S&P Global
Market Intelligence

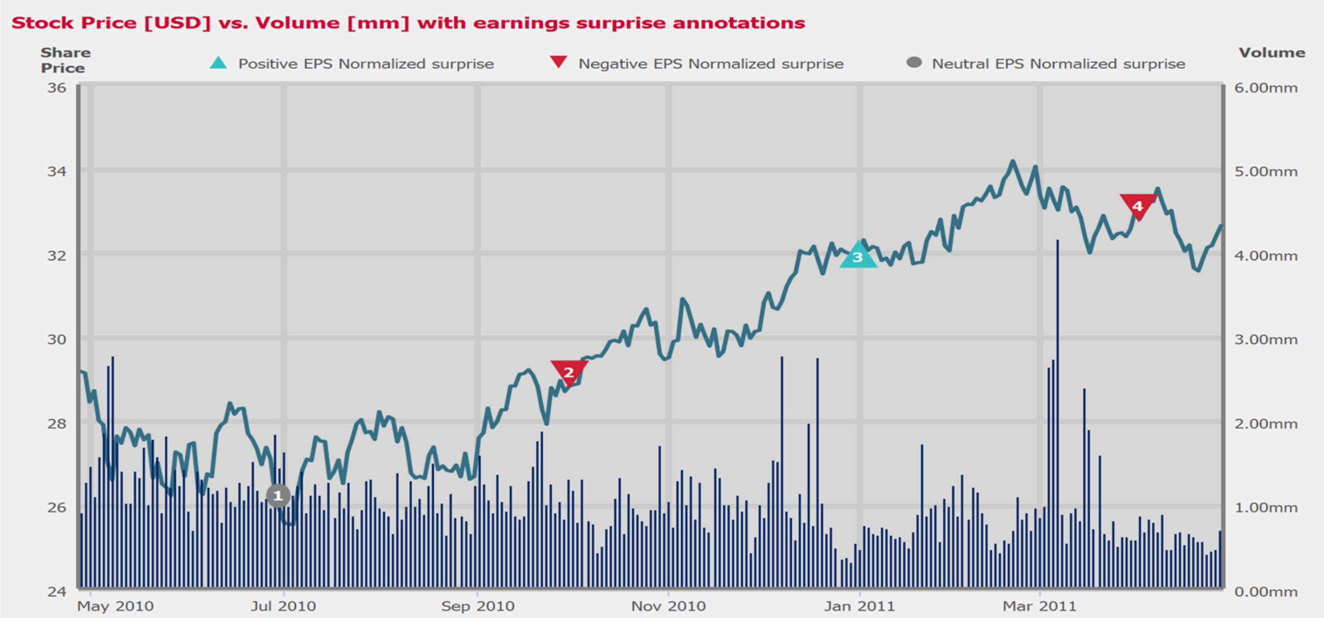
Cincinnati Financial Corporation NasdaqGS:CINF
FQ2 2011 Earnings Call Transcripts

Thursday, July 28, 2011 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.59)	(0.57)	NM	0.40	0.56	1.49
Revenue (mm)	873.33	975.00	11.64	896.63	3571.30	3710.17

Currency: USD
Consensus as of Jul-28-2011 5:16 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	0.26	0.26	1 0.00 %
FQ3 2010	0.40	0.34	2 (15.00 %)
FQ4 2010	0.37	0.70	3 89.19 %
FQ1 2011	0.37	0.33	4 (10.81 %)

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EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

J.F. Scherer

Marty Mullen

Michael Sewell

Steven Johnston

ANALYSTS

Josh Shanker
Deutsche Bank

Matt Warman
Keefe, Bruyette & Woods

Paul Newsome
Sandler O'Neill

Scott Heleniak
RBC Capital Market

Steven Johnson

Unidentified Company Speaker

Vincent DeAugustino
Stifel Nicolaus

Presentation

Operator

Good morning my name is Stephanie and I will your conference operator today. At this time I would like to welcome everyone to the Cincinnati Financials Second quarter for 2011 conference call. All lines have been placed on mute to prevent any background noise. After the speakers remark there will be a question and answer session [Operator Instructions] Thank you Mr. Dennis McDaniel, IR Officer you may begin your conference.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel, Investor Relations officer for Cincinnati Financial. Thank you for joining us for second quarter earnings conference call. Like yesterday we issued a news release on our results along with our supplemental financial package and we filed our quarterly report on form 10-Q. To find copies of any of these documents, please visit our investor website www.cinfin.com/investor. The short route to the information is in the far right column via the quarterly results quick link.

