Cincinnati Financial Corporation NasdaqGS:CINF

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, CEO & Director

ANALYSTS

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

Charles William Lederer
Citigroup Inc., Research Division

Grace Helen Carter
BofA Securities, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

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

Presentation

Operator

Good morning, and welcome to the Cincinnati Financial Second Quarter 2024 Earnings Call. [Operator Instructions] Please note, this event is being recorded.

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

Dennis E. McDaniel
VP & Investor Relations Officer

Hello, this is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our Second Quarter 2024 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 President and Chief Executive Officer, Steve Spray; 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 Executive Chairman, Steve Johnston; Chief Investment Officer, Steve Soloria; and Cincinnati Insurance's Chief Claims Officer, Marc Schambow; and Senior Vice President of Corporate Finance, Theresa Hoffer.

Please note that some of these matters to be discussed today are forward-looking. These forward-looking statements include 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.

Stephen Michael Spray
President, CEO & Director

Good morning, and thank you for joining us today to hear more about our results.

We had a good quarter and first half of the year. In addition to our strong financial performance, recent travel to meet with agents reinforced my excitement about the future. Agents are quite enthusiastic about doing business with us, citing our responsiveness as we answer the call, both literally and figuratively to help them navigate this challenging insurance market.

While picking up the phone is part of our culture, the confidence we have in our expertise in Cincinnati's financial strength lets us continue growing profitably, delivering insurance solutions for our agents and their best clients.

Net income of $312 million for the second quarter of 2024 included recognition of $112 million on an after-tax basis for the increase in fair value of equity securities still held. Non-GAAP operating income of $204 million for the second quarter was up $13 million from a year ago. Investment income continued to grow nicely and contributed $17 million of the increase.

The 98.5% second quarter 2024 property casualty combined ratio was 0.9 percentage points higher than the second quarter of last year and included a decrease of 0.8 points for catastrophe losses. That brought the first half combined ratio to 96.1%, a nice place to be as we head into the second half of the year.

Typically, the end of the year tends to be better than the beginning, in part due to the catastrophe loss ratio averaging about 2 points better in the second half based on the past 10 years. Our 88.2% accident year 2024 combined ratio before catastrophe losses improved by 2.2 percentage points compared with accident year 2023 for the second quarter and was 0.7 points better on a 6-month basis.

Once again, overall reserve development on prior accident years was favorable, although it was 3.6 points lower than a year ago, as we continue to consider uncertainty regarding ultimate losses and remain prudent in our reserve estimates until longer-term loss cost trends become more clear.

We are entering the second half of the year with confidence and optimism. In addition to improved accident year results and an overall combined ratio for the first half of 2024 that was better than last year's first half, we are pleased with measures -- with other measures regarding our operating performance.

We have strong second quarter premium growth and believe it is profitable growth. We continue to use pricing segmentation by risk, plus average price increases, along with careful risk selection to help improve our underwriting profitability. Those efforts, plus others, are bolstering our progress in managing elevated inflation effects on insured losses.

Agencies representing Cincinnati Insurance produced another quarter of profitable business for us, and we continue to appoint additional agencies where we see appropriate expansion opportunities. Our underwriters continue to do excellent work, as they emphasize retaining profitable accounts and managing ones that we determine have inadequate pricing based on our risk selection and pricing expertise.

Estimated average renewal price increases for the second quarter were, again, at healthy levels, with commercial lines near the low end of the high single-digit percentage range, excess and surplus lines in the high single-digit range, personal auto in the low double-digit range and homeowner in the high single-digit range.

Our consolidated property casualty net written premiums grew 14% for the quarter, including 12% growth in agency renewal premiums and 34% in new business premiums.

Next, I'll briefly highlight operating performance by insurance segment, focusing on second quarter premium growth and underwriting profitability compared with a year ago. Commercial lines grew net written premium 7% for the second quarter, with a 99.1% combined ratio that increased by 2.2 percentage points and included prior accident year reserve development that was less favorable by 2.9 points.

