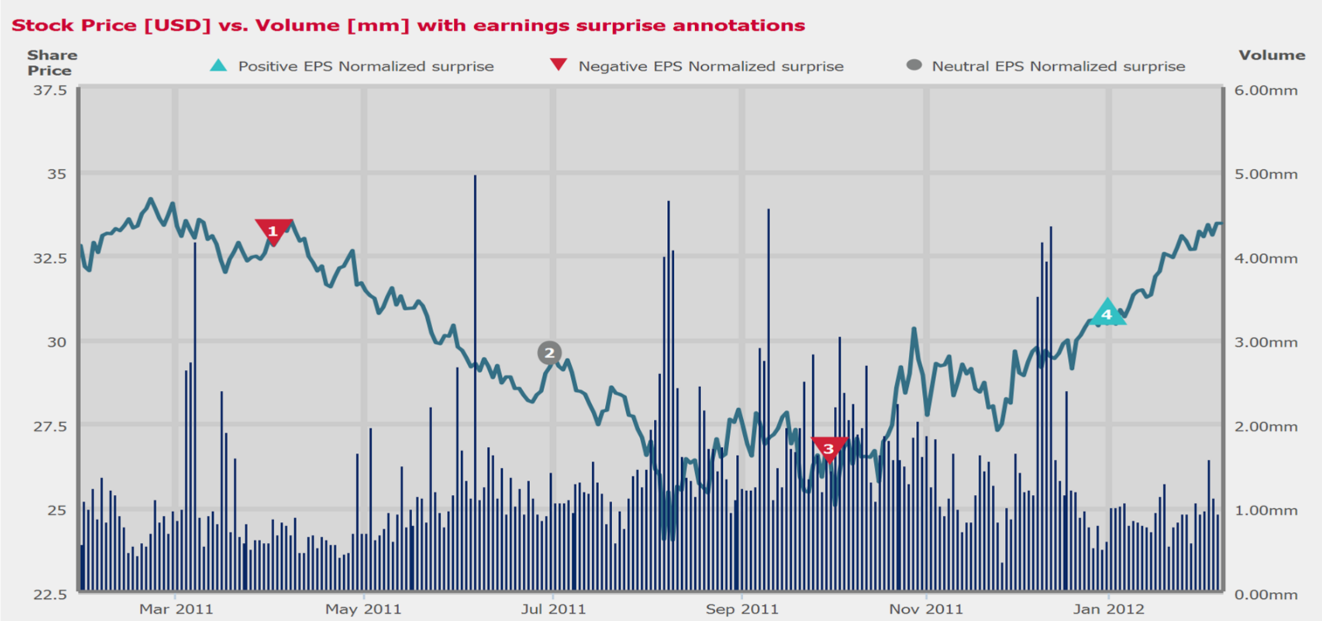
Cincinnati Financial Corporation NasdaqGS:CINF FQ1 2012 Earnings Call Transcripts

Friday, April 27, 2012 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.40	0.48	▲20.00	0.31	1.55	1.44
Revenue (mm)	958.02	986.00	▲2.92	974.60	3917.01	4088.07

Currency: USD
Consensus as of Apr-27-2012 2:22 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.37	0.33	▼1 (10.81 %)
FQ2 2011	(0.59)	(0.57)	NM
FQ3 2011	0.16	0.13	▼2 (18.75 %)
FQ4 2011	0.56	0.86	▲3 53.57 %

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Call Participants

EXECUTIVES

Dennis E. McDaniel
Vice President and Investor Relations Officer

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

Martin Mullen

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

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Ian Gutterman
Adage Capital Management, L.P.

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Ronald David Bobman
Capital Returns Management, LLC

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Presentation

Operator

Good morning. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2012 Financial Results Conference Call. [Operator Instructions] Thank you. Mr. Dennis McDaniel, you may begin your conference call.

Dennis E. McDaniel
Vice President and Investor Relations Officer

Hello. This is Dennis McDaniel, Investor Relations Officer for Cincinnati Financial. Thank you for joining us for our first quarter 2012 earnings conference call.

