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Cincinnati Financial Corporation NasdaqGS:CINF

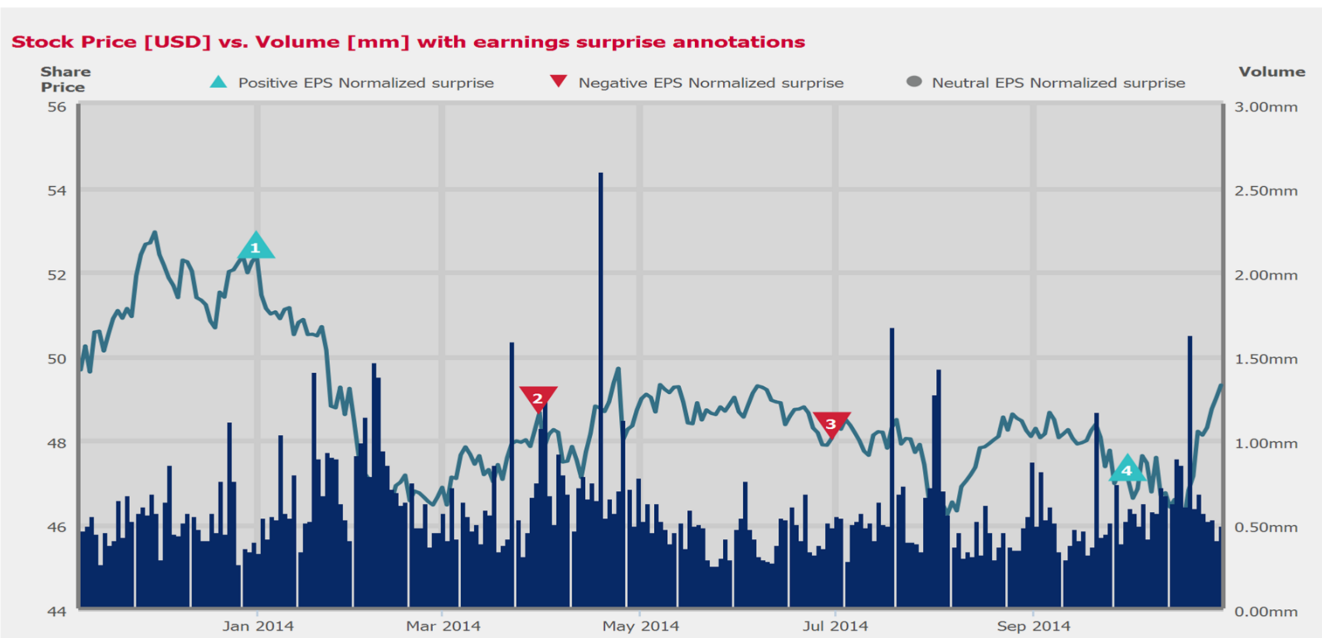
FQ4 2014 Earnings Call Transcripts

Thursday, February 05, 2015 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.83	0.89	▲7.23	0.86	2.60	2.66
Revenue (mm)	1220.00	1262.00	▲3.44	1243.00	4903.00	4945.00

Currency: USD
Consensus as of Feb-05-2015 2:16 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.69	0.72	▲1 4.35 %
FQ1 2014	0.54	0.46	▼2 (14.81 %)
FQ2 2014	0.51	0.46	▼3 (9.80 %)
FQ3 2014	0.72	0.85	▲4 18.06 %

Call Participants

EXECUTIVES

Dennis E. McDaniel
Vice President and Investor Relations Officer

Jacob F. Scherer
Former Chief Insurance Officer

Martin J. Mullen
Chief Claims Officer of the Cincinnati Insurance Co. and Senior VP of the Cincinnati Insurance Co.

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

ANALYSTS

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning. My name is Steve, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter 2014 Earnings Conference Call. [Operator Instructions]

Dennis McDaniel, Investor Relations officer, you may begin your conference.

Dennis E. McDaniel
Vice President and Investor Relations Officer

Hello, this is Dennis McDaniel from Cincinnati Financial. Thank you for joining us for our Fourth Quarter 2014 Earnings Conference Call.

