S&P Global
Market Intelligence

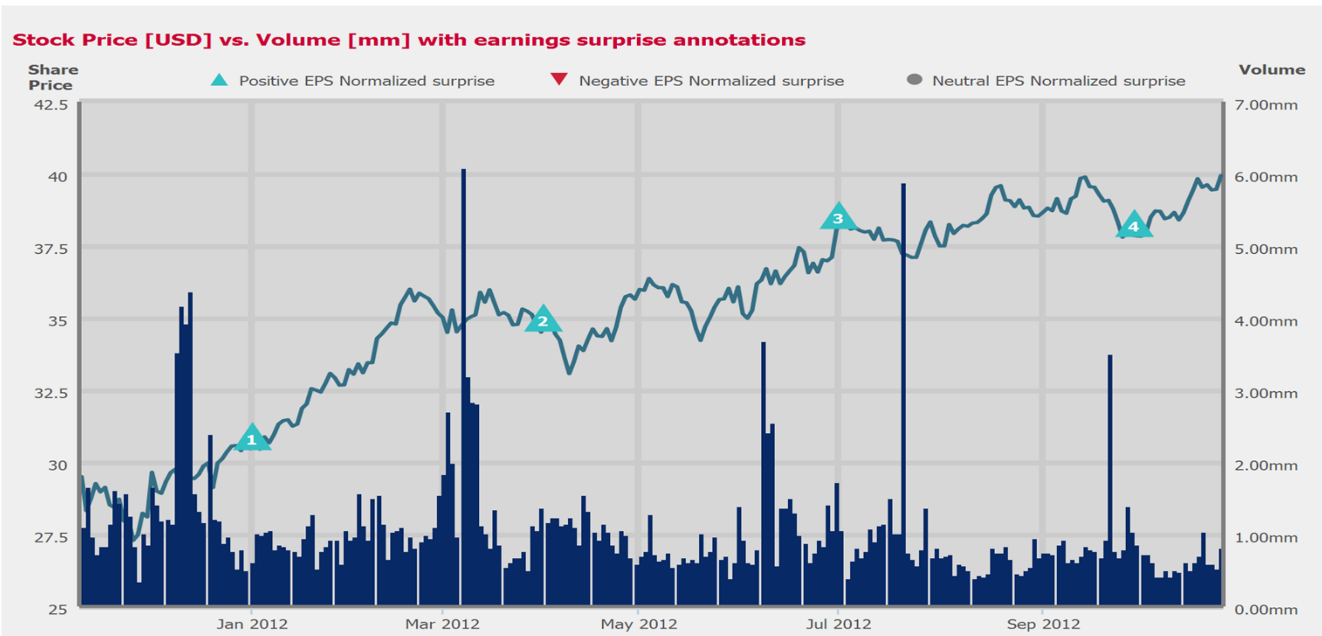
Cincinnati Financial Corporation NasdaqGS:CINF
FQ4 2012 Earnings Call Transcripts

Thursday, February 07, 2013 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.44	1.11	▲152.27	0.47	1.70	2.40
Revenue (mm)	1041.41	1070.00	▲2.75	1060.36	4079.25	4111.00

Currency: USD
Consensus as of Feb-06-2013 11:01 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	0.56	0.86	▲1 53.57 %
FQ1 2012	0.40	0.48	▲2 20.00 %
FQ2 2012	0.12	0.17	▲3 41.67 %
FQ3 2012	0.41	0.64	▲4 56.10 %

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Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

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

Kenneth William Stecher
Non-Executive Chairman of the Board

Martin Mullen

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

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Fredrick Nelson

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Raymond Iardella
Macquarie Research

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

Presentation

Operator

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

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel, Investor Relations Officer for Cincinnati Financial. Thank you for joining us for our fourth quarter and full year 2012 earnings conference call. Late yesterday, we issued a news release on our results along with a supplemental financial package, including 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 hear from Steve Johnston, President and Chief Executive Officer; and 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 Executive Committee Chairman Jack Schiff Jr.; Chairman of the Board, Ken Stecher; Chief Insurance Officer, J.F. Scherer; Principal Accounting Officer, Eric Matthews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer, Marty Mullen.

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

Good morning. It's a pleasure to speak with you today from Murfreesboro, Tennessee, the fourth stop on our 20-plus state tour of sales meeting with our independent agents. Our senior leadership team gets out and visits agents in the first half of each year. Meeting with our agents is always energizing. I'm also looking forward to talking with all of you about our very strong fourth quarter earnings and operating performance.