Personal lines grew net written premiums 30%, including growth in middle market accounts, in addition to Cincinnati Private Client business for our agency's high net worth clients. Its combined ratio was 106.9%, 0.7 percentage points better than last year despite an increase of 1.2 points from higher catastrophe losses.

Excess and surplus lines grew net written premiums 15% and was also profitable with a combined ratio of 95.4%, up 3.2 percentage points from second quarter a year ago due to unfavorable reserve development.

Both Cincinnati Re and Cincinnati Global were, again, very profitable and continue to reflect our efforts to diversify risk and further improve income stability. Cincinnati Re's combined ratio for the second quarter of 2024 was an excellent 70.1%. It grew net written premiums by 17%, bringing the overall 6-month written premium for 2024 in line with 2023.

Cincinnati Global's combined ratio was also excellent at 63.2%. While it grew net written premiums 2% for the first half of the year, second quarter premiums were down 18%, reflecting pricing discipline in a very competitive market.

Our life insurance subsidiary had an outstanding quarter, including net income of $24 million and operating income growth of 26%. Term life insurance earned premiums grew 2%.

I'll conclude with our primary measure of long-term financial performance: value creation ratio. Our second quarter 2024 VCR was 2.2%. Net income before investment gains or losses for the quarter contributed 1.6%. Higher overall valuation of our investment portfolio and other items contributed 0.6%.

Now Chief Financial Officer, Mike Sewell, will add his comments to highlight other parts 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 continued to grow, up 10% for the second quarter of 2024 compared with the same quarter in 2023. Dividend income was down 1% or $1 million for the quarter, primarily due to 2 unusual items that totaled approximately $2 million. One was a holding with a June ex dividend date in 2023 that moved to July 1, 2024. The other was a holding that reduced its dividend rate by 53% after a spin-off transaction.

Bond interest income grew 18% for the second quarter of this year. We again added fixed maturity securities to our investment portfolio, with net purchases totaling $771 million for the first 6 months of the year. The second quarter pretax average yield of 4.64% for the fixed maturity portfolio was up 30 basis points compared with last year. The average pretax yield for the total of purchased taxable and tax-exempt bonds during the second quarter of 2024 was 6.06%.

Valuation changes in aggregate for the second quarter of 2024 were favorable for our equity portfolio and unfavorable for our bond portfolio. Before tax effects, the net gain was $149 million for the equity portfolio, partially offset by a net loss of $93 million for the bond portfolio. At the end of the quarter, total investment portfolio net appreciated value was approximately $6.7 billion.

The equity portfolio was in a net gain position of $7.4 billion, while the fixed maturity portfolio was in a net loss position of $700 million. Cash flow continued to benefit investment income in addition to higher bond yields. Cash flow from operating activities for the first 6 months of 2024 was $1.1 billion, up 33% from a year ago.

I'll move on to expense management, where we always work to balance controlling expenses with making strategic investments in our business. The second quarter 2024, property casualty underwriting expense ratio was 0.5 percentage points higher than last year, reflecting higher levels of profit-sharing commissions for our agencies and employee-related expenses.

Next, let me comment on loss reserves, where 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. Then we updated estimated ultimate losses and loss expenses by accident year and line of business. For the first 6 months of 2024, our net addition to property casualty loss expense reserves was $578 million, including $506 million for the IBNR portion.

During the second quarter, we experienced $40 million of property casualty net favorable reserve development on prior accident years that benefited the combined ratio by 1.9 percentage points.

The commercial lines segment saw overall favorable reserve development of $29 million, driven by workers' compensation and commercial property, which more than offset the unfavorable development in commercial casualty. Commercial casualty was again the line of business having the largest amount of unfavorable reserve development, with a total of $28 million for the quarter or less than 1% of that line's year-end 2023 reserve balance.

