Cincinnati Financial Corporation NasdaqGS:CINF

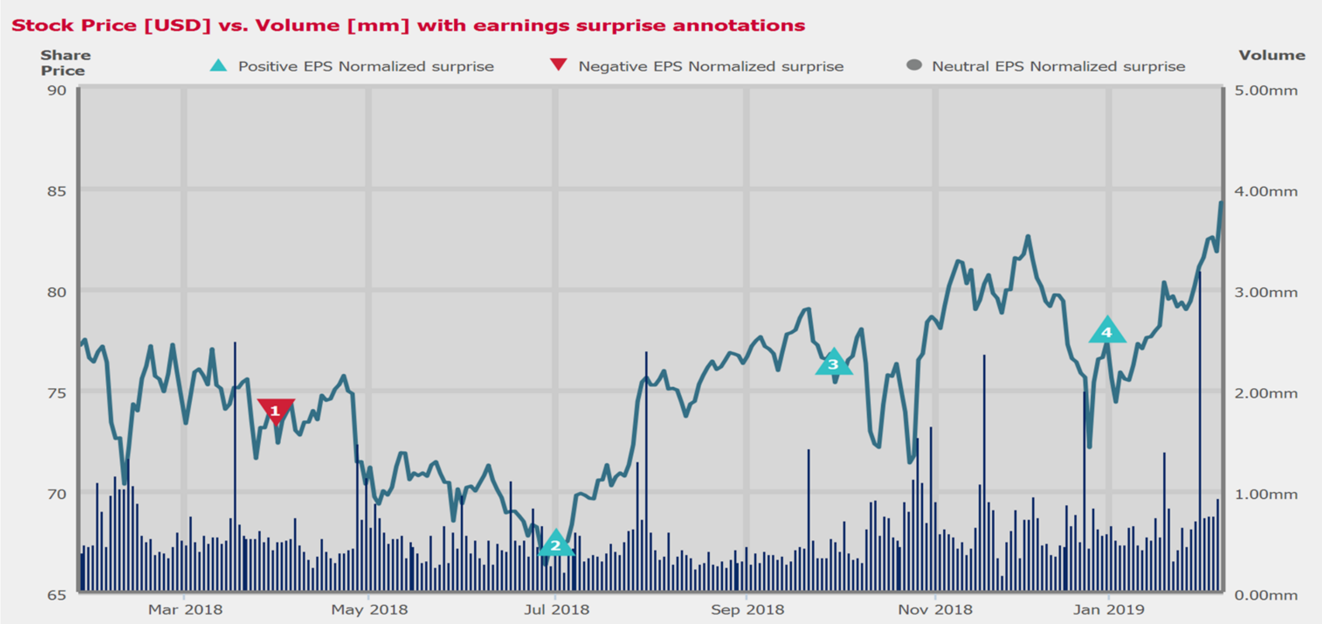
FQ4 2018 Earnings Call Transcripts

Thursday, February 07, 2019 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.87	0.98	▲12.64	0.94	3.25	3.35
Revenue (mm)	1466.30	710.00	▲(51.58 %)	1474.00	5978.30	5407.00

Currency: USD
Consensus as of Feb-07-2019 10:34 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.80	0.72	▼(10.00 %)
FQ2 2018	0.55	0.81	▲47.27 %
FQ3 2018	0.73	0.84	▲15.07 %
FQ4 2018	0.87	0.98	▲12.64 %

Table of Contents

Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

Jacob Ferdinand Scherer
Executive VP, Chief Insurance Officer & Director

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

Stephen Michael Spray
Chief Insurance Officer & Director

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

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

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good morning. My name is Catherine. I'll be your conference operator today. At this time, I would like to welcome everyone to the fourth quarter and full year 2018 earnings conference call. [Operator Instructions]

I'd now like to turn the call over to Mr. Dennis McDaniel, Investor Relations Officer at Cincinnati Financial. You may begin your conference.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel, and we thank you for joining us for our fourth quarter and full year 2018 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 Steve Johnston, President and Chief Executive Officer; and then from Chief Financial Officer, Mike Sewell. After their prepared remarks, investors participating on the call may ask questions. At that time, some responses may be made by others in the room with us, including Chief Investment Officer, Marty Hollenbeck; Cincinnati Insurance's Executive Vice President, J.F. Scherer; Chief Claims Officer, Marty Mullen; Chief Insurance Officer, Steve Spray; Senior Vice President of Corporate Finance, Theresa Hoffer; and Chairman of the Board, Ken Stecher.

