S&P Global
Market Intelligence

Cincinnati Financial Corporation NasdaqGS:CINF

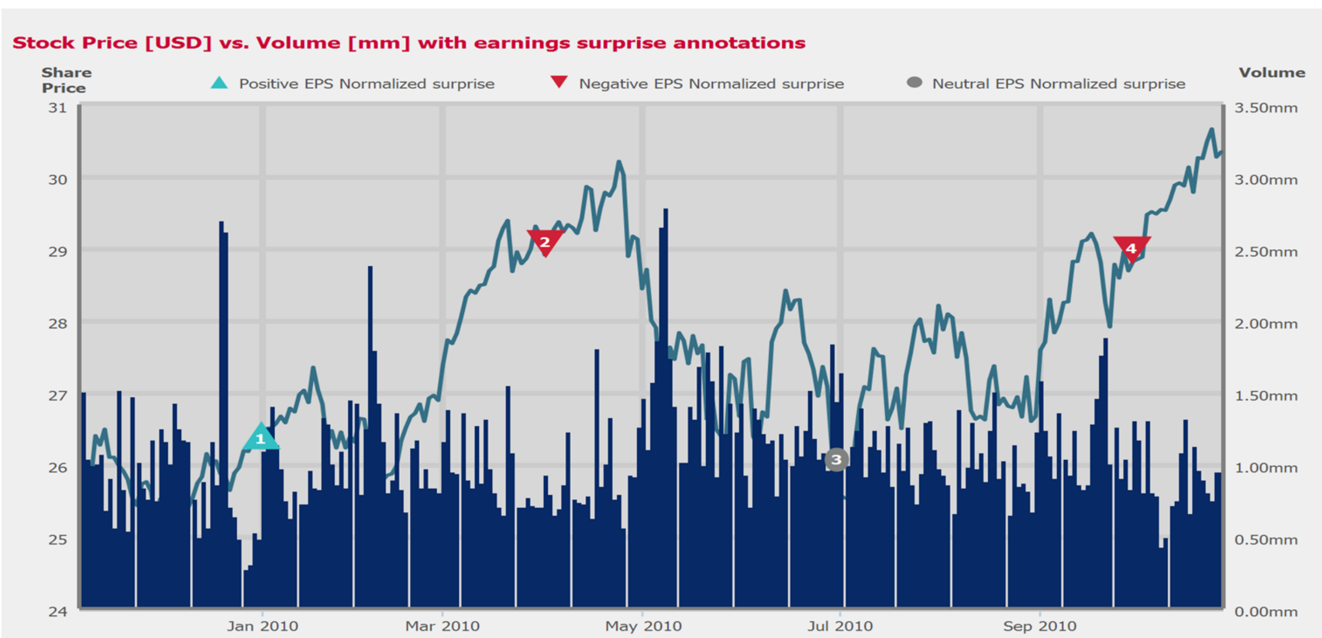
FQ4 2010 Earnings Call Transcripts

Thursday, February 03, 2011 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2010-			-FQ1 2011-	-FY 2010-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.37	0.70	89.19	0.35	1.35	1.68	
Revenue (mm)	905.30	936.00	3.39	905.63	3682.97	3772.00	

Currency: USD
Consensus as of Feb-03-2011 2:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2009	0.52	0.53	1 1.92 %
FQ1 2010	0.44	0.39	2 (11.36 %)
FQ2 2010	0.26	0.26	3 0.00 %
FQ3 2010	0.40	0.34	4 (15.00 %)

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President, CEO & Director

ANALYSTS

Caroline Steers
Macquarie

Ian Gutterman
Adage Capital

Josh Shanker
Deutsche Bank

Scott Heleniak
RBC Capital Markets

Vincent D'Agostino
Stifel Nicolaus

Presentation

Operator

Good morning. My name is Simon, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cincinnati Financial Fourth Quarter 2010 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

Mr. McDaniel 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 our Fourth-Quarter and Full-Year 2010 Earnings Conference Call.

Late yesterday, we issued a news release on our results along with our supplemental financial package. To find copies of any of these documents, please visit our Investor Web site, www.cinfin.com/investors. The shortest route to the information is in the far right column via the quarterly results quick link.

