Fitch Ratings

Insurance
Non-Life Insurers
United States

Cincinnati Financial Corporation

Ratings

Cincinnati Financial Corporation	
Long-Term IDR	A
Senior Unsecured Long-Term Rating	A–
Subsidiaries	
Insurer Financial Strength	A+

Outlook

Long-Term IDR	Stable

Financial Data

Cincinnati Financial Corporation		
($ Mil.)	**2020**	**2021**
Total Debt	842	843
Shareholders' Equity	10,789	13,105
Net Income	1,216	2,946
Combined Ratio (%)	98	88

Source: Fitch Ratings, S&P Global Market Intelligence.

Applicable Criteria

Insurance Rating Criteria (July 2022)

Related Research

Fitch Ratings 2022 Mid-Year Outlook: Global Insurance (June 2022)

Key Rating Drivers

Independent Agency Distribution: Cincinnati Financial Corporation's (CINF) well-established independent agency system contributes to the company's value proposition and operating success with ongoing independent agency consolidation. Independent agents still represent the bulk of industry volume by premiums, particularly in the commercial segment. While there is a small portion of CINF business, Cincinnati Re, that utilizes brokers, the company's business profile is more focused on independent agents.

Very Strong Capitalization: CINF's balance sheet strengths include conservative operating subsidiary capitalization and modest financial leverage. As of 3Q22, the financial leverage ratio (FLR) was 8%. The holding company held $3.9 billion in investments as of Sept. 30, 2022, with the bulk of these assets in equity securities. The property/casualty (P/C) group's score on Fitch Ratings' Prism capital model improved to 'Extremely Strong' at YE 2021.

Investment Risk Driven by Equities: The asset allocation to equities remains nearly double industry norms, but the company's very strong capitalization and cash flow provide a cushion against short-term fluctuations in valuation. A focus on stocks with a demonstrated ability to pay increasingly higher dividends provides some stability in the investment contribution to earnings and can provide a floor to their valuation.

Reserve Risk Well Managed: Fitch believes CINF's reserves are adequate and well managed. The company reported favorable prior-year reserve development in each of the last 33 years. Capital exposure to reserve redundancies or deficiencies are relatively modest.

Strong Profitability: The company is well positioned to combat elevated inflation that is appearing in auto and commercial umbrella, with price increases and initiatives to improve pricing precision and loss experience related to claims and loss control practices. The GAAP combined ratio for the first nine months of 2022 was 99.2%, a deterioration of 9.4 percentage points over prior year and included 10.9 percentage points for catastrophe losses, which was partially offset by 2.8 percentage points of favorable loss reserve development.

Compressed Holding Company Notching: Holding company notching is compressed by one notch since financial leverage is expected to be maintained below 16% for the foreseeable future. The holding company also maintains a significant amount of cash and liquid assets. As of Sept. 30, 2022, the holding company had $3.9 billion in assets of which $3.6 billion was common stocks. Due to the low financial leverage and strong profitability, the company maintains high levels of fixed-charge coverage.

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A sustained GAAP combined ratio of 96% or better;
- A sustained P/C Prism score of 'Very Strong' or higher.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