Late yesterday, we issued a news release on our results along with our supplemental financial package, including the final version of our quarter-end investment portfolio. To find copies of any of these documents, please visit our Investor website, www.cinfin.com/investors. The shortest route to the information is the quarterly results link in the navigation menu on the far left. On this call, you'll first hear from Steve Johnston, President and Chief Executive Officer; and 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 Hollenbeck; and Chief Claims Officer, Martin Mullen.

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 Steve.

Steven Justus Johnston
President, CEO & Director

Thank you, Dennis. Good morning and thank you for joining us today to hear more about our first quarter results. We posted a strong first quarter with nice premium growth, and most importantly, we grew profitably. Investment performance was also strong and we more than covered our dividend with operating earnings, allowing us to grow book value. Previously announced catastrophe losses at 11.1 loss ratio points were more than three times higher than our long-term average for a first quarter, and yet we produced an underwriting profit with a 99.1% combined ratio.

We continue to earn higher pricing and healthy level of premium growth in all of our property casualty segments. In our Life Insurance segments, earned premiums rose at a double-digit pace during the first quarter. Our ability to deliver more precise pricing through analytics and our strong underwriting combined with more favorable market conditions also continue to give us confidence that our premium growth meets our criteria for profitability.

Commercial Lines renewal pricing was a notch above what we experienced in the fourth quarter, with an overall average increase in the low to mid-single-digit range. Workers compensation led the way with just over a 10% increase in our smaller commercial property policies that renewed during the first quarter were in the high single-digit range.

For our Excess and Surplus line segment, renewal prices increased for the 19th consecutive month and were up in the high single-digit range for the first quarter. Our Personal Lines business is also benefiting from rate increases over successive years and renewal premiums rose 12% in the first quarter. Policy retention continues to remain steady for each of our property casualty segments and new businesses continuing-- is contributing to premium growth.

New business premiums rose 6% with the more newly appointed agencies driving that growth. Our goal for new agency appointments during 2012 is 130 and we appointed 56 new agencies in the first quarter. That puts us at over 40% of the full year target. We've been out visiting with agents at our annual sales meetings. So far we have met with agencies from 25 states and in May, we'll have meetings with the agents in the balance of our states. It is encouraging to see how skilled our agents are at conveying the value of our products and services and they continue to work with us to implement price increases where they are needed. Our pricing analytics are helpful in distinguishing the more attractive new business opportunities from the less attractive ones giving us a good sense of when to walk away from business that we believe is underpriced.

Loss experience that was favorable in many respects, added to the benefits we are seeing from better pricing. Paid losses other than catastrophes were down 1.3%, a good sign given that earned premiums were up 7.1%. Our catastrophe losses were limited to specific areas and most of our operating territory benefited from milder than usual weather.

Fewer new large losses, which we define as $250,000 or more per claim, were largely responsible for improvement in current accident year results. While we realized that large losses naturally fluctuate quarter-to-quarter, we are encouraged by overall paid loss trends, which were a big reason that we experienced favorable reserve development on older accident years. Mike will discuss that more in a moment.

The first quarter provided a good start toward reaching our annual value creation ratio target of 12% to 15% with a 4.6% contribution for the first three months. While we can't expect every quarter to include so much lift from a higher investment portfolio valuation, we like our investment strategy for the long-term and we'll stay focused on what we can control such as careful underwriting, adequate pricing and excellent claim service. Now, Chief Financial Officer, Mike Sewell will further comment on financial items including investment results and reserves.

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

Thank you, Steve and thanks to all of you for joining us today. Let's begin with investment results. Investment income remained steady, largely reflecting a 2% increase in the cost basis of our bond portfolio that offset a slight decline in average yield. The pre-tax yield for our bond portfolio for the first quarter of 2012 was 12 basis points lower than a year ago. The bond portfolio effective duration remained at the year-end level of 4.4 years. Both our equity and fixed maturity portfolios experienced significant valuation gains during the first quarter and pre-tax net unrealized gains for the total investment portfolio rose 15% to over 1.7 billion. Our investment approach remains consistent balancing current investment income with long-term capital appreciation potential.

