S&P Global
Market Intelligence

Cincinnati Financial Corporation NasdaqGS:CINF

Earnings Call

Tuesday, February 7, 2023 4:00 PM GMT

Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

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

Stephen Michael Spray
President & Director

Steven Justus Johnston
Chairman & CEO

Steven Soloria

ANALYSTS

Grace Helen Carter
BofA Securities, Research Division

Jon Paul Newsome
Piper Sandler & Co., Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

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

Michael David Zaremski
BMO Capital Markets Equity Research

Presentation

Operator

Good day, and welcome to the Cincinnati Financial Corporation Fourth Quarter and Full Year 2022 Earnings Conference Call. [Operator Instructions] Please note that this event is being recorded. I would now like to turn the conference over to Dennis McDaniel, Investor Relations Officer. Please go ahead.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our fourth quarter and full year 2022 earnings conference call. Late yesterday, we issued a news release on our results, along with our supplemental financial package, including our year-end investment portfolio. To find copies of any of these documents, please visit our investor website, cinfin.com/investors. The shortest route to the information is the quarterly results link in the navigation menu on the far left.

On this call, you'll first hear from Chairman and Chief Executive Officer, Steve Johnston; and then from Executive Vice President 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 President, Steve Spray, and Cincinnati Insurance's Chief Investment Officer, Steve Soloria, Chief Claims Officer, Marc Schambow, and Senior Vice President of Corporate Finance, Theresa Hoffer.

First, please note that some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties. With respect to these risks and uncertainties, we direct your attention to our news release and to our various filings with the SEC.

Also, a reconciliation of non-GAAP measures was provided with the news release. Statutory accounting data is prepared in accordance with statutory accounting rules and therefore, is not reconciled to GAAP. Now I'll turn over the call to Steve.

Steven Justus Johnston
Chairman & CEO

Good morning, and thank you for joining us today to hear more about our results. We see positive momentum in several areas and are bullish about our future prospects despite 2022 financial results that were somewhat below our expectations. Challenges during the year included elevated inflation and higher losses from natural catastrophe events for us and the property-casualty industry in addition to the market volatility affecting the valuation of investment portfolios.

Our experience in managing adversity, coupled with the company's financial strength allows us to maintain a long-term view and supports our confidence as we execute our plans. Net income for the fourth quarter of 2022 was just over $1 billion. That's 31% or $457 million less than last year's outstanding fourth quarter largely due to $307 million less benefit on an after-tax basis in the fair value of securities held in our equity portfolio.

Non-GAAP operating income of $202 million for the fourth quarter was down $118 million from a year ago, including catastrophe losses that were $66 million higher on an after-tax basis. Our 94.9% fourth quarter property-casualty combined ratio was 10.7 percentage points higher than the 84.2% for the fourth quarter of last year, which was amongst the best combined ratios we've ever recorded.

We think longer-term comparisons are also important. On a current accident year basis, excluding catastrophe losses, our 90.2% combined ratio compares favorably with each of the 5 years prior to 2020 and was 1.5 percentage points better than the average for that period with each accident year measured as of the respective year-end. On a calendar year basis, our 2022 combined ratio experienced a larger negative impact from catastrophe losses than in 2021 as they increased 4.2 percentage points for the fourth quarter and 1.2 points for the year. Inflation also pressured our combined ratio throughout 2022 contributing to less favorable results for both the current accident year and for reserve development on prior accident years as we have increased reserves for estimated ultimate losses.

We've responded with actions to improve underwriting selection and pricing, including premium rate increases and increased expectations by underwriters as they factor inflationary trends into areas such as risk selection criteria, pricing of policies and adjusting premium factors for changes in exposure. We believe we can successfully balance prudent underwriting and business growth to improve results next year with a 2023 GAAP combined ratio in the low to mid-90% range. We also believe our 2023 property-casualty premium growth rate can be 8% or more.

