. So we're -- we think we still have a little runway to go in terms of improving all that. We'll expand our matrix in the loss control area to include even more accounts, smaller accounts, where we can feel like we can improve the margins there. So it's encouraging. We still view that as a class of business you have to be very cautious about. It has the potential for turning pretty sour. So we approach it -- despite the fact that it's such a profitable line for us, we continued to approach it very conservatively. We do not write monoline workers' comp. Not unlike the question a little earlier about package business in personal lines, we don't write the comp unless we're writing the package in the umbrella and the auto.

Operator

[Operator Instructions] Your next question comes from the line of Fred Nelson of D.A. Davidson.

Craig Nelson
D.A. Davidson & Co., Asset Management Arm

Sitting here in California, with Nestlé's moving in your direction, they're going to have about 400 employees in Ohio. They're going to Virginia. When you see the business and the people changing and moving to the South and the Southeast and Texas because of contracts and labor are less, taxes are less. Do you follow that pretty carefully? That's one of my questions. The other one is with the new administration facing towards taxes, if taxes are lowered, it would say to me that your cash flow from your bond portfolio and some of them could increase in a very substantial way. And in California, do you have agencies appointed that would handle people like me? Or is it still high net worth?

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

I'll tell you -- Fred, this is Mike Sewell. How about if I -- I'll start with the tax question, and then we'll go with the others. So of course, it's hard to say what else would change if corporate rates went down. Do they go to 20%? Do they go to 15%? Where do they go? What happens? But then when you take a look at that, what else might change, other than corporate rates? Because it may not just be the rates. Would the dividends received deduction remain the same? Would the change -- or would there be any change in the tax-exempt interest that we currently exclude from income? What would happen to a potential border tax? And what's the effect on issues related to that? So it's probably a little tougher issue than just a reduction in rates, and these are just a few items that actually would have a major impact to us when it comes to tax reform. But let's just say if there was a lowering of the overall effective tax rate and nothing else, it would seem that we would have more net income to invest and grow our business. But then we'd also be able to compete on a more level playing field with internationally based companies, since their tax rates are lower currently than ours. So allowing our capital really to compete more on a level playing field with the foreign capital, it seems to me to be a good thing. As of now, it's just too early to know what may change under the new administration. Our industry has experienced many administrations and has adapted over time to remain healthy for our insureds and our shareholders. So right now, I would say we're kind of -- we're waiting to -- let's wait and see what some actual guidance comes out with we're they're specifically headed.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

And Fred, this is Steve. I'll touch a little bit on the overarching economy. We are optimistic about the future of where the economy and the country is going. We do look at how it varies by region as well as a lot of other factors, considering catastrophe exposure and the like, but we do build all those into our business plan. And then in terms of you and California, we write the full suite of products. We would love to entertain you as a client, and you can join me in the ranks of the people that don't have houses that qualify for the Executive Capstone. We appreciate your comments and look forward to any other questions.

Craig Nelson
D.A. Davidson & Co., Asset Management Arm

Fireman's Fund left in California, and they had a lot of good accounts.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Well, we're in business, and we're hoping to compete. And as we've seen the early results, we're competing well.

Craig Nelson
D.A. Davidson & Co., Asset Management Arm

And let me ask -- it would be nice to know who I could call to find out what agencies in California handle your products, because the business I'm in, the people ask me that, that are shareholders. And I'm dumbfounded as to what to do sometimes.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Well, we can give you a couple of choices. You could either go out to our website at www.cinfin.com, and there's a find an agent place there where you can put in your address or zip code, and it will give you the names of several that would be in the area, or you can call any of us, and we'll look it up and provide you with the same information.

Operator

And at this time, there are no further questions. I turn the call back over to Mr. Johnston.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Thank you, Amy. We really appreciate you joining us on the call today, your interest at Cincinnati Financial. And we look forward to speaking with you again on our first quarter 2017 call. Thank you very much, and have a great day.

Operator
And this concludes today's conference call. You may now disconnect.