On this call, you'll first hear from Ken Stecher, President and Chief Executive Officer and Chief Financial Officer, Steve Johnston. After their prepared remarks, investors participating on the call may ask questions. At that time, some responses maybe made by others in the room with us, including Chairman, Jack Schiff, Jr.; Executive Vice President of Sales & Marketing, J.F. Scherer; Principal Accounting Officer, Eric Mathews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer, Marty Mullen.

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.

With that, I'll turn the call over to Ken.

Kenneth William Stecher
Non-Executive Chairman of the Board

Good morning and thank you for joining us today to hear more about our fourth-quarter and full-year results. Our fourth-quarter results were good, the highest quarterly operating income in three years. For the year, we outperformed 2009’s combined ratio and operating income, covering our shareholder dividend through operating results.

After paying our $0.40 per share quarterly dividend, we grew book value per share $0.11 during the quarter despite a significant decline in bond portfolio valuations for us and others in our industry.

Part of the book value growth was from appreciation of our equity holdings, further demonstrating how our portfolio mix contributes to long-term shareholder value creation. For the year, our value creation ratio was 11.1%. That's within a percentage point of our targeted range for the annual average in any five-year periods.

We believe that several initiatives to improve our insurance profitability and premium growth will drive stronger value creation over the next several quarters. We've increased our shareholder dividend now for 50 consecutive years, and we'll continue working to reward shareholders and other stakeholders for years to come.

Investment income for the fourth-quarter was up 2% compared with the third quarter. Steve will provide more details on that plus portfolio evaluation changes. I'll just note that we expect lower prevailing interest rates to continue pressure investment income trends for us and other companies.

Our relatively higher concentration in stocks means we have additional opportunities for growth of dividend income, an addition to capital appreciation.

Given the pressure on interest income, we recognized the need to continue to execute on strategic initiatives to improve underwriting results and profitably grow our business. We intend to do just that in order to achieve our performance objectives.

We successfully executed our 2010 premium growth initiatives growing net written premiums by 2% after ending 2009 with 3% premium decline. We reached a record high for new business written premiums at $414 million, an increase of $9 million or 2% over 2009.

Personal Lines drove the $9 million increase in new business, contributing $15 million and total net written premiums for Personal Lines grew steadily, ending the year up 9% including 10% in the fourth-quarter.

Personal Lines market conditions have improved, increasing the impact of our initiatives for improved pricing precision, easier to use policy processing technology for our agents and expansion in the new states and agencies.

Targeted rate increases help grow renewal written premiums by 7% for the year. Those increases should continue to improve combined ratios over the next several quarters as the written premium increase is earned.

For our Commercial Lines segment, net written premiums were down 26 million or 1%, which is a nice improvement from the 6% decline in 2009. While we are still seeing commercial renewal pricing declines in the low single-digits, we continue to benefit from entering into new states.

In 2010, net written premiums growth from five states since late 2008 was $29 million. The drag from audit premium returns diminished as the year progressed and the effect was nearly flat by year end. We expect to see positive contributions from audit premiums in future quarters as our general liability and workers' compensation lines benefit from the recovering economy.

We made very satisfactory progress in developing and delivering several important information technology initiatives. Agents continue to comment favorably on our Commercial Lines policy processing technology

The system now is available in a total of 30 states as we achieved the goal we communicated to you a year ago of deploying to 19 states in 2010. Our excess and surplus lines net written premiums rose 47% to $58 million in 2010.

As the year progress, we saw more standard lines companies running business that was formally in the E&S market. We demonstrated discipline by scaling back on new business, increasing it by only $3 million compared with an $18 million increase the year before. While renewing excess and surplus lines policies we obtained price increases averaging in the low to mid single-digit range.

Our life insurance subsidiary also continued to register growth with earned premiums up 10% and fixed annuity deposit premiums up 11%.

Coming to underwriting results for most of our property casualty lines of business, we maintained a healthy level of profitability. For all lines under the workers' compensation, homeowner and excess and surplus lines, the 2010 combined ratio average 95%.

Net profitable core business represents almost 80% of our property casualty premium volume. On an all lines basis, the 2010 combined ratio improved 2.8 percentage points to 101.7%.

We continue to develop pricing precision tools to keep the healthy lines profitable and to improve the unprofitable ones. We continue to believe the property casualty underwriting performance is our most powerful lever to growing operating earnings.

We are now using predictive modeling tools incorporating pricing analytics to increase pricing precision in our major Personal Lines of businesses after workers' compensation.