Late yesterday, we issued the news release about our results, along with our supplemental financial package, including our quarter-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 Steven 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 Cincinnati Insurance Company's Executive Committee Chairman, Jack Schiff, Jr.; Chairman of the Board, Ken Stecher; Chief Insurance Officer for the Cincinnati Insurance Company, J.F. Scherer; Principal Accounting Officer, Eric Mathews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer for Cincinnati Insurance, Marty Mullen.

First, please note that some of the matters we will be discussing 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 the 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 J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Thank you, Dennis, and good morning, everyone.

As in recent years, I'm speaking with you today from Murfreesboro, Tennessee, the fourth stop on our tour of sales meeting with our independent agents in more than 20 states.

Meeting annually with agents is essential to our relationship-oriented, agency-centered strategy. We also enjoy this part of our job and find it energizing.

It's important to sincerely thank our agents in person for contributing to another year of underwriting profit and premium growth and for trusting Cincinnati Insurance as we earn the opportunity to serve the people and businesses in their communities.

Turning to our financial performance. We feel good about the strong operating results we reported for the fourth quarter and for the year 2014. They continue to reflect steady execution in our underwriting and pricing. We had our seventh consecutive quarter of investment income growth, and rising valuations in equity security markets helped boost book value for your company. Careful underwriting and disciplined pricing, along with an improved expense ratio, led to a fourth quarter 2014 combined ratio of 90.4%, lowering the full year ratio to 95.6%.

We are further segmenting our book of business using pricing precision and risk selection decisions that combine data models and underwriter judgment on a policy-by-policy basis. That's an ongoing focus as we seek to further improve underwriting results. We think those actions will continue to provide benefits over time as we aim for a combined ratio below 95% in 2015.

Working with our agents, we benefit from the local presence of our field underwriters who make those decisions for all of our commercial new business. Their decisions are informed by analytics and risk inspection data from our ongoing loss control program.

We're pleased that 2014 was another year in which we met our premium growth objective of outpacing industry growth, thanks to strong retention and satisfactory renewal pricing.

Growth we reported for the fourth quarter reflected the favorable offsetting effect of the same factor of the slow growth reported last year, the 2013 estimate for business in the pipeline -- I mean, last quarter, reported last quarter of the 2013 estimate for business in the pipeline.

As we noted several times before, we tend to avoid drawing conclusions about trends based on single quarter of data for certain measures, including premium growth. Part of our long-term strategy is deploying agencies in areas where we are underrepresented, taking care to preserve established agency relationships and the franchise value they enjoy.

In 2014, we appointed 99 new independent agencies and plan to appoint about 100 more in 2015. Our agency partners do a great job helping us retain profitable accounts.

Policy retention from both Commercial and Personal Lines was generally consistent with the year ago. Our Commercial Lines policy retention continues near the high end of the mid-80% range, and Personal Lines policy retention continues in a low to mid-90% range.

We continue to work hard to earn new business through our agencies. New products and services, such as expanding programs offered through our Target Markets department, are an important part of growing new business.

We are also excited by new business opportunities we'll see by expanding our current products and services aimed at high net worth policyholders and -- offered through our Personal Lines insurance segment. You'll hear more about that over the next few quarters as we march towards a longer-term goal of $2 billion in the Inter-Personal Lines segment premiums.

Although our new business volume was down from 2013, the new business premiums reached a record level for us. Our agencies still produced over $1.5 billion in new business premiums in 2014.

For the fourth quarter, average renewal price increases for Commercial Lines remained in the low single-digit range, a little lower than in the third quarter. That average includes the muting effect of 3-year policies that were not yet subject to renewal pricing during the fourth quarter.

For smaller commercial property and commercial auto policies that renewed during the fourth quarter, we continue to obtain meaningful price increases. Those commercial property policies experienced increases averaging in the high single-digit range, and commercial auto average increases in the mid-single-digit range.

For our Personal Lines policies, renewal price increases averaged near the high end of the low single-digit range. For our Excess & Surplus Lines segment, the fourth quarter 2014 average renewal price increases continued in the mid-single-digit range. That segment of our business hit a home run in 2014 with a combined ratio of below 80% and net written premiums up 20%.

