S&P Capital IQ

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Cincinnati Financial Corporation NasdaqGS:CINF

FQ4 2013 Earnings Call Transcripts

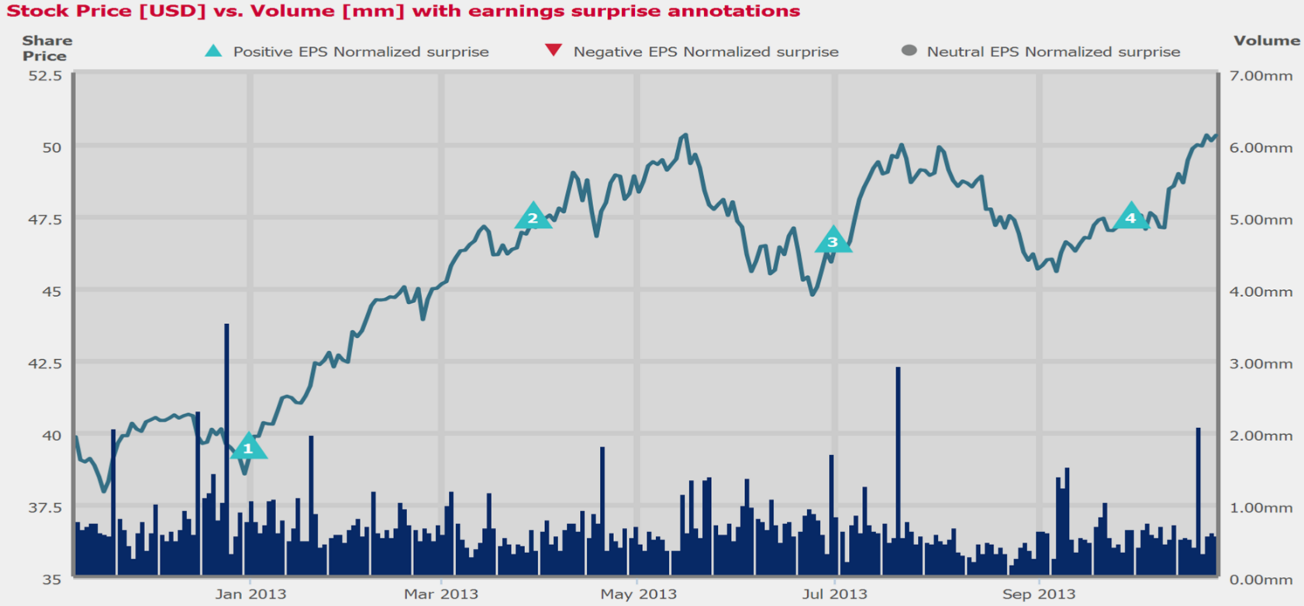
Thursday, February 06, 2014 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.69	0.72	▲4.35	0.80	2.77	2.80
Revenue (mm)	1117.56	1172.00	▲4.87	1159.93	4524.06	4531.00

Currency: USD
Consensus as of Jan-28-2014 3:18 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	0.44	1.11	▲1 152.27 %
FQ1 2013	0.65	0.78	▲2 20.00 %
FQ2 2013	0.42	0.61	▲3 45.24 %
FQ3 2013	0.62	0.70	▲4 12.90 %

Call Participants

EXECUTIVES

Dennis E. McDaniel
Vice President and Investor Relations Officer

Jacob F. Scherer
Former Chief Insurance Officer

Martin Francis Hollenbeck
Chief Investment Officer, SVP, Asst. Secretary, Asst. Treasurer and President of CFC Investment Co.

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

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

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

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ANALYSTS

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

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Michael Zaremski
Crédit Suisse AG, Research Division

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Presentation

Operator

Good morning. My name is Denise, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the fourth quarter 2013 financial results conference call. [Operator Instructions] Thank you.

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

Dennis E. McDaniel
Vice President and Investor Relations Officer

Good morning, everyone. This is Dennis McDaniel, and we thank you for joining us for our fourth quarter and full year 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, 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, Martin 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 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.