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
President, CEO & Director

Good morning, and thank you for joining us today to hear more about our fourth quarter results. Operating results for the fourth quarter of 2018 represent a strong finish, despite reporting a net loss of $452 million because of the accounting requirement for changes in the fair value of equity securities. Non-GAAP operating income improved for the quarter, and on a full year basis, it was 21% higher than 2017.

We are encouraged by our 2018 financial results and continue to be confident in our strategy and in our ability to execute it well. Improved operating performance for the fourth quarter and the full year 2018 again reflected steady efforts to carefully underwriting price policies, provide outstanding claims service, manage investments and support our agencies. Our fourth quarter 93.9% combined ratio helped lower full year 2018 to 96.4%, 1.1 points better than 2017. Slightly more favorable catastrophe weather effects in 2018 contributed 0.1 point, while improved underwriting was reflected in various underlying measures.

We continue to further segment our renewal and new business opportunities using pricing precision and risk selection decisions that combine data models and underwriter expertise on a policy-by-policy basis. That work is vital to our further improvement of underwriting results. We believe we can successfully balance prudent underwriting and business growth to improve on the 2018 combined ratio before catastrophe effects for a 2019 GAAP combined ratio below 95%. We also believe our 2019 property casualty premium growth rate can be within 1 percentage point of 2018. We recognize that weather and significant changes in industry market conditions that influence insurance policy pricing trends are some variables that will affect the property casualty results we ultimately report.

In 2018, we continued to manage our business to healthy levels of policy retention and with average renewal price increases for each of our property casualty segments. Policy retention rates for commercial lines were similar to a year ago, continuing near the high end of the mid-80% range. For personal lines, our policy retention during the second half of 2018 declined from recent year levels, reflecting increased underwriting discipline and was near the high end of the mid-80% range.

Our long-term growth strategy includes appointing agencies in areas where we are underrepresented, taking care to preserve relationships with established agencies and the franchise-like benefit they value. In 2018, we appointed 167 new independent agencies. Similar to recent years, in 2019, we plan to appoint approximately 100 additional agencies that will offer most or all of our property casualty insurance products, and another 80 that market only our personal lines products, primarily ones with a high net worth focus.

We continue to earn new business through our agencies from a combination of superior service and expansion of insurance products for clients of those agencies. For full year 2018, each of our property casualty segments reported record levels of new business written premiums, and overall property casualty net written premiums grew 4%.

For renewal business in the fourth quarter, our underwriters continued to generate overall price increases. Commercial lines estimated average price increases for the fourth quarter were similar to the third quarter. Combined ratio for our commercial lines segment improved by a full percentage point for the year 2018 to 95.4%, despite the ratio for catastrophe losses increasing by 0.8 point.

Our personal lines segment continued to experience a rise in average rate changes as the fourth quarter of 2018 was similar to the third quarter. Personal lines fourth quarter combined ratio was profitable. While it was above 100% for the year 2018, it proved (sic) [improved] compared with year-end 2017 as we continued to work for performance improvement.

Our excess and surplus lines segment had another year with excellent results, including double-digit growth in net written premiums and a 2018 combined ratio below 75%. Cincinnati Re continued to grow as planned, but was adversely affected by catastrophe losses from severe weather and wildfires. It finished the year with a combined ratio of 105.8%, which is consistent with our expectations for a year with global insured catastrophe losses roughly twice the long-term historical average.

Our life insurance subsidiary again grew term life insurance premiums, its largest product line, with fourth quarter earned premium growth of 13% and full year 2018 growth at 9%. This business supports account retention for our agents and provides steady contributions to our earnings, as it has less correlation to weather than our property casualty business.

On January 1 of this year, we again renewed each of our primary and property casualty treaties that transfer part of our risk to reinsurers. For both our per risk treaties and our property catastrophe treaty, terms and conditions for 2019 are similar to 2018. While we did receive some modest rate reductions, we expect the amount of seasoned premiums for both years to be similar because our direct written premiums subject to those treaties are growing.

The full year 2018 value-creation ratio, our primary measure of long-term financial performance, was negative 0.1%. The contribution from operating income was a positive 6.7%. The VCR in total was below our long-term target range due to the decline in securities market value. However, the VCR average for the past 5 years was within the target range.