We recognize that weather and significant changes in industry market conditions that influence insurance policy pricing trends or some of the variables that will affect the property-casualty results we ultimately report. In recent quarters, we've noted that commercial umbrella loss experience has been elevated, although still elevated in the fourth quarter, it was to a less degree than earlier in 2022. While recent profitability for our commercial umbrella business is not as strong as we previously estimated after strengthening reserves during 2020, the average combined ratio for the years 2018 through 2022 were still good, below 85% on a calendar year basis and below 90% on an accident year basis with development through year-end 2022.

overall premium growth was very good and continues to incorporate pricing segmentation. Our underwriters work to retain and write more profitable accounts while also addressing ones that we determine have inadequate pricing. They do an excellent job serving Cincinnati Insurance-appointed agencies that are outstanding at producing business for us. Consolidated property-casualty net written premiums rose 10% for the fourth quarter and 13% for the full year of 2022. That includes a 13% increase in fourth quarter renewal written premiums with a significant portion from higher levels of insured exposures as we factor in elevated inflation. In addition to exposures increases, our Commercial Lines Insurance segment continued to experience estimated average renewal price increases in the mid-single-digit percentage range, higher than the third quarter. Our Excess and Surplus Lines Insurance segment continued in the high single-digit range.

Personal lines average renewal price increases were at the high end of the low single digits with both auto and homeowner higher than in the third quarter. As we previously disclosed, we expect premium rates for our personal auto line of business will continue to rise. Based on our rate filings that have averaged low double-digit rate increases for policies effective beginning January 1, 2023, we expect the full year 2023 personal auto written premium effect will be an average premium rate increase of approximately 10%. Policy retention rates improved from year-end 2021 with our Commercial Lines segment moving higher in the upper 80% range and our Personal Lines segment, rising to the low to mid-90% range. Moving on to highlight premium growth and profitability by insurance segment, the Commercial Lines segment grew both fourth quarter and full year 2022 net written premiums, 9%. Its combined ratio for both the quarter and full year 2022 was approximately 99%. That's above where we aim for and reflects elevated inflation effects and catastrophe losses that were higher than a year ago.

For our Personal Lines segment, net written premium grew 16% for the quarter and 15% for the full year 2022 as we continued our planned expansion of high net worth business produced by our agencies. Its full year combined ratio was approximately 99% and reflected elevated inflation effects and is likewise above our near-term profit target. We have confidence that our proven long-term strategy and near-term actions we have taken will blend to improve results for both commercial and personal lines.

Our excess and surplus line segment finished the year with a 90.4% combined ratio, a good result, combined with 2022 net written premium growing 18%. Cincinnati Re and Cincinnati Global each had another year of healthy growth. Cincinnati Re grew full year 2022 net written premiums by 27% with a combined ratio of 97.4%.

Cincinnati Global had a 2022 combined ratio of 88.9% with net written premiums growing 23%. Our life insurance subsidiary continued its good performance with full year 2022 net income of $66 million, up 50% from a year ago and term life insurance earned premiums grew by 5%.

On January 1 of this year, we again renewed each of our primary property-casualty treaties that transfer part of our risk to reinsurers. Our strong capital supports retaining additional risk and managing cost of rising reinsurance-ceded premiums. For our per-risk treaties, terms and conditions for 2023 are fairly similar to 2022, other than premium rate increases that averaged approximately 13%.

The primary objective of our property-casualty treaty -- catastrophe treaty is to protect our balance sheet. The treaty's main change this year is retaining a greater share of losses for layers of coverage than what was effect for 2022, while adding $92 million of coverage in a new layer between $900 million and $1.1 billion.

In 2023, we'll retain all of the first $200 million of losses and the share of the next $900 million for a catastrophe event compared with 2022 when we retained the first $100 million and the share of the next $800 million. Should we experience a 2023 catastrophe event totaling $1.1 billion in losses, we'll retain $542 million compared with $499 million in 2022 for an event of that magnitude.