We released reserves in some recent accident years and added reserves, totaling $51 million in aggregate for accident years prior to 2021, including $30 million for 2018 through 2020 due to case incurred losses emerging at amounts higher than we expected. The unfavorable amount reflects our slowing release of IBNR reserves for some of those older accident years, while adding to others.

On an all-lines basis by accident year, net reserve development for the first 6 months of 2024 included: favorable $269 million for 2023, favorable $36 million for 2022, favorable $17 million for 2021 and an unfavorable $182 million in aggregate for accident years prior to 2021, with commercial casualty representing $167 million of the unfavorable $182 million.

I'll conclude my comments with the capital management highlights, another area where we have a consistent long-term approach. We paid $125 million in dividends to shareholders during the second quarter of 2024. We also repurchased 395,000 shares at an average price per share of $116.33.

We think our financial flexibility and our financial strength are both in excellent shape.

Parent company cash and marketable securities at quarter end was nearly $5 billion. Debt to total capital contributed -- continued to be under 10%. And our quarter end, book value was at a record high, $81.79 per share, with $12.8 billion of GAAP consolidated shareholders' equity, providing plenty of capacity for profitable growth of our insurance operations.

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

Stephen Michael Spray
President, CEO & Director

Thanks, Mike. Before we move on to questions, I'd like to share some additional observations based on my first few months as CEO.

I've spoken with many of our agents and associates, and they share my high level of confidence in the future of this company. In the first 6 months of this year, we've achieved a combined ratio of 96.1%. That makes 12.5 consecutive years of underwriting profit. A core loss ratio that continues to improve, growth in net written premiums of 14%, with investment income up 13%.

We've set the stage for 64 years of increasing dividends to shareholders. In the most challenging market in my career, our balance sheet allows us to lean in and grow with our agents, and I'm really excited about where we're headed.
As a reminder, with Mike and me today are Steve Johnston, Steve Solaria, Marc Schambow and Theresa Hoffer. Jason, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Michael Phillips from Oppenheimer.

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

I want to make sure, Mike, on your comments, I guess it flowed pretty quickly. I want to make sure I got the accident stuff right, on it I wasn't clear. The commercial casualty, when you were talking about releases in recent accident years and added 51 for 2021 and prior, was that commercial casualty? Or was that all lines?

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

That was for -- thank you for the question. That was for commercial casualty only.

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

Okay. Okay. Okay. So your add sounds like it's more for those 2020, 2021 and prior, correct, for that line?

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

That is exactly correct.

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

Okay. And that's similar, I think in 4Q, you took a bigger charge for the same accident -- I don't know exact accident years, but again for the prior years, not so much for the reasons?

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

That's correct.

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

Okay. So it sounds like in your -- so I guess you're not seeing, so far, or maybe you don't think you ever will, kind of what we're seeing from some others so far this quarter of 2020 subsequent is starting to become a problem. You're not seeing that? And maybe tell us why you think it won't come forward?

Stephen Michael Spray
President, CEO & Director

Well -- this is Steve, Mike. I -- first of all, I would just say, from my perspective, overall, there always seems to be a movement in prior accident year losses. Some developed better than expected, sometimes higher than expected, as you know. It can be different by segment, line of business and certainly, accident years.

It's, as you know, reserving is not a perfect science. That being said, I am -- couldn't be more confident in our process and the experienced team that we have that are setting those reserves and taking the approach that we do. Comfortable with management's best estimate of ultimate losses here at the end of the second quarter. We've always had a track record, a long history of overall favorable development of [an all-lines] basis.

And in these most recent accident years -- in any most recent accident year, I feel like we've always been very prudent in realizing there's not as much data there and just recognizing the uncertainty. And I think that uncertainty is still there. It's always going to be there in those most recent accident years, but I think our actuaries -- they look at that and they take it into account.

And I think one of the other benefits is that we're all here in one building. I think that's something that sometimes gets underestimated is that we are all here, and we are talking literally multiple times a day, with pricing actuaries, with the reserving actuaries and then with the business units.