We plan to add the remaining major Commercial Lines of business during 2011 and that will support our goal of underwriting each line of business at a profitable level. Existing tools for pricing precision will continue to be improved including further integration into our process existence and workflows.

In late 2010, we implemented another round of significant rate increases for our homeowner lines. We plan similar increases in 2011 to continue moving these lines of profitability as rate increases are earned.

We've previously discussed additional workers' compensation initiatives focusing on claims handing and loss control that we believe are working in approving results to that line of business.

Our excess and surplus lines' 2010 combined ratio improved 40 percentage points and 115.4%. Startup expenses are leveling off and our progress toward the underlining profitability is meeting our expectations.

In summary, we have successfully achieved completion or reached major milestones for several initiatives during the past two years. That builds confidence that we'll continue to execute our strategy for ongoing profit improvement and growth. You'll hear more in future quarters about new initiatives and our progress on several that are ongoing.

Now, Steve will give you his perspective on results for the fourth-quarter and the year.

Steven Justus Johnston
President, CEO & Director

Thank you, Ken. The fourth-quarter was profitable with casualty underwriting, life insurance operations and investments, all contributing to strong operating earnings.

2010 was noteworthy in that Cincinnati Financial increased our dividend to shareholders for the 50th consecutive year. That puts us in an exclusive group with approximately 10 other publicly-traded companies that have a 50-year or longer track record.

The strong fourth-quarter resulted in operating earnings that covered our shareholder dividend both for the quarter and the full-year. Our value creation ratio goal is to average between 12% and 15% annually over a five-year period. For 2010, the VCR was 11.1% and for 2009, it was 19.7%.

The fourth-quarter combined ratio of 93.1% improved the full combined ratio by 2.8 points to 101.7%. Catastrophe losses contributed just 7/10 of the loss ratio point to the quarter and 5.1 points for the full-year.

The full-year underwriting expense ratio was 32.8%, no change from 2009 and slightly better than the estimated range of 33% to 34% target in our first quarter conference call. Property casualty reserves or prior attributes developed very favorably dedicating the fourth-quarter combined ratio by 17.6 points.

For all of 2010 prior accident reserves developed favorably by 10.3 loss ratio points compared with 2009 favorable development of 6.4 points.

Our reserving philosophy remains unchanged. We have a very consistent approach resulting now and in 22 consecutive years of favorable development of prior accident year's reserves.

We continue to target total reserves in the upper half of the actual range and we believe that our shared reserves are in virtually the same position within the actual range at the end of 2010 as they were at the end of 2009.

Nearly, all of the favorable development for accident years 2007 through 2009 with majority of it coming in our commercial casualty line of business.

Our updated loss reserve estimate shows each of these accident years developing favorably by an average of about 7 points. There is no assurance that accident year 2010 will develop similarly, but we can assure that we have been consistent in our reserving practices.

Now for some detail on investments, our diversified approach to investments produced solid results for both the quarter and the year. Pre-tax investment income decreased slightly to $130.1 million for the quarter from $130.9 million a year ago.

For the full-year pre-tax investment income increased $17 million to $518 million. Higher average invested assets due in part to healthy operating cash flow more than offset declining portfolio yields. Unrealized gains before tax for our $3 billion equity portfolio grew 30% during the fourth-quarter to over $750 million.

Considerable attention has been given recently to the health of municipal bond issuers. I'd like to give you a quick profile of our holdings. Our municipal bond portfolio is approximately 63% of shareholders' equity. It consists of approximately 1,000 securities with 95% rated A, or higher. Approximately two-thirds of the portfolio is general obligation, of which, only $3 million worth are state issued and one-third of the portfolio is in revenue bonds.

Despite the fourth-quarter sell-off, our municipal portfolio was trading at over 103% of book value at year end. Additionally, we have no foreign sovereign debt exposure. As a reminder, our entire portfolio is listed and updated quarterly on our Web site.

Liquidity, the balance sheet and our financial condition continue to strengthen putting us in a solid position to grow profitably. Even after a dividend of $220 million paid to the holding company during 2010, statutory surplus through the property casualty insurance group grew by $129 million to approximately $3.8 billion at year end 2010.

At the holding company level, we continue to have just over $1 billion in cash and marketable securities and our debt to total capital ratio also improved to 14.3%.