Our approach to loss reserving likewise remains consistent and we believe the adequacy of our reserves is as good as ever. Net favorable reserve development on prior accident years was 6.6% percentage points higher in the first quarter 2012 with nearly 40% of that favorable development coming from reserves for catastrophe losses. The first quarter 2012 ratio for favorable reserve development other than catastrophes was 26% higher than the full year 2011 ratio. The net favorable development of $116 million was broad based, spread over several accident years including 24% for accident year 2011, 32% for accident year 2010, 14% for accident year 2009, and 30% for all older accident years. Every line of business contributed to the favorable development, except for surety and executive risk line.

Moving onto expense management, I'll simply say that we continue to carefully manage expenses as demonstrated by the first quarter property casualty underwriting expenses. Before agency commissions on profitable business and wage increases for good performance, both of which we're pleased to pay, other underwriting expenses were essentially flat compared with a year ago. I'll briefly touch on the effects of our adoption of the new accounting standard for deferred policy acquisition cost known as DAC, which we applied retrospectively.

Adoption resulted in adjusting first quarter 2011 net income by lowering it by $1 million. Our year end 2011 DAC for our property casualty and life segments originally reported on the balance sheet was reduced by $33 million or 6% and a book value per share was reduced by $0.13 which is only 0.4%. Net cash flow from operations was strong at $148 million, up from $91 million in the first quarter of last year, and our highest first quarter level since 2008. We had our best first quarter in terms of net income since 2007. Our capital remained solid supporting growth in our insurance segments and we ended the quarter with over $1 billion in holding company cash and marketable securities.

I'll conclude my prepared comments as usual by summarizing the contributions during the first quarter to book value per share. Property casualty underwriting profit increased book value by $0.04. Life insurance operations also added $0.04. Investment income, other than life insurance and reduced by non-insurance items, contributed $0.41. The change in unrealized gains at March 31 for the fixed income portfolio, net of realized gains and losses, increased book value per share by $0.20. The change in unrealized gains at March 31 for the equity portfolio, net of realized gains and losses, increased book value by $0.75 and we paid $0.4025 per share in dividends to our shareholders. The net effect was a book value increase of $1.40 during the first quarter at $32.07 per share. Adding the dividend, our value creation ratio for the quarter was 4.6%.

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

Steven Justus Johnston
President, CEO & Director
Thanks Mike. Our associates and agents continue to work together to execute our strategy and to help us achieve our vision of being the best insurance company serving independent agents in the United States. We remain confident in our future and steadfast in our commitment to creating value for shareholders. With me today to answer your questions and further discuss our results and outlook are Jack Schiff Junior, Ken Stecher, J.F. Scherer, Eric Mathews, Martin Mullen, and Marty Hollenbeck. With that, Mike, we're ready for you to open the call for questions.

Question and Answer

Operator

[Operator Instructions]Your first question comes from the line of Mike Zaremski from Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

So in regards to expenses, I know, you guys have been guiding to a lower expense ratio for a little while now. The decline was fairly pronounced this past quarter. Can you talk about whether there were one-time items impacting the ratio and would you expect further improvement?

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

This is Mike Sewell, and thanks for the question, Mike. Some of that we are controlling our expenses. As you've heard, we've got our other than commissions and our salary and wages, we're controlling those costs, keeping those flat. There was really not a one-time hit that was in there. One of the items that's really helping the ratio is everything that we've been doing to drive written premiums and to increase those which in turn will affect the expense ratio. So there's really a combination of increasing written premiums and then controlling cost, overall on the non-salary and commissions.

Michael Zaremski
Crédit Suisse AG, Research Division

Do those comments hold true for the loss and loss adjustment expense ratio as well which was pretty low?

