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Earnings Call

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Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

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

Stephen Michael Spray
President & Director

Steven Justus Johnston
Chairman & CEO

ANALYSTS

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Grace Helen Carter
BofA Securities, Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Unknown Analyst

Presentation

Operator

Good day and welcome to the Cincinnati Financial Corporation Fourth Quarter and Full Year 2023 Earnings Conference Call. [Operator Instructions] Please note, today's event is being recorded.

I'd now like to turn the conference over to Dennis McDaniel, Investor Relations Officer. Please go ahead, sir.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our fourth quarter and full year 2023 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 Chairman and Chief Executive Officer, Steve Johnston; and then from Executive Vice President and Chief Financial Officer, Mike Sewell. After their prepared remarks, investors participating on the call may ask questions. At that time, some responses may be made by others in the room with us, including President Steve Spray; Chief Investment Officer, Steve Soloria; and Cincinnati Insurance's Chief Claims Officer, Marc Schambow; and Senior Vice President of Corporate Finance, Theresa Hoffer.

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
Chairman & CEO

Thank you, Dennis, and good morning. Thank you for joining us today to hear more about our results.

We had strong operating performance in the fourth quarter and I'm happy to see that our hard work is reflected in the progress we are making. Net income rose $170 million to nearly $1.2 billion for the fourth quarter compared with the fourth quarter of last year, including $18 million more benefit on an after-tax basis in the fair value of securities still held in our equity portfolio.

Non-GAAP operating income for the fourth quarter of 2023 was up 78% or $157 million versus a year ago. And on a full year basis, it was 42% higher than 2022. Our 87.5% fourth quarter property casualty combined ratio was 7.4 percentage points better than in 2022, with the catastrophe loss ratio representing 6.5 points of the improvement. That strong underwriting performance followed our recent pattern of improvement, resulting in a 94.9% full year 2023 combined ratio. That was 3.2 percentage points better than last year, including a decrease of 0.5 points in the catastrophe loss ratio.

Our 2023 ex cat accident year combined ratios were also favorable compared with 2022, improving 2.1 percentage points to 85.7% for the fourth quarter and 1.8 points to 88.4% for the year. We saw positive momentum in many areas of operating performance. Growth for consolidated property casualty net written premiums accelerated, reaching 13% for the fourth quarter, including 10% for renewal premiums and 30% for new business premiums.

As part of our ongoing efforts to improve performance and to counter the continuing effects and inflation on insured losses, we combined pricing segmentation by risk with average price increases and careful risk selection. Estimated average renewal price increases for the fourth quarter continued at a healthy pace. Our Commercial Lines insurance segment, again, averaged near the low end of the high single-digit percentage range, while our Excess and Surplus Lines insurance segment continued in the high single-digit range.

Personal Lines for the fourth quarter included auto, continuing in the low double-digit range and homeowner continuing near the low end of the high single-digit range. Policy retention rates in 2023 were similar to 2022, with our Commercial Lines segment down slightly but still in the upper 80% range. In our Personal Lines segment, up slightly but still in the low to mid-90% range.

Briefly reviewing operating performance by insurance segment, I'll focus on the full year results. Although I'll note that each segment improved their combined ratios in the fourth quarter compared to last year as they continue to grow profitably. Our Commercial segment improved its full year 2023 combined ratio by 3.0 percentage points compared with 2022 and grew net written premiums by 4%. Our Personal Lines segment grew net written premiums by 26%, with growth for middle market business in addition to Cincinnati Private Client business, its combined ratio was 1.2 percentage points higher than last year due to the catastrophe loss ratio rising 3.7 points. Our Excess and Surplus Lines segment was very profitable, producing a 2023 combined ratio of 90.6% with net written premium growth of 14%.

Both Cincinnati Re and Cincinnati Global were also very profitable. Cincinnati Re's full year combined ratio was an excellent 77.7%. Its net written premiums were 5% lower than in 2022, reflecting our opportunistic positioning of the portfolio through evolving market conditions. Cincinnati Global's combined ratio was also excellent at 75.5%, with 22% growth in net written premiums. Our Life Insurance subsidiary grew profit and premiums too, as full year 2023 net income rose 15% and earned premiums grew 4%.