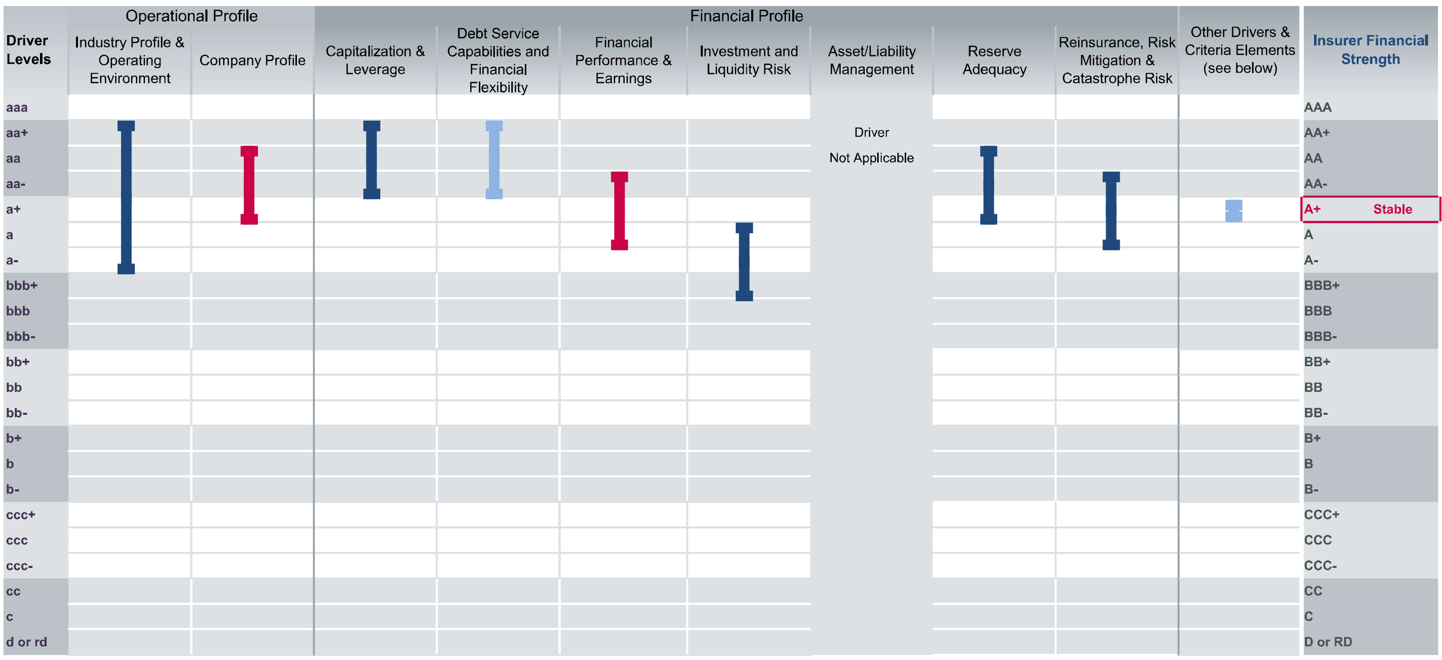
- A sustained combined ratio above 105% or worse;
- Failure to maintain a P/C Prism score in the 'Very Strong' category for a sustained period and a statutory operating leverage above 1.5x;
- CINF's holding company ratings benefit from narrow notching relative to the Insurer Financial Strength (IFS) rating versus standard notching. Narrow notching may revert to standard notching if financial leverage exceeds 15%.

Latest Developments

The company profile subscore was moved up to 'aa–' from 'a+' due to the company's better competitive positioning and successful integration of recent diversifying elements, such as Cincinnati Re and Cincinnati Global Underwriting Ltd.

The investments and liquidity subscore weight changed to a moderate influence from lower influence as the risky asset ratio increased.

Key Rating Drivers — Scoring Summary



Other Drivers & Criteria Elements				
Provisional Insurer Financial Strength Rating				**A+**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength Rating			Final:	**A+**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**n.a.**

Bar Chart Legend:

Vertical Bars = Range of Driver

Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Driver Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ☐ Stable

Company Profile

Favorable Profile in U.S. Independent Agency Space

Fitch ranks CINF's overall business profile as moderate compared with U.S. non-life insurance organizations, and incorporates its well-established U.S. independent agency distribution, expanding geographic footprint and shift in business risk profile. The company possesses very good product diversification, but more moderate diversification by geography and distribution channel. Fitch scores business profile at 'aa–' under its rating guidelines.

Favorable Competitive Positioning

Competitive positioning is comprised of two subfactors: general and operating scale. Together, these factors aggregate into a favorable position. The company has a substantive business franchise within the sector and some competitive advantages that are, in part, derived from its franchise and expertise. Annualized net written premiums were $7.5 billion and shareholders' equity was $9.4 billion at Sept. 30, 2022. The company continually ranks among the top 25 largest writers in the industry.

CINF's established U.S. independent agency system played an important role in the company's success and management believes the company remains well positioned for ongoing independent agency consolidation. The company is focused on building long-term relationships, increasing its penetration of each existing agency's business, and quality claims handling and service. The company maintains a competitive and effective profit-sharing commission structure, paying among the highest commissions in the industry.

Moderate Business Risk Profile

The business risk profile is balanced by a breadth of well-established product offerings and exposure to regional natural catastrophes and weather-related events, including hurricanes, wind, hail, floods and winter storms, resulting in performance volatility, particularly in personal lines. Geographic expansion continued to lower CINF's concentration in the top 10 states, which made up 52% of P/C earned premium in 2021.