And I think we're quick to act to things that we see on reserving, and we're just as quick to act when we see things in underwriting. Commercial umbrella -- I'm really fielding the back here now, Mike. But commercial umbrella, we noticed in the second quarter of '22, if you recall, just some unfavorable results there. Our actuaries were quick to act and take the appropriate action on the reserves. And then our underwriting was just as quick to act as well.

And we reduced limits. We took terms and conditions actions based on the fleet size, let's say, on the auto, certain classes of business, certain jurisdictions. And I think we jumped all over that. And now through 6 months of this year, commercial umbrella is running in the mid-90s, and things are looking very favorable there as well.

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

Okay. That's helpful. I guess the second question then is staying with commercial casualty. It looks like your comments on kind of the renewal pricing for that line from 1Q to 2Q are about the same, I think you said, around high single digits. I just want to confirm that. And maybe anything you want to share on kind of directionally for commercial casualty in the recent quarters how things might be moving around?

Stephen Michael Spray
President, CEO & Director

Yes, Mike, yes, the high single digit on commercial casualty is correct, and that was consistent from the first quarter. I would say the commercial market -- we're a package writer. And the commercial marketplace, I would say, is rational and orderly. But my view is we still see runway for increased rate in the commercial marketplace.

Now the other thing I always have the caveat there is what we're really executing on and focusing here at the company, at Cincinnati, is segmentation and pricing these risks, risk by risk. And just the tools that we have, the predictive analytics we use to price the product is the average just doesn't tell the full story, as you can understand. And just the underwriting teams are just executing excellent on our segmentation strategy.

Operator

The next question comes from Gregory Peters from Raymond James.

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

I guess sort of building on the commentary on pricing and casualty. Just curious about what -- how you view your competitive positioning from a price perspective in the broader commercial book of business. It seems like the growth rates are beginning or have moderated, except for perhaps property. So any added perspective on that would be insightful.

Stephen Michael Spray
President, CEO & Director

Yes. I think, again, Greg, we -- I think I've got this right on your question. But insurance, from our perspective, is a local business, and it varies by state. It varies by size of account.

Like I said, we're a package underwriter. We compete with national carriers. We compete with the smaller regional mutuals. And where our real focus is, is just focusing on what we do in building those deep relationships with those local agents.

And when we're showing up, and like I said in my opening remarks, when we answer the call, we're confident in our risk selection, confident in our ability to price that product and we're confident in the relationships we have with our agents because we've built those deep relationships that I just don't -- I don't worry about growth.

We're continuing to appoint new agencies across the country. Like I said, when we see opportunity, we'll continue to do that going forward. But it's all about the discipline and the risk selection and the pricing, and then we let it come to us.

If you look at new business, in commercial lines through the first half, up over 30%. The first half of last year, we were down considerably. Our risk selection and our pricing has not changed. What's changed is the environment that we're operating in, and those risks came to us. We didn't change our pricing discipline one bit, and the beauty is, is we could see that risk by risk, line by line.

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

Yes, fair enough. I pivot to -- and I know you provided some detail in your opening remarks. I'm focused on the expense ratio. It was up. I think there are some commission pressures. Or maybe you can just go back and talk to us about the moving parts inside the expense ratio? And are -- at the current level, maybe on a 6-month basis, sort of the run rate we should think about going forward? Or are there some unusual nonrecurring items inside there that we should exclude?

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

Greg, this is Mike. Thanks for the question. On a year-to-date basis, as I mentioned, it did go up a little bit. Our combined ratio for the year was down a little bit. So the profit-sharing commission for the agencies does go up as we do invest for the future, with hiring folks and so forth and other items. Employee-related expenses is up a little bit.

But when I look down the line, I do see our total dollars are going up, but the rate of our earned premiums are outpacing the expenses as they increase, which is what I'm trying to do -- what we're trying to do. So I think we're making good progress. I look at some of the expense categories and actually, they're down a little bit on a percentage even though total dollars are up.