Summing everything up, the contributions to book value per share for the quarter are as follows. Property casualty underwriting profits contributed $0.20, life insurance operations added $0.08, investment income other than life insurance and reduced by non-insurance items contributed $0.47.

The change in unrealized plus realized capital gains from the fixed income portfolios reduced with value per share by $0.99. The change in unrealized plus realized capital gains from the equity portfolio provided growth of $0.75 and we paid to our shareholders $0.40 per share in dividends.

Totaling it all up, book value increased by $0.11 during the fourth-quarter and by $1.66 or 5.7% for the full-year to $30.91 per share.

That concludes my prepared comments, and I'll turn it back over to Ken.

Kenneth William Stecher
Non-Executive Chairman of the Board

Thanks, Steve. Before, we move on to questions, let me conclude by saying we like how our assets are structured, as we see several advantages with our higher mix and equity securities. At the same, we remain confident that our reserves are strong due to the consistency of our approach. We ended the year with our usual high quality balance sheets A.M. Best A plus security rating just affirmed on December 13th.

Combining a strong balance sheet with the strength of our agency relationships and superior service along with our profit improvement and growth initiatives positions us well to profitably grow our business and create long-term value for shareholders. We appreciate the opportunity to share our optimism for the future and to hear your questions Jack Schiff, J.F. Scherer, Eric Matthews, Marty Mullen, and Marty Hollenbeck are here with Steve and me and we are all available to respond.
Simon, we are ready for you to open the call for questions.

Question and Answer

Operator

(Operator instructions) Your first question comes from the line of Caroline Steers with Macquarie.

Caroline Steers
Macquarie

I was wondering if you could please just first comment on cat losses so far in the first quarter and just whether there's been any uptick in claims versus what you saw last year?

Martin Mullen

This is Martin Mullen. Actually, in the first quarter we've had very little cat activity so far this quarter.

Caroline Steers
Macquarie

So the winter weather hasn't been a big problem for you?

Martin Mullen

No, there hasn’t been any cat declared yet for this winter storm. I’ll tell you, in last several days the claims certainly are premature at this point. We can anticipate the normal type of winter weather claims from this snow storm of collapse in water and plumbing freeze losses. But at this point, it's too early to tell how severe storm image will be.

Caroline Steers
Macquarie

So it doesn’t really seem quite yet out of the normalized amount you might see typically in the first quarter?

Martin Mullen

That's correct.

Caroline Steers
Macquarie

And then just on development, I was just hoping that maybe you guys could just break that down a little bit by line and by year and then just go over how you think about favorable development going into 2011, whether it's for Cincinnati specific or just the industry?

Steven Justus Johnston
President, CEO & Director

Caroline, this is Steve. Good question. It was very favorable quarter. I think for the year it was reasonably consistent. We had 10.4 points of favorable development, 10.4 points on the loss ratio. If you remember a year ago we did some strengthening on workers' comp. If we were to take workers comp out of both years it would have been 10.1 points in favorable development in 2010 and 9.1 points in favorable development in 2009. So I think it's a steady approach.

Commercial casualty led the way this year with about 27 points for the full-year in favorable development. Last year, commercial casualty also led the way with about 22 points of favorable development. I think the key thing to keep in mind is we have a very steady approach here.

Our claims management, some of the things I look at is, one, is the consistency in our claims management. Marty Mullen who just took over 2.5 years ago is only the fourth Head of Claims in the 50 years company history. The senior management in our claims department has over 30 years of experience. The headquarter supervisors have over 20 years of experience on average, and the people in the field average right around 13 years of experience. So, it's a very consistent approach that I don't think would result in changes in claims reporting, patterns or settlement rates, that's one thing I look at it.

Another thing is the position in the actual range. We feel that we are in virtually the same position reserve wide in the actual range at the end of 2010 that we were at the end of 2009, so we feel it's a pretty steady long-term approach to saving reserves.

Caroline Steers
Macquarie

Okay, great, and then just a quick numbers question. How much cash you guys currently have at the holding company?

Steven Justus Johnston
President, CEO & Director

I might get back to you a little later in the call. It will take us few minutes to pull the sheet on that.

Caroline Steers
Macquarie

Okay, great. Thank you.

Steven Justus Johnston
President, CEO & Director

Thank you, Carol.

Operator

Your next question comes from the line of Vincent D'Agostino with Stifel Nicolaus. Your line is open.