In conclusion, finishing the year well reflects areas of ongoing operational improvement. Despite the fourth quarter downturn in the stock market, the good performance of our insurance business was a key factor in the recent decision by our Board of Directors to reward shareholders with a 5.7% increase in the regular cash dividend declared earlier this month.

Next, our Chief Financial Officer, Mike Sewell, will highlight several important points about our financial performance.

Michael James Sewell

CFO, Principal Accounting Officer, Senior VP & Treasurer

Great. Thank you, Steve, and thanks to all of you for joining us today. Investment income growth continued at 3% for the fourth quarter and 2% for the full year 2018, matching the full year 2017 growth rate. Dividends from our equity portfolio again led the way, up 9% during the fourth quarter of 2018 and 6% for the year.

Interest income from our bond portfolio was flat for the year. The pretax average yield was 4.21% for the fourth quarter of 2018, down 13 basis points from 2017's fourth quarter. We continued to invest in bonds including $347 million in net purchases for the year. Taxable bonds purchased during 2018 had an average pretax yield of 4.48%, 60 basis points higher than we experienced a year ago. Tax-exempt bonds purchased averaged 3.69%, up 40 basis points from a year ago. Despite the higher purchase yields, we continued to experience redemptions of relatively high-coupon bonds throughout 2018.

Our investment portfolio valuation was volatile for much of 2018 and on a full year basis, experienced an overall net loss of $741 million before tax effects. That included $395 million for our equity portfolio and $334 million for our bond portfolio. Even though those losses -- even with those losses, we ended the year with a net appreciated value of nearly $2.6 billion including $46 million in our bond portfolio.

Cash flow from operating activities continues to help us grow investment income. Funds generated from net operating cash flows again exceeded $1 billion, and for full year 2018, exceeded the prior year by $129 million or 12%.

I'll briefly comment on expense management, always an important part of our focus. While we continued to make thoughtful, strategic investments in our business, our full year 2018 property casualty underwriting expense ratio decreased by 0.2 of a percentage point compared with the same period of 2017.

Loss reserves are another important area, and our consistent approach to setting overall reserves again resulted in property casualty net favorable development on prior accident years on both a fourth quarter and full year 2018 basis.

2018 marked our 30th consecutive year of net favorable reserve development. Full year 2018 favorable reserve development benefited our combined ratio by 3.4 percentage points, matching the annual average during 2013 through 2017. Our commercial casualty line of business experienced $16 million of favorable reserve development during the fourth quarter -- during the quarter and $47 million for the year. Most of our major lines of business experienced favorable reserve development in 2018. On an all-lines basis by accident year, it included 38% for accident year 2017, 23% for accident year 2016, and 39% for 2015 and prior accident years.

We continued to actively manage our capital, and both financial strength and flexibility remained excellent. This week, we concluded efforts to enhance our financial flexibility by amending and extending our line of credit agreement with various banks. The former agreement was due to expire in May. The term is for 5 years for up to $300 million, and the accordion feature allows us to double that amount under the same terms and conditions. Most of the other terms and conditions are similar to the former agreement, although our financial flexibility also improved, with the elimination of a minimum net worth covenant and the debt to total capital maximum is now 35%.

I'll wrap up my prepared remarks with the usual summary of 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 $0.38. Life insurance operations added $0.04. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.52. Net investment gains and losses for the fixed income portfolio increased book value per share by $0.17. Net investment gains and losses for the equity portfolio decreased book value by $3.70. And we declared $0.53 per share in dividends to shareholders. The net effect was a book value decrease of $3.12 during the fourth quarter to $48.10 per share.

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

Steven Justus Johnston
President, CEO & Director

Thanks, Mike. It was a good quarter and second half for the year 2018. We are bullish about the future of Cincinnati Financial. We see improving trends in several areas and look forward to meaningful contributions over time from leaders at Beaufort Underwriting Agency, the Lloyd's managing agency subsidiary of our pending acquisition of MSP Underwriting Ltd. That acquisition is still on track to close during the first quarter of 2019.

We know our strategy works, and we'll continue to execute it as we target profitable growth, while providing great service to our appointed agencies. That should benefit all stakeholders of the company, creating shareholder value over time.

Many of you know J.F. Scherer from his years of investor travel. He's announced his intent to retire in August after more than 35 years of service and leadership to our organization. This will likely be his final earnings call. J.F, would you like to say a few words?