On January 1 of this year, we again renewed each of our primary property casualty treaties that transfer part of our risk to reinsurers. For our per risk treaties, terms and conditions for 2024 are fairly similar to 2023, other than an average premium rate increase of approximately 12%. The primary objective of our property catastrophe treaty is to protect our balance sheet. The treaty's main change this year is adding another $100 million of coverage, increasing the [top] of the program from $1.1 billion to $1.2 billion. Should we experience a 2024 catastrophe event totaling $1.2 billion in losses, we will retain $423 million compared with $617 million in 2023 for an event of that magnitude. We expect 2024 ceded premiums for these treaties in total to be approximately $180 million, more than the actual $136 million of ceded premiums for these treaties in 2023 due to additional coverage, rate increase and subject to premium growth.

Those who follow our company, know we prefer to track our success over a long time horizon. Consistent with that approach, we set a target for the value creation ratio, our primary performance measure, at an annual average of 10% to 13% over the next 5 years. We believe the VCR is an appropriate measure since it's driven by strong combined ratio results, premium growth that exceeds the industry average and contributions from our investment portfolio. Since 2016, our combined ratio 5-year average has ranged from 94.3% to 96.1%, near the low end of the longer-term target of 95% to 100%, we disclosed for many years. And for more than a decade, we've recorded results ahead of the industry for premium growth on a 5-year compound annual growth rate basis.

Because we believe we can continue to perform at a high level we are setting our sights on a longer-term combined ratio better than the past target, now targeting a 5-year average of 92% to 98%. While we will no longer publicly disclose annual targets for combined ratio and premium growth, we expect to continue our robust disclosure detail to help investors model and form their own expectations of future results. This doesn't mean that we'll ignore the shorter-term results. We recognize that it also means that to achieve our revised long-term target range, some years we need to reach combined ratios towards the lower end, knowing there could be some years like 2022 that come in near the higher end.

I'll conclude my prepared remarks as usual with the value creation ratio. Our 15.2%, 5-year annual average VCR as of year-end 2023 exceeded our target range of 10% to 13%. VCR of 19.5% for full year

2023 included a contribution of 9.1% from net income before investment gains or losses while higher valuation of our investment portfolio and other items contributed 10.4%.

Now Chief Financial Officer, Mike Sewell, will highlight investment results and other important aspects of our financial performance.

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

Thank you, Steve and thanks to all of you for joining us today. Investment income was a significant part of higher net income and improved operating results, up 15% for the fourth quarter and 14% for a full year 2023 compared with the same periods of last year. Dividend income was up 7% for the quarter, largely due to a special dividend from one of our stock holdings. On a full year 2023 basis, we added to the equity portfolio with net purchases totaling $14 million. Bond interest income, again, grew at a good pace, up 19% for the fourth quarter of the year. We continue to add fixed maturity securities to our investment portfolio with net purchases totaling $1.4 billion for full year 2023.

The fourth quarter pretax average yield of 4.48% for the fixed maturity portfolio rose 32 basis points compared with last year. The average pretax yield for the total of purchased taxable and tax-exempt bonds during 2023 was 6.13%. Valuation changes for our investment portfolio during the fourth quarter 2023 were favorable in aggregate for both our stock and bond holdings. Before tax effects, the net gain was [$1.050 billion] for the equity portfolio and $621 million for the bond portfolio. At the end of 2023, total investment portfolio net appreciated value was approximately $6.1 billion. The equity portfolio was in a net gain position of $6.7 billion, while the fixed maturity portfolio was in a net loss position of $570 million. Cash flow continued to benefit investment income as did rising bond yields. Cash flow from operating activities for full year 2023 was just over $2 billion, matching last year.

Regarding expense management, we always intend to strive to an appropriate balance between controlling expenses and making strategic investments in our business. Our full year 2023 property casualty underwriting expense ratio at 30.0% was in line with 2022, while the fourth quarter ratio was 1.3 percentage points higher than last year, primarily due to higher profit sharing commissions for agencies and associate related expenses.

Next, I'll summarize loss reserve activity. Our approach remains consistent and aims for net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. As we do each quarter, we consider new information such as paid losses and case reserves and then updated estimate ultimate losses and loss expenses by accident year and line of business. Our quarterly study of updated paid and case reserve loss and loss expense data for our commercial casualty line of business considered how fourth quarter incurred amounts were higher than we expected, especially for the general liability coverages for older accident years.