So seeing it right now, with the 30.1% on a year-to-date basis, as we've been saying over the years, we've been trying to get below 30%. And so we're going to keep doing that. But right now, it's a little bit elevated probably from where I'd like it to be for all the right reasons of really paying the commissions to the agencies.

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

Congratulations on your first quarter out of the gate, Steve.

Stephen Michael Spray
President, CEO & Director

Thank you very much, Greg. I really appreciate it.

Operator

The next question comes from Charles Lederer from Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

I guess, can you talk about how mature the -- those pre-2021 accident years for general liability are at this point?

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

Can you repeat that question again, please?

Charles William Lederer
Citigroup Inc., Research Division

Yes. I guess how mature are those accident years? Like the 2018 to '20 accident years in your guys' view? If you could give color around that.

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

I think we feel really good about the reserves and the -- first of all, the overall reserves, with where we're at, but it was the 2020 to 2018 years that I mentioned, $30 million that was unfavorable versus the more recent accident years.

If I think about the commercial casualty reserves, some of the things that actually makes me feel pretty good about it. When you look at the first 6 months of this year, we have been increasing our IBNR ratio, which I think we've kind of indicated.

And so for commercial casualty, we're about 10 percentage points higher of what we're adding for IBNR currently than when we were at the pre-pandemic full years of 2017 through 2019. So just having the extra 10 percentage points, I think that's paying off for us. if I do look at through the end of the second quarter, our incurred loss, loss adjustment expense ratio.

On average, if I take the '22, '23 year for commercial casualty, those picks are a little bit higher than those pre-pandemic years of 2017 through 2019. So I think our ultimate picks are higher. And then I think Steve mentioned it with the confidence, I think, that we all have, with our process and so forth, if I look back over the last 15 years, I probably could have kept going. I think my spreadsheet was running out, but there was only 2 commercial casualty accident years that have not developed favorably during that time period from the original estimated ultimate picks at 12 months.

So I'm very confident with our -- Steve is with our process, the people doing it, et cetera, et cetera. So I hope that's the color that you're looking for.

Charles William Lederer
Citigroup Inc., Research Division

Yes, that's helpful. When you talked about the 10 points higher of IBNR, is that -- that's for all lines? Just want to make sure I understand. Not all lines, all accident years?

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

That is actually -- that is for the commercial casualty when I'm looking at that by accident year or calendar year.

Charles William Lederer
Citigroup Inc., Research Division

Okay. Yes. So for all accident years. Okay. I guess on the personal line side, can you talk about, I guess, the divergence in I guess, new business? Or is there -- or can you bifurcate the new business trend in personal lines between middle market and the high net worth? I know both were strong, but there's a lot of rate there. So just curious.

Stephen Michael Spray
President, CEO & Director

Yes, it moves around a little bit, Charlie. But right now, both are growing -- as you can see, both are growing in a very healthy manner. Right now, middle markets is outpacing high net worth a little bit -- or private client a little bit. That bounces around from quarter-to-quarter. We're also growing our E&S personal lines opportunity.

I think the real key from my perspective and from all of our perspectives is that we have become, for our agents, a premier writer of personal lines, both in middle market and in private client or high net worth. And that just gives our agents a tremendous amount of confidence. We can be a solution for a bigger percentage of their business. We've got the sophisticated pricing that we need in the middle market for the comparative rater world. And then we've got the expertise in the private client.

Now you add an E&S option that where we can provide capacity for our agents and the insurers and their communities. And I've never seen a personal lines market like this. I think it's generational. And I think we are really taking advantage of the opportunity to, again, help our agents and help the policyholders in their community.

We are open for business. We're confident in our pricing on a prospective basis, which is the way we always look at it. We got a great leadership team. We've got tremendous expertise throughout the organization. So I really believe that the personal lines right now is transformational for Cincinnati Insurance.

