S&P Global
Market Intelligence

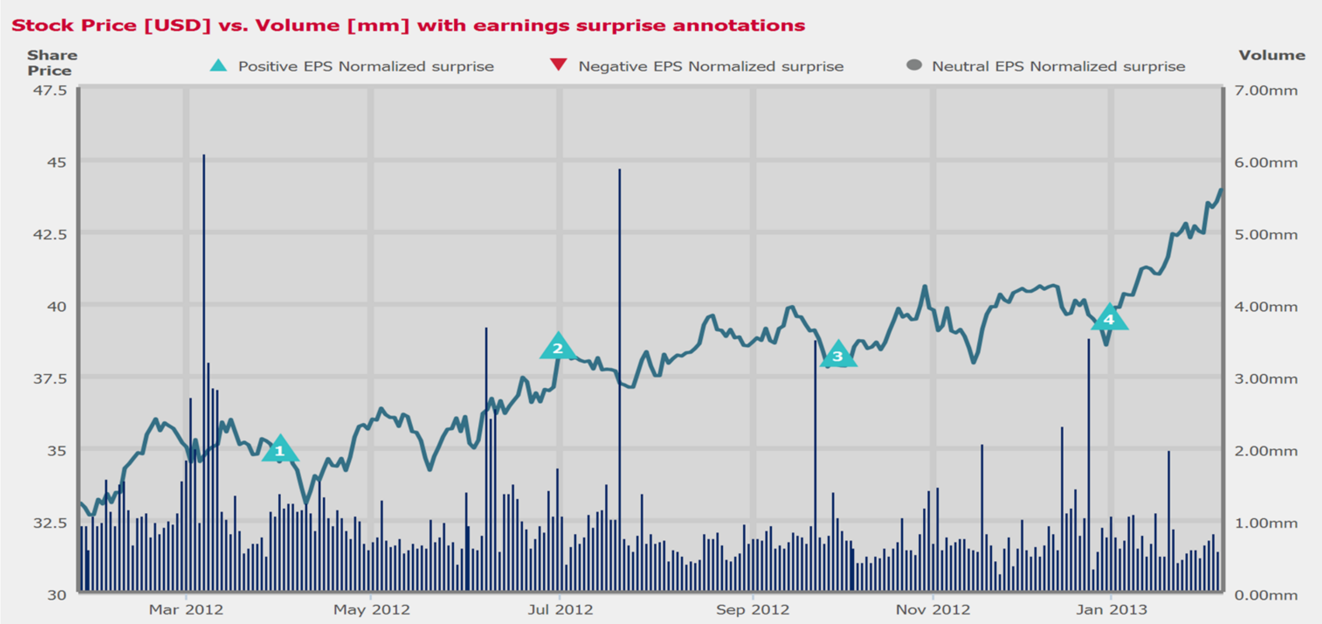
Cincinnati Financial Corporation
NasdaqGS:CINF
FQ1 2013 Earnings Call Transcripts

Friday, April 26, 2013 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.65	0.78	▲20.00	0.45	2.24	2.27
Revenue (mm)	1062.55	1103.00	▲3.81	1091.48	4387.79	4741.94

Currency: USD
Consensus as of Apr-26-2013 12:09 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	0.40	0.48	▲1 20.00 %
FQ2 2012	0.12	0.17	▲2 41.67 %
FQ3 2012	0.41	0.64	▲3 56.10 %
FQ4 2012	0.44	1.11	▲4 152.27 %

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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

Martin Mullen

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

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Christopher J. Maimone
Macquarie Research

Ian Gutterman
Adage Capital Management, L.P.

Michael Zaremski
Crédit Suisse AG, Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

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

Presentation

Operator

Good morning; my name is Brad and I'll be your conference operator today. At this time, I would like to welcome everyone to the Q1 2013 financial results conference call. [Operator Instructions] I will now turn the call over to Dennis McDaniel, Investor Relations Officer. You may begin your conference.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel from Cincinnati Financial. Thank you for joining us for our first quarter 2013 earnings conference call. Late yesterday we issued a news release on 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, www.cinfin.com/investors. The shortest route to the information is the quarterly results link in the navigation menu on the far left.