To reflect the continued uncertainty of ultimate losses and loss expenses, we increased our estimates for several prior accident years to levels more likely to be adequate. The net amount of the fourth quarter increase was $51 million, including $29 million for accident years prior to 2019. Commercial casualty unfavorable reserve development on a full year 2023 basis was fairly small at $15 million, only 0.5% of the year-end 2022 reserve balance. Prior accident year reserve development for commercial umbrella during 2023 and was a favorable $6 million.

During 2023, our net addition to total property casualty loss and loss expense reserves was $682 million, including $634 million for the IBNR portion. For full year 2023, we experienced $215 million of property casualty net favorable reserve development on prior accident years that benefited the combined ratio by 2.8 percentage points, marking 35 consecutive years of net favorable development on prior accident year loss and loss expense reserves.

On an online basis by accident year, net reserve development for full year 2023 included a favorable $137 million for 2022, favorable $21 million for 2021, favorable $68 million for 2020 and an unfavorable $11 million in aggregate for accident years prior to 2020.

I'll conclude with a few capital management highlights, another area where our approach includes careful consideration of the long term. We paid $116 million in dividends to shareholders during the fourth quarter of 2023 and did not repurchase any shares. Our view of our financial flexibility and our financial strength is that both remain in excellent shape. Parent company cash and marketable securities at year-end was nearly $5 billion. Debt to total capital continue to be under 10%. And our year-end 2023 book value of $77.06 per share means the $12.1 billion of GAAP consolidated shareholders' equity provides plenty of opportunity for profitable growth by supporting $8.1 billion of annual property casualty net written premiums.

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

Steven Justus Johnston
Chairman & CEO

Thanks, Mike. Before we open the call for questions, I'd like to comment on our recent leadership and Board announcements. Effective at our annual shareholder meeting in May, President Steve Spray, will add the role of Chief Executive Officer. Steve is the right person to build on our decade of profitable growth. He understands the importance of our agency-centered strategy and the unique advantages it brings. I'm confident in his ability to bring innovative ideas together with the hallmarks of Cincinnati Insurance to create opportunities for associates, agents and shareholders. I look forward to continuing to work with him as Chairman of the Board.

We also announced the addition of Steve and Peter Wu as Cincinnati Financial Directors. Peter has exceptional experience in the worlds of predictive analytics, data modeling and artificial intelligence. I'm honored that he has agreed to join our Board.

Finally, the Board set the stage for a 64th consecutive year of raising shareholder dividends by increasing the dividend 8% to $0.81 per share. From the Board to the leadership team, to associates at every level of our company, we have the perfect people in place to create a bright future for Cincinnati Financial. As a reminder, with Mike and me today are Steve Spray, Steve Soloria, Marc Schambow and Theresa Hoffer. Rocco, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Michael Phillips with Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

I guess, first off, congrats to Mr. Spray on your news and Steve Johnston, didn't say it himself but you'll be missed. But look forward to hopefully hear more from you in the future. But congrats to all you guys on that. I guess -- my first question is on the [PYD], I guess. It looks like some of the issues there might be in the umbrella maybe some [indiscernible] you guys are great for giving disclosure on this stuff. But can you talk -- some of your [indiscernible] talk about the large loss activity and the claim count there certainly went up quite a bit in the quarter, that's not just because the inflation impact of that and what's happening there.

But can you talk about any changes in maybe the mix of your limit profile from 2022 into 2023 and maybe some of that mix might be impacted? Are you writing at more higher limits, I guess, is the punchline there? And then maybe talk about how -- I think there's a perception that your 3-year policy terms may give you some shield when rates get soft and pricing gets soft but maybe are you sort of hand-tied a little bit if there's more of a urgent need to re-rate on these higher limit policies?

Steven Justus Johnston
Chairman & CEO

Mike, this is Steve Johnston. I'll start off and turn it over to Steve Spray here. It's just with the commercial casualty, it was not umbrella. We addressed that -- we think really early a year ago, second quarter, I believe and we've really -- we think tamed that, brought that under control and we're actually producing an underwriting profit now for our umbrella lines. So it's the commercial casualty part other than umbrella.