Vincent D'Agostino
Stifel Nicolaus

Good morning, everyone. I guess just two questions. Looking at snowfall accumulation and I guess getting back on the topic of first quarter cats, I was just curious how many inches of accumulation either from a single event or say, in like a week or so, how many inches would it take before you guys would expect to see a meaningful increase in a roof collapse type claims for either home owners or CMP in your core states? And then just one follow-up. Thank you.

Martin Mullen

This is Marty Mullen, Vincent. It’s a pretty difficult question to answer specifically because of the type of snow it is hitting those particular areas, heavy snow, light snow, if there is windblown snow, if it’s drifting, a lot of those issues apply to the type of damages you can expect from collapse, as well as the type of construction in the different areas that we have, the types of roofs, flat roofs and then certainly on commercial roofs. The age of the building is certainly a factor. So all those will interplay with what the frequency rate might be of the impact of the high snow banks on the roofs.

Vincent D'Agostino
Stifel Nicolaus

I guess changing gears then. I guess this is the second quarter of strong term life premium growth. Do you think we’re at the point yet where consumers are loosening up a bit and picking up coverage that they may have lapsed over the course of the recession or can we just chalk that up to Cincinnati-specific expansion growth in new areas or agency appointments? Thank you.

J.F. Scherer

Vincent, this is J.F. Scherer. We continue to get a nice amount of premiums from our property and casualty agents that represent about 70% of our life premiums. The term insurance improvement I think is reflected of some improvement in rates on our part making our products more attractive. We also see because the economy is a bit poor, people would invest more in term insurance than they would in a cash value-based life insurance. So I think for us the improvement is probably less industry-specific than it is just that we continue to improve our penetration and our success in our agency force.

Kenneth William Stecher
Non-Executive Chairman of the Board

Real quick I might provide the answer to the earlier question of Caroline Steers, we have about $38 million in cash at CIC Holding Company only, of the $385 million total consolidated to the group in cash.

Move on to the next question now.

Operator

Your next question comes from the line of Scott Heleniak with RBC Capital Markets. Your line is open.

Scott Heleniak
RBC Capital Markets

Hello, good morning. Just had a couple of quick questions on Personal Lines, first, I noticed there was an uptick in severity in some of the claims you had some large claims in the quarter. Just wondering if you could give a little bit of detail on what you are seeing there and whether that's continued into 2011.

Steven Justus Johnston
President, CEO & Director

Scott, this is Steve. You are right on, we did have some large losses in the Personal Lines side, and we had some buyers towards the end of the year around Christmas time. A couple of large buyers. We also had more than usual number at UM claims, so I think you are right on target, we do not see the trend, really haven't seen it in the first quarter that I am aware of.

Scott Heleniak
RBC Capital Markets

Okay. And then also on Personal Lines wondering you are getting nice price increases, I was wondering if you had some detail on what kind of price increases you are getting in auto versus homeowners. And where your policies and force count stands now, what kind of growth you are seeing there as well. I don't know if you guys have any of those metrics to share?

Kenneth William Stecher
Non-Executive Chairman of the Board

You're right; we're getting good premium growth. I think it's more on the homeowner side than the auto and the upper single-digit for the homeowners, there are lower single-digit for the auto. We are seeing growth in policy accounts still and maintaining our persistent fee ratios even with the rate increases. I don't have exact policy account number. We got more to trend and the trend has been moving up.

In terms of where we are we feel we still need rate, we feel we attain rate adequacy in several of our states and we're getting close to others, but we are going to continue to need to move the rate higher, but I think we're heading in the right direction, it is going to take us a little while to earn these rate increases, but we feel we're moving in the right direction for the Personal Lines segment.

Scott Heleniak
RBC Capital Markets

Okay. So the rate increases you referenced those will be applicable for this year or is that fourth-quarter you expect that number to stick this year as well?

Kenneth William Stecher

Non-Executive Chairman of the Board

We tend to take the rate increases in Personal Lines during the late third-quarter and fourth-quarter, so we'll probably in the next round same time in 2011.

Scott Heleniak
RBC Capital Markets

And next question, this is probably for J.F. I noticed that when you look at the states, the growth in Texas ramped up pretty significantly in 2010, just wondering how you are able to ramp up that growth in that particular state that quickly if you learn anything, I know it's obviously a bigger market, but just wondering how you're seeing that business ramp up a little bit quicker than some of the other states that you expanded in the past few years? Was there anything behind that?