On this call you'll first hear from Steve Johnson, President and Chief Executive Officer and 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 Executive Committee Chairman Jack Schiff Jr., Chairman of the Board Ken Stecher, Executive Vice President J. F. Scherer, Principal Accounting Officer Eric Matthews, Chief Investment Officer Marty Hollenback and Chief Claims Officer Marty Mullen.

First please note that some of the matters to be discussed today are forward-looking, these forward-looking statement involve certain risks and uncertainties. With respect to this 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 rules and therefore is not reconcile to GAAP.

With that I'll turn the call over to Steve.

Steven Johnston

Good morning, and thank you for joining us today. The loss of life and destruction of property caused by a record number of tornadoes, numerous hailstorms and high winds were devastating to families and communities across the United States during the second quarter. While it's impossible to completely fix the situation, our well-equipped claims professionals gave tremendous effort to settle claims in a prompt, courteous and professional manner and under very difficult circumstances. We handled nearly all of the claims with our own associates.

Over one-third of our field claim staff from various parts of the company left home to perform additional storm duty sometimes more than once to assist in areas hit hard by second quarter catastrophes. And the claims representatives that remained at home worked extra hard to maintain high levels of service in the less affected areas. It was a total team effort and we sincerely thank them.

As an example, their promptness and efficiency was demonstrated by already closing over 80% of more than 21,000 claims from second quarter storms. We are hearing positive reports from our agents and understand that the claims effort is resulting in new business being referred to our agents by satisfied customers. In terms of dollars and cents, the storms clearly hit us where we operate. The record setting catastrophe losses resulted in a second quarter combined ratio of 136.6 in an operating loss. Reflecting on this memorable quarter, our risk management efforts proved effective including prudent use of reinsurance.

Despite incurring the two most costly catastrophe losses in the 60-year history of our company, each with estimated losses before reinsurance that more than doubled our largest prior event Hurricane Ike in 2008.

Our shareholders equity and book value per share both increased during the first half of the year. And that was after returning $127 million to shareholders in the form of a cash dividend.

We continue to execute and improve upon our risk management strategies including appropriate use of reinsurance, improved pricing, a diversified investment approach, strong loss reserves and geographic expansion. We reinstated our reinsurance program during the Second Quarter which had the effect of reducing the quarter's earned premium by approximately $38 million. After the second event, we purchased additional third and fourth event catastrophe cover for the rest of the year. Coverage now attaches at $70 million which means our loss retention level is still relatively low.

Similar to our program in effect at the beginning of the year we retained a share of losses above the attachment point and our share for the third and fourth event catastrophe cover is 15%. The second quarter storms demonstrated the benefits of our reinsurance program as our recovery of losses is now estimated at over $220 million from the April and May storms.

Our diversified investment portfolio contributed gains to the balance sheet and generated higher investment income. Mike Sewell will provide additional investment detail in a couple of minutes. We continue to be confident about the strength of our loss reserves. We maintain a consistent approach and aim to remain solidly in the upper half of the actuarially estimated range which we believe is important for longer term financial performance.

Another positive trend was our premium growth. It was broad based occurring in all three property casualty segments and profitable growth will help increase future earnings more rapidly. We believe there are pricing and improvement initiatives are gaining traction as the effect of higher catastrophes and the associated reinstatement premium more than explains the increase in our second quarter and first half combined ratios.

We continue to rate increases in our personalized segment and our excess and surplus line segment has been able to increase rates for nine consecutive months. While commercialized renewals in total had a net average price decline estimated at 1% approximately 75% of policies were flat or had an increase in our Workers' Compensation line experienced a solid price increase.