We expect 2023 ceded premiums for these treaties in total to be approximately $130 million, approximately $16 million or 14% higher than the actual $114 million of ceded premiums for these treaties in 2022. Our investment department continued to perform quite well, and Mike will provide some details. Investments is another area where we like to keep an eye on longer-term trends.

For example, for the 5 years ended with 2022, our equity portfolio, compound annual total shareholder return was 11.1%, 170 basis points better than the S&P 500 Index. I'll conclude with the value creation ratio, our primary measure of long-term financial performance. Net income before investment gains or losses contributed favorably to VCR 2.1% for the fourth quarter and 5.2% for the full year of 2022. The contribution from valuation of our investment portfolio was mixed, 10.5% favorable for the quarter but unfavorable by 19.4% for the year due to challenges for both the stock and bond markets. A positive VCR of 12.8% for the quarter improved our 2022 full year VCR to negative 14.6%. Although that's below our expectations for a typical year, the 11.2% annual average over the past 5 years is within our annual average target range of 10% to 13%. Now, our Chief Financial Officer, Mike Sewell, will add comments about several other important points for evaluating our financial performance.

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

Thank you, Steve, and thanks to all of you for joining us today. Investment income continued to grow at an outstanding pace, up 12% for the fourth quarter and 9% for full year 2022 compared with the same periods of last year.

Dividend income rose 7% for the quarter. Net equity securities purchased during 2022 totaled $36 million. Bond interest income was up 11% in the fourth quarter. The pretax average yield of 4.16% for the fixed-maturity portfolio was 17 basis points higher than a year ago. The average pretax yield for the total of purchased taxable and tax-exempt bonds continue to rise to 5.01% during full year 2022.

We continue to emphasize investing in fixed-maturity securities with net purchases during the year totaling $788 million. Valuation changes for our investment portfolio during the fourth quarter of 2022 were favorable in aggregate for both our stock and bond holdings.

The overall net gain for the quarter was nearly $1.3 billion before tax effects, including an additional $230 million of unrealized gains in our bond portfolio. At the end of 2022, total investment portfolio net appreciated value was approximately $4.7 billion. The equity portfolio was in a net gain position of $5.5 billion, while the fixed-maturity portfolio was in a net loss position of $847 million.

Cash flow, in addition to rising bond yields contributed to the 7% increase in interest income we reported for the year. Cash flow from operating activities for the full year of 2022 generated almost $2.1 billion, a record high amount, up 4% from a year ago.

For the fourth quarter of this year, it rose 36%. Turning to expense management. Our objective is to appropriately balance expense control with continuing to make strategic investments in our business. The full year 2022 property-casualty underwriting expense ratio was 0.2 percentage points lower than last year reflecting lower accruals for agency profit-sharing commissions. Regarding loss reserves, our approach remains consistent and target net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves.

We have now had $34 million of net favorable development on prior accident years. As we do each quarter, we consider new information such as paid losses and case reserves and then updated estimated ultimate losses and loss expenses by accident year and line of business.

During 2022, our net increase in the property-casualty loss and loss expense reserves was $1.029 billion, a 15% increase from the net reserve balance at year-end 2021. The IBNR portion of that reserve addition was $765 million a further indication of the quality of our balance sheet. For full year 2022, we experienced $159 million of Property and Casualty net favorable reserve development on prior accident years that benefited the combined ratio by 2.3 percentage points.

Of that $159 million in net favorable development, $25 million of the net unfavorable amount from our commercial casualty lines of business, including an unfavorable $41 million for commercial umbrella and a net favorable $16 million for other coverages included in commercial casualty. On an all-lines basis by accident year, net reserve development for the full year 2022 included favorable $96 million for 2021, favorable $124 million for 2020, unfavorable $72 million for 2019 and a favorable $11 million in aggregate for accident years prior to 2019.