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

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

Thank you, Dennis, and good morning. Like last year, I'm speaking with you today from Murfreesboro, Tennessee, the fourth stop on our 22-state tour of sales meetings with our independent agents. Our senior leadership team gets out and visits agents in the first half of each year, and it's always an energizing experience for us. We enjoy the chance to thank our agents in person for contributing to another year of underwriting profit and strong premium growth and for trusting Cincinnati Insurance to serve the people and businesses in their communities.

We are pleased to report solid fourth quarter and full year 2013 operating results. As we consider our progress in building value for shareholders, we favor a long-term approach and manage our business accordingly. Our ongoing initiatives intended to improved insurance profitability and drive premium growth led to an improved operating result for the full year of 2013.

More favorable weather also contributed to our 2013 operating results. I'd like to mention, however, that we already know weather will affect our first quarter 2014 results. Two weather storm events between January 3 and January 8 cost us an estimated $65 million to $85 million in catastrophe losses for our property casualty segments. Most of our losses are from water damage related to frozen pipes that burst.

It's too early for us to provide a meaningful estimate of losses from severe weather that occurred later in January. While weather can always affect our financial results, we believe execution of our strategic initiatives will continue to provide benefits over time.

Our fourth quarter and full year combined ratios were below 94%, within the sub-95% range we aim for. On an accident year basis before catastrophe losses, 2013 improved 4.3 points compared with 2012.

We plan to improve our combined ratio for 2014. We will earn a significant portion of 2013 steady renewal price increases over the next year, and many other initiatives we're implementing should benefit loss experience.

Premium growth for full year 2013 was as we expected. Our property casualty net -- net written premiums grew at a double-digit pace, benefiting from greater pricing precision and higher pricing overall.

For Personal Lines, full year premiums reached $1 billion for the first time. We remain on course to reach our goal of $5 billion of consolidated annual direct written premiums by the end of 2015. We continue to get more rate on lower margin policies and retain higher margin policies. As a result, our mix of business is shifting in a favorable direction.

On an average renewal price increase basis, commercial policies that renewed during the fourth quarter had estimated average price increases in the mid-single-digit range, just as strong as our third quarter average. Also consistent with the third quarter, renewal price increases for our Excess & Surplus Lines and our Personal Lines segments continued in the high single-digit and mid-single-digit ranges, respectively.

Policy retention for both Commercial and Personal Lines remain consistent with the year ago. Our Commercial Lines policy retention continues in the mid-80% range, and Personal Lines policy retention continues in a low to mid-90% range.

Our full year 2013 new business premiums at $543 million set another record high despite the total of our fourth quarter Commercial and Personal Lines new business coming in $7 million lower than 1 year ago. Even more important than hitting a new record amount is the confidence we have in our new business pricing from our pricing analytics and modeling tools.

Commercial Lines new business premium can vary substantially by quarter in part due to timing of acquiring large policies or appointing new agencies. For example, fourth quarter 2012 was particularly strong with the highest volume of any quarter that year. But history shows that the fourth quarter is typically not our biggest quarter for commercial new business.

Our full year of 2013 Personal Lines new business premiums came within $1 million of 2012. That was a satisfying result given our underwriting actions around homeowners rates and deductibles that we implemented last spring.

We tend to avoid drawing conclusions about trends based on a single quarter of data for certain measures. That applies to new business premiums as well as renewal pricing, large losses and prior accident year reserve development, among other things. Instead, we focus on executing our long-term strategy and are quite satisfied with our performance for 2013.

In our life insurance segment, earned premiums continued to grow during the quarter, contributing to full year growth of 6%. For all of our insurance segments, we continue to be careful to grow premiums only when we believe profitability is adequate. We'll continue to appoint new agencies, and that adds to premium growth over time as those relationships mature. In 2014, we plan to appoint approximately 100 agencies.