On this call, you'll first hear from Steve Johnston, President and Chief Executive Officer; and 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 Executive Committee Chairman Jack Schiff Jr.; Chairman of the Board Ken Stecher; Chief Insurance Officer JF Scherer; Principal Accounting Officer Eric Matthews; Chief Investment Officer Marty Hollenbeck; and Chief Claims Officer Marty Mullen.

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

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

Steven Justus Johnston
President, CEO & Director

Good morning, and thank you for joining us today to hear more about our first quarter results. We're very pleased with our strong operating results for the quarter. They continue to reflect the steadily growing benefits and initiatives designed to improve insurance profitability to drive premium growth and create shareholder value over time. The continuing improvements resulted in a 91.2% combined ratio and 15% growth in net written premiums. Catastrophe losses contributed just 1.2 loss ratio points, down from 11.1 points in the same quarter a year ago. The favorable trend in ex-catastrophe current accident year result continued. The ex-cat current accident year combined ratio for the first quarter was 90.3% reflecting a 9.4 point improvement over the first quarter a year ago, a 6.5 point improvement over the full accident year 2012 and it was 2.9 points better than the second half of 2012. Loss and loss expense reserves for all prior accident years in aggregate developed favorably during the first quarter of 2013 benefiting the combined ratio by 1.1 points. The comparable number a year ago was 14.5 points.

While that's quite a change in the amount of benefit, we follow a well-defined and consistent process every quarter. With just a few weeks passing since our year-end analysis of accident years 2012 and prior, our estimate for those years in total did not change much resulting in the lower than usual 1.1 point favorable development in the quarter.

Net reserve development for our personal auto, commercial auto and surety and executive risk lines of business was unfavorable. We will continue to keep a close watch on those lines. Those same 3 lines contributed to net unfavorable development on an all-lines basis for accident year 2012. Accident years 2011 and 2010 developed favorably as did all older accident years.

The higher reserve estimates in total were primarily for losses incurred but not reported or IBNR as the consolidated property casualty ratio for prior accident years case reserve development was the same this quarter as the first quarter of 2012. During the past 12 months we have observed a turning point in terms of performance by accident year separate from catastrophe loss trends. Accident years 2012 with a combined ratio of before catastrophes of 96.8% started an improving trend that has continued into 2013. When more time is passed and more information is available we can verify any improvement and incorporate that into our future estimates of reserves. While net favorable development on prior accident years is lower this quarter we remain confident in the process, and confident in the reserve position that continues to be well into the upper half of the actuarial range of estimates.

Turning to premium growth, each of our property casualty segments continue to increase at a steady pace, again benefiting from greater pricing precision and higher overall pricing. Renewal price increases remained ahead of expected loss cost trends in each of those segments. Commercial policies that renewed during the first quarter continued to average price increases in the mid-single digit range, though it moved into the higher end of that range since the fourth quarter.

Increase on our smaller commercial property policies remained in the low double digit range. Our excess and surplus line segment experienced higher renewal prices for the 31st consecutive month reaching the low double digit range. Policies in our personalized segment that renewed in the first quarter averaged a price increase in the mid-single digit range with homeowner's policies continuing in the high single digit range. New business written premiums for the first quarter continued to show strong growth for both our commercial and personalized segments reflecting higher pricing in accumulative effect of growth initiatives including new agency appointments.

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 the underpriced ones. For our commercial line segment, policies with annual premiums of $50,000 or higher represented just over half of the 22 million first quarter increase in new business written premiums. Given recent quarter growth in larger commercial policies, we have reviewed results by policy size and continue to find no correlation to large losses. We drew a similar conclusion when studying large losses compared to length of time an agency has been appointed to represent us.

We believe the larger accounts we wrote resulted from our efforts to increase loss control services and claim specialization making Cincinnati a more attractive market for agencies' marquee accounts.

Our life insurance business continued to grow with first quarter term life earn [ph] premiums rising by 7% as operating profit more than doubled the result for last year's first quarter with a onetime adjustment lower 2012 profit. The first quarter of 2013 also benefited from more favorable reserves for life insurance policy benefits. We continue to emphasize growing premiums only when we believe we can do so profitably and we're encouraged by our progress so far.