Our fourth quarter results reflect a steady -- steadily growing benefits of initiatives designed to improve insurance profitability, drive premium growth overtime and create shareholder value.

The contribution by our agents of premiums producing an underwriting profit was one of the keys to a successful year and we sincerely thank them for trusting us to protect and serve their clients.

Our fourth quarter Property Casualty Insurance combined ratio, at 81.9%, was the best we've had in years. We're also encouraged by the consistency of improvement across the company. For instance, all 3 Property Casualty segments had a combined ratio lower than the fourth quarter of last year.

For the full year 2012, our 96.1% combined ratio improved by over 10 percentage points from a year ago on both a current accident year and calendar year basis. Lower catastrophe losses drove only about 1/4 of the improvement.

Turning to premium growth, each of our Property Casualty segments continue to experience steady growth in renewal premiums. In total, net written premiums for the fourth quarter rose by 10%, both profitability and premium growth once again benefited from greater pricing precision and higher overall pricing.

Commercial policies that renewed during the fourth quarter continue to average a mid-single-digit price increase, although down slightly from the third quarter. Increases on our smaller commercial property policies reached the double-digit range. For the full year, pricing averaged an increase in the mid-single-digit range for our Commercial Lines segment.

Our Excess and Surplus Lines segment experienced higher renewal prices for the 28th consecutive month. The fourth quarter average price increase remained in the high-single-digit range and annual written premiums exceeded the $100 million mark.

Policies in our Personal Lines segment renewed in the fourth quarter with an average price increase in the mid single-digit range, price increases specific to homeowners' policy approached double digits.

Higher renewal pricing contributed to a slight decrease in our Commercial Lines policy retention as it moved to the mid-80% range. Personal Lines policy retention has remained fairly steady and continues to be in the low to mid-90% range.

New business written premiums for the fourth quarter and full year 2012 continued to grow at a nice pace for both our Commercial and Personal Lines segments. The increase reflected higher pricing and the cumulative effect of growth initiatives, including new agency appointments. Just over half of the $64 million full year increase in new-business written premiums came from agencies appointed since the beginning of 2011.

Our pricing analytics and modeling tools once again indicated that our new-business pricing is adequate, providing confidence to compete for good accounts and to avoid underpriced ones.

As we end -- emphasized on this call last year, we are not interested in growing premiums without doing so profitably and we are satisfied with our progress so far. We are well-positioned to continue growing earnings, dividends and book value, adding value for shareholders over time.

In 2012, we appointed 140 new agencies in areas we consider underserved, about 10 more than we planned at the beginning of the year. During 2013, we plan to appoint around 65 agencies. That's lower than in recent years and is based on our latest assessment of potential for our current agencies given our premium volume targets by territory. When we believe we can reach our goals in a given community with the currently appointed agencies, we refrain from new appointments.

It's also important to remember that it takes several years for a new agency to develop the double-digit market share we tend to earn with agencies appointed for 10 years or longer. Because of the pace of appointments in recent years, plus our commitment to serving all of our agencies and their clients, we expect to achieve $5 billion of consolidated annual direct written premiums by the end of 2015.

Appointing new agencies is just one of several strategic initiatives for 2013 that I'll highlight today. We are working to enhance our underwriting expertise and knowledge by expanding our use of data and analytics for more precise pricing.

We are improving results in our property-oriented lines of business with several initiatives. First, we're increasing the use of property inspections; second, using more robust deductible features in our policies; and third, increasing specialization among associates in our operating areas that handle various property insurance functions.

A multi-department task force has been leading our property initiatives and we are confident in its ability to drive improvement because that approach is similar to what led to improvement for our workers' compensation business. We're also using that approach to improve results for our Commercial Auto business.

Finally, in 2013, we're continuing to develop new programs that target specific markets, featuring enhanced products and service for promising classes of business.

Our Life Insurance business will also work to increase opportunities to cross-sell products and services, as we seek another year of steady profits and growth from that segment. For the full year 2012, our Life Insurance business grew earned premiums by 8% and generated a 6% increase in operating profits.

January 1 marked the renewal of our reinsurance program. We were able to add coverage and efficiency while keeping overall cost basically flat. We also further diversified credit risk associated with reinsurance while preserving the strong relationships we have with our quality reinsurers.