Our life insurance subsidiary, including income from its investment portfolio, produced another quarter of steady earnings and again grew premiums in its largest product line, term life insurance.

January 1 marked the renewal of our primary property casualty reinsurance treaties. Our per-risk treaty's terms for 2015 are similar to last year, except for an increase in our retention by $2 million to $10 million per loss. That change in more favorable rates should result in approximately $21 million less in reinsurance cost for those treaties compared with 2014.

Our property catastrophe treaty also has terms similar to last year, except for an increase in our retention by $25 million to $100 million per event. We expect our season premiums for that treaty to be approximately $8 million less than last year.

In conclusion, our primary measure of long-term financial performance, the value-creation ratio, ended 2014 at 12.6%. That result was toward the high end of our target, which is an annual ratio averaging 10% to 13%. While a healthy stock market contributed, majority of the 12.6% was due to the contribution of operating income.

I'll now ask our Chief Financial Officer, Mike Sewell, to add his insights about our recent financial performance.

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Great. Thank you, Steve, and thanks to all of you for joining us today.

I'll start with some analysis of investment results. Both income and book value for the fourth quarter and full year 2014 benefited from our equity investing strategy. Dividend income from our stock portfolio rose 6% for the quarter and 13% for the year. At our core portfolio of 50 common stocks, all 50 improved their annual regular dividend over the 12-month period ending December 2014 with a median increase of 8.3%.

Similar to others in our industry, yields for our bond portfolio continued to decline. The fourth quarter 2014 pretax average yield, reported at 4.72%, was 13 basis points lower than a year ago, while that measure on a full year was 14 basis lower.

Taxable bonds, representing nearly 70% of our bond portfolio, had a pretax yield of approximately 5.25% at the end of the fourth quarter 2014. The average yield for new taxable bonds purchased during the quarter was 4.49%. For the same period, our tax-exempt bond portfolio yield was 3.78%, and purchases during the quarter yielded 3.26%. Our bond portfolio's effective duration remained at the same level as one quarter ago at 4.4 years.

Cash flow from operating activities continues to help our investment income growth. Funds generated from net operating cash flows for the year 2014 were up 10% to $873 million, contributing to $324 million of net purchases of securities for our investment portfolio.

Careful expense management continues to be a priority, and together with premium growth, contributed to a 1.3% point of improvement to our full year 2014 underwriting expense ratio.

We like to analyze the underwriting expense ratio's 2 components: commissions and noncommission expenses. The commission components tend to vary with recent year underwriting profitability. It also considers 3-year profitability by agency. So if the commission ratio were to rise, it should be more than offset by a lower loss ratio. The noncommission component tends to vary as a result of investments we make in the property casualty business, such as enhancing pricing and underwriting expertise. Again, we believe it would be worth the trade-off of a short-term increase in that component to create overall value for investors and others. We plan to continue to have non-commission expense dollar volume grow more slowly to premium volume, producing a favorable effect on the non-commission expense ratio.

Next, let's turn to loss reserves. I'd like to emphasize that we follow a consistent approach in that we have experienced 26 years -- consecutive years of overall favorable reserve development. We continue to aim for a reserve reported on our balance sheet to be at the levels reflecting net amounts well into the upper half of the actuary estimated range of net loss and loss expense reserves.

Our news release reported higher reserve estimates for our commercial casualty line of business. That translated in 2014 to a lower amount of total property casualty net favorable reserve development on prior accident years, although, in aggregate, our other lines of businesses were slightly more favorable than in 2013. Once we complete all of our year-end reporting, we'll be able to further analyze the details.

For now, I'll highlight a few important items. For a long time, we disclosed the historical paid loss patterns or our key assumptions used to make projections necessary for estimating IBNR reserves.

During 2014, paid losses for commercial casualty, especially related to a few umbrella liability claims, emerged at levels higher than we expected, particularly for accident years 2005 and 2007. Considering that new data, we estimated commercial casualty IBNR reserves for subsequent accident years at levels more likely to be adequate compared with the recent past quarters.

Overall, our full year 2014 net favorable development was, as usual, spread over several accident years, including 58% for accident year 2013; 15% for accident year 2012; 17% for accident year 2011; and 10% for all older accident years in aggregate.