Our approach to capital management also remains consistent, and we repurchased shares that include maintenance intended to offset shares issued through equity compensation plans. We still believe we have plenty of flexibility and also believe that our financial strength is in great shape. During the fourth quarter of 2022, we repurchased just over 101,000 shares at an average price per share of $109.55. As in the past, I'll conclude with a summary of the 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 $0.47.

Life insurance operations increased book value $0.10. Investment income, other than life insurance and net of noninsurance items added $0.83. Net investment gains and losses for the fixed income portfolio increased book value per share by $1.14. Net investment gains and losses for the equity portfolio increased book value by $5.15. And we declared $0.69 per share in dividends to shareholders. The net effect was a book value increase of $7 per share during the fourth quarter to $67.01 per share. Now, I'll turn the call back over to Steve.

Steven Justus Johnston
Chairman & CEO

Thanks, Mike. We faced a number of challenges in 2022 and still recorded an underwriting profit for our insurance business. That result bolsters our belief that we'll see future benefits from our efforts to continually refine pricing precision and segmentation and our efforts to expand our geographic footprint and produce -- and product offerings. When you consider our financial strength, our experienced service-oriented associates and our Premier Agency force, I'm confident we'll be able to continue delivering shareholder value far into the future.

Our Board of Directors shares that confidence and expressed it by increasing our quarterly cash dividend 9% last month, setting the stage for a 63rd year of rising dividend payments. So that's not just paying the dividend for 63 straight years. That sets the stage for increasing the dividend for a 63rd consecutive year. We believe that's a record that can only be matched by 7 other publicly-traded U.S. companies.
As a reminder, with Mike and me today are Steve Spray, Steve Soloria, Marc Schambow and Theresa Hoffer. Cole, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Thank you. And we will now begin the question-and-answer session. And our first question today will come from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Good morning. Congratulations on the year of the quarter. I was hoping you could give us a little bit more color on investment income, which given the higher interest rates, your view on how much the portfolio yield could improve over the course of the year? And any thoughts on changing or different -- the allocation that you've had the last many years here in terms of buys versus equities and what you're doing within those fixed income as well?

Steven Soloria

Paul, this is Steve Soloria here. Just in terms of moving forward, the allocation will remain virtually the same. We've taken advantage of the increase in rates over the course of the year to our benefit. We'll continue to do so, but we'll try and maintain an even keel and stay disciplined in our allocation moving forward.

In terms of last year, the -- as mentioned previously, the aggregates or kind of blended rate for the year was about 5%. Comparing that year-over-year, a year ago, we were at about 3.5%. So we picked up about 150 basis points on purchases over the year. Looking forward, as the Fed begins to hopefully slow down the rate increases, we'll probably see a bit of a pullback in the purchase yield moving forward, but we think we've booked some pretty nice yields over the course of the year, which will benefit us for the next 8 to 10 years.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Maybe as a second question, could you give us some further thoughts on claims inflation for the commercial line side of the house. Obviously, social inflation is top of mind to everyone in the business. And do you think the uptick in what you're doing with pricing is sufficient to overcome what you perceive as the prospective inflation improves.

Steven Justus Johnston
Chairman & CEO

Thanks, Paul. This is Steve. And we do see the inflation. As we just mentioned, have had our reserves developed favorably now for 34 years. And as a part of that, we try to be very prospective as we look at how we set our reserves and our pricing and be very prudent about it. And we do think that we are in a position for our rates to keep pace and exceed inflation. And I think that comes from a combination of the pure net rate increases I went over in my fixed part of the call here and also exposure increases that we're getting both in personal and commercial lines.

Jon Paul Newsome
Piper Sandler & Co., Research Division

So do you think the underlying claims inflation is essentially less than combination of the exposure benefit plus the pure rate? Or do you think it's actually even lower than the pure rate at this point?

Steven Justus Johnston
Chairman & CEO

I think the combination of the 2, they're both kind of intertwined in terms of the overall premium that we're able to charge. And the exposure base does contemplate to a certain degree, the inflation and building costs and so forth.