We also remain well positioned to continued growing earnings, dividends and book value per share adding value for shareholders over time. The first quarter produced a satisfactory level of investment income given the head wind caused by low interest rates. Our primary financial performance measure, the value creation ratio, was also excellent and was up compared with the first quarter of 2012. I will now turn the call over to our Chief Financial Officer, Mike Sewell, to discuss that further along with other financial terms.

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

Thank you, Steve, and thanks to all of you for joining us today. Our first quarter 2013 value creation ratio was 7.0% including a 5.8% contribution from the change in book value per share plus 1.2% from our dividend to shareholders and was well ahead of last year's first quarter. The dividend payout ratio for the first quarter was below 50% and was 15 percentage points less than the full year annual average since 2002. The stock portfolio grew during the first quarter with pretax net unrealized gains up $381 million to $1.4 billion. Its quarter end fair value represented 29% of invested assets. The bond portfolios pretax unrealized gains declined $25 million during the quarter. Our company continues to benefit from its equity investing strategy during periods when investment income is pressured by the low interest rate environment.

Dividend income was up 4% for the quarter despite accelerated dividends received in the fourth quarter of last year that we normally would have received in the first quarter. Of the 50 companies we held in our core common stock portfolio at March 31, 2013, 46 have increased their dividend rate in the past 12 months. We also continue to invest new money in that portfolio helping to offset declining bond portfolio yields. Yields for our bond portfolio continue to move lower as its first quarter 2013 pretax yield of 4.93% fell 27 basis points from a year ago. That contributed to a 4% first quarter decline in interest income.

Our bond portfolios' effective duration measured 4.2 years at the end of the quarter unchanged from the end of last year. Cash flow from operating activities continues to benefit investment income and contributed to $102 million in net purchases of securities during the quarter. Compared to a year ago first quarter consolidated net operating cash flow was lower mainly due to higher payments for income taxes and profit sharing with agencies.

Careful management of expenses continues to be a priority. Our first quarter property casualty underwriting expense ratio rose 0.6 percentage points primarily due to higher commissions to agents. Our financial strength and liquidity remained at healthy levels. We had over 1.3 billion in cash and marketable securities at the parent company level, up 14% from the end of last year. Our premiums to surplus ratio remained at 0.9:1, a reflection of our capacity to support continued premium growth in our insurance segments in addition to capacity for other capital needs. I will conclude my prepared comments by summarizing the contributions during the first quarter to book value per share.

Property casualty underwriting increased book value by $0.31, life insurance operations added $0.08, investment income other than life insurance when reduced by non-insurance items contributed $0.38. The change in unrealized gains of March 31 for the fixed income portfolio net of realized gains and losses lower book value per share by $0.09. The change in unrealized gains at March 31, for the equity portfolio net of realized gains and losses boosted book value by $1.66 and we paid $0.4075 per share in dividends to shareholders.

The net effect was a book value increase of $1.93 during the first quarter to $35.41 per share. With that I will turn the call back over to Steve.

Steven Justus Johnston
President, CEO & Director
Thanks, Mike. The momentum we're building is encouraging and our progress is being recognized. Forbes recently issued its list of America's most trustworthy companies where we're again the top performing large cap insurance company. The year ahead of us still has plenty of challenges. We will continually seek to improve our performance while fulfilling our insurance promises to policy holders and providing outstanding service to agents. We appreciate this opportunity to respond to your questions and also look forward to meeting in person with many of you through the year. As a reminder with Mike and me today are Jack Schiff Jr.; Ken Stecher; JF Scherer; Eric Matthews, Marty Mullen and Marty Hollenbeck. Brad, we're ready to open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Vincent D'Agostino of KBW.

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

I would just like to pre-empt my questions with saying that it's on our side unfortunately tend to overly focus on some of the negatives on these calls in our questions, which doesn't really often reflect our optimism. So in that way I just don't want to come across as being too critical but I would just like to spend a moment on the reserve development in the quarter, specifically the comment in the press release on the IBNR reserves and just from my side when going through the scheduled P this year on some of the lines. I thought I could easily justify the lower carried IBNR reserves on accident year 2012 just understanding that in a lot of these lines, workers comp a really good example where you have pulled forward a claims reporting and have done an excellent job on managing the loss cost side. Of all things in my opinion that would allow you to carry a little less IBNR reserves, so is there anything that has emerged that would maybe change your thinking in terms of some of the progress that you have made and just how that impacts your estimates on the IBNR side?