Operator

The next question comes from Mike Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Sticking with personal lines and hopefully, you appreciate on my analyst side, focus on more on the negative than positive sometimes. But personal auto, the margins, there were some PYD there. Anything notable in personal auto we should think about?

Stephen Michael Spray
President, CEO & Director

Mike, thanks for the question. I've always found you to be extremely positive. Yes, obviously, personal auto short-tail line, the adverse development that you're seeing there is all in bodily injury. Our physical damage in personal auto is performing very well.

The -- I will say, again, short tail line, the vast majority of that adverse development is in accident year 2023 and there's a little bit into 2022. And if you think about this as well, we are in a market for middle market and high net worth, like I was saying. But as our high net worth book continues to grow and be a bigger portion of our overall personal lines business, we're getting all kinds of diversification, positive effects from that.

And one of those is in personal auto. When you have high net worth, it's driven by property and less so by auto. Middle market, more driven by auto and less in the property piece. So that mix is shifting as well. And I think you're seeing that in a favorable way in our overall results, we continue to get -- we've had great earning into that book -- that personal auto book for quite some time now, and that continues into 2024. And I don't see an end in sight of rate coming into that book either.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. Switching gears to workers' comp. We know -- I think we can see that since he is underweight comp and probably for a couple of reasons. I don't think we have to elaborate on it. But the results are fairly tremendous. I don't know if you want to comment on what's going on there or this quarter or this year-to-date actually. But what -- I know the market is soft from a pricing perspective, but what are you -- what would you be waiting for maybe patiently to say like we want to maybe start leaning into workers' comp in a growth way?

Stephen Michael Spray
President, CEO & Director

Yes, we -- yes, thanks, Mike. We have a strong appetite for workers' comp. 10 or 12 years ago, we really got serious about all levels of comp, claims, loss control, risk selection, especially pricing. We are looking to grow comp when we think that we can get the right rate on a risk-adjusted basis.

And you're right. I thought that this deterioration in the rate would show up more so in the results quite frankly, several years ago, and it hasn't. But I think it's such a long tail line, and it historically has such volatility to it. We just think being prudent in our risk selection and our pricing there and not to chase that is a prudent thing to do for the long term.

And when we can write work comp at the right rate today on business that we like, we're writing it. And we're looking for it. And we're talking to our agents about it. It's just we don't -- we just don't see the rate environment right now as attractive. Again, I understand it's performing well, on a calendar year basis, but we just think over the long pull, being extra vigilant on workers' compensation is prudent.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. And maybe sticking quickly on comp. One of your peers who also has a disproportionate amount of kind of trade construction exposure in different regions, but you all have a very strong practice there, too, said that they're seeing a bit of a change in comp frequency. I don't know I'm just curious, throwing it out there if you all are seeing any of that as well in your portfolio?

Stephen Michael Spray
President, CEO & Director

No, Mike, I can't say that we've seen that. It's been pretty stable on that front.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And I guess just lastly, you might have covered some of this. But on just the overall commercial lines marketplace competitiveness, I know pricing was kind of -- has been flattish in a quarter, where -- for a number of quarters now in queue. Do you all sense that the marketplace is kind of stable at current rates? Or do you think there's kind of a bit of an upward trajectory to the kind of the pricing environment or downwards?

Stephen Michael Spray
President, CEO & Director

Yes. No, Mike, as far as the rate environment, we are -- we've been stacking on-quarter-on-quarter-on-quarter of additional rate throughout every major line in commercial lines, except for workers' compensation. But I would say that the commercial market -- and again, it all depends on the size of the account. It depends on the state that you're in. But just generally speaking, I would characterize the commercial marketplace as responsible and orderly. There are moving parts. You see it in other carriers' reports. There's uncertainty out there. And I think that uncertainty has certainly promoted the continued rate that you're seeing across all lines in commercial lines.

And I don't see market -- a softening market in commercial lines. You'll hear little pockets of different things, different lines of business, different -- maybe a different class here and there. But just generally speaking, all lines, all classes countrywide, I think, from Cincinnati's perspective, it's orderly and rational.