Favorable Diversification

The company is focused on standard market commercial products that agents can market to small and midsize businesses in their communities. The company established an excess and surplus (E&S) lines insurer and developed life insurance and annuity product offerings, exclusively for its independent agencies. The company also has a small assumed reinsurance division, Cincinnati Re, that was started in 2015 and Cincinnati Global, established in 1Q19, underwrites for Lloyd's of London Syndicate 318.

Moderate/Favorable Corporate Governance

The group structure, governance structure, financial transparency, and major civil or criminal issues or uncertainties all scored moderate/favorable, resulting in no changes to the company profile.

No material issues to the rating are noted. The board appears to have an appropriate amount of independence from management and seems reasonably involved in establishing the company's strategic direction. There appear to be no major audit-related issues or related-party transactions.

Ownership

Neutral Ownership

CINF is a publicly traded company formed in 1968. Public ownership is neutral to the rating.

Capitalization and Leverage

Very Strong Capitalization and Modest Financial Leverage

Fitch views capital as very strong and supportive of the current rating. Overall capital has a moderate influence in determining the company's ratings.

The score of Fitch's Prism economic capital model was 'Extremely Strong' at YE 2021 and supports growth opportunities. Factors that added to target capital are investment, catastrophe risk and underwriting exposures, but are offset, in part, by relatively low reserve and underwriting volatility. Available capital benefited from unrealized bond gains but excludes parent company cash and marketable investments.

The Cincinnati Life Insurance Company's total adjusted capital at $306 million was modest at YE 2021, but supportive of the company's operating profile. RBC was strong at 250%. The risky asset ratio decreased to 90%, more in line with historical averages, from a reduction in the spike in below-investment-grade bonds in 2020.

Financial leverage was 8% as of Sept 30, 2022, slightly lower than historical five-year average due to a higher shareholders' equity. The company receives narrow notching on its Issuer Default Rating based on the low level of financial leverage. If this ratio were to go above 15%, normal notching would result in all holding company ratings being lowered one notch. The total financing and commitments ratio was low at 0.1x at YE 2021.

Financial Highlights

	2020	2021
Statutory Surplus ($ Mil.)	5,838	7,247
Operating Leverage (x)	0.97	0.9
Net Leverage (x)	2.7	2.5
RBC (%)	317	333
Financial Leverage (%)	8	6

Note: Financial leverage is the only GAAP figure in this table and statutory surplus is of the combined non-life companies.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch's Expectations

- Capital metrics will approximate current levels and financial leverage will remain below 15%.

2021 Prism Score — Cincinnati Insurance Group

($ Mil.)	2019	2020	2021
Prism Score	Extremely Strong	Extremely Strong	Extremely Strong
AC/TC at Prism Score (%)	101	109	117
AC/TC at Higher Prism Score (%)	N.A.	N.A.	N.A.
Statutory Surplus	5,620	5,838	7,247
Affiliated Investments	(41)	(48)	—
Unrealized Bond Gains/(Losses)	398	650	514
Other Adjustments	585	612	1,353
Available Capital (AC Base)	6,561	7,051	9,113
Target Capital Contributors (%)			
Underwriting	19	19	12
Reserves	8	10	12
Investments	31	31	30
Catastrophe	22	21	26
Other	19	19	20

AC – Available capital. TC – Target capital. N.A. – Not available. Note: Red line is AC base; shaded area represents the high and low of AC due primarily to unrealized bond
Source: Fitch Ratings, S&P Global Market Intelligence.

Debt Service Capabilities and Financial Flexibility

Very Strong Debt-Servicing Capacity

Financial flexibility and debt service capabilities are very strong. Overall capital has a low influence in determining the company's ratings.

GAAP fixed-charge coverage (FCC) benefits from modest use of financial leverage and relatively stable underwriting margin on a $7 billion book of business. Fitch anticipates FCC will be in the low-double-digit range over the near term.

CINF could pay dividends of $929 million in 2022 without seeking regulatory approval. This compares favorably with the modest amount of annual interest expense.