Steven Justus Johnston
President, CEO & Director

Good question and we really appreciate and respect your balance, Vincent. There really hasn't been a change, I think that we're very consistent in our process and I might just kind of start at the beginning on these sorts of things and I know you're an expert in this and so I just want to make sure that I cover this fully as I can and I know I'm not telling you anything that you don't already know but just to kind of put a framework around our discussion, we do have a consistent process where our actuaries makes an estimate of the ultimate accident years losses for each line and then these estimates are used to calculate the best estimate of IBNR and for this quarter and really for every quarter that I can remember management then adopts actuarial's best estimate. So when we show a 1.1 point favorable development during the first quarter overall that just means that our estimate of accident years 2012 and prior didn't change much during the quarter and I think where you're coming from that is different than the first quarter a year ago but I think it's very explainable and it's very much indicative of us as a company that prides itself on maintaining a strong and conservatively stated balance sheet. We consider a lot of factors when we're setting reserves including that we're growing at a strong pace, that our result have turned as you mentioned and that our accident year loss ratios are improving in a strong fashion. So we look at all this information and we just think it's prudent that the best estimate for accident year 2012 and prior did not change much in the short period of time from when they were reviewed at your end. And to be clear and I think in answer to your question, it doesn't mean that we think reserves weakened any during the quarter. In fact on the contrary we're confident that reserves remained well into the upper half of the actual range. To buttress that position when we compare the first quarter of 2013 to the first quarter of 2012, the emergence of case incurred [ph] for prior accident years was the same. Virtually the entire amount of the change was due to change in IBNR released on prior accident years. Just to summarize and I think that we maintain a consistent process. There was a big difference from the first quarter year ago to this quarter but I think it's indicative of us in terms of prudent reserve setting and I think we're reflecting the progress as you mentioned that we're making in a lot of areas in terms of our pricing and our underwriting.

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

That's really helpful. Again from our side your track record is virtually unparalleled. So just really good color. As far as just because the time of the year that as you guys go through and meet with a lot of agents with the 20 or so sales meeting that you do, I'm always curious. I usually get to go to one or so but as you go through these, is there anything that you're hearing that it's a bit of surprise or just really any good feedback that you might be getting from agents that you're thinking about implementing?

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

I would say nothing surprising coming from agencies, I think we're always anxious to hear about pricing and how agencies feel about the industry overall, industry and their agency if you will and how comfortable they feel with delivering rate increases and we up to this point we have 4 more meetings to go. Of the 19 we have attended, it's been consistent that they are comfortable with the approach we're taking that rates are up, renewal pricing is up. A lot of discussions about particularly in win-prone areas about the use of higher deductibles, percentage deductibles, wind and hail deductibles is something that we're focusing on a lot and there is a generally consistent comment from everyone that we're going to be able to implement some of those initiatives. So I wouldn't say that there has been anything at all surprising this spring that relative to the types of things we have talked about on previous calls and what is in general happening in the marketplace.

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

Okay perfect and then one last one if I can sneak it in, just on auto premiums from accounting standpoint. When you have $1 of auto premium come in is there a corresponding incurred loss with that or because of the way that you do your reserving, have you already necessarily booked the incurred loss regardless of the auto premiums coming in and so would it end up just falling all to the bottom-line as far as audit premium tail winds?

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

That would basically fall to the bottom-line because we have already incurred the losses. So that has been a very positive for us over the last so many quarters.

Operator

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

Michael Zaremski
Crédit Suisse AG, Research Division

First I was curious, your goal to the expense ratio is 30%, I was curious if that's what the time frame is around that goal, and I was curious is the driver to that 30% largely premium growth leverage?