And when we get to this point, we're looking at our year-end reserve analysis for all the lines of business and it gives us the chance, puts us in a position to look at the data for the full year. So our focus is on estimating the full year. And for the full year, for commercial casualty, including umbrella, all of that and we're showing just under $15 million or 1 loss ratio point in adverse development on the prior accident years, as Mike mentioned.

Now to further put that in perspective, as Mike said, it's $15 million, its just 0.5% of the casualty reserves and 0.2% of the total reserves carried at December 31, 2022. So it's really, as we look at the full year, not a big number. In fact, also for the full year, our total property casualty accident year development was favorable, 2.8 loss ratio points. That's an improvement from the 2.3 points of the prior year. And also that 2.8 loss ratio is very much in range of where we've been for the last several years. And I always want to point out that makes now 35 years consecutively that we've had favorable development for Cincinnati Insurance and our reserves.

There was quarterly volatility through the year. For example, we reported favorable development for prior accident years of $34 million or 9.2 loss ratio points for the second quarter for commercial casualty. As we looked at the fourth quarter, and as Mike mentioned and you're mentioning there was more larger losses. I wouldn't consider it a trend but there was more larger losses in the fourth quarter just as there were maybe a dearth of that in the second quarter. The advantage is, we get to look at the full year here and do as we always do and try to be very prudent. We're reading what's going on with the industry. And we thought for the full year, it would not be prudent to release reserves or have favorable development on the prior years.

So I know the fourth quarter, that 14 loss ratio points appears to be a big number and it is a big number. But I think in context of looking at the full year and what you'll see in the Schedule P, what you'll see in the 10-K, I think when you combine it with the other lines where workers' comp, we did the same type of a procedure and we had 31-point loss ratio points of favorable development, also had favorable development for commercial auto and most of our lines, favorable development and again for the 35th year. To keep that 35-year streak like that, you have to take action when you see it. We saw the larger losses in the fourth quarter. And I think to -- braving the year ahead and where we thought it would be a prudent position not to release casualty reserves. We arrived at our best estimate in the number that we produced.

Let's turn it over to Steve to talk a little bit about the other question that you had.

Stephen Michael Spray
President & Director

Yes. Mike, like Steve said, we had -- it was not umbrella. We did notice as you recall, back in 2022, some challenges with the umbrella line, we jumped on that, working with our agents in Commercial Lines underwriting. The limits profile there has always been the vast majority of those accounts, those umbrellas. It's a low limit book profile, it's probably become a little -- even more low limit over the last 1.5 years as we took action, both pricing and capacity on specific segments, some specific classes of business and then some specific venues where we felt that the environment was just a little more difficult.

Steve also mentioned that umbrella line was modestly profitable in 2023. And we've got a long-term profitable record with umbrella and we look to continue to grow that. So that was, I think, your limits question. The other question you had, Mike, was on the 3-year policy. We're as committed to that 3-year policy as we ever have been. I think it resonates with policyholders and with our agents. So our desire for long-term relationships. Our 3-year policy -- package policy actually outperforms a 1-year contract from an underwriting standpoint. Our underwriters use the art and science of pricing. And you can see -- we can see it in the book that they use it -- they're using it the right way and we're getting profitable results from the 3-year policy.

You mentioned the muting effect with pricing and make a long story short, about 75% of our premiums in commercial lines, even on a 3-year policy are adjusted on an annual basis. So 75% of the premiums are being adjusted annually. Again, just committed to that 3-year. And we think it's -- again, it shows the marketplace that we want long-term relationships and our retentions at the first and second anniversary of a 3-year policy are about 10 points higher than we actually have at renewal. So there's an added benefit to it as well. Hopefully, the answers were helpful, right?

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Yes, it does. And it sounds like you're not concerned about the, what looks like a spike in the large loss activity. You certainly have the annual track record to prove it. I guess my second question is on personal auto. You -- a real quick turnaround in the profitability in commercial auto, I guess. Is there anything that's kind of a one-off to drive that down to [66.7%] kind of in loss ratio in personal auto that drove that down? Or is it just rates running in? And is that kind of a good run rate from here given where your rates have been?