Life insurance earned premiums also grew in the second quarter as did profit. That segment remains an important contributor to operating results and helps smooth out the naturally more variable results from property casualty operations. On May 31st, our new CFO Mike Sewell joined the team and the effects of his contributions are already being felt.

Now Mike will provide some perspective on financial results and our financial position.

Michael Sewell

Great. Thank you Steve and thanks to all of you for joining us today. I'll start by highlighting some of the key components of investment performance. Net investment income rose 2% for the second quarter on a pretax basis. For investment portfolio in total, the first half 2011 after tax average yield was down 16 basis points from a year ago and 20 basis points on a pretax basis.

The bond portion of the pretax yield declined by 30 basis points, dividend income from equity securities grew at a double digit pace during the first half of 2011 partially offsetting the decline in the bond portfolio yields. Dividend growth faces a tougher comparison for the second half as you may recall in last year's third quarter, we completed [inaudible] of holding. [Inaudible] did not pay a dividend in the second half of 2010 dividend income benefited from redeployment proceeds from that sale.

The sum of realized gains plus the change in unrealized investment portfolio gains in the first half of 2011 was 284 million pretax. That total represents a 23% increase over the balance of unrealized gains at the end of 2010 boosting our portfolio's total return. We ended the quarter with equity securities representing 25.3% of total invested asset fair value, 1.2 percentage points below that measure at the end of March. In part that was due to second quarter bond portfolio gains outpacing our equity portfolio gains.

Our investment approach has not changed. Valuations for our various portfolios in recent quarters have fluctuated at levels within what we consider normal variation.

Moving to insurance operations, let's take a closer look at the combined ratio components on a consolidated property casualty basis. There are several moving parts to consider. Loss and loss expense reserve development on prior accident years during the first half of 2011 had a favorable effect on our combined ratio by 10.3 percentage points matching the full effect of 2010 ratio effect.

To look at the underlying trends we adjusted to cancel out the effects of catastrophes in the reinstatement premium. On that basis the loss and loss expense ratio for the first six months of accident year 2011 improved 0.2 percentage points compared with accident year 2010 measured as of yearend 2010 and the underlying expense ratio improved 1.0 points.

Controlling expenses remains an important focus throughout the organization. Even as we aim to improve service in selected areas of strategic importance we see the expense ratio benefiting from future growth. We expect to continue realizing policy processing efficiencies over time from our investment and technology along with other process improvements and further deployment of performance metrics.

Net cash flow provided by operating activities for the first six months of this year was slightly positive but well below last year's level due to higher paid losses arising mostly from catastrophes. Pay losses and loss expenses, net of reinsurance were up 263 million driving our 249 million decline in operating cash flow. We studied various ways to keep fueling investments, steadily supplying our portfolio managers with new cash to invest while also providing for consistent dividends and other corporate needs. We decided in mid-July to tap more of our existing lines of credit for an additional 55 million.

The terms of borrowing are very favorable including a floating interest rate currently just under 60 basis points. If that borrowing had occurred before June 30th the effect of 55 million on our debt to capital capitalization would have raised it modestly to 15.0% compared with the 14.2% we reported.

We ended the second quarter with over one billion in cash and marketable securities at the holding company level and we remain in great shape in terms of capital, liquidity and financial flexibility. The contributions to both value per share for the quarter are as follow property casualty underwriting losses reduced book value by $1.06, the life insurance operations added $0.08, investment income other than life insurance and reduced by non-insurance items contributed $0.45. The change in unrealized plus realized capital gains from the fixed income portfolio increased book value per share by $0.38. The change in unrealized plus realized capital gains from our equity portfolio provided growth of $0.16 and again, we paid $0.40 per share in dividends to shareholders.

In total, book value decreased by $0.39 during the second quarter to $31.01 per share, $0.10 above the year end 2010 level. Adding the $0.40 per share dividend, our value creation ratio for the quarter stayed in the positive territory at 0.1%. For the six months of 2011, our value creation ratio was 2.9%. That concludes my prepared comments and I'll turn it back over to Steve.