January 1 marked the renewal of our Reinsurance Program. It's an important part of managing enterprise risk and helps protect capital and limit earnings volatility. Our per risk treaties remain substantially the same as 2013, except for increase in our retention by $1 million to $8 million per loss. That change and more favorable rates should result in a modest reduction in our 2014 reinsurance costs.

Our property catastrophe treaty provides coverage similar to last year. In January, we replaced our expiring collateralized reinsurance with a new catastrophe bond, providing $100 million of coverage. The coverage period now extends over 3 years, expiring January 18, 2017. The coverage applies to severe convective storm losses in selected areas as well as supplemental coverage in the event of an earthquake. In addition to coverage provided last year related to the New Madrid Fault line, it includes several states in the Pacific Northwest. For both coverage, convective storm and earthquake, the geography related to the coverage was expanded for 2014. The program now generally covers entire states where we have significant amounts of insured property risks instead of just selected counties. The storm aggregate coverage provides loss recovery when storm losses for all events in aggregate exceed $160 million after a $5 million deductible per event.

For the second quarter in a row, investment income growth is another positive. That growth is impressive to us considering that fourth quarter 2012 included about $5 million of special or accelerated dividends as issuers responded to anticipated tax law changes.

Finally, our primary measure of financial performance, the value creation ratio, confirms strong company performance for the quarter and the year. That measure keeps every associate in our company focused on individual and team performance, helping to create shareholder value over time. It was 16.1% for the year, and then it averaged 13.1% over the past 5 years.

Our 2013 value creation ratio was aided by favorable trends in security markets, and I'm more pleased with a 10% year-over-year improvement in the largest component, operating income, which contributed 8.5 points.

Our Chief Financial Officer, Mike Sewell, will now discuss the value creation ratio further, along with other financial terms.

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

Great. Thank you, Steve, and thanks to all of you for joining us today. As Steve noted, our performance for 2013 was strong. The 16.1% value creation ratio exceeded the 10% to 13% annual average we are targeting for 2013 through 2017.

2013 provided another example of the benefit of our equity investing strategy, in addition to a strong contribution to book value from appreciation in our stock portfolio valuation, rising dividend income offset lower interest income that was pressured by the low interest rate environment.

Our stock portfolio's pretax net unrealized gains reached nearly $1.9 billion at year end, up 85% for the year and 23% for the quarter. Dividend income grew 6% for the year and 3% for the fourth quarter.

Our bond portfolio's pretax unrealized gains were at $481 million at year end, down $390 million for the year and $55 million for the quarter. Yields for our bond portfolio continued to move lower but at a slower pace as its fourth quarter 2013 pretax yield of 4.84% was 17 basis points lower than 1 year ago. For the third quarter of 2013, that decline was 19 basis points. Taxable bonds, representing about 70% of our bond portfolio, had a fourth quarter and 2013 pretax yield of approximately 5.33%. The average yield for new taxable bonds purchased during the quarter was approximately 4.61%. For the same period, our tax-exempt bond portfolio yield was approximately 3.9%, and purchases during the quarter yielded approximately 3.2%. Our bond portfolio's effective duration measured 4.6 years at year-end 2013, up from 4.2 years 1 year ago.

Cash flow from operating activities continues to benefit investment income. At $787 million for the full year 2013, net prey [ph] cash flow exceeded the same period 1 year ago by $149 million, or 23%, despite paying an additional $184 million in income taxes.

I'd like to spend a moment on loss reserves. Following a consistent approach, we have experienced 25 consecutive years of overall favorable reserve development. We seek to remain into the upper half of the actuarially estimated range of net loss and loss expense reserves.

For full year 2013, favorable development on prior accident years of 4.1 percentage points was about 1/3 of the 2012 ratio, and the fourth quarter ratio for 2013 was also much lighter than 2012. The outlier periods are actually the 2012 periods.

As we mentioned during our first quarter conference call, in 2012, we observed a turning point in the terms of underwriting performance, and reductions in our IBNR reserves were outsized compared to a typical year. In fact, we added net IBNR reserves in each of the past 5 years with the exception of 2012.