Our per-risk treaties remain substantially the same as in 2012. We increased our retention by $1 million, to $7 million per loss, and used the cost savings to purchase $10 million of additional property per-risk coverage.

Our property catastrophe treaty has coverage and pricing similar to 2012, and we added a $100 million layer, with our share of covered losses in that layer at 28%, through collateralized reinsurance in the form of a catastrophe bond.

The coverage applies to severe convective storm losses in selected areas, particularly in the Midwest, as well as supplemental coverage in the event of an earthquake occurring along the New Madrid fault line. The storm aggregate coverage applies to the 75 counties with our highest amount of total insured property values.

Loss recovery under the treaty terms occurs when storm losses for all events in aggregate exceed $125 million after a $5 million deductible per event. The earthquake coverage applies once insured losses for an earthquake event exceed $600 million. Reinsurance is an important part of our enterprise risk management effort, helping to protect capital and remove some of the earnings volatility caused by natural catastrophes.

We finished the year with a great quarter, producing a healthy increase in investment income. It's important to recognize that our primary financial performance measure, the value-creation ratio, reached our target range for the year.

With that, I'll turn the call over to Chief Financial Officer, Mike Sewell, to discuss further along with other financial items.

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

Thank you, Steve, and thanks to all of you for joining us today. Our fourth quarter value-creation ratio was 2.8% and we finished the year at 12.6%. That included a 5.2% contribution from our dividend to shareholders and 7.4% from the change in book value per share.

The fourth quarter again demonstrated the benefits of our equity investing strategy during periods when investment income is pressured by the low-interest-rate environment. We received special or accelerated dividends of approximately $5 million during the fourth quarter, contributing to a $7 million, or 26%, increase in total dividend income.

While that dividend income pace is unlikely to continue in 2013, individual common stocks in our portfolio have the propensity for dividend growth over time, plus we invest new money in that portfolio and that helps offset declining bond portfolio yields.

For full year 2012, we added new money to both our equity and fixed-maturity portfolios, as indicated by the annual increase in their cost bases rising 10% and 2%, respectively. Yields of our bond portfolio continue to move lower as its fourth quarter 2012 pre-tax yield of 5.01% fell 16 basis points from one year ago. Our bond portfolio's effective duration measured 4.2 years at year-end 2012, down from 4.4 one year ago and 4.3 one quarter ago.

Strong cash flow continues to enhance investment income. Consolidated net cash flow from operating activities for full year 2012 at $638 million, exceeded the full year 2011 by $391 million and exceeded 2010 by $107 million.

Our stock and bond portfolios each experienced changes in fair value of less than 1% during the fourth quarter. The stock portfolio's unrealized gains remain at over $1 billion before taxes, and its fair value represents just over one quarter of invested assets.

Moving to liabilities and reserve development. We continue to take a steady consistent approach to loss reserving. We aim to remain well into the upper half of the actuarially estimated range of net loss and loss-experience reserves.

For full year 2012 our Property Casualty combined ratio benefited from 10.7 percentage points of net favorable reserve development on prior accident years before catastrophe losses, up somewhat from 9.3 points in 2011 and 9.8 points in 2010.

Every major line of business contributed to the 2012 favorable development that totaled $396 million, including catastrophe losses. 45% of the development occurred in our largest line of business -- commercial casualty, similar to 46% in 2011. That favorable development occurred for several accident years, including 39% for accident year 2011, 17% for accident year 2010, 23% for accident year 2009 and 21% for all older accident years.

We continued to carefully manage expenses and our property and casualty underwriting expense ratio fell slightly despite a 0.8% point increase in the component for profit sharing commissions to agents. At year-end, our financial strength and liquidity remains stellar.

We had nearly $1.2 billion in cash and marketable securities at the parent company level, up 10% from a year ago. Our premiums to surplus ratio at 0.9:1, indicates our capacity to support continued premium growth in our insurance segments, as well as provide for other capital needs.

I'll conclude my prepared comments by summarizing the contributions during the fourth quarter to book value per share. Property casualty underwriting increased book value by $0.62.

Life insurance operations added 5%. Investment income other than life insurance and reduced by non-insurance 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 $0.04.

The change in unrealized gains at December 31 for the equity portfolio, net of realized gains and losses, lowered book value by $0.09, and we paid $0.4075 per share in dividends to shareholders. The net effect was a book value increase of $0.53 during the fourth quarter to $33.48 per share.