The capital liquidity position of the company reflects both strength and financial flexibility. Cash and marketable securities for our parent company, nearly $1.8 billion at the end of the fourth quarter, was up 16% for the year. Our property casualty premium to surplus ratio at 0.9:1 continues to provide capital that adequately supports our plans for ongoing growth of insurance operations. We did not purchase additional shares during the fourth quarter. Full year 2014 share repurchases totaled 450,000 shares at an average price per share of $46.63.

I'll conclude my prepared comments by summarizing our contributions during the fourth quarter to book value per share. Property casualty underwriting increased book value by $0.40. Life insurance operations added $0.06. Investment income other than life insurance and reduced by noninsurance items contributed $0.40. The change in unrealized gains at December 31 for the fixed income portfolio, net of realized gains and losses, decreased book value per share by $0.06. The changes in unrealized gains at December 31 for the equity portfolio, net of realized gains and losses, increased book value by $0.77, and we declared $0.44 per share in dividends to shareholders. The net effect was a book value increase of $1.13 during the fourth quarter to a record high of $40.14 per share.

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

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Thanks, Mike.

In closing our prepared remarks, I'll note that during the fourth quarter, Fitch Ratings and A. M. Best affirmed their strong ratings of our companies. We were especially pleased that, that [indiscernible] announces positive outlook on the issuer credit rating of our newest company, the Cincinnati Specialty Underwriters.

Since its start-up in 2008, our Excess & Surplus Lines business has established a good track record, and we expect it to continue attracting more of our agents business. That's just one of many factors that give us confidence we can perform and benefit shareholders over the coming years.

The board of Directors demonstrated that they share that confidence by increasing the cash dividend to $0.46 per share. That action sets the stage for 55 consecutive years of dividend increases.

We appreciate this opportunity to respond to your questions and also look forward to meeting in person with many of you during the remainder of the year.

As a reminder, with Mike and me today are Jack Schiff, Jr., Ken Stecher, J.F. Scherer, Eric Mathews, Marty Mullen and Marty Hollenbeck.
Steven, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Vincent DeAugustino.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to, I guess, start. So the press release noted some actions on the agency management side in terms of territories and then an affirmation of the commitment to agent service. And so I'm just curious if any of the plans there reflect any changes in the competitive landscape or if it's really just that as an affirmation of kind of that agent model.

Jacob F. Scherer
Former Chief Insurance Officer

So this is J.F. Just an affirmation of the agent model. That's the theme of our sales meeting for this week is how pleased we are with how they're performing for us. The way we define it for our agencies is that we obviously want to help them when it comes to writing the insurance and helping them with their success there, but we're also very much interested in helping them with their business management, agency management, sales management types of things, providing capital for them. So that's really what we're hitting at there.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then just for Steve and Mike. So sorry, I was just trying to follow along with the reserve comments and simultaneously moving to your Schedule P, which -- I may have gotten a little lost here. But if I heard things right, we're talking IBNR reserve movement primarily on accident years 2005 and '07 for the commercial casualty. Was that the gist?

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Yes, that's exactly right. It was really those 2 areas where we did see some increased payments as we do look at paid losses that helps to project our IBNR picks. And so with some increased payments and then also a couple of reserve changes that we're really just in those 2 accident years. And so it’s that new information that we usually take our consistent, conservative approach to setting reserves. And so that's really what did it.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