As I said in this call, for the third quarter, we believe we're exercising prudence by maintaining IBNR reserves at a higher level.

To help put this into perspective, let's review our level of reserve development over the past 2 decades. Favorable reserve development for the 5 years, 2008 through 2012, averaged nearly 10 points. However, the 10-year average for 1997 through 2006 was 5 points, fairly close to our 2013 results. If you annualize the aggregate favorable reserve development for the full year 2013 compared to 2012, you'll find that 43% of the decrease is attributable to commercial casualty and 24% to workers' compensation.

Our 2013 favorable development occurred for several accident years, including 69% for accident year 2012, 28% for accident year 2011 and 3% for all older accident years.

Expense management produced another good result. Our property casualty underwriting expense ratio for 2013 approved 0.3 percentage points even with strategic investments to grow premiums and improve profitability.

Next, let's turn to financial strength and liquidity, which both remained in excellent condition. We repurchased approximately 1 million shares during the fourth quarter at an average cost of $52.13. This repurchase activity was a maintenance-type action intended to partially offset the issuance of shares through equity compensation plan. Last week, the board of directors increased the shareholder dividend by 4.8%. This sets the stage for increasing our dividend for the 54th consecutive year.

Cash and marketable securities at the parent company stood at $1.5 billion at year end, 1/3 higher than 1 year earlier. Our property casualties premiums-to-surplus ratio remained at 0.9:1, providing ample capital and capacity to support continued premium growth in our insurance segments.

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 $0.24. Life insurance operations added $0.06. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.36. Valuation changes related to our pension plan contributed $0.30. The change in unrealized gains at December 31 for the fixed-income portfolio, net of realized gains and losses, lowered book value per share by $0.21. The change in unrealized gains at December 31 for the equity portfolio, net of realized gains and losses, increased book value by $1.37. And we declared $0.42 per share in dividends to shareholders. The net effect was a book value increase of $1.70 during the fourth quarter to $37.21 per share.

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

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

Thanks, Mike. Some of you may have noticed 2 recent news releases about new people joining our Cincinnati family. In November, our board welcomed David Osborn, a new independent director whose investment firm focuses, like us, on dividend growth strategies. And just last week, we welcomed Will Van Den Heuvel to the Cincinnati team as our new Senior Vice President responsible for Personal Lines. Will brings an excellent track record of leadership experience in the personalized marketplace and a proven commitment to the success of independent insurance agencies.

We see both of those additions as investments who will bring shareholders a good return over time.

Just as important, in 2013, we reduced our underwriting expense ratio while investing in talented associates with total staff growing 2.6% or just over 100 net positions. We know that our field force is a strong differentiator from competitors. On a percentage basis, field positions increased at a slightly higher rate than headquarters positions. Our agency customers appreciate the loss control and claims expertise we are placing in their communities. At headquarters, we continue to invest in positions to support our pricing and data analytics improvements.

We think we've just scratched the surface of the benefit we'll see from our 2013 improvements. And we have the people, products and processes in place to keep executing on our plans in 2014.
We appreciate this opportunity to respond your questions and also look forward to meeting in person with many of you throughout this year. As a reminder, with Mike and me today are Jack Schiff Jr., Ken Stecher, JF Scherer, Eric Matthews, Marty Mullen and Martin Hollenbeck. Denise, we're ready for you to open the call for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from Mike Zaremski from Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

First question. So you guys specifically mentioned in the press release, too, about ramping up inspections next year, and you guys are investing in people and technology clearly. Should we expect then some impacts to the expense ratio as those kind of work through? And I guess, obviously, hopefully, they help the loss ratio, but what should we be thinking about expenses with -- given those initiatives?