Steven Johnston

Thanks, Mike. Before we move on to questions, I would like to share some observations based on my first few months as the new CEO. I've spoken with many of our agents and associates. They share with me a high level of confidence in the future of our company. Our efforts are concentrated on profit improvement plans that are showing early signs of success. Our tools and processes are changing but continue to embrace the principles that generated past results and will lead to profitable growth. Capital remains strong and will allow us to handle difficult circumstances that come and go while continuing to reward shareholders over the long-term.

I appreciate the opportunity to give you a glimpse of the Cincinnati financial. Jack Schiff Jr., Ken Stecher, J. F. Scherer, Eric Matthews, Marty Mullen and Marty Hollenbeck are here with Mike and me, and we are available to respond.
Stephanie, we're ready to open the call for questions.

Question and Answer

Operator

Certainly. [Operator Instructions] And your first question comes from the line of Matt Warman [ph] from KBW. Your line is open.

Matt Warman
Keefe, Bruyette & Woods

Gentleman good morning. I guess Steve, could you start off by talking about any areas of outlying strength or weakness on the pricing side. It seems like commercial lines growth was stronger than I had expected in the quarter.

Steven Johnston

Sure, Matt. I'll give it a shot and then I'll turn it over to J.F. to see if he has any additional insights. But in terms of pricing overall, I think on the personalized side we continue to get rate in the homeowner's area in the upper single digit. After the events of the second quarter we actually went back in some of the states and filed for more additional rate than we had originally planned for this fall. So we feel that we're getting rate in homeowners and we think our retention is holding up well.

Personal auto, we're getting rate in the low single digit area so we feel that that is also holding up well as our retention remains high. We are adding the predicted modeling capabilities to personalize now for the third year. So in addition to the rate increases on an average, we're getting more rate on those risks that we feel need more rate. And we're also seeing the distribution of our book shift towards the more profitable accounts.

Excess and surplus lines I think has been strong in terms of rate increase. They're in a tough environment I know because the market is soft. They face competition of E&S riders. Also we here reports of standard companies that they relax their terms and conditions to go after what had previously been E&S business. And through all of that we've been able to get rate increase on E&S side now for nine consecutive months.

Moving more into the commercial line segment we are down overall still slightly around 1%. But on most risks, 75% over 75% were either renewing flat or up a little bit. It's the larger risks that are under pressure and we're seeing some need to take rate decrease there to hold on to some quality larger risks. And then also in the worker's comp area, we are getting rate now and we've been getting some rate there for some time. J.F. is there anything. I was kind of long winded there, is there anything…?

J.F. Scherer

Steve, I guess to me that covers it. I think there are some questions relative to property and in particular there have been questions to property increases in the affected areas Steve mentioned in homeowners we've been able to refile there. In the commercial lines area just add some color to that. It might stand to reason that because of the significant catastrophes and in the Tuscaloosa area and Joplin area, places like that, that property increases would be quick and easy to get.

The psychology that we experienced there though is that the policy holders in those areas are still if you will traumatized by what happened to them. They are in many cases, a lot of the property that we insure or they have insured isn't fixed yet or having difficulties getting contractors to take care of a lot of that type of thing. So the psychology of going back to those people right now and in effect saying that we have another property loss for you in the form of an additional premium or increased rates in property isn't as easy as you might think.

However, having said that, I think that's temporary in the sense that once the trauma is passed, once people are back on their feet, everyone will expect that rates will go up and we think we'll be able to get those rates as the months go on.

Matt Warman
Keefe, Bruyette & Woods

Okay, great. And then next question on your reinsurance plan, you guys historically have had a very conservative plan in place. Obviously with the recent weather over the last couple years and this quarter in particular, any thoughts kind of after this year, going forward sort of restructuring that plan at all.

Steven Johnston

Oh, that's a good point, Matt. I mean, I think about that quite a bit. Talk with Tom, Joseph and our brokers and I think we will take a full look at our program when it comes time for our renewal, which is a one-one renewal. But I think your point is well taken and we will be investigating all of our alternatives in terms of structure.

Matt Warman
Keefe, Bruyette & Woods

Okay, great. And then just last question looked like there was some sizeable, favorable on the E&S book. Any color there?