Financial Highlights

($ Mil.)	2020	2021
Holding Company Cash and Investments	3,916	5,099
Operating Cash Flow	1,491	1,981
Fixed-Charge Coverage (x)	14	25
Statutory Coverage Ratio (x)	11	18

Note: GAAP.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch's Expectations

- GAAP Operating FCC will remain in the low double digits.
- The holding company will maintain at least one year's worth of expenses in cash.

Financial Performance and Earnings

Strong Operating Performance

Financial performance and earnings are considered strong and supportive of the current rating category. Overall profitability has a high influence in determining the ratings.

The GAAP combined ratio for 2021 improved 9.8 percentage points over 2020, driven by higher favorable loss reserve development, lower catastrophe losses and an improvement in the underlying core combined ratio. The GAAP combined ratio for the first nine months 2022 was 99.2%, a deterioration of 9.4 percentage points over the same period of 2021 and included 10.9 percentage points for catastrophe losses, which were partially offset by 2.8 percentage points of favorable loss reserve development.

Commercial lines, the largest segment by premium volume, reported a GAAP combined ratio of 83.8% for 2021, compared with 98.3% for 2020. The GAAP combined ratio for the first nine months of 2022 was a 99.3%, compared with 83.4% for the same period in 2021. The 15.9-percentage point increase includes an increase of 10.4 points in catastrophe losses, an increase of 5.5 points from current accident-year loss and loss expenses before catastrophe losses, and 3.8 points from commercial umbrella. The net effect of reserve development on prior accident years for the first nine months of 2022 was $51 million, compared with $276 million for the same period in 2021.

CINF's life segment typically contributes modestly to operating results because most of its investment income is included in the investment segment results. Included in the life insurance segment results is only investment income credited to contract holders. This segment reported a $16 million loss in 2021 compared with an $11 million profit in 2020, primarily due to less favorable mortality results as a result of higher death claims. The life insurance segment averaged an annual profit of less than $1 million over the past five years.

Financial Highlights

($ Mil.)	2020	2021
Net Income	1,216	2,946
Unrealized Gains on Securities Held	841	2,278
Pretax Operating Income	712	1,262
Operating ROE (%)	7	11
GAAP Combined Ratio (%)	98.1	88
Points on Combined Ratio from Prior-Period Reserve Development	(2.3)	(7)
Catastrophe Points on Combined Ratio	12.1	8
P/C Segment Operating Ratio (%)	86.9	77.3

Note: GAAP.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch's Expectations

- High-single-digit operating ROEs over the near term are expected.

Investment and Asset Risk

Strong Investment Profile

Investments and liquidity are viewed as strong and supportive of the current rating category. Overall investments and liquidity have a moderate influence in determining the company's current ratings.

CINF's allocation to equities remains nearly double industry norms. While the company's long-term capital position would be affected by prolonged changes in market valuation, the very strong capitalization and cash flow provide a cushion against short-term fluctuations in valuations.

The risky asset ratio is among the highest in Fitch's rated universe. The company is cognizant of the risk associated with equities, but views this risk as a long-term way to enhance capital. Further, the stock portfolio is diversified and provides liquidity even in a down market. The company actively backs reserves with high-grade fixed-income securities.

Fitch believes CINF has ample liquidity to cover its insurance reserves through its high-quality fixed-income portfolio. The effective duration of the fixed maturity portfolio was 4.8 years at YE 2021, compared with the duration of P/C loss and loss adjustment expense reserves of approximately 3.1 years. In addition, cash generation remains solid. At Sept. 30, 2022, the fixed maturity portfolio had an average rating of 'A'. Below-investment-grade bonds and unrated securities represented 4.5% and 15.9% of the portfolio, respectively.

Financial Highlights

	2020	2021
Cash and Invested Assets ($ Mil.)	22,442	25,805
Investment Leverage (x)	2.1	2.0
Risky Asset Ratio (%)	82	85.0
Risk-Weighted Liquidity Ratio (%)[a]	180	193
Investment Yield (%)	3.1	3.0

[a]Statutory. Note: GAAP.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch's Expectations

- The company will maintain a high risky asset ratio that approximate current levels.

Reserve Adequacy

Very Strong Reserve Strength

Reserve adequacy is supportive of the current rating category. Overall reserve adequacy has a moderate influence in determining the company's ratings.

The company has had 33 years of consecutive favorable loss reserve development. Fitch's analysis of Schedule P loss reserves at YE 2021 indicates the company's reserve strength is similar to past years. CINF's statutory P/C reserve leverage is relatively moderate as is the exposure to capital of any reserve redundancies or deficiencies.