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

Yes, thanks, Mike. This is Mike Sewell. As it's related to that, my goal is still to work the expense ratio down closer to a 30 expense ratio. But with a lot of the investments that we've been making, that's contributing a lot to the loss expense ratio, and you've seen that going down. We have been increasing some of our headcount in strategic areas for growing premiums, also the loss control. But what we're also doing is we're making sure that, that increase in investment is lower than the increase in premiums that we're bringing on. So we were able to reduce the expense ratio by 0.3 points this year, but in total, we're still spending more money and investing it where we believe we need to and the results you're seeing on the loss expense side.

Jacob F. Scherer
Former Chief Insurance Officer

Mike, it's JF Scherer. One thing I might add, for example, in Personal Lines in the inspections, what those inspections are revealing has paid for about 60% of the cost of the inspections themselves. In other words, we find things that -- where we immediately increase the premium, things like stoves that people have in houses that we have surcharges for and a variety of other things. So as Mike said, the real focus is to improve the loss ratio with all these initiatives that we are finding an opportunity actually to increase the premium by what we discover.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay, that's helpful. Next, on reserves. So I appreciate all the great color you guys gave on the call and you guys give in the release. And if I'm thinking -- if we're thinking more high level, I mean, is -- are you seeing loss cost inflation pick up versus prior -- a couple of years' trends given maybe the pickup in the economy or you guys are moving into other territories and whatnot?

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

Mike, this is Steve Johnston. And actually, we aren't. I think we're seeing pretty steady trends in terms of loss cost trends. And I think it does have to do with the work that we're doing in the loss prevention side of things to keep those trends lower. So we are seeing our rate exceed our loss cost trend and rates in the mid-single digits. And we'd say loss cost trends are more in the low single digits and they're remaining steady.

Michael Zaremski
Crédit Suisse AG, Research Division

And would you say workers' comp is below historical trends still?

Steven J. Johnston

Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company

Yes, that's a fair assessment.

Operator

Your next question comes from Ian Gutterman with Balyasny Asset Management.

Ian Gutterman
Balyasny Asset Management L.P.

I guess, first, any more color you can give on the January cat events? Just isn't -- a couple of other people have said similar things. I'm just trying to get a little bit better understanding why pipe [ph] storms [ph] are causing what seems like almost like Q2 cat loads rather than Q1 cat loads.

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

This is Martin Mullen. That January -- the second cat in January was a main event for us from January 5 to the 8. It's a different type storm. The claims are split up about 50-50, Commercial and Personal Lines. But for us, the experience in losses was about 70% Commercial. So it's a 3 -- for us, it's about 3-, 4-state event. But as you know, they can involve 17 states. And I think that's why you're seeing the type of exposure you're seeing because it's such a widespread event and it's 4 days. But for us, about 95% of the losses all related to freezing, and Ohio is our biggest state with 35% of the claim count.

Ian Gutterman
Balyasny Asset Management L.P.

Very helpful. The other area of claims that I think was mentioned in the release, was auto claims inflation. Can you just -- again, you're not the only company who mentioned that this quarter, but are you seeing a pickup in BI trends? And any additional color you can give on that?

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

This is Steve again, and I think in that particular line, there would be a little bit of an uptick, I think severity in particular. But I don't think it's anything that's unreasonable or within our ability -- or outside of our ability to address with rate, pricing precision, segmentation and continuing to work on our initiatives in terms of keeping those loss costs under control from the loss control side.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. So that didn't have any impact on the new business there that you pulled back your appetite when you saw that loss trend or anything like that?

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

No, I think our appetites remain consistent, long-term focused, and we feel very good about the business.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And was that increase in trend kind of across the country, across types of drivers? Or was it concentrated in any area?

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

We didn't see it concentrated in any particular area, no.

Ian Gutterman

Balyasny Asset Management L.P.

Okay, great. Repurchase -- you bought back some stock for the first time in a while. I was just curious if that's something we should expect to continue or if this is maybe a one-time thing for option dilution or something like that?