Steven Justus Johnston
President, CEO & Director

Mike, this is Steve, and yes, I think, they're related and related to the level of loss activity and paid loss activity, and specifically which was down 1.3% for non-cat losses.

Michael Zaremski
Crédit Suisse AG, Research Division

Lastly, how are you guys thinking about the trade-off dynamics between retention, new business growth and getting increased rate and I asked because your retention levels have stayed pretty steady and certain competitors have decided to let retentions fall in order to improve overall margins?

Steven Justus Johnston
President, CEO & Director

I will start out here. I think that we look at business for the long term, we have great relationships with our agents, we have a definite fundamental purpose to improve our underwriting profit. So, we are taking rate where we think it's needed. We think it's very much on a risk-by-risk basis, and we feel that we are gaining price adequacy, we got rate in the lines that we felt needed it the most with workers comp leading the way with just over 10% increase, the smaller commercial property policies that renew annually, we got real high single digit increases there. So, we think we are getting the rate where we need it but we also think we are conveying the value that we bring as a company in terms of our service, our products, our field representation and it's allowing us, I think, to benefit from maintaining pretty good retention. As we look at it, retention is a bit lower on the risk that we would like to-- not be on. So, I guess, also if we look at the three-year policies, the retention there is quite high when they come off of their three year policy, we've got quite a bit of loyalty there.

Operator

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

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

If I look at Personal Lines on the statutory commission ratio it looks like that's grown a few points over the last few quarters and I am just curious you might be able to talk about that. I know, there was some changes to the agent compensation structure, but I thought that was going to be along the lines of pretty much being aggregate neutral?

Steven Justus Johnston
President, CEO & Director

I'll take a shot at that first. This is Steve. I think, couple things; one, we pay a little higher commission rate on our homeowners and we have been getting more rate on homeowners, which has allowed the premium to grow a little bit faster there in homeowners, so that's going to shift the mix a little bit in that direction. I think, the other, and you're right, we definitely target the profit sharing commission to remain pretty steady, and we think that's the case, so I think basically what we've seen is maybe just a bit of a shift in the mix of our commissions.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

That's actually really helpful. Just following up again on the personal lines side, looking at the personal auto, I know, there were some adjustments that had flown through the core loss ratio last quarter, so my first question is just to make sure if there was any adjustments that I should be looking at this quarter, but if not, it looks like there was about a 5.3 point increase year-over-year in the core loss ratio, and just because ISO data seems to be trending towards higher inflation, and we're starting to hear some commentary from some of the larger auto players, I was just curious, of your thoughts in terms of loss cost inflation on auto.

Steven Justus Johnston
President, CEO & Director

What we're seeing, and really this applies to personal auto, it applies to commercial auto and really across our portfolio, and this is Steve again, we are seeing really pretty benign trends across the board. We are seeing frequency down a bit, and severity up a bit, but all-in-all as we look at our trends, picking different time periods to look at trends, it's been very benign overall in the total paid loss trends. So, we feel that with the rate increases that we’re getting on a written basis, we’re making some ground.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

So, for personal auto in 1Q 12, I should just look at the core loss ratio that’s moving around due to normal variability that should be expected?

Steven Justus Johnston
President, CEO & Director

I think there's some noise there.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Then if I could slide one last one in. Would you happen to know what the new money yield is on the bond portfolio?

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

This is Marty Hollenbeck. First quarter corporates, we were into high 3s, real close to 4. Municipal is about 2.625, and in government bonds, I mean agencies around a 3.2 level.