J.F. Scherer

Yes, Scott, exactly. Our new business in Texas was $21.4 million and then Colorado, another new state was $8.7 million. I think Texas is, as much as anything purely a function of size. The population, we've got 33 locations in Texas now we've appointed. That has been quicker. Two years ago, I probably wouldn't have anticipated perhaps it being that quick we have five territories now, five experienced field reps down there, we'll be adding a sixth territory this upcoming year.

Receptivity in Texas from those agencies has just been excellent. We've done some things pretty aggressively. We placed field claims representatives in the state really before we had any real financial justification to do. We didn't have that many claims, but we wanted to have Cincinnati field claims reps prepared to handle claims from the very beginning of our relationship with our agents there. We have loss control on the ground there.

So, we've ramped up, if you will, our infrastructure, which, for us is our individuals working out of their homes pretty quickly in response to just how responsive the agents were to our model, so, we're pleased with how things have gone there.

Our two territories in Colorado improved this year over the last. We've added a third territory there and are taking the same approach there. We want field claims reps, loss control folks there so that we know what we're writing, and we get great service right from the very beginning. And then our agencies, in an effort to persuade us, not to over-appoint agencies in their area will focus on growing their book of business with our company. So, new states on the drawing board, this year, we hope to see some progress then with the Oregon where we'll have two territories here shortly and then Connecticut. So we’re very pleased with how things have gone in the new states for us and we’ve done nothing special, Cincinnati model all the way.

Kenneth William Stecher
Non-Executive Chairman of the Board

Okay. That’s helpful. Scott, this is Ken Stecher. I have some policy account information for you, if you like that.

Scott Heleniak
RBC Capital Markets

Sure.

Kenneth William Stecher
Non-Executive Chairman of the Board

On automobile at the end of 2009, we had 269,000 policies, at the end of ’10, 290,000 and homeowner 359,000 at the end of 2009, 379,000 at the end of 2010.

Scott Heleniak
RBC Capital Markets

The only other question I had left was just on investment portfolio. I know you touched a little bit on your municipal exposure and obviously, equities has had a pretty strong run here in the past few months and into this year, just wondering how you're looking about equities in munis right now and whether you will be adding or trimming to these net exposures given what's going on in the marketplace right now, or was it just status quo?

J.F. Scherer

I don't think we are going to actively downsize either those two portfolios. You probably know the munis market in the fourth-quarter was the worse in almost 17 years. Arguably, there is some value we had. They are depending on what side of the arguments you're on.

In equities, no, type of equities we buy dividend paying, dividend growing stocks, we feel do well through most all market cycles and they certainly tend to outperform in down cycles. Any addition there is going to be within some constraints that we place on size of the equity portfolio, as it relates to several internal metrics. So I don't see a significant downsizing now.

Scott Heleniak
RBC Capital Markets

Okay, thanks.

Operator

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

Josh Shanker
Deutsche Bank

My question was, if we go in a little bit into the favorable development and talk about the vintage of what's maturing and what not?

Steven Justus Johnston
President, CEO & Director

This is Steve Johnston, Josh. Good to hear from you this morning. We are seeing most of the favorable development coming from accident years 2007, 2008, and 2009 that happening in 2010. By line, commercial casualty will be the one with the most favorable development but all-in-all it's been favorable overall. It's part of the consistent approach, a place where we feel we are in the same position in the actual range at the beginning and the end of the year. Our consistent approach has now resulted in our 10-K showing 22 years in a row, favorable development.

But in specific answer to your question, during 2010, favorable development came from accident years '09, '08, '07 for the most part and each one them has averaged about seven points of favorable development from the position of which they started.

Josh Shanker
Deutsche Bank

And given the methodology, I know you obviously certify that reserves are your best approximation of where they should be at the moment. But do you have thoughts on the trend continuing and what not?

Steven Justus Johnston
President, CEO & Director

I think the fact we feel that the reserves are at the same position in a actual range now that they were at the beginning of the year, tends to give us a feeling that we would see favorable development again as we go forward.