There's something I'd just add on there that -- this is Steve. As we looked at 2005, 2007, the largest, as Mike just mentioned, was one claim in 2005, one in 2007 that emerged in the IBNR lines. And I think we've had 26 years now of favorable development. There's 2 ways we could have looked at that. We could have said, "Well, there are anomalies, and we'll just let that emergence come out of IBNR." Or I think the prudent approach and consistent with the way we do things is to actually react to that by increasing our factors, which would then subsequently roll through the accident years and add additional IBNR to all those accident years. I think it's the prudent way to look at that. And I think -- I'm confident, as you look at our Schedule Ps, that you'll find our reserves and balance sheet at least as strong at the end of '14 as you did at the end of '13.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I guess the root of the question -- and I appreciate all that, Steve, and we're kind of on board with -- I believe you guys are acting prudently to what you're saying, so no real question there. I guess, mechanically, when I look at kind of Schedule Ps -- and then right now, I'm just flipping through C&P and then 2 other liability lines. And really, IBNR, in those outyears at last year's maturities there, really come small. And so when I kind of look at the reserve movements in the quarter, so maybe I'm not capturing everything with those 3 lines. But am I missing anything there in thinking that by this point, the maturity that really shouldn't be that much movement? And I guess, that question would then be: Were these couple of claims just really large in size?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Yes, I think it is more of the anomaly that I think one was for about $5 million, one was for about $4 million. And I do think as we look at where we carry IBNR, there is more uncertainty in the more recent years than there is in the older years, and I do think that they tend to be outliers.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So sorry, just to take that point and kind of confirm my understanding. So was the claim activity on those years, did that influence some IBNR moves here in more recent years as well?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

That's correct.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I understand much better now. And then just one last one for Marty on the investment side. So we can obviously see the energy MLP in equity. Energy investments move around a little bit. So the historical stuff we're good with. What I'm kind of curious about is, just in the current environment, do you see this as an opportunity on the energy side? Or is it something where you're kind of cautiously proceeding?

Martin J. Mullen
Chief Claims Officer of the Cincinnati Insurance Co. and Senior VP of the Cincinnati Insurance Co.

I tell you we're probably -- a little bit more cautious. I mean, we are fairly fully invested as a sector in the energy -- the large [indiscernible] things, we've got the ComStock portfolio, have actually hung in there fairly well, Exxon, Conoco, Chevron. The MLP space was never a particularly large one for us, and we haven't been adding to that in recent years. So I think we're just kind of hang steady for right now.

Operator

And your next question comes from the line of Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I think you just covered some of my questions. But just to kind of finalize, I guess, or hopefully finalize on the reserve addition. So the total reserve addition in the quarter was about $32 million in the Commercial segment. If $9 million of it was related to specific claims, what was the total amount of addition? And I guess, were there offsetting releases in other areas that kind of netted it down to the $32 million?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Yes, I think that's true. It's looked at the accident year by -- for each accident year within each line of business, and so you're going to have areas moving in different directions that would offset.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Can you provide the amounts of what the overall positive was and the overall negative that netted down to the $32 million? I suppose I can derive it from the Schedule P, but...

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

I'm trying to see the $32 million -- this is Mike. But on the Commercial, on the one item I'm looking at -- and Dennis, correct me if I'm wrong -- total commercial was $26 million that was added. $29 million was from commercial casualty strength and commercial auto strength, $15 million. The large offsets was management liability which was favorable by $12 million. Workers' comp was favorable by $7 million. Commercial property was slightly favorable for $2 million for the quarter.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Maybe I just -- maybe I did my math wrong. I was taking the 4.4 combined ratio points and dividing it backwards. I guess, netting down the catastrophe losses, maybe it comes to that lower figure, I'm sorry.

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Yes, that may be exactly -- that's exactly right. So as Steve said, you do have some offsetting and that -- all those numbers I just gave you are spread over several accident years, evenly spread basically.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Got it. Okay, that completely satisfies me on that topic. Let's move over to new business. The amount of new business in the quarter was a nice uptick relative to last quarter, but it was still down a little bit year-over-year, which I was a little bit surprised of. Any comments you can provide there?

Jacob F. Scherer
Former Chief Insurance Officer

Mark, this is J.F. We mentioned in the release that workers' comp was down a fair amount for us this year. We had a significant year in 2013 there, and it's -- that was in the area of larger workers' comp. It's an area that we are conservative on. Very pleased with the progress we're making on the loss for a lot of reasons. But we just simply did not write as many larger workers' comp claims, and that can tend to have a slightly muting effect on overall package business because typically, our agents like to put the workers' comp with the package. So I chalked that up to conservatism on that particular line of business. Maybe overly conservative, I suppose, but that would have been a factor. The other factor that occurred and really started occurring, I think, really and maybe in the second quarter. But clearly, I think most carriers are feeling they've reached pretty close to rate adequacy and rather than signaling to their agents that they would be asking for and requiring fairly substantial rate increases at renewal. Instead, they are defending the renewals more strongly. So the atmosphere we're competing in is one where there aren't as many what I would consider to be good accounts or easier or more desirable accounts out in the marketplace. We still have our pipeline full, but segmentation is playing through the -- for every carrier. And so the accounts that need the most rate or might have a more poor experience are the ones that are more likely out in the marketplace. So it's just tougher from that standpoint.