Steven Johnston

Yes. We are conservative reservers. We've been conservative with all of our segments including excess and surplus lines. And we started out using more - not having our own E&S data, more data from our similar lines within our company, industry data. And this time for the first time we were actually felt comfortable using our own E&S data. And I think it showed favorable development particularly on the lost adjustment expense side. And I think it makes sense in that we tend to write lower limits in our E&S book than we do in our other lines of business which makes it have some common sense behind the favorable development that we're seeing.

Matt Warman
Keefe, Bruyette & Woods

Okay, great. Thanks very much, guys.

Steven Johnston

Thank Thanks, Matt.

Operator

Your next question comes from the line of Vincent DeAugustino from Stifel Nicolaus. Your line is open

Vincent DeAugustino
Stifel Nicolaus

Good morning.

Steven Johnston

Good morning, Vince.

Vincent DeAugustino
Stifel Nicolaus

Just real quick this topic comes up a lot given its importance to your investor base with August coming up and being the typical dividend raising time of the year, I'm curious what metrics do you look at as a hurdle rate for continued dividend increases. And I guess how are you feeling about sustained increases when 2011 that will probably be the fourth consecutive year of combined ratio north of 100. And then I guess I would go on the limits and say that you would agree with the assessment that Cincinnati probably has the excess capital to handle an increase. I'm just curious if there is any rating agencies pushback with a payout ratio near above 100% for a few years now.

Steven Johnston

Good question Vince. It's timely given the quarter and I anticipate it's a natural question. We see in terms of the quarter, we see the quarter as an income statement event. It hit our income statement hard. The balance sheet though remained largely unscathed. I think our risk management efforts kicked in. The premium surplus ratio is at 0.8 to 1 which is where it was at the end of 2010. Our book value per share is actually up $0.11 over the first half. Our leverage remains less. So as you point out, we have the balance sheet strength to continue our dividend policy.

We did cover the dividend in 2010 as you mentioned the payout ratio was high. But we were able to cover it and we - given that we feel that our balance sheet has been unscathed, we still see that this quarter happened. We're putting it behind us. We think the initiatives that we have in place to improve the operating results of the company will pay off and will put us in a position to continue on with our dividend strategy.

We always have to put in the caveat that it's a board decision. And we discuss the dividend policy with the Board actually every quarter but we feel we're still in the same position that we were at the end of the year.

Vincent DeAugustino
Stifel Nicolaus

Great. And then one more if I may I'm curious if the new geographical business if that's inherently more profitable maybe because there is less of a need to ensure renewal of existing business and maybe less precedent setting with the agents. So I'm wondering if maybe new regions you can come in a little bit higher but without the same renewal concerns as in existing markets or if there is some sort of learning curve on new business in those regions that kind of prevents such an advantage?

J.F. Scherer

This is J.F. relative to the new areas we've had the good fortune as we opened up new states or expanded the new territories to do so with experienced field reps. In all of those areas fortunately for us the reputation of our company precedes us. Agencies want to do business with us. There is a more deliberate effort on their part to build a profitable book of business with Cincinnati Insurance Company for no other reason. If they do that then they're less apt to appoint their competitor so they protect us from the beginning of the relationship. And because it's important that we achieve success together, I think they give us a bit more attention than they might other carriers.

Having said that, and we do measure the loss ratios we're seeing in newer areas and on a trended basis, we're actually seeing that those loss ratios are more profitable than existing areas. So we think we continue to do it right and that we don't explode on to the scene in any of these states. We take a very long-term approach right from the very beginning. And we have been successful in all of the new states where we've entered.

Vincent DeAugustino
Stifel Nicolaus

All right, great. Thank you so much. .

Steven Johnston

Thank you, Vince.

Operator

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

Josh Shanker
Deutsche Bank

Good morning, everyone.

Steven Johnston

Good morning, Josh.

Josh Shanker
Deutsche Bank

I was looking through the queue and noticed that you said you rolled out the predicative modeling tools in commercial lines this quarter and it will be a full rollout. I guess when I say this quarter I mean 2Q and full rollout in 3Q. I'm wondering how that is going to affect ratios in worker's comp it still seems like you're still around 140% combined and what we can hope for going forward.