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

It's Mike here. We do it from time to time. The last time, we did buy back a little over 1 million shares in 2011. With the stock price being up, folks exercising stock [ph] options. We really thought it was prudent to do a maintenance type of activity on that to at least keep the shares relatively flat. So we do go in and do the 1 million shares to average cost that you heard earlier. So I think as we look out into the future, I think we're going to be watching share count. And with the growth, we'll do maintenance when we need to do maintenance. But at the same time, we're using our capital, as I mentioned, that the board increased the dividend 4.8%. So setting that up for the 54th consecutive year. There's various ways we use our capital, and -- including investing in the business to grow premiums and reduce the losses. There's a combination of areas that we use our capital, and that was one of the -- really I'd view it as a maintenance-type matter.

Ian Gutterman
Balyasny Asset Management L.P.

Great. And then just maybe lastly, any thoughts on the equity portfolio? Obviously, the market was great last year. It's pulling up this year. Have there been any sort of thoughts of reallocating either among sectors or just overall exposure or something to get more defensive? Or is it pretty steady as she goes?

Martin Francis Hollenbeck
Chief Investment Officer, SVP, Asst. Secretary, Asst. Treasurer and President of CFC Investment Co.

It's Marty Hollenbeck. Not really. We're long-term investors. The income off of the portfolio, the tax-preferred status of the dividends as well counts just as much really as price fluctuations. We're pretty content with where we're at, the low-30s as a percentage of the overall portfolio. We look at it a number of different ways. So we're not going to undergo any significant reallocation of investment assets at this point.

Operator

Your next question comes from Vincent DeAugustino from KBW.

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

Steve, you had mentioned bringing Will on and I'm just kind of curious, given his experience at Chubb and AIG before. Kind of in conjunction with something, if I'm recalling correctly, you discussed with some agents earlier in 2013. It was about Cincinnati's homeowner business kind of maybe positioned as a Chubb-like product. And I was just wondering if Mike could provide an update kind of on that initiative and then one -- if, say, Will's position has anything to do with that strategy.

Jacob F. Scherer
Former Chief Insurance Officer

Yes, this is JF. Just by way of comment, as a company about 20% of what we currently write would be in the, I guess, you might call it the more affluent Personal Lines area. But clearly, bringing Will on, in addition to his background just as a great Personal Lines executive across-the-board, what we want to do is to fortify what we're doing and expand what we're doing in the more affluent marketplace. We're not talking about going into the ultra-affluent. I guess the way I would describe it would be more as it's described in the industry as a mass affluence, which, by definition, I guess, we'd say coverage A, homeowner limits of about $0.5 million or $1 million, up to the $4 million, $5 million, $6 million, $7 million. Well, clearly, Will's experience throughout his career, allows him to bring a tremendous amount of expertise in that area. Our agencies write a lot of that business. And so we think that just by fine-tuning the product, adding more expertise at the underwriting level, more expertise in our ability to write schedules, boats, jewelry, the types of things that go with the affluent marketplace, is going to open the door, I think, to a lot of opportunities for us.

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

Okay. The color is pretty helpful. And just one other question. And JF, I guess, this is probably best for you. I'm just curious if you've noticed any demand for the 3-year policies declining recently.

Jacob F. Scherer
Former Chief Insurance Officer

What we're seeing, and as Steve mentioned, we're seeing steady renewal increases in our Commercial Lines book of business in the fourth quarter. And we're getting larger increases on the classes of business that are -- policies that are, at least adequately priced. Anecdotally, what I would tell you is that we're driving higher rate, obviously, on the more poorly priced accounts that we have. And we have seen less of a pickup on the 3-year policy because we're very aggressive about what we would want on those policies if we're to renew them on a 3-year basis, which we view as a good thing. In other words, if a policyholder stays with us, obviously he's an account we want to keep. We get a good 1-year increase. We're going to get another at-bat at that less adequately priced policy next year and the year after. The good thing is, is that on the most adequately priced policies, the uptake for the 3-year policy remains excellent. It continues to be and we're -- it's being reinforced all 3 days this week when we're at our sales meetings by our agencies, and it's a tremendous advantage for us.