Operator

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

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

The first question I have was just on new business. Just wondering what kind of quote activity you're seeing as far as new submissions? Have you seen a big uptick in that over the past couple of quarters as some of your peers kind of raise rates a little bit higher than maybe what you guys are doing? So, just first of all, just curious whether you're seeing any big change over the past couple of quarters there.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Yes, a substantial change in quote activity or submission activity in some areas. I wouldn't say that it's doubled, but field reps report that it's just an enormous fee increase in submissions. Same would be true on the Excess and Surplus line side. Obviously, the hit ratio is down, we're trying to ferret our way through all of those submissions, but it's clear that throughout the industry, carriers are pressing the price. In some cases, they're announcing that they are going to be very aggressive about their price increases which is provoking agencies to shop larger portions of books-of-business.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

So, should we expect new business growth to tick up from these levels? It had been down last sort of couple of quarters, and it was up about 6% this quarter. So, do you think pricing will rise enough that your new business growth will sort of pick up in the second half of the year?

Steven Justus Johnston
President, CEO & Director

The primary driver for the new business for us were the more newly appointed agencies over last year and this year. So we'll continue to appoint agencies. We expect to get activity there. I would presume that as rates continue to go up, the attractiveness of the stability of the Cincinnati Insurance Company, our three-year policy. We continue to do a good job in how we handle claims that's causing agencies to take a closer look at us, but we would expect modest increase quarter-over-quarter of our new business to go up.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

You mentioned agency appointments, 56 so far this year. 130 expected for the year, obviously running ahead of schedule. Was there any particular reason why a lot of those that-- had that been planned for a lot of those to be appointed in the first quarter?

Steven Justus Johnston
President, CEO & Director

Yes. We've done some longer range planning in terms of growth rates that we would expect in different states, different parts of those states. We projected the number of appointments that we wanted to make this year based on conversations we've had with our agencies in those areas and the field reps in those areas, and asked the field reps to try to get all of those appointments done quicker than normal.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

I had a question too about just the cat loss reserve adjustments that we've seen over the past couple of quarters have been pretty significant. Just wondering if-- are most of those from the 2011 year and have most of those claims been settled now so we won't see as big significant adjustments over next couple of quarters?

Martin Mullen

Right, Scott, this is Marty Mullen. Correct, most of the reserve adjustments weren't from the cat 2011 activity, a majority of it from the early second quarter cats and third quarter Irene and Lee. However, none of the adjustments were from cat 46 Tuscaloosa or cat 48 Joplin. Those two were not touched.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

And just the last question was on the investment portfolio, what was the return for the equity portfolio and the fixed income portfolio in the quarter?

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

For the equity portfolio we did 7.3%. In a big up market I think the S&P did about 12.5%. We tend to lag with our large cap quality although we did outperform in fourth quarter. And then for the fixed income, we break it out by asset class. Let me give you that, just a second here. For the corporate portfolio, we did 2.4% for the below investment grade portfolio which is not a particularly big portfolio for us, we did 4.25% and our muni portfolio did 70 basis points, that's all total return.

Operator

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

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

Obviously, I don't have a ton of data points but one of the things I have noticed so far is that the regional insurers and I would include you guys in that, seem to be growing their premium significantly faster than the large national writers. Do you get the sense that you are taking share from those large nationals, or is it just too many - too few data points that I'm looking at right now?

Steven Justus Johnston
President, CEO & Director

Paul, this is Steve and I'll give that a shot first. I don't know that I would say that and I do think it's awful few data points. I do think where we're getting a lot of good growth, as J.F. mentioned earlier is we have newly appointed agents, and also we have agents in states that are relatively new to us that we're growing in, and so I would think that the appointment strategy, the geographic diversification and expansion strategy would probably explain more of the growth. I don't know that I would go to the place of saying that we're taking share away from the larger writers.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Paul, this is J.F. I'd agree with Steve. I'd say in terms of our successes, they're pretty broad based as far as where the business is coming from.

Operator

Your next question comes from the line of Ron Bobman from Capital Returns. Your line is open.

Ronald David Bobman
Capital Returns Management, LLC

I had a question about renewals, and rates are picking up and at some point we will be lapping where insurers will be faced, I presume, with policy renewals, and I'm really asking about commercial insurance, policy renewals that will have a second year of increase and I'm wondering whether that is any reason to be concerned as a stockholder in insurers and your ability to sort of perpetuate and continue this shift to higher rates? And maybe sort of a related question, is that scenario harder for you to achieve success, than it was getting the first rate increase. Or is getting the first rate increase over years of declines far harder than getting the first renewal up again?