Steven Johnston

You're right; we are continuing to roll out the predicative modeling. We have rolled it out for the personal lines. The worker's comp has been actually rolled out for a few quarters now. It's gaining traction. And I think that when I look at the accident years particularly with the long tail line like workers' comp, I try to look at it over a longer period of time and we think we're seeing improvement. If we look at the loss ratio that we had in place for the full year of 2010, this would be the accident year before catastrophes obviously catastrophes and workers' comp that's 106.5. For the six months we're down to 102.3.

Josh Shanker
Deutsche Bank

Loss or combined?

Steven Johnston

So we see improvement grant we would hope that it would be quicker. But I think that also some of the non-rate items that we into place in terms of claims handling, loss control, all the initiatives that we have in place take a bit of time to show up in the data. In other words, we want to be sure that what we're seeing is real. But we have seen a lot of positive signs in terms of not only rate but the other initiatives that we have in place to improve worker's comp. And I don't know if maybe J.F, Marty, Mike, anybody else wants to chip in anything else on that.

J.F. Scherer

No. I think you covered it fair I think we're pretty happy with the traction we're getting. The new business that we are writing in comp as a result of the models are coming in at more favorable modeled scores than in the past. So we think we're laying the ground work for success in the future in that regard. So I think all of the initiatives we have going in worker's comp are showing good progress.

Our loss ratios in the other lines property, casualty and auto have been pretty stable. They actually are pretty good. We're very happy with what we're seeing with the new model though it's been in test we're going to roll it out to all of our field underwriters in August as well as all of our HQ underwriters. So the experience we've had with workers' comp, the implementation of it as another tool for underwriting I think has been beneficial for us and we have a lot of confidence that the modeling that we're going to be doing on the balance of the book of business will make a contribution too.

Josh Shanker
Deutsche Bank

And what about loss trend? A couple of your competitors who have reported before you say they have seen uptick in loss trend on workers' comp.

Steven Johnston

Josh, this is Steve. Actually I want to make one comment before I jump into the loss trend. Just to make sure to point out, and I'm sure you've seen it that we had had favorable development on prior years during the first half of 16.9 loss ratio points. That is consistent with the 12.6 points of favorable development we had at year end 2010 and so I always like to point out when we look at the accident year that we're consistent in our reserving practices as we have favorable development on the prior years keep in mind that we are being consistently conservative on our pick for the current accent year, such that our reserve margin in total we can keep consistent from the beginning of the period to the end of the period for all accident years.

Josh Shanker
Deutsche Bank

Absolutely.

Steven Johnston

And then in terms of the trend, our trends of late have been benign. I think we may have been early on to adjust the trends that we saw back in 2009. Our reserving systems which I think are pretty state of the art kicked out what we thought to be some increasing trends. We took strong action in 2009 if I remember right we added about $49 million in reserves in 2009. Since then, since we made that change, it's been pretty stable. I think we've seen a decrease in frequency, an increase in severity that's been pretty benign, such that our loss cost trend has been consistently benign of late.

Josh Shanker
Deutsche Bank

Great. And one small question, its small line but not one I understand well, in the specialty practices although there is a big drop-off of premium and a significant amount of cap losses. Do you have any thoughts on what went on there to help me understand what you're doing there?

Steven Johnston

I can speak to the cat losses in terms of the premium. We'll touch that later but in terms of the cat losses, we do write a lot of our small business and it's coded into this specialty package, and it really was just like the rest of our property lines hit hard in terms of the catastrophe losses. And so it was exactly as you see it in terms of the cat loss effect. Do you want to take a shot at this?

Steven Johnson

Yes. Josh, on the specialty packages, we have some lines of business such as churches in that and some of that business is being moved to standard package policies. And so which gives us an opportunity to get better rate. There is nothing broken in that particular line of business just some movement of premiums.

Josh Shanker
Deutsche Bank

So 10 million went out of especially in packages and was divided up between commercial property and commercial casualty probably?