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

Steven Justus Johnston
President, CEO & Director

Thanks, Mike. While completing another quarter with improved underwriting performance adds to our optimism about the company's future, we realize that your efforts must continue to build on that progress. I want to thank every associate of the Cincinnati Insurance Companies for their good work, and encourage them to keep getting a little better every day at what they do to serve our agents and policyholders.

The operating environment for property and casualty insurers still has plenty of challenges. We will continually seek to improve our performance while still fulfilling our insurance promise to policyholders and providing outstanding service to agents.

We appreciate this opportunity to respond to investor questions, and also look forward to meeting in person with many of you throughout this year. With Mike and me today are Jack Schiff Jr., Ken Stecher, J.F. Scherer, Eric Mathews, Marty Mullen and Marty Hollenbeck.
Stephanie, we're ready for you to open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Mike Zaremski with Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

So very impressive margin improvements. One segment that really stood out was the commercial property. If I'm calculating this correctly, I'm getting an accident year excluding cat combined ratio of 27%. If that's correct, is there a nonrecurring element benefiting that ratio?

Steven Justus Johnston
President, CEO & Director

Mike, let's -- we've got some numbers here. I want to check real quick before we answer that. You're looking at commercial property? That loss ratio is – it's a current accident year loss ratio of 28.1. It improved from 31.1 and that's before catastrophe losses. 28.1 before catastrophe losses versus 31.1 fourth quarter a year ago. And then for the full year, which I think really for all of our lines is one to look at as well -- it's 46.1 and 69.7 for the full year 2012 compared to 2011, and that's current accident year before catastrophe losses.

Michael Zaremski
Crédit Suisse AG, Research Division

So I guess the moral of the story is I need to kind of take for you guys last-12-month average more so than looking at the absolute level this quarter versus -- I guess, it's just that ratio, that's like a very, very good ratio.

Steven Justus Johnston
President, CEO & Director

Right. That's a good point, Mike and we look at all the numbers obviously. But we do tend to focus on these full year numbers.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And I guess then kind of asking the question in another way then. In terms of the overall margin improvements on a consolidated basis, is there a way to kind of break down the drivers of the margin improvement? For example, maybe pricing versus technology driven underwriting initiatives, et cetera.

Steven Justus Johnston
President, CEO & Director

Yes. It's a great question and again something we think about it lot. And we do feel that we are getting improvement across the board from every area of the company, pricing, and maybe I will let J.F. comment on this a bit. But I'd say in general terms with the mid-single-digit rate increases that we have been getting, we've been seeing about half come from rate and about half from other areas.

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

And then, what I'd add on the property side, we are actually up close to 10% net rate increases on commercial property increases, so that is driving the improvement in property. We are also doing a lot more loss control inspections, as Steve mentioned in his prepared remarks. Modeling has helped us across the board, but also in the property lines as well. So as Steve said, it's in across-the-board contribution.

Michael Zaremski

Crédit Suisse AG, Research Division

Okay. That's helpful. And lastly, I guess can you comment on the competitive environment as it pertains to rate increases that it seems like everyone in the industry, including you guys, have been taking?

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

Well, no question that everyone is raising rates, some more than others. Agencies right now, what we are finding, and particularly this week when we are out traveling, is that there are some companies that are taking some fairly sizeable increases and in some cases we are too. What we are finding, at least in terms of market conditions, is that it's driving quite a bit of business into the market for competition. One of our agencies report that because they perceived at some of the increases are little more than policyholders can tolerate, that there is a lot of preempting, preempted shopping of accounts that are perhaps the type of thing that a carrier would want to keep, but it's driving it in the marketplace. So there is a lot going on out there, new-business. We are not seeing the rogue, if you will, the rogue carriers, and I guess everybody gets credit for being a rogue carrier from time to time. But we are not seeing anyone carrier driving a new-business overly aggressively.

So mid-single digits to upper single-digits, from our standpoint, is what we are seeing on improvements on renewals and I'd say just by way of commentary obviously property, cat-prone property, awful lot of aggressive action being taken there.

Operator

Your next question comes from Vincent D'Agostino with Stifel, Nicolaus.