Stephen Michael Spray
President & Director

Mike, could you -- did you say commercial auto or personal auto? You broke up.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Personal auto, if I said commercial, I meant personal auto, I hope that's what I said, personal auto.

Stephen Michael Spray
President & Director

Yes. So again, Steve Spray. Yes, I think it is a lot of -- it's blocking and tackling. It's sophisticated pricing that we continue to develop, segmentation, precision in the pricing. And as you know, I think inflation probably hit the personal auto line as hard as any line of business in P&C. And we reacted accordingly and it's a lot of rate that is continuing to burn into that book.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. So really nothing -- any kind of anomalies but that's -- looks like -- it sounds like a good rate kind of at least a trend from here.

Stephen Michael Spray
President & Director

Yes. The only other thing I might add is, over time, our mix of business in Personal Lines is moving. We're growing both the middle market segment and high net worth. But over time, we think that the high net worth business, as it always has or traditionally has, will outperform the middle market space and that personal auto is a less percentage of the package with high net worth or private client than it is on the middle market. So I think mix of business is probably helping us as well.

Operator

And our next question today comes from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess sticking -- going back to the reserving color. Just trying to understand bigger picture. So the reserve charge in casualty and as you stated, on an absolute basis, isn't a huge number. And so just trying to understand, are you making a material change to kind of your forward loss trend too, given what you've learned in casualty? Or is this just simply the Cinci way of doing things, you're reacting to bad news, trying to get ahead of it and this is just really a small tweak that doesn't kind of touch on the changes you made back in '22 on umbrella?

Steven Justus Johnston
Chairman & CEO

Yes. Good question and it's the latter, Mike. We don't see it as a material change in our trend. We feel very good about the position that we are in terms of our rate versus our trend. And keep in mind, we're forward-looking. We're looking for where do we think the loss costs will be out in the prospective policy period. We feel good about that. A little bit historic as we do see good improvement in those accident year ex cat combined ratios, which I think gives credence to it. And so it's more of the latter of doing things in Cincinnati way, recognizing some large losses when we see them and also what's going on in the industry and being prudent with our reserves to keep that 35 years of favorable development streak going to 36 years.

Michael David Zaremski
BMO Capital Markets Equity Research

Understood. And just curious, in a good way, Cincinnati is in my understanding, kind of branching into, I guess, broadening the customer base, you can write policies for on the commercial side in terms of going down market into BOP and I believe, into larger commercial too. I am just curious, as -- if I'm right about that, as you've gone on this journey in recent years, does that just kind of bring in a little bit more potential volatility in the early years as you kind of learn more about those kind of newer client segments? Is there anything there?

Stephen Michael Spray
President & Director

No, I don't think it brings in any more volatility than what we would normally experience, Mike. We've always had an agency strategy. So we -- we're trying to be as important to each agency that we do business with and be an important partner for all segments, whether it's small, like the BOP, you mentioned, middle markets or larger accounts. We've always written small business. We've always written larger accounts. That small business, a lot of times, is more of a technology play. And we have -- we have launched just an excellent platform, not because I say so but because our agency feedback is telling us that it's intuitive and it's easy. So I expect that you'll see us continue to make big strides in the small business area.

And then on the, what we call key accounts, larger accounts, commercially, we've added a lot of expertise in that area, we're growing it and we're growing it in a conservative manner. And very -- we're underwriting profit first but our runway on larger accounts and keep moving, I guess, upstream as one might say is, I think, is very positive too.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. And lastly, just on the -- in my understanding, there's no change to the value creation ratio target but you're bringing down the -- or you're improving the long-term combined ratio target. Maybe just, can you kind of just help us clarify why, why no -- what brought about that change? And is there any financial incentives that are going to change on a forward-looking basis when we look at the proxy or whatnot because of the combined ratio change?

Steven Justus Johnston
Chairman & CEO

Good question. No, there will not be any change in the compensation targets in that regard. We have been very, I think, consistent in the combined ratio. We've got 12 years in a row now with a combined ratio under 100%. And so we've seen it be as low as 88.3%. And so we felt that we could lower that long-term target down and put us in a position to continue to be long-term thinkers there.