Steven Johnston

Yes. And then one other thing to consider and I agree 100% with what J.F. said, with the catastrophe losses happening, we've had reinstatement premiums that we paid. We touched on 38 million for the quarter and so that is going to be allocated to lines where the actual catastrophe losses were incurred and so the specialty packages is going to get a proportionate share based on their losses of the reinstatement premium allocated and that is going to have a negative impact on the premiums.

Josh Shanker
Deutsche Bank

Thank you for all of the color as usual.

Steven Johnston

Thank you, Josh.

Operator

Your next question comes from the line of Scott Heleniak from HBC capital market. Your line is open.

Scott Heleniak
RBC Capital Market

Scott Heleniak with RBC. How are you doing?

Unidentified Company Speaker

Hi, Scott.

Scott Heleniak
RBC Capital Market

Just a couple questions. The first is obviously the cat losses were pretty significant in the quarter just wondering if this particular quarter changes your strategy at all as far as reducing property exposure in certain regions or just causing you to not write the business unless you're getting significant rate increases. So just wondering if you can touch on that as far as whether the policy count in homeowners in particular as you expect that to change at all or potentially shrink?

Steven Johnston

Scott, I think that when you have tornadoes, it is a fairly random event in terms of where it hits, very devastating where it hits. I think our strategy and we recognize our concentration, so you're making an excellent point. The strategy has been more to write more premiums in our expansion states out west and Texas and Utah. We're into several new states out there. We're getting I think over 20% of our homeowner new business coming from our seven expansion states. So I think while we look at our exposures where we have concentration, the main emphasis in terms of our geography is to write more in more dispersed areas such that when any event hits a particular area it has less impact on our overall results.

Scott Heleniak
RBC Capital Market

Okay. You said 20% of new business that's just in homeowners that you're talking about?

Steven Johnston

Yes.

Scott Heleniak
RBC Capital Market

Okay. And then some of the other competitors that have mentioned a lot of non-cat related weather losses. I'm just wondering if you saw that same sort of impact. I didn't really see much mention in the release about that.

Marty Mullen

Yes, Josh. This is Marty Mullen. Exactly we've experienced the same type of non-cat weather issues in commercial and personal lines. You know adjacent states not involved in the cats but also sustained significant weather. Tide claims impacting the loss ratios.

Scott Heleniak
RBC Capital Market

Okay. And then my only other question was just based on the E&S unit which is wrapping up well had favorable development. I'm just wondering are you writing any different risks or accounts than you were when you started this business a few years ago and do you expect that to change? What do you think the business will look like as far as premium volume in a few years assuming the market gets better? How much can you wrap that up?

Steven Johnston

Well, I would say what we've experienced here this year on the E&S side has been a bit more activity of standard market carriers putting price pressure. Our hit ratios are down a bit. We continue to write about 85% casualty lines, 15% property. We have added some miscellaneous professional lines to the business. We don't really feel that we need to expand our appetite aggressively. We have a lot of opportunity within our current agency force to write the E&S business they currently write.

One of the things that we are beginning to do is add field underwriters to our marketing efforts and underwriting efforts for the E&S business. Up to this point, all the ENS business would have funneled in here to headquarters. After having first gone through our standard market field reps, it would come in here for under writing and pricing.

We have individuals who we believe are capable that are now going to move out into the field, call on agencies in person, just as that model has worked beautifully for us on the standard side, we think that will help us continue to write business in our agencies without any aggressive increase in our appetite. Our agencies write somewhere around $2 billion in excess and surplus lines business.

If you were to eliminate half of it as business that would not fit our appetite, we have an opportunity to write a billion dollars with a model that is pretty attractive. And so we think the balance of casualty to property is about where it will be. I think it's worth mentioning that we're not trying to write this in big chunks. Our average premium this year is just a little over $4,800. The medium size policy we issued in CSU our excess and surplus line company was just a little over $2,100. So we're very much a special events conservative writer. Some agencies because they're pretty comfortable with us, are working real hard at moving a lot of the business our way.

Scott Heleniak
RBC Capital Market

Do you write E&S through all of your agencies right now?