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

I guess, first, I'd just to say I'm glad that you guys are finally getting up a few quarters where it's not so much of an uphill battle with the weather. It's just good to see. My first question would be is if I remember correctly in 4Q '11, there was an 11-point adjustment that needed to be made to the reported core loss ratio for workers' comp. But even if I back that adjustment out, the core loss ratio picked up in 4Q '12. So I just wanted to see if there was anything notable in workers' comp in terms of one-offs just in light of the recent progress that you guys have been making in workers' comp?

Steven Justus Johnston
President, CEO & Director

Vincent, this is Steve. And I think, again, I would focus a little bit more on the year, especially with a line as volatile -- and it has been, as you know, as volatile for us as workers' compensation. We still feel very confident with the progress that we're making and it's just that, that most recent accident quarter for workers' comp is going to be pretty volatile in any year. And so we are looking more to the long-term trends, the full year improvement and feel good about the improvement that we're making. But given the volatility that can occur, your point is well taken that it's a line that always has to have a close eye kept on it.

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

Okay. That's good. And then just what you guys writing some of your accounts on a 3-year basis, how do you feel about the increases that you're getting on the 3-year accounts that are renewing now, I guess, just versus what the 1-year accounts have been getting as far as rate increases in the last few years? And then thinking about it in that way, what would the implied forward rate increase be that you're assuming, I guess, in the go forward next 3 years on those accounts?

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

Vincent, this is J.F. The way I would characterize the 3-year policy right now is that we probably more than at any point in time previously are strengthening the difference between what we would offer as a 1-year renewal price increase and a 3-year policy price increase. The takeup rate has been a little bit less. Agencies have renewed policies on a 1-year policy rather than 3. And that's all right, because we'd be very happy with the kind of increases we're asking for. And then next year, we'll have the opportunity to revisit the policy. So I'd say very committed to the 3-year policy. It's still a very stabilizing mechanism for us. So all-in-all good progress there, but, once again, strengthening the kind of increases we're looking for in 3-year policy.

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

Okay. The comments you made about renewals going to 1 year versus 3 in some cases, it seems really interesting. I'm curious if I should -- maybe the takeaway that I should make from that, would it be that agents maybe don't think that the current rate environment is going to persist for the next couple of years and insureds would be better off taking a one year renewal or is it -- should my takeaway be that you guys are just being very conservative and the rate increase that you're asking for on the 3-year?

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

Yes, the latter. Well, I think we are pressing for higher rate increases on the 3-year policy. I think the bottom line, the economy is not as robust as some businesses would like for it to be. And they're -- they can't tolerate quite the increase that we may ask for on the 3-year policy.

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

Okay. Perfect. And then the last one from me. In terms of the 65-agency appointment goal, is that just because of reaching saturation and I think that's what you mentioned. Or just, I guess the other question would be, was there any volume of agency own or complaints regarding the last few years' pace that would have impacted that lower target.

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

Yes. There had been some volume of agency complaints, but I don't think it's anything drastic. Obviously, when you add agencies as we have and we have been so careful throughout our history to make certain we don't oversaturate an area, you can get into a lot of discussions with agencies about that, or debates. But the 65 level for this year I think is a reflection of the fact that over the last 3 years, we have increased the agency force in lot of areas, a lot of opportunities. We appointed about $2.7 billion in property and casualty premium this year, which was probably double our best year previously or certainly a significant increase over previous years. So having had a lot of conversations over the 1.5 years with agencies about our long-term aspirations for growth, number of agencies we have in our area, examining the agencies that have plateaued as far as their activity levels are concerned, we think we've done a real good job. And we have a lot more critical mass to work with right now. Having said that, there are always going to be opportunities for new appointments. Those 65 agencies that we're projecting for this year will reflect that.

Operator

Your next question comes from Ray Iardella with Macquarie.

Raymond Iardella
Macquarie Research

Just maybe wanted to touch on the year-over-year improvement and the accident year loss ratio, not looking on a quarter basis but just the full year. I think it's somewhere around 8.5 points. I know, Steve, you had talked about maybe rate being half of it but maybe you can give a little bit more color of what the other half of the improvement is? And then, maybe just talk about your overall position in terms of how you guys are setting loss picks and whether or not it's changed at all over the past 12 months or 24 months?

Steven Justus Johnston
President, CEO & Director

Maybe I'll defer to J.F. to talk about the improvements because he really has been spearheading, along with Marty Mullen in claims, a true team approach here and then maybe I'll touch a little bit on the second part of your question.