Operator

And our next question will come from Mike Zaremski with BMS.

Michael David Zaremski
BMO Capital Markets Equity Research

This first question -- thank you for the commentary about the reinsurance renewals and I'll admit I'll need to kind of sit down and think through it on paper a bit more. So I'm asking this comes on the slide. But if I think back to historical guidance you've given us on the catastrophe load, I found, back in '18, you kind of talked about 6 to 7 points.

Obviously, over the last few years, it's been, I think, directionally closer to 10, but it could be a bit off on the math. So kind of I guess, just given what the increased retentions and what you just kind of discuss, should we be kind of splitting those 2 and thinking the new normal with what's going on in reinsurance is going to cause the catastrophe load to be kind of between the historical guidance and kind of what your last few years have been? Or just any help there would be great.

Steven Justus Johnston
Chairman & CEO

Sure, Mike. This is Steve again. And I think what we really focus on is the loss ratio points. And what we've done really over a decade or more is to model all of our losses. And what we've been able to do is to push our accident year ex-cat down over a number of years.

And that puts -- and then we also have grown our balance sheet significantly. And that puts us in a position, I think, that's enviable right now as reinsurance rates rise and that we can look at what we think we're getting in terms of price adequacy on our book as well as protection of our balance sheet through our CAT program. And so while we don't give guidance on a cat loss ratio, I think that we do feel that we're in a good position in terms of the overall in managing both our accident year ex-cat showing 34 years of favorable reserve development and also managing our cat exposure across the company.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's I guess just then in the past, you've talked about the combined ratio target low to mid-90s. And also in the past, you've also talked about kind of 95 to 100. Is the -- just to be clear, is there -- is one like more of a short-term versus a long-term target? Or has there anything changed given what's taking place with the reinsurance costs or maybe higher investment income is an offset to how you think about the combined ratio?

Steven Justus Johnston
Chairman & CEO

You're right. Nothing has changed. And the 95 to 100 is a longer-term target through all cycles and the low to mid-90s is what we're looking for in the shorter term for 2023.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. And just maybe sticking moving to the commercial side of the portfolio. It feels like there's -- on the commercial property side, you're readjusting exposure and you'll get in front of that in terms of pushing rate on the commercial property side to get in front of inflationary trends.

You said on the commercial umbrella side, though, that things remain elevated, but not as elevated as kind of how you had re-upped your loss picks in previous quarters. Anything you've learned kind of over the last 3 months on the commercial umbrella side piece of the business that has given you insights into maybe kind of the need to just reshift the portfolio or anything that's maybe been distinct to Cinci and maybe not just reflective of the overall industry's social inflationary issues?

Stephen Michael Spray
President & Director

Yes, Mike, Steve Spray. Great question. I really do think the driver is the elevated inflation effects that we're seeing. We look at -- as I've commented on the past, we look at every single large loss and just see if we can see any trends whatsoever, it still seems to be rather random in that umbrella excess line.

Like we said last quarter, though, all hands on deck. The entire book needs rate. We are getting rate into the book to cover that inflation. But we underwrite every single risk on its own merits. And the vast, vast majority of the umbrella excess policies we write. As a company, we write the underlying too. So we know the risk. We underwrite each risk, like I said, on its own merits, and we are looking at each risk, the pricing, the terms, conditions.

We look at specific venues, specific fleets. So to determine how much capacity we want to put out there. So it's a -- and again, it's a risk-by-risk scenario that we do, but it needs -- the book needs rate.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And maybe lastly on growth and maybe sticking with commercial lines, thinking about the growth outlook you laid out in the prepared remarks. Is there anything incremental that's coming from any initiatives that you would want to call out? I believe there's a -- about a small commercial BOP initiative or I'm sure there's other initiatives too. Or is it really just mostly pushing exposure adjustments and maybe some pricing power through '23?