Jacob Ferdinand Scherer
Executive VP, Chief Insurance Officer & Director

Yes, thanks, Steve. I'd just like to say it's been a pleasure traveling with and getting to know many of you on the call today. I've learned so much from the conversations we've had, your review of the industry and your comments about the company. I'd be forever grateful for what I learned from all of you. I appreciated your professionalism and your interest in Cincinnati Financial, and I certainly wish all of you continued success. Thanks to all of you.

Steven Justus Johnston
President, CEO & Director

As I'm sure you can all imagine, we're sad to see J.F. go. At the same time, however, I have absolute confidence in Steve Spray and in his ability to smoothly step into the role of Chief Insurance Officer. I know you all will feel the same as you get to know him during future investor business.

As a reminder, with J.F., Mike and me today are Steve Spray, Marty Mullen, Marty Hollenbeck, Theresa Hoffer and Ken Stecher.
Catherine, please open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

The first question I have is going back to the guidance you mentioned. I wanted to be sure I heard this correct. You said 95% ex cats. Is that correct?

Steven Justus Johnston
President, CEO & Director

No, it was 95% or less, assuming normal catastrophe loss levels.

Amit Kumar
The Buckingham Research Group Incorporated

Okay. So the language is similar to what -- I think what you had said in terms of the cat definition. I was curious, if I go back and look at the guidance for 2018, 2019 is obviously higher. What's the biggest sort of moving parts? Is this mostly driven on the loss cost side? Maybe just expand on the thought process a bit.

Steven Justus Johnston
President, CEO & Director

In terms of the combined ratio being above 95%?

Amit Kumar
The Buckingham Research Group Incorporated

No, in terms of it's above when we talked about -- when you laid out the initial guidance for 2018, at that time on 8th Feb, I think you had said mid- to low-90s I think was the number you had given in early 2018. So I was just trying to compare and contrast what had changed in your mind.

Steven Justus Johnston
President, CEO & Director

Right. And yes, I think we were expecting and hoping for a little bit better performance in the personal lines results. They are the one segment for the year that came in over 100%. But having said that, we're really buoyed by the work that's been done in personal lines in terms of the rate action that's been taken. I think Steve might be able to expand a little bit on that. But I think kind of the proof is in the pudding as -- in that when we look at the fourth quarter alone, it came -- personal lines came in with a 91.7%. And I think that gives us good optimism towards where we're heading into 2019. And maybe Steve Spray might want to comment a little bit on the actions that have been taken.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes, Amit, on the personal lines specifically, throughout 2018, we continued to earn in, on the homeowner line, mid-single-digit rate increases. We think that, that is going to strengthen into '19 into the high single-digit range. And on the commercial auto, we think that's going to stay strong in the high single-digit range as well.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. Now that's helpful. The other question I had was looking at the workers' compensation line, and I think the reserve release just were substantially higher than the run rate we have seen. And I know a lot of companies have been talking about it. I wanted to understand a bit better as to the driver of those reserve releases, and maybe just talk about the market conditions. It seems that we were worried a bit in Q3. And in Q4, I think things have got -- eased up a little bit, just based on the general economic conditions. Maybe just talk about the loss cost -- loss costs and the pricing environment.

Steven Justus Johnston
President, CEO & Director

Amit, this is Steve Johnston. We have 2 Steves here, so we'll try to be careful to mention which one. This is Steve Johnston here, and I'll cover the reserve part. In terms of the releases, we have a very qualified actuarial department that uses some very sophisticated tools, particularly in the long-tail lines, such as workers' compensation. They're looking at trends and explicitly looking at inflation in terms of medical inflation, indemnity inflation, paid loss trends. And with all of the data that they look at, there's obviously a little bit of a cautious eye towards workers' compensation in that it's been a cyclical line over time. And that slight variation in actual results on some of the loss trend picks can have a large impact on the overall results, given the long-tail nature of the line. So they have taken I think a very prudent approach to reserving workers' comp. And yet as they look at the more recent accident years going back in terms of how the actual trends have come in versus what they've predicted, feel that it's prudent to release the reserves that they have. And it's a very consistent position that they take, a consistent philosophy that they go about the reserve setting. In terms of the market conditions, I'll turn it over to Steve Spray.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes, Amit, Steve Spray. We feel really good about workers' compensation. We're obviously a package underwriter. We don't write monoline work comp. The results have been good. We feel good about the growth of it in the future and our appetite for it. Over the last several years, I think we've made really good strides on many different fronts in managing workers' compensation, risk selection, underwriting, pricing, the analytics that we've employed there, loss control. And I think no change has impacted our work comp results more than the things that we've done with claims, more expertise, a call center for timeliness of reporting, have just helped -- medical bill repricing have just really helped the results over the year. I will tell you -- or over the years. We are cautiously looking at the continued base rate declines that come out of NCCI and the impact that, that's having on the accident year results. You can see that in the reports. But something that we are going to continue to watch, we'll continue to be cautious with work comp, but we want to continue to grow it.