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

Yes. As far as initiatives to improve the loss ratios, as was mentioned -- as Steve mentioned, inspection protocols for us, both in personal lines and in commercial lines, we are literally inspecting or re-inspecting hundreds of thousands of structures, both in personal lines and commercial lines, to give us a more confirmed view of the quality of the property that we're insuring, the age of the roofs, the condition of the roofs. Obviously, with the weather being as bad as it has been, roof claims is a very significant part of what we've been battling. Our loss control division has expanded significantly. The specialization within our loss control division has expanded a lot. That's manifested itself in a lot more attention in the area of workers' comp but also in the casualty and property lines as well. Marty can touch a little bit on some of the initiatives they've been involved in, in the claims area. But that's been a significant driver for improved results.

Martin Mullen

Thanks J.F. Ray, this is Marty. We really have seen some great efficiencies going on from expansion of our workers' compensation, call center and direct call center and expediting those types of claims and having the impact on our overall results. We're also focusing on our overall spend, especially in workers' compensation, focusing on best practices within the repricing issues and addressing a new nurse case management and pharmacy bill strategy. So we've got a lot of balls in the air, a lot of progress being made, still much to be done but we're very happy with the progress we're making.

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

Ray, I guess I might add that of course, in and as much as we've done a lot more in loss control and just overall inspections, it's really just kicking into full gear right now. So we're pretty optimistic that in 2013 and in 2014, we're going to get a lot of payback from that as well.

Steven Justus Johnston
President, CEO & Director

I'd just add, Ray, that the thing that's kind of hard to quantify, the quality independent agents that represent the Cincinnati. We've had the high privilege over last 3 nights to really spend a lot of time with agencies and the enthusiasm they have really is contagious. And they are doing a great job out in their communities in terms of really servicing their clients and helping manage risk. All of that added up does allow us to be optimistic about the future in terms of our loss picks and so forth, but it's -- very much a bottoms-up, one-risk-at-a-time granular approach that really is driven by great independent agents and great people at the field-rep and underwriter level across our company. So I think the credit goes to them.

Raymond Iardella
Macquarie Research

Okay. That's helpful. Then just a follow-up, I guess, on the agencies you guys have appointed more recently. I mean if you look back over the past 1 year or 2 or even 3 years, has that level of premium that you guys have gotten from these newer agencies exceeded your initial expectations, meaning does the premium coming on quicker or is that kind of as expected?

Jacob Ferdinand Scherer

Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

I would judge it as expected. We don't appoint an agency and expect that over a very long period of time, we eventually gear up. We go through a fairly extensive interviewing process that deals with everything from financial statements to the agencies, to having members of different disciplines of our company go interview the agency about what they may be doing in personal lines, commercial lines, their access and surplus lines area, life insurance. And so we tend to hit the ground running. And we have historically always done that. So I would say it's gone as expected.

Raymond Iardella
Macquarie Research

Okay. One more, if I can squeeze it in, I mean, I know you guys have expanded. I believe on the personal line side, more recently, I believe, in New York and Oregon. I mean, any sort of thought process and expand into new states in 2013?

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

Connecticut is a state that we will be expanding into. Naturally, as we have mentioned on previous calls, we're very interested in diversifying our property exposures into these new states, many of which -- Oregon -- of course, Sandy would have proved to be strong in Connecticut, but certainly Upstate New York is less cat prone. We don't have anything on the drawing boards right now to go beyond adding Connecticut.

Operator

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

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

I guess I was hoping you could talk a little bit more about cat exposure and how that has changed for you with the recent expansion. Obviously, you've tried to do something there with the cat bond, but could you talk a little bit more about sort of how that you now show up with the models and whether or not we should think of you as having sort of more or less cat risk than you had, say, 1 year or 2 ago?

Steven Justus Johnston
President, CEO & Director

Paul, maybe we can tag team on this. This is Steve and just getting it started. It is kind of a 2-pronged attack there and that we are growing more in areas that are less cat prone. So overall that is going to have a favorable effect. But I think importantly in the areas where we have been historically by managing the book and carefully underwriting from what we are seeing from the models, the expected losses are actually moving in a favorable direction as well. And so we've had action in Florida and various coastal areas as well as actions that we've taken in earthquake-prone areas. And those that are susceptible to Midwestern convective storm activity, a lot of the things that we're doing just every day to manage the risk profile overall are working to improve our position vis-à-vis the cat exposure.