Stephen Michael Spray
President & Director

I think it's -- again, Steve here, Mike. I think it's all of the above. I think it's exposure. I think it is rate. Steve alluded to, our retentions remain strong. You talked about our small business platform we call Cinergy that rollout is going extremely well. That's feedback from our agents, still pretty early in the game, but the rollout is going rapidly. We couldn't be happier with that.

So we see a lot of good prospects there. Our E&S company continues to produce outstanding profitable results and strong growth. Personal lines. You can see the growth there has been very, very strong as well, both on the high net worth and middle market. And I think we're confident and feel good that we're in a good position in Personal Lines and that we we're a strong player, both middle market and now high net worth. High net worth is about 51% of our total premium. So the growth trajectory there has been extraordinary too.

Operator

And our next question will come from Mark Dwelle with RBC.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A couple of questions. First, this is just kind of a numbers question. The level of dividend income within total investment income was up a little bit in the quarter and also for the full year. Is there anything in particular that is driving that other than -- I mean I don't think average corporate rate dividend increases have been as high as 12%, but maybe they are.

Steven Soloria

Mark, this is Steve Soloria. We did have a couple of unique factors over the course of the year. We did have 2 companies pay special dividends. LyondellBasell paid one early in the year, which was about $5 million. And then in December, CME usually pays a special dividend, but the dividend that they paid this year was well in excess of what we had expected. So those 2 special dividends really, really factored into the increase in dividend income year-over-year.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And the second question, this is just a reiteration, I guess. Steven, I think it was in your comments talking about the reinsurance treaty -- it's something -- and I'm just trying to write what I heard. So if you -- on a $1 billion of total losses, you would have $542 million of exposure in the new treaty versus $499 million. Is that -- that's $1 billion of aggregate losses? Or is that a single-event loss?

Steven Justus Johnston
Chairman & CEO

Yes. No, good question, and I will clarify that a bit. So I wanted to make sure to kind of put things on an apples-to-apples comparison. So this year's program 2023 goes up to $1.1 billion. And so we have moved up a bit as our equity has grown, our GAAP equity has grown, our premium has grown, we feel we are in a position to move the program up a bit, but we wanted to buy more at the top end.

So to put it kind of on an apples-to-apples basis, I used a hypothetical $1.1 billion loss for both years, 2023 and 2022. And you're right on for the '23 year, we would have $542 million of exposure. So that would include the $200 million up to the attachment point plus co-participations. And that compares with $499 million for 2022 -- in the 2022 program.

Mark Alan Dwelle
RBC Capital Markets, Research Division

And then, again, just to clarify, that's on an aggregate basis for the full year or that's on a per event loss?

Steven Justus Johnston
Chairman & CEO

Per event. Per event.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Per event. Got it. So if there were $2 billion storms -- 2 storms that cost Cincinnati Financial $1 billion in a year, then it would be double each of those respective figures, again, just for comparison.

Steven Justus Johnston
Chairman & CEO

Right. We have reinstatement provisions in the contracts.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Of course. Okay. All right. And then another question just -- can you remind me within Cincinnati Re, what proportion of that business is property catastrophe oriented as compared to being specialty or liability lines?

Steven Justus Johnston
Chairman & CEO

Yes, I have it. And you know it's interesting. We don't necessarily target a given percentage, but our 2022 full year in our inception to date are really pretty close. And for property, both from 2022 and inception to date, it's a little over 30% of the premium. For casualty, it's right in that 55% range. And for specialty, it's a little over 15% for the year and a little bit lower than that for the year-to-date, probably about 13%. So across time, it's been very consistent in that 30-plus range for property 53-ish for casualty and 15% or so for -- they didn't quite add up. I better make it get to 100%, so more like 30%, 55% and 15% across time.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Any outlook you'd like to share on how your January 1 renewals might skew those percentages?