A few other things I would comment on, and I don't know how to fix other carriers, but the M&A activity that's occurred over the last 3, 4 years, that's fairly disruptive at the agency level. As some producers leave, the acquirers change the appetite for some agencies. We react to that. In some cases, it works out favorably for us. And in some cases, the consequence might be that we would appoint more agencies, and that takes a little bit more time for things to gear up. So we're not pushing any panic buttons in terms of the fact that new business was down. CSU, our Excess & Surplus Lines division, continued strong. We think we have tremendous potential there. Personal Lines is stabilized, and we think that you'll see an increase in new business in 2015 there. So it's -- maybe a little wordy, but those are kind of observations that we have. It's very reinforcing to be out this week with our agencies and hear their opinions of the marketplace and their confidence in us. So we'll keep our pipeline full, and we'll be good selectors of businesses through this year proceeds.

Operator

[Operator Instructions] Your next question comes from the line of Paul Newsome from Sandler O'Neill.

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

The -- so if I heard it correctly, you are hoping to get a combined ratio next year below 95%, which is about where you were today, and tell me if I'm wrong. But my first question is that is that a hope to get the accident year lower as well? Or is that also a function of a normalization of reserve releases, respectively?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

You're correct that we do want to have the calendar year go below 95, but that also implies an accident year improvement as well and no change in our relative reserve margin.

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

Terrific. And then big picture, where do you see the best opportunities for underwriting improvement? Is it on the Personal Lines side or the Commercial Lines side of your house?

Jacob F. Scherer
Former Chief Insurance Officer

Paul, I'll try my two cents worth here. We're putting a lot of effort, and we've mentioned this the last several quarters into -- I guess, you might say nonrate-related improvement. We still are seeing rate increases, both in person or Commercial Lines, as already been mentioned. I might add, particularly on accounts that renew, an awful lot of what's being said by agents that have been interviewed or brokers that have been interviewed, we're not hearing that being quite so dire in talking to our agencies this week. So we think there are still opportunities with modest rate increases, but we've put a lot of effort in the last few years, and we're going to continue to accelerate that in loss control, in claims specialization, in underwriting specializations, so -- and just general inspections of business. So we expect those kinds of activities will help us discover accounts that when we wrote them, perhaps years ago, they were better accounts than they are today. So we'll react accordingly there. And then our loss control efforts will help with loss mitigation efforts. Marty might want to comment on the claims side of things, but the rate improvement we've had in workers comp, for example, we think can continue in the programs we've been making there. And that's been a combination of loss control, but most especially, claims specialization.

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

I might just add that the continued segmentation is part -- is exactly a part of what J.F. has just mentioned, and that will continue as well.

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

So that sounds like more opportunity on the Commercial side than the Personal Lines side, given that those are primarily Commercial Lines things.

Jacob F. Scherer
Former Chief Insurance Officer

Well, loss control would be, but the inspection initiative, we've been inspecting about 100,000 structures a year in Personal Lines. And not that our agencies don't keep track of things, but what -- well, we've taken the approach that we're going to augment what our agencies do by really inspecting 100%, for example, of all the new business that we're writing. And we have a few quite a few houses and drilling fire policies on the books that need someone to take a look at them as well. So I fully expect that there's going to be some lift in Personal Lines from that initiative.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

This is Steven. I agree totally with J.F. It was nice to see this year, 2014, that all of our business segments came in under 100%. I think they're all, as J.F. mentioned, working feverishly to continue to improve, and I see improvement potential in all segments.

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

I was curious about the life insurance business to the extent that -- over the years, you've always kept it a small part of the overall portfolio. How much capital does it tie up? And is it a accretive to ROE or about the same ROE in the rest of the business? Could you potentially unlock value if you were to send that business elsewhere?