Amit Kumar
The Buckingham Research Group Incorporated

Okay, that's helpful. Last question, and I will requeue. Just going back to that response on the guidance, you said it has some level of normal cats. What's the normalized cat load you're assuming? The reason is I want to be very clear and understand the -- how that number probably compares with the investor expectations. Can you just talk about, is it 6 points or so or maybe higher or lower? Just talk about your normalized cat load expectations.

Steven Justus Johnston
President, CEO & Director

It would be right in that 6-point-something to 7 points in terms of normalized cat. You're right on it, Amit.

Operator

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Congrats, J.F. Wish you all the best.

Jacob Ferdinand Scherer

Executive VP, Chief Insurance Officer & Director

Thanks.

Michael David Zaremski
Crédit Suisse AG, Research Division

My first question, just following up I guess on the guidance, so it's a 95% all-in combined ratio?

Steven Justus Johnston
President, CEO & Director

That's correct.

Michael David Zaremski
Crédit Suisse AG, Research Division

And so this year, you're about 1 point higher than that. And your cat load was kind of in line with historical the last 10, 11, 12 years, 12-year average. And so kind of in this quarter, you put up close to 95%. So is it kind of just doing more of the same as you kind of did in 4Q, and first lines gets a little bit better? And that's kind of how we think about 95%, and rate is kind of in line-ish with loss cost trends overall? I know it's generalizing a lot.

Steven Justus Johnston
President, CEO & Director

Right. That's very close, though, Mike. This is Steve Johnston, and I think you're very close. We do see and feel that with the actions that we're taking in terms of loss cost trend, we're very prospective on that, what we feel loss cost trend would be going forward. We do think that while it may be slight, that we are slightly ahead of loss cost trend with our pricing, we think that all of the actions that have been taken will show improvement. And so we do think we'll, on an ex cat accident year basis, see improvement next year.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, that's helpful. And looking at commercial auto, the underlying loss ratio, accident year ex reserve developments, has been improving, and it was in the 50s this quarter, which is great. But then on the other hand, you have reserve additions from prior developments have persisted. Just trying to understand those 2 kind of contrasting trends.

Steven Justus Johnston
President, CEO & Director

Sure. Good question, and this is Steve Johnston. I think any time when you're at a turning point with a line, which I think we are with commercial auto, as you pointed out, we are seeing improvements in the ex cat accident year. We have been taking the appropriate action to get there. I still think as we see that and in terms of setting the reserves as you mentioned, that there is a little bit of stubborn adverse development there. I think there's still a little bit of caution in terms of releasing reserves or being more optimistic with the picks on prior accident years, until we see a little bit more evidence of the improvement that we're seeing in the current accident year.

Stephen Michael Spray
Chief Insurance Officer & Director

Mike, this is Steve Spray. Having spent the last couple of years in commercial lines, a lot of focus on commercial auto, Steve's right, we are seeing improvement in both the accident year and calendar year results. And one thing I'd point out is we continue to earn in really solid, high single-digit rate increases throughout 2018. We think that there's still plenty of runway in '19 for that to continue, but those high single-digit increases don't really tell the full story. I think our underwriting teams with our agents -- in working closely with our agents, have really executed well on segmenting the book. And we're getting obviously more than the average on the least adequately priced business, and less on the most adequately priced; really focused on retention on that adequately -- on that most adequately priced business. So still plenty of runway. There's still macro issues that are going on in commercial auto that you've probably heard, distracted driving, driver shortages, policyholders having difficulty finding qualified individuals to put behind the wheel. It's all having an effect on commercial auto.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Great. That's -- hopefully, that line of business gets better for the industry as the year progresses. And my last question was back to the last question from Amit on workers' comp. So I think you guys said you want to grow that line of business. And when I look at premium rates -- sorry, your premium volumes there, they've been, second half of the year, down kind of close to double digits. Is that mostly just pricing and policies are flattish? Or are you guys expecting to kind of grow premium levels in 2019, because maybe pricing is getting less negative? I'm just trying to understand the dynamic there on workers' comp growth for '19.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes, Mike, this is Steve Spray. Again, let me try to answer that. If I don't hit it, you obviously can give me a follow-up. The base rate declines are putting pressure on the growth. But the underwriters, I think, are doing an excellent job of trying to mitigate that as much as possible. We still feel really good about the overall pricing of the book at this point in time although, again, those base rates are putting pressure. We're a package underwriter. So many times, when you write -- let me give you an example. If you're writing a package and you're not real high on the auto, you're probably going to lose the entire package. You're not going to have an opportunity at that. With workers' compensation, there's enough monoline markets out there that if that line of business is not attractive to us, we can still continue to write the package and that comp will end up going somewhere else. So it allows us to be I think more prudent and more conservative on the workers' compensation. So I think that covers it.