Steven Justus Johnston
Chairman & CEO

No. I think it's a little early on the January 1's, but -- it's one nice thing as buyers of reinsurance, we're seeing the cost go up. It's almost like a little bit of a hedge in that we have Cincinnati Re, we've got very talented people there, very experienced people, and you see that shining through in a market like this. And they are benefiting from the firming rates and firming terms and conditions that you read about.

Operator

[Operator Instructions] Our next question will come from Greg Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

I'm thinking about the guidance for 8% plus premium growth in 2023. Like we keep hearing about potential for a macro slowdown. I was just wondering if you could go over the macro assumptions that underpin that guidance.

Steven Justus Johnston
Chairman & CEO

Yes. It's a good point. At 13% for this year, that's the highest percentage growth in net rent premium we've had at Cincinnati Insurance since 2001. And so we do recognize that there could be a slowdown. We're not predicting that necessarily or giving guidance on it, but it's possible as you point out, we want to be disciplined in our underwriting. Profit always comes first with us. And so our guidance is for a little bit less than what it was this year, but we are still very optimistic across all of our business areas in terms of the growth that we're seeing, the relationship we have with our agents, the technology we have, the models that we have, we feel very bullish about growth, but we did temper back a little bit from where we are for the full year, just to be cognizant of the points that you bring up, even though I wouldn't say that we're predicting it for sure.

Grace Helen Carter
BofA Securities, Research Division

And looking at the attritional loss ratios for commercial property and homeowners in the quarter, they were a bit improved versus the first 9 months of the year. So I was just wondering if there is any sort of change in trend regarding frequency or severity that you've observed for those lines? Or if this is just kind of normal variability just given the volatility of those lines can see?

Steven Justus Johnston
Chairman & CEO

Grace, I'm sure there is some of that volatility that you can see, but I also know there's a lot of hard work that's been going on in addressing property. And it predates our addressing and say umbrella, for example. And it's nice to see the hard work of our underwriters and really everybody throughout the company chipping in here in terms of underwriting, loss control, pricing. And I do think it's paying off.

Operator

And our next question will come from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

So just going back to thinking about the combined ratio goals for the company. Are there specific lines of business you'd like to call out and maybe they're obvious, maybe it's commercial casualty and commercial property both. But were there kind of the most wood to chop when we're thinking about improving the combined ratio in outer years?

I guess when we look at the pricing disclosure that you offer us the mid-single-digit plus numbers. It's -- the pricing, I guess, isn't at levels that are -- I don't know, maybe I'm wrong, are like extremely high levels relative to inflationary levels. So just kind of curious where you feel you have the most wood to chop over the coming couple of years.

Steven Justus Johnston
Chairman & CEO

Yes. We haven't provided that any lower than at the company-wide level. And it's really because it's a big team effort. Every one of our operating areas is focused on profit improvement, and we're seeing it across the board from underwriting to claims to loss control in the pricing and underwriting part of it.

We are reflecting on the property in the exposure, the increase in inflation. We were trying to reflect that. And we're also getting a pure net rate on top of that and really feel that with our accident year ex-cat wood is and the underwriting that we're doing in terms of cat exposure and geographic diversification that we're in a good spot to hit the numbers that we gave in the comments.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And just when we think about kind of trajectory of potential improvement, should we be kind of just keeping there's some element of multiyear policies that are coming -- that are within the portfolio or comps there kind of getting easier or maybe there's less multiyear policies than there were in the past. Any nuances there we should be cognizant of?

Stephen Michael Spray
President & Director

Yes, Mike, Steve Spray. And it kind of goes to your prior question, too, is those average for us, the average net rate change just doesn't tell the full story and the underwriters working with our agents in segmenting the book, the tools that they have in front of them to really focus on getting rate and terms, conditions on those policies where we feel we are probably least adequate. And then also focusing on retention of the business that's so adequately priced. That's where the rubber is really meeting the road, and that segmentation is really helping to drive those results.

Operator

And our next question will come from Meyer Shields with KBW.