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

Paul, moving forward, I think we are strengthening some of our underwriting actions as Steve mentioned in more cat prone areas. In homeowners, for example, on new business for asphalt-shingled roofs, anything over than 15 years, we had already announced that we are going to an ACB loss method of payment on those particular risks. In commercial lines, much higher deductibles per building deductibles rather than per occurrence deductibles. The homeowners initiative that I mentioned is on new business. Percentage deductibles are starting to be used in the Midwest in for habitational risk. So there is a lot going on that we think can mitigate losses. I wouldn't want to underestimate the fact that the inspection protocol that we have, we're inspecting a lot of property to determine its susceptibility to withstanding weather. So it’s not just so much deductible. I would expect that we will probably have a fair amount more non-renewals of certain properties that we find to be in poorer repair.

Operator

[Operator Instructions] Your next question comes from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I want to talk a little about the dividend. Have you thought about increasing it a little bit? It's a change of story a little bit, but you guys have been just inching it up very, very slowly. Obviously, there is a return to profitability. What can an investor expect is a normal run rate of dividend growth for the company??

Steven Justus Johnston
President, CEO & Director

Well, good question. In fact -- this is Steve -- we do discuss that dividend all the time. I mean, that is important. Capital management activity for us. So every time the Board gets together, there is a lively discussion. I think we have this history of 52 years now in a row of increasing dividends. So I think that sets a good precedent that the shareholders can latch onto. But beyond that in terms of where we are in terms of specific future guidance, I just don’t think that we are in a position to give that other than to point to our history and to point it to payout ratio is much improved and has been improving over the years and that puts us in a pretty good position and just knowing that the dividend is a very important part of our capital management strategy with shareholders.

Joshua David Shanker
Deutsche Bank AG, Research Division

Can we speak of $0.025 increase as a suppressed increase?

Steven Justus Johnston
President, CEO & Director

It's an increase and again everything is done meeting by meeting, looking at all of the information that we have. I have to think that with what you’ve seen in terms of the improvement that certainly we are going to have more positive discussions. But again, this is a Board action and I’m telling you that’s a lively discussion with the Board. And I really can’t commit one way or the other, other than to say the dividend is and has been a very important part of what we do for shareholders in terms of capital management.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, then along those lines, can you talk about how you think of excess capital here and now?

Steven Justus Johnston
President, CEO & Director

We see various ways to deploy our capital. Certainly the dividend is a big part of it. We’re growing the way we’re at the underwriting profits that we’re growing at, we see a capital strategy of investing in the business is a big part of our capital deployment. And so, in addition to dividends, repurchases when appropriate, investing in equities, which has been a very successful strategy and I think a way of deploying excess capital, we're really looking at investing in the business, doing what we can to support our field people, who are the strength of the company, to allow them to be out in agents' offices more frequently and to really service that agent. So we just -- we look at things over the long haul. We think we have a very strong and winning business model that has survived every cycle for over 60 years. And not just survived, but thrived and we are going to invest in the businesses as well.

Operator

Your last question comes from Fred Nelson with Crowell, Weedon.

Fredrick Nelson

I have been on these conference calls for almost 20 years and the key to your success is how you treat people. And I'm always in awe of the benefits you do with people, both women and men, to build this business for all of us. But I wanted to say thank you to Ken Stecher. I heard he got a very nice award and he led this company under some very difficult times. And I just wanted to personally say on this call, thank you, Ken.

Kenneth William Stecher
Non-Executive Chairman of the Board

Well, thank you, Fred. It's really an honor. It's something I never expected to receive. There is a lot of great graduate candidates and to be selected for that is really humbling. But thank you very much.

Fredrick Nelson

You deserve it, buddy.

Kenneth William Stecher
Non-Executive Chairman of the Board

Thank you. I'm glad that we're past those 3 or 4 years and things have turned the corner. And all the hard work that we've done and put in, the team put in, is now starting to pay some fruit in benefits. So we're glad to see that.

Steven Justus Johnston
President, CEO & Director

Stephanie, do we have any further questions in the queue.

Operator

There are no further questions at this time.

Steven Justus Johnston
President, CEO & Director

Thank you. Thank you, Stephanie, for presiding over the call and thanks to all of you for calling in, for participating with this and we look forward to getting together with you in the future. Thank you.

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