Operator

Your next question comes from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. Mike, I think you read off the percentage of the prior period development that related to some of the different accident years. Was that for the quarter or for the full year-to-date?

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

That was for the full year.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. I -- just hearing those figures, it strikes me as that sort of short-tail loaded, which is to say the -- is that because the older accident years, there's a mix of adverse as well as favorable? It's bringing that older accident year percentage down so low. I might think of you -- kind of 3- to 4-year tail on a lot of your business.

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

Yes. No, that's fair to say. There was a little less in those older accident years. We did notice in workers' comp, going back, I'd say, a few years, there was some payments that we made in the current year, and we just thought it was prudent to be very careful with those years. We added a little bit to those older accident years. And so that's what resulted in the lower percentile for the older accident years that I quoted.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Then somebody commented, I can't remember who, about the new business being lower in the fourth quarter as compared to other quarters in the year. Why would that be the case? And, I mean, I guess, I -- the anecdotal thought is always that sales people are hungry to get their quotas in the fourth quarter and would drive more new business rather than less. Maybe you guys just all hit your targets earlier in the year, I don't know.

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

Yes, I think -- this is Steve, Mark. And I think we had some variability, but I do think that there's more economic activity going on generally in the second and third quarter in our operating territories where construction's going on, the weather is warmer. And more times than not, the fourth quarter is not the largest quarter for new business. 2012 was an outlier. It was just a great quarter. But that's normally not the case. And I think it's probably driven by the economic activity in our areas.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. And I just want to clarify. When you -- the splits that you gave on the early winter storm activity, that was 70% commercial, 30% personal. That was the -- that's what you're seeing so far?

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

In loss, that's correct.

Operator

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

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

I just wanted to ask about any reactions you see or have to the Travelers core-end product and just generally the idea that Personal Lines, Auto in particular but maybe even Home, are going to increasingly go towards lower commission sort of better customer cost?

Jacob F. Scherer
Former Chief Insurance Officer

Paul, this is JF. Of course, we're out with agents this week, it hasn't come up. We're not getting any feedback at all on it.

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

So steady as she goes, I guess? Now that's all I want to ask.

Unknown Executive

Yes, at least as far as our strategy, our agents, what we are talking to them about in Personal Lines, we're just not getting much feedback. We've been encouraged by the response we've gotten in Personal Lines over the last year. I guess by way of a little commentary, and Steve mentioned it in his remarks, that new business in Personal Lines tailed off a bit for us towards the end of the year, and we'll have a real tough comparison in the first quarter. But that's -- almost by this time in a sense that we've got 2 rate increases on homeowners that are earning its way through the book. Plus we strengthened our underwriting stance on agent gross deductibles, things of that nature. So I think our agencies are, once again, relative to how they approach Personal Lines with us, they do use comparative riders. They're not enamored by them and they're not enamored by the commoditization of Personal Lines. However, they do write some business that would be in that category. And it's clear from the reaction to Will Van Den Heuvel at the sales meetings that they're very enthused about the fact that we're going to fortify our activity in the higher value homeowner -- higher value client arena where there is more profitability from an underwriting standpoint and more profitability at the agency level to write that kind of business. And it's the marquee accounts, the significant policy holders in the community. So I guess, maybe we'd be a bad carrier to canvas for opinions on other companies' approaches from that standpoint, but I can say that the reaction to what we're doing has been pretty good.

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

And I'd add, Paul, that our strategy, you know as well, is an agency strategy, and what we're doing now in Personal Lines with some of these higher valued homes is very consistent with what we've done over time, trying to provide every type of product that our agencies need to be successful. If you look back, the Excess & Surplus Lines would have been an example, Target Markets another example. And now, what we're doing in Personal Lines is very consistent with our agent-oriented strategy.

Operator

Okay, there are no further questions queued up at this time. I'll turn the call back over to Steve Johnston.

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

Thank you, Denise. And thanks to everybody for joining us today. We appreciate your interest in Cincinnati Financial Corporation and look forward to speaking with you again on our first quarter call.

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