Steven Justus Johnston
President, CEO & Director

Yes. In short, we do want to grow the line. It's a profitable line that we feel that we can do well.

Operator

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

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

I was hoping you could just give us a little update about the expansion efforts that you're doing. And I'm just curious sort of maybe big picture thoughts on how far you think you'd develop products for yourself in the future.

Steven Justus Johnston
President, CEO & Director

Okay, Paul, this is Steve Johnston and we'll kind of tag team on this. But we have an agency strategy. We are always looking for products and services that we can do with our agents to help grow our company. And we know that when our agents are successful, we'll be successful in -- or confident in -- I think Steve has some ideas on how to expand on that thought. But we are confident in our growth strategies as we appoint agents, come up with products and services that we are definitely in a growth mode.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes. Paul, Steve Spray. Agree completely, especially the agency strategy piece. We've always been a company, as you know, that has built -- built around our distribution. And anything we do in here, as far as expanding products and services, is in direct reflection of what the agents' desires are of us. So as an example, our excess and surplus lines company, you can see how that's performing. High net worth -- Will Van Den Heuvel and the team that he's built and the growth that we've got there. We started the target markets division, which is really niche products and commercial lines in direct response to agents' needs and the fact that they were majoring in specific industries or class segments. We're up to 15 of those now. We've made extensive product improvements in management liability and surety, especially on the management liability front. That segment is growing rapidly and is very profitable. We stay out of the public company sector. It's primarily nonprofit, small privately held companies as well. So that's performed well. So it kind of just goes on and on. Now with our Lloyd's Syndicate, things that are always in direct -- again, it's always in direct response to the needs of our agents. We have -- another area that we are expanding is in commercial lines. And as we move upstream into larger, more complex risks for our agents, we feel like we have plenty of capacity. We just need to expand our expertise. We hired Chet Swisher about 2.5 years ago, came over to join us, had tremendous amount of large account experience and expertise. He's building out that unit to just be that much more important to our agents as well. So hopefully, I think that should cover what your question was, Paul.

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

That's great. And congratulations, J.F. I'll miss watching you at the company, but all the best.

Jacob Ferdinand Scherer
Executive VP, Chief Insurance Officer & Director

Thanks, Paul. It's been great to spend so much time with you.

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Congratulations on a great quarter, and particularly in personal lines, just excellent results. I was wondering if we could dig in a little bit about the timing. Some of your competitors have said they've seen a higher frequency of homeowners losses over the past 6 months or so, and it seems you've already priced for that. Did you see that loss trend developing earlier than others?? And is that's what's in your price right now? I guess to say, are you experiencing higher frequency of losses, but it's already priced for?

Steven Justus Johnston
President, CEO & Director

I think in general, Josh, and not to bring in -- I haven't really heard or read about the competitors. But we do feel just that our people in personal lines have been doing an excellent job in responding to the trends that we see in personal lines, both auto and homeowners. We have seen -- we focused on the pure premium trend, which will be the combination of frequency and severity. I do think within that pure premium trend, it is more the severity that's driving it. But again when we talk trends, we talk prospectively. And a lot of the underwriting action that's been put in place by our underwriters we think is dampening that trend some. And we feel that we are in a position where we are getting rate ahead of that loss cost trend.

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you have a general idea of how much rate you're getting in homeowners right now?

Steven Justus Johnston

President, CEO & Director

Yes, in terms of the homeowners, we feel we're in the high single-digit range in terms of our homeowners increases -- I'm sorry, mid-single-digit for home, high single-digit for auto.