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

Go ahead. I'm going to try Mark's question from a slightly different perspective, if that's okay. Historically, Cincinnati has been a very methodical company. And I'm wondering now that you've got reinsurance and Lloyd's capabilities, can -- is it reasonable to expect maybe faster reaction to take advantage of temporary opportunities like property cat seems to be this year?

Steven Justus Johnston
Chairman & CEO

Yes, Meyer. That is an excellent point. And I think in both areas, I think particularly in Cincinnati Re, as they have been looking at these policies, both quantitatively and qualitatively on a one-by-one basis and are in a position to react quickly to these types of opportunities, and that was part of the strategic decision at the beginning.

Stephen Michael Spray
President & Director

Meyer, I might -- Steve Spray, I might add, too, just because it's a great question. I think it's a great point. As our E&S company, CSU, founded and we started back in '08, gives us that kind of flexibility for our agents as well. And I think we've learned a lot as that has continued to grow to the point now where we're issuing homeowner business on an E&S basis and able to provide our agents and the policyholders they have that flexibility and capacity and solutions.

And I think the same thing is going to happen for our agents as we go forward and give them -- what I'll call or what I think we would call just that much more effective access to Lloyd's. So everything we develop as a company is focused on that agency strategy. And so bringing the agents more flexibility, more capabilities is certainly in the plans today and moving forward.

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

Okay. Perfect. That's very helpful. Related question with regard to the agencies. One of the theories that's been banding around is that a lot of, let's say, regional or mutual companies don't necessarily have the capital seeing the property-related volatility that the reinsurance market is kind of forcing back to the primary carriers. And I was wondering, based on your conversations with agents, is that like a phenomenon that they're seeing? And does that underlie some of the growth expectations for '23?

Stephen Michael Spray
President & Director

I think it is probably a little early to tell what the 1/1 renewals and then 4/1 and 6/1, how that's going to impact quite frankly, any carriers. I'd tell you, insurance is -- for us, insurance is a local business there, and there's a lot of great regional mutual companies out there that we compete with on a day-to-day basis. It's something we do think about, but not hearing a lot of feedback yet. We've seen -- anecdotally, we've seen a couple of instances where the reinsurance, either the lack of or the costs have put pressure on some maybe a little more regional carriers, but I think it's too early to tell what the full impact will be. It's certainly something that -- it's a great question, something that we're keeping our eye on.

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

Okay. Fantastic. And one last question, if I can. I was just looking for a little more color on the reserve development, specifically within excess and surplus lines.

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

Yes. Great, Meyer. This is Mike Sewell. And let me start off. We're really proud of our 34 years of -- consecutive years of net favorable development. So I'm going to open up with that. But related to E&S, were you thinking about on a year-to-date basis or on a quarter basis, are you looking?

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

So mostly, I guess, on the -- I'm going to call it volatility I'm not sure that's the right word, but the quarterly number [indiscernible] of a lot.

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

On that. So for the E&S business, let's say, for the quarter, we saw a $4 million of reserve strengthening. But on a year-to-date basis, it was $9 million of favorable development. Thinking about it on the year-to-date basis, it was really favorable for all the accident years except the more recent accident year '21. And so we did see favorable development for 2020, 2019, and before. What I would say is we follow a consistent approach. I wouldn't look at 1 quarter, 2 quarters as a trend. So you'll see some things move. But we've got the same actuarial professionals that are doing the work. They're looking at how the case reserves develop, the paid losses, other factors.

And so we really just follow the great work that our actuaries do. And I think it's a pretty consistent approach. So I wouldn't necessarily look at it on a quarter-to-quarter basis and say that, that is some sort of a trend.

Operator

And this will conclude our question-and-answer session. I'd like to turn the call back over to Steve Johnston for any closing remarks.

Steven Justus Johnston
Chairman & CEO

Thank you, Cole. Excellent job, and thank you all for joining us today. We look forward to speaking with you again on our first quarter 2023 call. Have a great day.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.