Steven Johnston

Well, we write ENS, and this is a point to be made only new Cincinnati company agents. We do not use wholesaler market. So it's only appointed Cincinnati insurance agents that write through us. I think it's worth mentioning also that the premium and losses from excess and surplus lines business is included in or co-mingled with the premiums and losses with their standard business for purposes of the profit sharing we offer to our agencies.

So in addition to the incentive of writing business with us because there is no middle person involved, because our field claims reps will handle claims because our loss control reps will provide lost control services where none is available in the standard excess and surplus lines marketplace. The agency also has an opportunity to earn profit on that business which is an incentive for them not to put poor excess and surplus lines business with us but to be more careful and thoughtful about the business they send our way.

So we think we have a fine model. We do business only with the agencies with whom we have a relationship and we have good knowledge. And so having said that and given the opportunity that exists within our own agencies, we think we can keep our appetite about where it is and grow nicely.

Scott Heleniak
RBC Capital Market

Okay. Thanks a lot.

Steven Johnston

Thank you.

Operator

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

Paul Newsome
Sandler O'Neill

Hello, guys and thanks for the call. One follow-up question to the - I would like to push back on the strategy of improving catastrophe exposures by geographic diversion. I'm looking at your results for the last four or so years. They look pretty tough. Doesn't that suggest on sort of state by state basis within the current territories you are underpriced for catastrophe losses given how the persistent the losses have been year over year and wouldn't that be not helped at all by the geographic improvements you maybe have a better weighted average return but you would still be underpriced in the geographies that you are from a catastrophe loss area. Am I just missing something?

Steven Johnston

No, Paul. That's a good point and I probably should have addressed it. You're absolutely right. We can't and I didn't want to suggest that we weren't doing you know taking corrective actions within our current operating territories. We are taking rate. We're trying to get rate add adequacy. We're trying to get the most rate on those policies that we think have the highest expectation for future losses. I think a lot of our activity has taken place in coastal states. We've done a good job in Florida over the past three years or so of reducing our exposure down there such that our average annual loss from hurricane, the expected value of that has dropped from 13.6 million a year to three. We've taken similar action in Mobile, Alabama, Savannah. We've taken rate in our current states that we operate in so it has to be a total effort. And I should have given that more full description when I was talking about the geographic expansion.

Paul Newsome
Sandler O'Neill

Great. Thank you.

Steven Johnston

Thank you, Paul.

Operator

[Operator Instructions]. Your next question comes from the line of Vincent DeAugustino from Stifel Nicolaus. Your line is open.

Vincent DeAugustino
Stifel Nicolaus

Thanks for taking the follow-up just the one here. I'm curious if there is any strategic plans for the life segment other than its diversification benefit. It just seems like there could be some cross opportunity there given the strong agency relationships or maybe even in the group life product space.

J.F. Scherer

Vince this is J.F. we do have efforts where we in particular in the work site marketing payroll deduction life insurance side where we exchange information about commercial accounts that we write on the property and casualty side with life company to try to take advantage of writing more life insurance particularly on a voluntary basis. We have many property and casualty agencies as they grow larger, as they see particularly with the soft market on the property and casualty side they've been much more open to other revenue strings. They're putting life insurance specialists in their agencies. Frankly we have good luck with general agencies. Life only shops in the communities in which we operate as well. About 70% of our premiums come from property and casualty distribution the balance from life only distribution. So we have many initiatives in place in try to bolster the life company's activities. We probably see a fair amount more agency appointments in that area and a bit more cross selling.

Vincent DeAugustino
Stifel Nicolaus

Great. Thanks.

Operator

[Operator Instructions]. And I'm showing no further questions at this time. I turn the call back over to the presenters.

Steven Johnston

Okay. Thank you, Stephanie. There was a memorable quarter one we hope we never do again. I do think our claims adjustors did a phenomenal job, both in their service and their estimates. In our preannouncement, we estimated that we would have catastrophe losses for April and May between $240 million and $290 million. And it's actually come in right at that midpoint so not only in terms of service but in terms of the accuracy, a big complement to our claims adjustors. So I thank all of you for your participation and we look forward to speaking with you at our next call if not before, thank you.

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