Stephen Michael Spray
Chief Insurance Officer & Director

But Josh -- this is Steve Spray. We do see it strengthened on the homeowner line throughout 2018, and we expect the homeowner rate increases in '19 to move into the high single-digit range.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And I realize you're not a big auto player compared to a lot of auto specialists out there, but there are people who do put their personal auto with you. Going forward, can a multiline competitor be an effective player in the auto market? Is that a concern you guys look at? Or you think that there's many years of roadway ahead of you on the auto line?

Stephen Michael Spray
Chief Insurance Officer & Director

No, I think we can absolutely be effective in the personal auto market. Again, we are not a monoline auto writer. We're a package underwriter. We are trying to attract the policyholder that sees value in the advice that they get from an independent agent and the claims service that I'm proud of and have been proud of over the years that we provide in the community for our agencies and for the policyholders. So in the area where we are focused, Josh, the agency strategy and the centers of influence and the individuals in the community that they work with, we absolutely feel like we can continue to grow personal lines.

Joshua David Shanker
Deutsche Bank AG, Research Division

And then one last one, on high net worth homeowners, how many states do you plan to be in, in 2019?

Stephen Michael Spray
Chief Insurance Officer & Director

By the end of 2019, the plan is we'll be in 46 states. We're in 42 right now. The plan is to add Rhode Island, Delaware, Hawaii and Nevada in 2019.

Joshua David Shanker
Deutsche Bank AG, Research Division

Very good. And I'll just say on regard that J.F. is wrong, that the pleasure has been all ours, I'm sure. And have a very happy retirement.

Jacob Ferdinand Scherer
Executive VP, Chief Insurance Officer & Director

Thank you very much, Josh. I appreciate it.

Operator

Your next question comes from the line of Meyer Shields with KBW.

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

I want to echo everyone's best wishes to J.F., it's been a pleasure dealing with you over the years.

Jacob Ferdinand Scherer
Executive VP, Chief Insurance Officer & Director

Thanks, Meyer.

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

A couple of I think small questions, if I can. One, for the past couple of years, we've had some seasonality in the workers' compensation underlying loss ratio. Does that represent the fourth quarter true-up of the full year? Or is there something else going on?

Steven Justus Johnston
President, CEO & Director

I do think we try to look at things over an annual period of time. But I do think with workers' comp, you're going to see more construction activity and that sort of thing during the summer months than what you do in the fourth quarter and the first quarter. So there could be a little bit of seasonality there.

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

Okay, that makes sense. Can you compare the rate increases you're seeing within excess and surplus lines to the other commercial lines?

Stephen Michael Spray
Chief Insurance Officer & Director

Yes, I think excess and surplus lines has been consistent for many quarters, Meyer, in that their getting into low single-digit range is pretty consistent.

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

Okay. So actually lower than, I guess, the aggregate for standard commercial lines?

Stephen Michael Spray
Chief Insurance Officer & Director

No. I think it's about the same in the aggregate.

Operator

[Operator Instructions] You do have a question from the line of Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

J.F., wish you the best as well and happy retirement as well.

Jacob Ferdinand Scherer
Executive VP, Chief Insurance Officer & Director

Thank you very much.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

And so the first question I had was on the -- just the life insurance book. You saw really good premium growth for the year. It was up about 8%. So how much was that of just -- was that more a function of just your agency base kind of more -- marketing that more assertively? Was it market conditions, something else going on there? And then if you can just talk about just the opportunity there, and not only in the term life, which is where you're seeing most of the growth, but in some of the other ancillary products, annuity and disability and kind of where you see the opportunity in the next few years?