As of YE 2021, the company carried net reserve of approximately $6.9 billion, which is in reasonable range for reserves of $6.5 billion on the low end to $7.0 billion on the high end according the 10-K filing. The company establishes initial reserves at levels where redundancies are more likely than deficiencies and tends to remain well into the upper half of actuarially estimated range of net reserves.

Financial Highlights

($ Mil.)	2020	2021
Loss and LAE Reserves	6,176	6,706
Reserve Leverage (x)	1.1	0.9
Prior-Year Reserve Development	(118)	(395)
Reserve Development/Net Premiums Earned (%)	(2.1)	(6.6)
Reserve Development/Policyholders' Surplus (%)	(2.1)	(6.8)

Note: Statutory accounting principles.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch's Expectations

- Conservative reserve philosophy will remain despite fluctuations in reserve experience.

Reinsurance, Risk Mitigation and Catastrophe Risk

Reasonable Reinsurance Protection Limits Large Losses

Fitch views reinsurance, risk mitigation and catastrophe risk to be strong and supportive of the current rating category. Overall, this category has a moderate influence in determining the company's ratings.

The company incurred $497 million in catastrophe losses in 2021, with the largest event being a $168 million loss from flood, hail and wind events in the Northeast and South during Aug. 29-Sept. 2, 2021. Given the company's geographic footprint, the majority of catastrophe losses are in the Midwest.

The company's property catastrophe reinsurance treaty essentially provides coverage for up to $800 million in losses, with the company retaining the first $100 million of loss and varying portions of the layers, which aggregate into an additional $199 million of risk retained if a full loss were to occur. The company has several other reinsurance programs all designed to offset the impact to capital while simultaneously providing a cost-effective transfer of risk.

The credit quality of the company's reinsurers in generally good with ratings in the 'A' category or higher.

Fitch's Expectations

- Reinsurance recoverables will remain relatively modest compared with capital.
- The bulk of recoverables will continue to be from highly rated reinsurers.

Appendix A: Peer Analysis

Peer Comparison

Click here for a report that shows a comparative peer analysis of key rating driver scoring.

Appendix B: Industry Profile and Operating Environment

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarizes the main factors driving the above IPOE score.

Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's *Insurance Rating Criteria*.

Group Insurance Financial Strength (IFS) Rating Approach

Fitch considers the rated entities of CINF to be Core. As such, all are assigned the group rating. These entities share common management, resources and brand. Only normal regulatory barriers exist to dividend movement between entities and up to the parent. Fitch believes the entity has adequate financial strength to support its operating subsidiaries and management is willing to do so, although nor formal support agreements are in place. All operating companies rating are based on a combined group assessment.

Notching

For notching purposes, the regulatory environment of the U.S. is assessed by Fitch as being Effective, and classified as following a Ring-Fencing approach.

Notching Summary

IFS Ratings
A baseline recovery assumption of Good applies to the IFS rating, and standard notching was used from the IFS "anchor" rating to the implied operating company IDR.
Holding Company IDR
Nonstandard notching was applied between the implied operating company and holding company IDRs. A one-notch adjustment was made for favorable leverage and unusual holding company cash and marketable securities position.
Holding Company Debt
A baseline recovery assumption of Below Average was applied to the senior unsecured notes. Standard notching relative to the IDR was used.

IFS - Insurer Financial Strength. IDR - Issuer Default Rating.

Debt Maturities

($ Mil., as of Dec. 31, 2021)	
2022	—
2023	—
2024	—
2025	—
2026 and Later	793
Total	**793**

Source: Fitch Ratings, S&P Global Market Intelligence.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix D: Environmental, Social and Governance Considerations

FitchRatings — **Cincinnati Financial Corporation** — Insurance Navigator, US Non-Life

Credit-Relevant ESG Derivation

Cincinnati Financial Corporation has 8 ESG potential rating drivers

- Cincinnati Financial Corporation has exposure to underwriting/reserving exposed to asbestos/hazardous materials risks but this has very low impact on the rating.
- Cincinnati Financial Corporation has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations but this has very low impact on the rating.
- Cincinnati Financial Corporation has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating.
- Cincinnati Financial Corporation has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	3	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Company Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Company Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Company Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Company Profile	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Company Profile	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.