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

Josh, this is Mike Sewell. There is -- there's a difference between GAAP and stat reporting and how much you need to -- when you're setting the reserves which then ends up with the capital that you have. And so from a GAAP standpoint, you have less reserves that are required, so you have more capital. And so when you look at the capital that we have and it's producing, I'll say in round numbers, $40 million of net income, that is a little bit lower ROE than what it would be on a statutory standpoint. There will be -- the states are looking at principal base reserves. And when we get there, we think we can free up some of the capital at the -- in the life company. And if we had this principle base reserves today, I would suspect that our capital in the life company would be somewhere in the $350 million to $400 million range. So it would be a 10% ROE that you would have there, which would be right in line with our 10% to 13% goal for our VCR. So it's a -- we're very excited about the life company. We hope that the principle base reserves will be changed or we will get to it. And it's producing a nice result and it's added to the overall VCR for us.

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you have an initiative in place to grow it?

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Do we have an initiative in place to grow the life company?

Michael J. Sewell
Chief Financial Officer, Senior Vice President and Treasurer

We're still working on that, and that's a part of a -- and we've been doing it. They're a part of the sales meetings that go out, trying to really expand the sales, especially related to the term product. Our term product was up 7% for the year, which we're excited about. Dave Popplewell, the President of Life Insurance Company is out, beating the bushes, and he's out on the sales meeting, talking to the property casualty agencies about cross-selling and being able to increase and improve the top line results. Follow-up, J.F.?

Jacob F. Scherer
Former Chief Insurance Officer

Yes, just to -- Josh, 70% of our new life premiums tend to come from the property and casualty agencies. One of the things that we're doing is trying to link together our homeowner sales in an automated way through simplified issue policies to write more term insurance and help agencies in the course of writing Personal Lines business. So that's been the case. We continue to fortify our field presence in our Life Insurance Company. What tends to work very well is when you have a good professional who's calling on the agencies when it comes to the more business life insurance types of things to help navigate that process. So yes, we continue -- it's a -- like a lot of things that we do, it's a very nice complement to the overall relationship we have with our agencies, and it's -- and our agencies appreciate it.

Operator

Our next question comes from the line of Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I think I may have asked this question every year around this time. So here you go. But with the agency sales meetings, I'm just curious if agents are giving you any wish lists where they'd like to see any new products or maybe it's technology widgets from Cincinnati.

Jacob F. Scherer
Former Chief Insurance Officer

Listen, we've been really been hitting them pretty hard with a lot of the things that we're doing. I'd have to say that the general tone is between what Will Van Den Heuvel was doing in the high net worth area. They're pleased to hear about that. They're also pleased to hear that when it comes to middle-market Personal Lines, Will is reinforcing our activity there. They're pleased with the automation that we have there. We've gone through several years of rate increases, pretty darn strong rate increases in the homeowner area, and that's not as strong any longer, so the pressure is gone there. CSU is a -- we had a lot of feedback on that. Our agency is right, ballpark $2 billion in Excess & Surplus Lines premium, and so we have tremendous opportunity to grow our E&S company there. We gradually increased our appetite in that line of business, and so they're pleased to hear the news on that. Our Target Markets division has 17 programs, and that's going to expand. If there's anything, I guess, that's really created most of a wish list or a discussion at our sales meetings would be that they would ask that we continue to grow that particular division. Every agency, every aggressive agency, I would say, is niching. They have producers. They go after certain industry classes. And while it's not unusual for carriers to have that, what is a bit unusual from our standpoint is the fact that we have some managers in those areas, they'll go out and travel with agencies, go out and make sales calls with those agencies. So we -- maybe we outworth the competition a little bit better in that category. So I would say those would be the major areas that we've improved. Loss control continues to be a benefit. Our agencies are good. We're taking our loss control rep, our claims rep and our field underwriters are actually on the sales call, and feedback we get on that is excellent. So no particular area. Cyber is talked about a bit, it's being talked about by everyone, but that's on the radar screen for everyone as an emerging coverage that we're pleased to tell them we have some things in the works on.

Operator

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

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Thank you, Steven, and thanks, everyone, for joining us today. We appreciate your interest in Cincinnati Financial, and we look forward to speaking with you again on our first quarter 2015 call. Have a great day.

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