Thanks. I hope you understand my jumbled question.

Steven Justus Johnston
President, CEO & Director

Well as you look back to some of the hard markets and the kinds of increases that occurred, they were significant and it really created a lot of disruption. What we’re seeing in our book of business, and I think by and large in the industry, they have been fairly modest rate increases that are coming across for policyholders. So, having experienced a 3% to 4% increase, I'll pick that number out of the air, for a policyholder and then next year, something probably more than that, has been more palatable. What we’re seeing in our commercial book is that the economy is starting to show some signs of improvement. Payrolls and sales are going up, agents are conditioned and more prepared to deliver increases as long as they are not really significant.

And so, I would not anticipate. In fact, I think we're going into the rest of this year, next year knowing that rates will or at least based on what we’re seeing, that rates will continue to go up. We’re confident that we’ll be able to place those. We take a look at every renewal policy by policy and make certain that we’re as surgically as you can be, surgical about the approach that we take.

Operator

Your next question comes from the line of Ian Gutterman from Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Just to clarify, I think you guys said that about 40% of the reserve releases were from cat events, and when I look at the press release, it shows $22 million, which should be about 20% of your leases. What's the other 20%?

Steven Justus Johnston
President, CEO & Director

And I think the way I look at in terms of the favorable development here is maybe just a little bit of a higher level. We had about $116 million all in favorable development this first quarter. That's up $58 million from where we were the first quarter a year ago. Not that $58 million increase, $51 million of it came from what I call the property-oriented lines. Home owners, for example, there was $8 million difference there, there was $28 million in commercial property and $15 million in special properties which is-- programs is what our BOP is.

I think what happened is, a year ago in terms of the comparative in the end of 2010 there were some pretty late catastrophes including like a hailstorm out in Phoenix and so forth and we actually had adverse development on those property lines in the first quarter of '11. This year and again with the large number of catastrophes that we had last year, the two largest in our history, we're working with a lot of larger dollars. We saw the favorable development. So of that $58 million in our overall increase in favorable development, $51 million of it came from the property short tail line.

Ian Gutterman
Adage Capital Management, L.P.

Okay guys. Now I understand. Also just want to clarify some things on the weather and large losses in the quarter. You mentioned obviously the favorable weather it sounded like non-cats were lower than normal. If I recall last year, they were higher than normal. Is there a way to get a sense for either how much an improvement it was year-over-year or just how much better than plan it was? What was the benefit from the non-cat weather in the quarter?

Steven Justus Johnston

President, CEO & Director

Yes, I think I'll give it a start and Marty will fill in here. We don't have non-cat across the board, because we touched on some of the catastrophe losses that we had this quarter were in a pretty specific area and overall, over the broad spectrum of our territories we really did have pretty mild weather and so that's going to have an influence on that.

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

That's right Steve. This is Marty, and just as a quick follow-up. Our non-cat weather in the commercial lines was down in loss just over 60% non-cat weather in commercial. And in the actually quarter, we saw a significant decrease in the new commercial fires over in the first quarter 2011.

Ian Gutterman
Adage Capital Management, L.P.

Okay and that's what I was wondering also. I mean, normally when I think of sort of that large loss disclosure you give, I think of that as being independent of weather. That's just the normal like you said fire losses and things like that that are unpredictable. Was that the case this quarter or was there some kind of correlation that the good weather somehow led to less fire losses or are they independent?

Steven Justus Johnston
President, CEO & Director

I think it's just a good quarter. We had significant high number of commercial fires in the first quarter last year and that number and dollar loss has significantly declined in this quarter.

Ian Gutterman
Adage Capital Management, L.P.

So, basically, two pieces of good luck to offset, the bad luck on the cats.