Operator

Your next question comes from Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

Looking at the commercial auto line, for the past 2 quarters in a row, there's been a favorable year-over-year change in the underlying loss ratio as well as modest reserve releases. I was just wondering where you all think that line stands since it's been such a difficult line for the industry over the past several years? And if you feel like the worst of the challenges are in the past now? And just trying to consider any sort of maybe differences in experience in the primary auto liability versus maybe what you've seen in the umbrella lines.

Stephen Michael Spray
President, CEO & Director

Thank you, Grace, and good morning. Yes, commercial auto has -- we feel -- again, feel really good about where we are there. You look back into 2016 and 2017, and we were having some real challenges in commercial auto.

It's kind of the same story I was talking about with umbrella earlier. We recognized it. Our actuaries acted upon it quickly and we acted very quickly. I think -- personally, I think maybe a little ahead of the market on commercial auto. We got it in a good spot, but then we hit the pandemic and inflation did what it did.

And so we had to get some more rate in that book to keep up with inflation, but that book was in -- that commercial auto book was in good shape, quite frankly, from the actions we took in 2016, in 2017. And I think it also -- to really answer your question to kind of peel that back is if you look at the mix that we write at Cincinnati, one of the analysts just a minute ago, mentioned, it's -- there's a construction book. We've got a manufacturing, retail, wholesale. We are not big into trucking or transportation risks. I think there you see a lot more volatility there. We've just managed that book, I think, really well and feel really good about where we are with it today.

So I think it's risk selection. I think it's just the makeup of our book. We're a package writer. We don't write monoline auto. We don't write trucking or transportation. And I think that's what you're seeing.

Grace Helen Carter
BofA Securities, Research Division

And in the 10-Q, I think, the walkthrough year-over-year for the E&S underlying loss ratio mentioned a decrease in the contribution from IBNR and an increase in the case incurred. I think that that's a bit different than what we've seen in the other segments. So could you go over maybe what's going on there and why it would look different than the other segments?

Stephen Michael Spray
President, CEO & Director

Grace, I'm sorry, you were coming in and out there. I apologize. Could you restate that?

Grace Helen Carter
BofA Securities, Research Division

Yes, sure. In the 10-Q, when it talks about the walk in the underlying loss ratio in E&S year-over-year, you had mentioned the decrease in IBNR, an increase in case incurred. I think that, that was different than the -- than what it mentioned for the other segments. Could you just go over kind of the elements as to why that looks different relative to the other segments?

Stephen Michael Spray
President, CEO & Director

I think, Grace -- I think if I'm answering you correctly here, we're looking at all the data. We're looking at [paid]. We're looking at case. We're looking at things that are happening inside the book for management view to the actuaries, and there's going to be noise quarter-to-quarter.

I think looking at it over a longer period, 12 months or maybe even a little longer will probably be more instructive. And I hope I answered that for you.

Operator

The next question comes from Meyer Shields from KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

I'm going to apologize for being an analyst also, by that I mean, just like an overexposure to publicly traded companies. Can you update us on how the nonpublic regionals that you compete with are responding to elevated social inflation and elevated property losses? And what opportunity that implies for growth?

Stephen Michael Spray
President, CEO & Director

Yes. Yes. Thanks, Meyer. I would say from my perspective, I just don't -- this might sound kind of crazy. I just don't pay a lot of attention to what others are doing around us. I'm more focused on what we're doing, risk-by-risk, town by town, agent by agent and how we compete. And sometimes we run into situations where we lose this account or we write this account. So I think it'd be too broad to generalize.

I would say to you this, on personal lines, probably we're seeing more tumultuous time from all those markets, particularly here in the Midwest. And I just -- we're seeing more and more opportunities in the middle market personal line space, just on an exponential basis, just the number of quotes and the opportunities that we're seeing it's just up considerably, and there's something to that.