I think there's also been great consistency in the value creation ratio. If we look at the 5-year average VCR going back to the 5 years ended 2013, all of those 5-year ending years from 2013 through 2023 have all been double digits. So we are just reflecting our long-term focus and raising the bar a bit on where we put that long-term combined ratio for you.

Operator

Our next question today comes from Greg Peters at Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Congratulations on your 35-year track record and Mr. Spray, you have your work cut out for you to keep that going for the next 5 years. So good luck to you on that. Can we step back and -- you provided some data around pricing. And maybe you can help us frame how to think about new business growth, both commercial, personal and E&S as we think about the next 12 months when we compare it to what happened in '23?

Stephen Michael Spray
President & Director

I would -- this is Steve Spray, Greg. Let me start with Commercial Lines. We use the same predictive modeling tools and have our field underwriters use the art of underwriting and balance that. And if you recall, we started off 2023, new business was -- we were under some pressure for new business. We were keeping our pricing discipline going there. And as the year progressed, I'd like to say we kind of saw the market come our way. And new businesses continued to get better and better throughout the year in '23 and again, kept that pricing and underwriting discipline.

Personal Lines, the new business there and the net written premium growth has just been strong throughout the year. And I just think we're in such a good position going forward in Personal Lines as well because we're -- like I said earlier, we have an agency strategy and we've become a premier market, both in middle market and high net worth for our agencies and they tell us that regularly. And with our $12 billion of GAAP equity supporting a $8 billion of premium, we're in a good position with our balance sheet to continue to grow Personal Lines through this, I'll call a tumultuous market. So feels really good about that.

On the E&S side, 90.6% combined ratio are better now for 11 years in a row. It's about 90% casualty, the submission counts there continue to be strong. You can see that the new business throughout 2023 was strong and I don't see any reason why that won't continue into 2024 as well.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Okay. I was also listening to your comments about the movements around the reserves. And I was just wondering if you had any comments on just the paid loss trend. It looks like paid losses grew a little bit faster for the full year '23 than they did in '22. Just wondering -- is that just -- is there any noise in there or anything you'd like to call out?

Steven Justus Johnston
Chairman & CEO

Yes. I would think there really isn't anything to call out there, Greg. I think it's just -- we're growing and then paid losses [indiscernible] we've seen that fluctuate from year-to-year. And so there would be some noise there.

Operator

Our next question comes from Meyer Shields with KBW.

Unknown Analyst

It's [Gino] for Meyer. My first question -- on the follow-up for commercial casualty reserves, just mainly on the $51 million and $29 million reserve charge prior to accident year 2019, you mentioned some -- you outlined some large losses. Is there any other new trend that you're seeing in 4Q?

Steven Justus Johnston
Chairman & CEO

No, not really. I think that I don't see it as a trend. I think we did recognize it. Like I said, there was some volatility through the year. We would have had less of that in the second quarter when we released or recognized the 9.2 points of favorable development. I think we just look -- are looking at this now as the whole year and doing our best to put our best estimate forward for the year, which amounted to the $15 million and never want to minimize $15 million. But I think in the grand scheme of things, it's pretty close to [awash] and puts us in a position to continue to have the type of reserve strength and quality of balance sheet that we do.

Unknown Analyst

Got it. My second question is on the combined ratio target. You mentioned 5-year average of 92% to 98% to the midpoint at 95%. So does that imply that less than 95% combined ratio for '24? Or is there any color you can provide for '24?

Steven Justus Johnston
Chairman & CEO

No, it doesn't imply a 95% for 2024. And so we're not really giving a 2024 number here. We're again, focusing on the long term that we've had, consistent underwriting profits. We think that the long term of 95% to 100% is something that we can strive for the long time -- long term to do better and have that be 92% to 98%. We know there'll be some years that it'll be a little bit higher. I think we've been under 100% for 12 consecutive years. I think the highest was 98.1%, the lowest 88.3%. And so there's going to be variation in market cycles and weather and so forth. We want to focus on the long term where we continue to grow above the industry average, do it at a good underwriting profit and invest well such that, that value creation ratio stays double digit. There'll be some volatility there as investments are a little bit volatility but over the long pull, which is what we shoot for, we're a long-term strategy team here, we think we can lower that long-term combined ratio range from 95% to 100% to 92% to 98%.