Michael James Sewell

CFO, Principal Accounting Officer, Senior VP & Treasurer

Yes -- no, this -- great. Thanks, great question. This is Mike. We had another really good year on the life company. We're thinking about the term product as our main product. For the first year, term premiums were up about a little over 14%. And it's just been a lot of applicants -- applications that they've been receiving this past year. I think we had a pretty good year at '17 too also with the applications up. So the worksite -- so when we're out there on the commercial lines side and getting the worksite, that was up 17.7% for the current year, and that's a first year. So it's -- just all around, it's been very good. It's rounded out the -- what our independent agents have in their toolbox for the insurers to be able to sell the insurance. From the annuity side, we just have fixed annuities. We don't do any variable annuities. So we think we do remain competitive there with the interest rates that we apply to those products. And we do look and adjust those quarterly to make sure that we are remaining competitive in that area. So overall, another -- I think a great year for the life company. Their non-GAAP operating income was $52 million this year compared to $40 million in the prior year. So with the premiums that are in there, the mortality was up a little higher than what we predicted at the beginning of the year. And then kind of rounding that out with some tax effects, we had a great year. So the life insurance company continues to be a valuable asset for us.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, great. And the E&S premium growth, it ticked up quite a bit compared to last couple of quarters. I just wondered if you could just talk about some of the trends there and some of the areas where maybe you're running a lot more business. And are you just generally seeing more of that type of business flow to -- as a sort of E&S risk as opposed to standard market risk? Or just any color on the 20% growth rate there.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes, Scott, Steve Spray. That, I was involved in the E&S company from the get-go. And Don Doyle's leadership, and that team, they just continued -- it's blocking and tackling. They've stuck to their knitting, but they've also continued to expand their expertise. It's outstripping their appetite. But they're just -- they're out on the road constantly meeting with agents. Their value proposition is extremely compelling. And I think, it's like anything else, you have to just tell somebody 90 times over and over what your value prop is. And the agents just continued to move more and more business that way. It's primarily a casualty book. It's about 90% casualty, about 10% of it property. So it's -- there's -- our agency plant today has about $3 billion of E&S business, of which we write roughly $260 million. So we just think that there is a long runway for us there.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, great. And then just one last one on the E&S as well, just the accident year loss ratio saw a pretty big improvement. Are you seeing any different trends there versus any other units as far as frequency or severity that kind of drove that improvement?

Stephen Michael Spray
Chief Insurance Officer & Director

No, I think that again it's an E&S book. They do an excellent job of pricing and terms and conditions. But it's going to have a variability component to it. It's -- just inherently, it's going to be a severity book. They only retain $1 million, so that helps their cause there as well. But I think it's just inherent variability that happens in that book.

Operator

You do have a follow-up question from the line of Amit Kumar with Buckingham Research.

Amit Kumar

The Buckingham Research Group Incorporated

Just 2 quick follow-ups. The first question goes back to the discussion on MSP Underwriting. At the time of the announcement you had, I think you had mentioned that it was going to be modestly accretive. In the slide deck, you had mentioned 98% or better. I think it was $0.01 accretive at that point. I was curious, had -- is that pretty much unchanged since the announcement? Or is there any more additional update on that?

Steven Justus Johnston
President, CEO & Director

Yes, good question. It is unchanged since that. I would turn everybody to the slide deck that we released that Amit is referring to on October 12. And that is where we are still in terms of how we feel about the transaction with Beaufort. We are confident that it will close here in the first quarter. We've been in contact with the people and continue to be very confident in the people there, the quality of the people, the expertise. And we are optimistic, and we're ready to get going with that one.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. And the second and the last question I have is if you look at [Cinfin Re], in the 10-K, you had laid out I think 30% of the premiums were coming from property exposures, 60% was from casualty. That piece has seen some decent growth. I was curious, how are you thinking about that piece for 2019 and especially coming out from an active hurricane season as well as other losses? Is there -- could there potentially be a desire to grow that book and hence, we could see an upside down the road? Or is the desire to keep the PMLs within check and hence, this book's sort of proposition varies around $150 million or so in terms of premiums?

Steven Justus Johnston
President, CEO & Director

This is Steve Johnston, and we're very much focused on the profitability on a risk-adjusted basis there. We intentionally didn't set up a separate company. It's written on Cincinnati Insurance paper. We just look at each individual contract one by one to see if we think we can make a good risk-adjusted profit. So we don't put pressure on them to write. With the one on ones, they've been very selective. They wrote less than 20 new property cat treaties out of some 130 cat submissions. They're very much looking to align themselves with quality companies. And I think we would see continued more premium on the casualty side as we go through the year, as we saw in 2018 just based on the market conditions. But to the extent that we see good opportunity on a risk-adjusted basis to either increase our share on contracts that we like, or selectively write new ones, we feel very confident in their ability going forward.

Operator

I'd now like to turn the call back over to the Steve Johnston for any closing remarks.

Steven Justus Johnston
President, CEO & Director

Thank you all. We very much look forward to talking with you and I look forward to speaking with you again on our first quarter 2019 call. Thank you, Catherine, for running the call.

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