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

Part of that is premium growth leverage, you're exactly right. As we grow the top-line there, that will have a natural effect to bring down the expense ratio. We're controlling expenses, one of the, I'm not going to say the problems that we have, but as we have more income, more profitable a lower combined ratio, the offsetting effect of that is that our profit sharing for the agents tends to go up and so that works against us. So the commission side is a very large item and that's really what affected the increase for the current year. We do have a lot of initiatives are going on that are also helping to reduce our loss and expense ratio. So we're controlling those, we watch them, we have got an expense committee, a head count committee and we're committed to drive it down to the 30 but it's a good problem to have with the profit sharing to the agents.

Michael Zaremski
Crédit Suisse AG, Research Division

Secondly clearly a really great combined ratio on an accident year, ex-cat basis I was curious if there was a non-cat weather benefit versus maybe what you'd call "normal" or versus last year 1Q. A number of peers or larger insurers have cited the benefit this quarter so far of their earning season.

Steven Justus Johnston
President, CEO & Director

We don't track that for all lines. I mean we could track it for certain personal lines and so forth. I do think though to your point that it's just kind of natural that when we do have high catastrophe losses what will have more what you call non-cat weather it's just because there are losses in the region that may not fall into that particular cat but they're weather losses nonetheless. So I would think -- this is more of an opinion than something I can back up with a fact because we don't keep it for all lines -- but I do think that there would be a benefit because we had lower cats that would naturally fall, that they would be less non-cat weather as well.

Michael Zaremski
Crédit Suisse AG, Research Division

Yes, that makes sense, so probably a correlation between the cat level and non-cat weather.

Operator

Your next question comes from the line of Ray Iardella of Macquarie.

Christopher J. Maimone
Macquarie Research

This is actually Chris Maimone calling for Ray. Couple of quick ones. I was wondering if you could just comment on what you guys have been seeing that's being driving the E&S pricing since we last heard from you guys, just generally as far as any incremental negatives that might be behind the slowdown in pricing there.

Steven Justus Johnston
President, CEO & Director

First of all on our renewals for our E&S business we have had 31 consecutive months now where we have had great increases and they have actually risen for us. So relative to our book of business, the business that's renewing, we're continuing to get strong pricing increases. One thing that we're seeing and in particular on larger E&S accounts is that there has been a fair number of standard market carriers that have taken business out of the E&S side for us. So it's I guess somewhat of surprising circumstance but I say in terms of how we size up how things have been going on E&S side, good progress on renewals, still some competition relative to some larger accounts are being taken out of the E&S market. The model for us continues to work nicely. We're still having good experience working with our agencies and writing more E&S business from them so we still feel very good about how things are going for us.

Christopher J. Maimone
Macquarie Research

Great and then just one follow-up. I was wondering if you could just run me through with a little more detail on what was behind the life insurance benefit this quarter?

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

What we had there is on some of the smaller lines there we were refining a little bit the reserving process between gap and stet reserves and so that was under a $4 million effect on the total net income. So it was a minor item but it was a refinement of our reserves.

Christopher J. Maimone
Macquarie Research

Okay, and that's just going to be onetime refinement or is there sort of huge?

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

I would put as a onetime, there may be smaller ones in the future but if you were to adjust let's say that refinement out of 2013 and then out of 2012 first quarter and then kind of come to maybe what I will call a core adjusted, we would end up actually with about a 24.4% increase in net income when you adjust those out so that might help you out. You would go from, call it may be 7.8 million to 9.7 million for the current quarter. So hopefully that would help you in your analysis.

Operator

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

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

I was just wondering if you can talk about the new business growth. You mentioned more than half of the accounts are from, have more than $50,000 in premium. Was that part of the strategy when you appointed all the new agents over the past few years, was the intention to get more large account business or is that the way the mix just kind of happened? Did you get more of that from your existing agency based, too? Just wondering if you can give more detail on that.