Unknown Analyst

Got you. Perfect. Can I sneak in one more? Just on the expense ratio, we are seeing it trending up quarter-over-quarter. In 2023, you mentioned some high share commission, et cetera, in 4Q. How should we think about the run rate for 2024? Any kind of color you have there would be great.

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

Yes. This is Mike Sewell. I think we've kind of really said over the last couple of years that we've been targeting a 30% expense ratio. And so we're still looking at that. We're shooting for that and we're actually there for the last 2 years. So I'm kind of setting my sights. And we're not going to give up. We're going to keep investing where we need to invest, keep controlling costs where we think we can control it better. And any time that we can get that below 30%, we're going to try to do that. So I'm targeting for below 30% but I'm happy where it is. But we can always improve.

Operator

And our next question today comes from Grace Carter, Bank of America.

Grace Helen Carter
BofA Securities, Research Division

I was looking for the commercial casualty reserve development, you mentioned that, I think $29 million of it was related to prior to 2019. I was hoping we could zoom in on the remaining piece. And I guess just considering how claims activity was suppressed during the pandemic, if you can help us think through how the pandemic years are developing relative to your expectations? And just any sort of surprise in the trends there? And how much of the commercial casualty total reserve base we should think of accident years 2020 to 2022 comprising?

Steven Justus Johnston
Chairman & CEO

Grace, this is Steve Johnston. I think we can get you those numbers. I do not have like the carried reserves for those years in front of me here that -- what we would carry for those years. I do feel that we are looking at the pandemic years as, obviously, they were challenges we were going through the pandemic with the economy slowing down and -- of course and so forth. But I do think that now it's been well behaved.

Grace Helen Carter
BofA Securities, Research Division

And I guess, kind of considering how interest rates have been or were lower in the decade following the financial crisis with a pretty sharp change in that over the past couple of years, conventional industry wisdom has kind of historically suggested that if you have better investment income, maybe you can let your combined ratio float up a little bit higher. So I guess considering the potential for higher interest rates to stick around for longer, I was just wondering your thoughts on that and if you think that, that no longer holds in light of the updated combined ratio guidance and just the extent to which the prevailing interest rate environment influences how you think about your outlook?

Steven Justus Johnston
Chairman & CEO

Great question. I think we would be slow to change those combined ratio targets because interest rates, as we've seen, can fluctuate more quickly than the loss ratios of books of business. And so I think it would be risky to see high interest rates or higher interest rates and react by lowering your standard on a combined ratio when there would be good chance, I think, over the next 10 years that interest rates would go back down. I would expect that over the next 10 years, a lot of what I've seen in terms of interest rate expectation is to go down.

If you got yourself in a situation where you reacted to the higher interest rates with a higher combined ratio target, you can't recalibrate and cash back up as quickly as those interest rates change. So we are going to stay conservative in terms of our loss ratio targets.

Operator

And our next question today comes from Michael Zaremski with BMO Capital Markets.

Unknown Analyst

This is Jack on for Mike. I'm just -- you guided to buying more reinsurance and ceding more premiums. Any color on how you expect those changes to impact the combined ratio in 2024?

Stephen Michael Spray
President & Director

Jack, this is Steve Spray. We -- on the -- I'll say, on the property cat [indiscernible] we buy that for balance sheet protection. And last -- if you recall, last year, we increased our retention on the property cat from $100 million to $200 million. We renewed it for '24 with that same $200 million retention. And we also then bought another $100 million on top. So now the total program is $1.2 billion. We obviously balance the cost of that with what we're trying to do on the loss ratio but again, always keeping in mind that it's for balance sheet protection, not earnings.

I would also note that in that $1.2 billion tower that we have for the property cat, we also filled out some more of the, we'll call it, maybe the middle layers this year than what we did for the 2023 year. So no guidance on loss ratio for you on that but just maybe a little background or color on the property cat treaty.

Operator

And this concludes our question-and-answer session. I'd like to turn the conference back over to Steve Johnston for any closing remarks.

Steven Justus Johnston
Chairman & CEO

Thank you, Rocco. And thanks to all of you for joining us today. We look forward to speaking with you again on our first quarter 2024 call.

Operator
Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.