Josh Shanker
Deutsche Bank

And if I think back, I know a lot of you guys have been there for a while. What's different now about reserving than maybe it was around 10-15 years ago? It seems like that Cincinnati is showing favorable development as some of a newer trend, and in fact, in the past, you’ve had higher ROEs on core business, but lower favorable development. Now we're having lower ROEs on core business, but a lot of favorable development, has something changed in the company?

Steven Justus Johnston
President, CEO & Director

Josh, we don't think it's changed, it is consistent, as we say it's been 22 years now that we've had favorable development, so maybe some of them been here longer than I might want to comment but I'll tell you it seems like a very consistent approach both from the actuarial side and the methodology there.

And then as mentioned earlier, the people in our claims department have been in place nearly for decades. The transition between managers has always been very smooth and measured not something that I would see with probably reflection here or there generating any changes in procedure.

Kenneth William Stecher
Non-Executive Chairman of the Board

Josh, this is Ken Stecher. when you’re talking about ROEs, are you referring to just our profitability, the total capital retained earnings, shareholders equity because before we started to saw off the equities, the financial stocks, a lot of unrealized depreciation and that drove down our total profits to shareholders equity quite a bit, because obviously, we're earning less on those investments, so are you referring to that, are you looking at that?

Josh Shanker
Deutsche Bank

I’m looking at very long-term history here and trying to break out ROE from what I would say is core underwriting results versus ROE from overall underwriting results. And the contribution from favorable development is obviously quite high right now, much, much higher than it's ever been anytime I'm seeing in the past.

Kenneth William Stecher
Non-Executive Chairman of the Board

One other thing that's been transpiring is, we have been moving a larger percentage of our business is Commercial Lines versus Personal Lines. That's been transitioning over the last 10 years to 15 years. And obviously, the Commercial Lines were much longer tail lines, so that maybe part of it. I don't have any further…

Josh Shanker
Deutsche Bank

Well, congratulations on a very good quarter.

Kenneth William Stecher
Non-Executive Chairman of the Board

Thank you.

Operator

(Operator instructions) And your next question comes from the line of Ian Gutterman with Adage Capital. Your line is open.

Ian Gutterman
Adage Capital

Thank you. Good morning. I guess I wanted to ask a little bit different question on reserves and I had some Personal Lines questions. I guess, to be honest, you guys have always had an outstanding reputation for your reserves, and if I recall you've never had a reserve shortfall. So, I'd not question the integrity of your reserves at all, but I'm wondering if you could just help me understand, when I hear numbers like 27 points out of commercial casualty one-year and 22 points the next, so that's 50 points total. If I heard that from some of your competitors, my eyebrows would raise, right, just how could there be so much redundancy?

So, can you help me understand just a little bit about maybe how you reserve a little bit differently from other companies, or just how your profits maybe different that we get such large emergence at one-time from the line like that? Is this going back? I know it's this much your recent accident years, but 50 cumulative points makes me think maybe it's going back five years or 10 years.

Steven Justus Johnston
President, CEO & Director

This is Steve. I'll take the first shot and I think Martin has some comments as well. It's been a consistent approach. Again, I think the claims management has been consistent. Within the actuarial area we have some pretty sophisticated models to address in multiple dimensions, utilize paid losses, to take out some of the variability that may be there in case reserves and just basically what we have seen, I don't think we'll learn in this and the commercial casualty area we have just seen things both paid losses and incurred in the more recent periods just develop much more favorably than the models predicted they would have a couple of years ago.

Ian Gutterman
Adage Capital

I know there are some companies who have practices of essentially being higher above the midpoint of range in early years, but gradually being a little bit less about the midpoint as time goes by, do you guys do something like that, that would sort of automatically pre-dispose you to being more conservative upfront and letting the things emerge overtime?

Steven Justus Johnston
President, CEO & Director

This is Steve. I tend to look at the total amount that's carried at the end of year and at the beginning of the year, where it falls within the actual range of estimates and look for consistency there and that's what we're seeing, that's why we booked the number we did as we felt comfortable that things have developed favorably, more favorably than the models would have projected, but we feel that we are in the same position in the range at the end of 2010 that we were at the end of 2009.

Martin Mullen

This is Martin Mullen. I just could add a few comments to Steve's. As far as the case reserving the philosophy it's always been maintained over the 30 years that I've been with Cincinnati is first of all, taking the perspective that the majority of our commercial book is in the GL side, close to 50% is on the general liability side. The commercial casualty and then ultimately the umbrella and limits that we write to support our insurers on that umbrella limit.