Steven Justus Johnston
President, CEO & Director

Absolutely.

Operator

[Operator Instructions]. Your next question comes from the line of Matt Rohrmann from KBW.

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Just again want to say really impressive job from all the Cincinnati folks at the agent meetings, and just wanted to actually follow-up on that a little bit. Obviously, the rate increases are great and you guys are getting some really solid growth. I know at those meetings you had mentioned looking at growth in lines like umbrella, marine, surety, non-profit, D&O. Just wondering as you look ahead to some future agency appointments, how much of the appointment strategy goes into looking at those or other lines specifically?

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

We really try to appoint a generalist agency and we think that within that scope, the kind of agencies that you would meet at those meetings, they write across the board, all of those lines of business. So it would be an unusual circumstance for example, to use the umbrella line as an example. That you have an agency that specializes or has an outsized amount in that area.

So what we continue to do is a new appointment strategy is look for centers of influence in the community, agencies that are broad based in what they write, first lines as well as commercial lines, excess and surplus lines, and then go in and do our best to appeal across the board. And specifically because those lines of business that you had mentioned are especially profitable, as for lots of opportunities in those areas.

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Okay great. For those lines I know you guys have a lot of detail in the supplementary. Any lines kind of looking forward past 1Q where you see sort of a further divergence in your ability to get additional rate coupled with a decline in loss trends?

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Well, Steve had mentioned, obviously in the workers' comp area we're getting double digits, slightly more than 10% increases on renewed business there. We're seeing an acceleration in our ability to get higher rate in property, as you could imagine, with the storms across the country and policyholders are prepared for, and would expect increases in that particular area as well. Commercial auto we're doing well in that line as well. So, those would be 3 that I would point out that we are having some good luck in those areas.

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

And J.F. of the favorable losses on property, there was plenty of weather last year. But kind of a non-cat basis and I know you guys have been doing a lot of work on the workers' comp side for a few years now, but loss trends have been in line with expectations thus far through the year?

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

As far as non-cat losses?

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Yes.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Yes, and I think it has been in line. We think we can continue to improve some areas. We're focusing on property, non-cat property in terms of greater loss control, more inspections in addition to rate, but also making certain that we have a confirmation that we know exactly what we're writing. I think everybody would recognize over the last few years, that the economy has taken its toll on property, in that there are a lot more vacant properties and there are tenant properties that might be unplanned. So, those are all areas that in addition to rates we're making plans to make improvements.

Operator

Your next question comes from the line of Mike Zaremski from Credit Suisse. Your line is open.

Michael Zaremski
Crédit Suisse AG, Research Division

Quick follow up, in regards to the investment portfolio dynamics, should we not expect much of a decline in the absolute levels of investment income given the strong revenue growth? I didn't get the math. I haven't done the math that Marty stated earlier on the call?

Steven Justus Johnston
President, CEO & Director

Yes, we've written it down. As you know a lot of insurance companies are declining book yields. Our book yield declined six basis points last quarter and that's kind of in line with what we've been seeing last few years. That's been offset by the dividend increases in the portfolio.

However, that portfolio shrank a little bit in the last 12 months. There's a lot of moving parts here. Obviously, we pay our dividend, that's the money not available to reinvest. So, there's a lot going in and we've been able to essentially tread water I'd say the primary driver is the fact, we've gotten very strong dividend increases out of our portfolio, which is our strategy.

Michael Zaremski
Crédit Suisse AG, Research Division

So, the answer kind of treading water probably continues?

Steven Justus Johnston
President, CEO & Director

By and large. I would say that our decline in book yield, the bonds we've been losing to calls has generally come in that yields, that piece of it is declining. New money rates haven't really spiked up much, periodically when they come back, 10 years now run 1.9%. So, yields aren't particularly attractive right now. So, certainly we'd love to grow it organically and profitable quarters do help that. So our goal is to squeeze out a small gain, yes.

Operator

Your next question comes from the line of Ron Bobman from Capital Returns. Your line is open.