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

I don't think half of our new business is coming from $50,000 premium, half of the increase comes from the larger accounts but as far as the strategy is concerned, no, we haven't appointed agencies with the idea of writing larger accounts. The strategy continues to be the same. We expect as a company to write, by our definitions continue to write small to mid-size accounts. Our definition of medium would be from 10,000 to 150,000 or thereabout. We write our share of larger accounts, large and larger for us I would call perhaps in the $50,000 range and higher. One thing that we have done though, and Steve referred to in his remarks, was that we have progressed quite a bit in the loss control area; we have also done a much better job in claim specialization. Consequently agencies have greater confidence in us to write these larger accounts. They are still an awful lot of accounts out in the marketplace right now being shopped. Many carriers continue to describe very publically that they are going to get substantial rate increases on their renewals; that provokes agencies to shop their accounts to protect themselves. I think we have done a good job of reinforcing to our agencies that we're a consistent market and that in addition to rate claim service and loss control, our pricing is consistent. So it hasn't been a specific strategy to increase larger accounts; it's just evolved to that.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, that's helpful. And then could you give a little bit more detail just on the large claims that you had the ones were, they were over 4 million. Is that just, those are in the 3 areas that you talked about where I guess you strengthened the reserves in the quarter? Is there anything more to it than that? Was there any other areas besides that or, If you can give any detail on that.

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

I can give a start and maybe Marty can follow up as well. You want to give this?

Martin Mullen

Sure. The majority of the large claims over 4 were in those lines mentioned assuring executive risk played a big piece of that, more so in the area of the FI accounts, some 2,000 in those areas. That mainly was the main driver of those 4 million in increase reserves.

Steven Justus Johnston
President, CEO & Director

So I will just tack on, it is consistent with the question that you're asking. We agree.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. And then the only other question I have was just on, pricing in April you said was up toward the higher end of the mid-single digit range and are you saying that pretty broadly, in other words, is pricing, the price increases that you're seeing in April, are they a little bit bigger than you were seeing at the end of or the beginning of the quarter?

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

We have really consistent pricing, for example in the commercial fire area, we were in the low end of the double digit increases on our small to medium size accounts in the fourth quarter of last year; it's been sustained this year as well. And pretty level net rate changes in casualty and auto as well. So we haven't seen a change up or down, it's been very consistent, trending a little up.

Operator

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

Ian Gutterman
Adage Capital Management, L.P.

So I guess I will add a couple of specific questions on reserves but I guess if I can ask a big picture one first and I admit I'm grasping at straws here but just want to make sure there is not a relationship here. I'm taking sort of 2 unrelated statements and trying to tie them together possibly. One is that you have seen a very good growth from agents appointed since the beginning of 2012 and then you have seen average development on 2012 and it makes me wonder, is there may be some kind of tide that maybe the agents that you have added have produced worse business than agents you have added in prior years?

Steven Justus Johnston
President, CEO & Director

I will go ahead and take the first shot at that at least, Ian. The short answer is no and we have studied that. We feel that the production of the new agents is of high quality and in particular of our new business whether it's coming from more recently appointed agents or more mature agents, we feel that the new business premium that we're getting is adequately priced and we're confident that throughout the various appointment periods.

Ian Gutterman
Adage Capital Management, L.P.

Then just couple of the detailed ones and I know it's hard to sometimes draw chances you have lot of quarter-to-quarter volatility in your lines of business but for example I'm looking at commercial auto which has been showing average development for a few quarters now and the accident year throughout the last 4 quarters prior was averaging at low 70s and this quarter you dropped it to 60. So I'm kind of wondering if you're seeing adverse trends or why do we see such an improvement in the accident year.

Steven Justus Johnston
President, CEO & Director

Well that's a good question and that is one that we specifically study so it's very insightful. As we look at what we're getting in price versus what we see in the loss trends, we have seen a favorable trend there where we feel we're getting rates over and above loss cost trend which I think supports the decreasing trend. I think as we do look back at the prior years, we're taking I think a prudent view of particularly given the growth, given this as your point out that there is a turning point and with consistent improvement in the results I think we're being prudent to not release the IBNR on the prior year's consistent with what we're seeing in our accident year picks.

Ian Gutterman
Adage Capital Management, L.P.

But is that translating -- how is that translating into how you set the pick? I guess and this is oversimplifying but I guess I would have thought if you feel less comfortable with the IBNR from the prior year's then maybe put up a little bit of extra IBNR cushion in the current year.

Steven Justus Johnston
President, CEO & Director

That's a great point and one we debate but I think the overriding factor is what we see in terms of the improvement, in terms of the price versus what we're doing and the underwriting loss control all the other elements we think it justifies the pick that we have for the current accident year. And that's the overriding factor there.

Ian Gutterman
Adage Capital Management, L.P.