When we look at claim files from the issues of liability but also take a keen approach to the severity issues that exist in a file, we think it's really important to recognize the severity of the injury and damages at the outset of the case and lay those very heavily in their initial reserving process. That is the safest and the most disciplined way of looking at these large deal cases from a severity perspective.

And I think over the years of our claims staff having the experience in handling those types of cases, they develop positively from a perspective, as the years mature. But there has been no change at all as far as the way we've approached the initial reserving those cases in that general liability line that lead themselves to severity and outlook.

Ian Gutterman
Adage Capital

So it sounds like part of it is actually you've been able to manage the claims, it's part of the macro environment that's been favorable but it sounds like part of this also you've been able to manage your claims better than the initial case.

Kenneth William Stecher
Non-Executive Chairman of the Board

Well, we evaluate these cases based on the severity liability issues that exists, but we hope to arrive at a better (inaudible). If the case falls within the better defense posture but fortunately, over the years again, based on the type of experience we have in the field and the panel counsel that we use, we feel like we generate the best results in the industry.

Ian Gutterman
Adage Capital

Just moving on the Personal Lines real quick, the accident year ex the cats pumped up a bit, I know you said large losses a little bit but also looks like the auto loss ratio was up about maybe 10 points from the past couple of quarters, was there anything unusual there, was it non-cat weather?

Steven Justus Johnston
President, CEO & Director

This is Steve again and you are right. It was stubborn in the fourth-quarter and we think we are doing the right thing, we are taking rate increases on the risk that we think need grade increases and more moderate on those that we don't more rate on the home, less rate on the auto, but positive on both lines.

During the fourth-quarter, we saw rash with large fires around the holiday season and we also saw an uptick in the number of uninsured motors claims on the auto side and even the physical damage was up, it was up in nearly every lines on the Personal Lines side in the fourth-quarter. We don't see it as a trend again, we think we are doing the right things and we are confident with the old trend in the positive direction overtime.

Ian Gutterman
Adage Capital

So there is nothing that would indicate it was from the agencies that you think that are new to Personal Lines or anything like that?

Steven Justus Johnston
President, CEO & Director

We're not saying that.

Ian Gutterman
Adage Capital

Okay, great. And then just the last thing as far as the winter storms this week, I know as you said it's actually too early to have a great sense, but just I assume your phones are ringing off the hooks at the claim center. I mean do you have any sense from that as far as just the amount of inbound call activity? How that will compare to some other events?

Martin Mullen

Ian, this is Marty Mullen. Fortunately, we have the advantage with our field staff being in action living in the areas that service the agencies. We get a lot of our intelligence from the field staff living in those communities. I have to be honest, to-date we've had very positive results, (inaudible) snow, they got some ice, but things haven't trended as bad as they were predicted to be in most of our areas. Now the unknowns are the areas of Illinois, Chicago, Wisconsin, those kinds of areas unreported so far because of the significant snowfall they did receive. The early indications on some of our other Midwest territories have been trended on the positive. So far so good but we know there's a lot to be said yet for what is in the Northern territories.

Ian Gutterman
Adage Capital

I hope you don't have any of those cars that got abandoned on Lake Shore Drive because it sounds like they are going to be total losses because people can't find them anywhere, so good luck guys. Thanks. Good quarter.

Kenneth William Stecher
Non-Executive Chairman of the Board

This is Ken Stecher. Marty gave a great answer. I think one thing we could delay it, when you have that much snow and it starts to melt, it refreezes multiple times and then water would start to back up.

Ian Gutterman
Adage Capital

Yes. I could tell you. I live in Chicago, and we had that last night. We had to be clearing out some snow (inaudible) started to melt, so it will take a little bit of time I think here, but so…

Kenneth William Stecher
Non-Executive Chairman of the Board

As Marty already said, things have seemed to be somewhat optimistic, looking at sun for sure.

Ian Gutterman
Adage Capital

Okay, great, thank you guys.

Operator

And there appears to be no further questions at this time. Mr. Stecher, I turn the call back over to you.

Kenneth William Stecher
Non-Executive Chairman of the Board

Thank you, Simon. Thank you for joining us today. We appreciate your interest in Cincinnati Financial Corporation. We look forward to speaking with you again on our first quarter call. Have a great day.

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