Ronald David Bobman
Capital Returns Management, LLC

Hi thanks. I felt like we've been, as investors and followers of the industry trained to this concept that new business is always priced below renewal business because of the competitive aspect, I guess. But now I believe there is a couple of other insurance companies talk about the rate differential between new business and renewal business being higher in the case of new business. It's now sort of flip-flopped and that these companies were commenting that they are now pricing new business at rates above like-for-like business on a renewal basis. Would you comment at all that what you were seeing in your book-of-business, again commercial lines, with these relativities?

Steven Justus Johnston
President, CEO & Director

No, good question Ron. This is Steve, I think that they are pretty close together to tell you the truth and maybe some variation by line. I think one thing that's helped with the new business pricing is the deployment of the analytics we use and we get a lot more information a lot more intelligence on which pieces of new business to write and which pieces to walk away from, where is the walk away price.

And one line in particular I would like to point out is workers compensation where we actually feel in that line, that the quality or the price adequacy of the new business is better than the renewal business. So that we're moving the mix in that regard, but all-in-all I would say that they are pretty close.

Ronald David Bobman
Capital Returns Management, LLC

And what would you have answered that, and what was that relative a year ago, new versus renewal? Was new deficient relative to renewal?

Steven Justus Johnston
President, CEO & Director

That's a pretty tough question. We've been rolling out the analytics. As J.F. mentioned working on inspecting risk and knowing what we're writing. I think it would’ve still being close, but I think we're getting better and better all the time.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

I would, I would agree with that, on new business there continues to be quite a bit of competition. And so when a very good account makes it into the market place for re-pricing, there is still a lot of competition. As Steve said, the guidepost of analytics for us has much improved our ability to price the account closer to the price adequacy ratio that we need on the new piece of business.

Operator

Your next question comes from the line of Josh Shanker.

Joshua David Shanker
Deutsche Bank AG, Research Division

I'm looking forward to modeling this, but I'm having a little bit of difficulty, because the change in combined ratio came so suddenly in 4Q and this Q. I'm trying to figure out why the lack of gradualism and does it mean that there might be some back and forth or are you looking year-over-year, how should I think about that?

Steven Justus Johnston
President, CEO & Director

I think the way we look at it is we're looking at the accident year ex-cat for the first quarter and comparing it to the full year of 2011. We see in that metric a 4.9% improvement. We went from 73% down to 68.1%. So a 4.9 point improvement in the ex-cat accident year loss ratio. Of that 4.9 point improvement, 4.1 points of it came from as Marty Mullen mentioned earlier, less large losses which we define as 250,000 per claim or more. So a lot of it was explained by fewer large losses.

Joshua David Shanker
Deutsche Bank AG, Research Division

So when I think about that and to the extent to which large losses were elevated in 1Q, '11. I mean I guess it’s lumpy, but would you say that you had less large losses this quarter than you usually experienced and a lot more than you usually experienced in 1Q, and maybe cut the baby in half or something? How should I square that just thinking about your business and that how large losses affect those numbers?

Steven Justus Johnston
President, CEO & Director

I think you would say that we did have less large loss this first quarter. We tend to look at the base as the full access year of 2011, but I think all-in-all, things were pretty favorable this first quarter in terms of large losses.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so do you think that along with same lines it was 1Q '11 particularly unfavorable in terms of large losses?

Steven Justus Johnston
President, CEO & Director

I don't have that number right here in front of me but I think the answer is yes.

Operator

There are no further questions at this time. Mr. Steve Johnston, I turn the call back over to you.

Steven Justus Johnston
President, CEO & Director

Thank you, Mike and thanks to all of you for joining us today. We hope to see some of you at our annual shareholders meeting tomorrow at the Cincinnati Art Museum and those of you that can't make it are welcome to listen to our webcast of the meeting and that's available at www.cinfin.com/investors. We look forward to speaking with you again and look forward to seeing you if not before, at our second quarter call. Thank you.

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