And I think a big piece of that is that we've got the balance sheet. Like I mentioned in my comments earlier, we're showing up to the agencies with $12.7 billion of GAAP equity looking to grow, our doors are open. We're confident in the way we priced that business. The terms and conditions that we're putting on homeowner business are as strong today as I've ever seen them in my career. And I think that they'll stay particularly [wind-inhaled] deductibles, roof schedules to combat the continued severe convective storms. And I think those things, along with reinsurance, are putting pressure on some of those markets that you mentioned, and it's creating opportunity for Cincinnati.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, fantastic. That's very helpful. Related question, how should we think about the opportunity to appoint agents eventually impacting the value that agents see in the brand? Is there a point where that becomes dilutive?

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

Thank you, Meyer. I would say no. I would say the key -- and the key message that we're -- that I'm sending and that we're executing on, and we're doing an excellent job of this, is -- with Cincinnati, it's more about the quality of the agent and the professionalism of the local agent that we're doing business with than it is about the numbers.

Now we want to do business with as few agents as possible and as many as -- but as many as necessary. We've got 2,100 -- roughly 2,100 agency relationships across the country. By any measure, that is extremely exclusive as far as distribution goes.

I'm not saying this is a goal at all. But if we doubled our distribution on a relative basis, we would still have an exclusive contract compared to any of our peers that I can see in the industry. And again, I'm not saying we're doubling our agency plant. Well, I am telling you that we have plenty of opportunity to continue to appoint professional agents across the country. And you'll see us continue to do that.

I can show you areas here in Ohio, if you look at the number of agencies we have in the community, you would say it's dilutive to franchise value. But in essence, it's not. And we are continuing to grow with those agencies. Agencies run in different circles, policyholders. When we show up, our local field rep just creates excitement. When there's a need of doing business, there's a value to our contract.

And yes, so we will not dilute franchise value, but a number of agents we employ. We would dilute it is if we started working with agencies that don't meet our, I'd say, professional standards.

Operator

Our next question comes from Charles Lederer -- excuse me, there's a follow-up from Charles Lederer from Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

I was just going to ask on the Cincinnati Re and Cincinnati Global commentary. I think you mentioned more competitiveness in Cincinnati Global. I'm just wondering what you're referencing? And I guess, if you can give some color on the growth in Cincinnati Re and I guess how that book has maybe changed this year versus last year?

Stephen Michael Spray
President, CEO & Director

Yes, Charlie, Steve Spray again. Every line of business in CGU is growing except for direct impact or what many would refer to as shared layer. And I think you're hearing that out in the marketplace as well, is there just more capital that's come into that large property space, and it's putting pressure on CGU.

They're remaining -- they're executing on the same underwriting and pricing discipline that we are here in Cincinnati Insurance. And they're just noticing a difficulty in finding the opportunities to grow that direct impact business. But every other line of business through the first 6 months of the year in CGU is up.

Now Cincinnati Re, just to -- we think we're in an enviable position there as well in that it's an allocated capital model. We did not set up a separate company. They do not have their own balance sheet. They're writing on Cincinnati Insurance paper. What we ask of Cincinnati Re is just to try to peg the capital that's needed for each risk that they write and then that they get a hurdle rate on that, that is an attractive return on a risk-adjusted basis for us or they do not have to deploy the capital. There is no pressure in Cincinnati Re to grow. But they are growing, I think, nicely, and we're looking at that more over the long haul. They'll be more opportunistic in that arena than say maybe we can't so much in Cincinnati Insurance.

And when you look at the combined ratio there, it's been spectacular. They are profitable inception to date since we spun up Cincinnati Re. They've changed their mix a bit over time, particularly in property cat, property retro. They -- so they're able to react pretty quickly on these things. And I think our runway for growth for Cincinnati Re is very solid, too.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Steve Spray for any closing remarks.

Stephen Michael Spray
President, CEO & Director

Thank you, Jason, and thank you for joining us today. We look forward to speaking with all of you again on the third quarter call.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.