I just had a couple on personalize. I might have missed this; it's going a little fast for me. Did you say specifically on the personal auto what drove the adverse? Was that the same trends or was it just something changing in severity or loss trends or something?

Steven Justus Johnston
President, CEO & Director

It's the same overall trend and I do think we had a little bit higher in terms of large losses. I think that it's severity or something that we're keeping a close eye on there and I do think, I made the statement that overall our case incurred emergence in the first quarter was very much equal to first quarter a year ago; I think personal auto might have been one exception there where we did see a bit more emergence this first quarter than we had seen the first quarter of 2012. So we're kind of reflecting that as well.

Ian Gutterman
Adage Capital Management, L.P.

And then my last one, I promise. On homeowners, obviously you're taking a lot of rate there, things are getting better, this is sort of tying back to I think was Mike's question about non-cat weather. When I'm looking at the accident year before cat of a 40 the prior 4 quarters are between 50 and 80 so I assume a fair chunk of that is the real improvement from the pricing underwriting actions you have taken but I assume some of it's non-cat as well. I mean is there any way to sort of get a sense for maybe just what a normal target is for homeowners? I mean, is your goal to be able to have a 40 ex-cat loss ratio or was that really just kind of an outlier number?

Steven Justus Johnston
President, CEO & Director

I think your question is very intuitive, very spot on in that we have been seen the improvement in the price, we do think that the losses have been benefited from some of the action that we're taking. We do see, we think, favorable movement in terms of the non-cat weather and we do, we build 26 points of catastrophe, expected catastrophe losses into our homeowners pricing. So, we're shooting for pretty low ex-cat loss ratios.

Operator

[Operator Instructions] Your next question comes from the line of Vincent D'Agostino of KBW.

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

I just had 2 quick ones. You have talked a little bit more about enhanced property inspections lately and I was just curious how the retention for policy is going through that process or kind of playing out just because in the aggregate it doesn't really seem to be a drain which would imply that you're getting the rate to push through the terms and conditions as you kind of won on those policies which would be good, or if they, if you obviously didn't retain them that would also be margin enhancing so just curious of any thoughts on how that's trending.

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

We're not non-renewing a huge percentage of that business. I think and I don't have the exact numbers with me but I think something into the tune of around 6% of the property we've been inspecting on the homeowner side We have non-renewed, gotten rid of them in some fashion. And awful lot of what we find our things where we have increased the premium because the policy wasn't rated correctly; it wasn't in the right protection class. There might have been for example in personal lines a wood-burning stove for which we have a surcharge, a variety of different ways that premium has been increased which improves the margins. But even at 6% I think that's a reassuring amount of that we're finding properties that have deteriorated since we first wrote them and we're going to be getting off of them. Another area of inspection that has paid off has been in terms of rough conditions where we discover in some cases dwellings that the roof is much older than we anticipated. We're using an actual cash value endorsement, for example, in those houses that we would choose to stay on but are in poor condition. So we're really attacking it from a whole variety of directions on the inspection initiatives, feeling very good about the return we're getting.

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

And then just one last one. The agency appointments were pretty strong and it's about 50% of your full year target which is a little bit ahead of kind of the first quarter weighting that we had seen last year. Is it possible that we might see appointments getting closer to maybe 80s than 65s?

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

At this point I don't necessarily think so. One of the things that we feel better about, I think a little more encouraged about, is that we're coming off a couple of years of pretty strong agency appointments. We have talked to all of our agencies throughout the country about the aspirations we have to grow premiums in their areas. In more cases than perhaps we would have planned for, our current agency force is responding a bit better, the alternative being that we would appoint another agency in their general community and they prefer us not to do that. So right now I don't believe that we would go much higher than the 65. I think we're getting obviously good new business out of our agency force in general. And so I think I still plan on 65.

Operator

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

Steven Justus Johnston
President, CEO & Director

Thank you very much, Brad, and thanks all of you for joining us today. We hope to see some of you at our Annual Shareholder's Meeting tomorrow at the Cincinnati Art Museum. Others are welcomed to listen to our webcast of the meeting available at cinfin.com/investors and we look forward to speaking with you again at our second quarter call. Thank you.

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