S&P Global
Market Intelligence

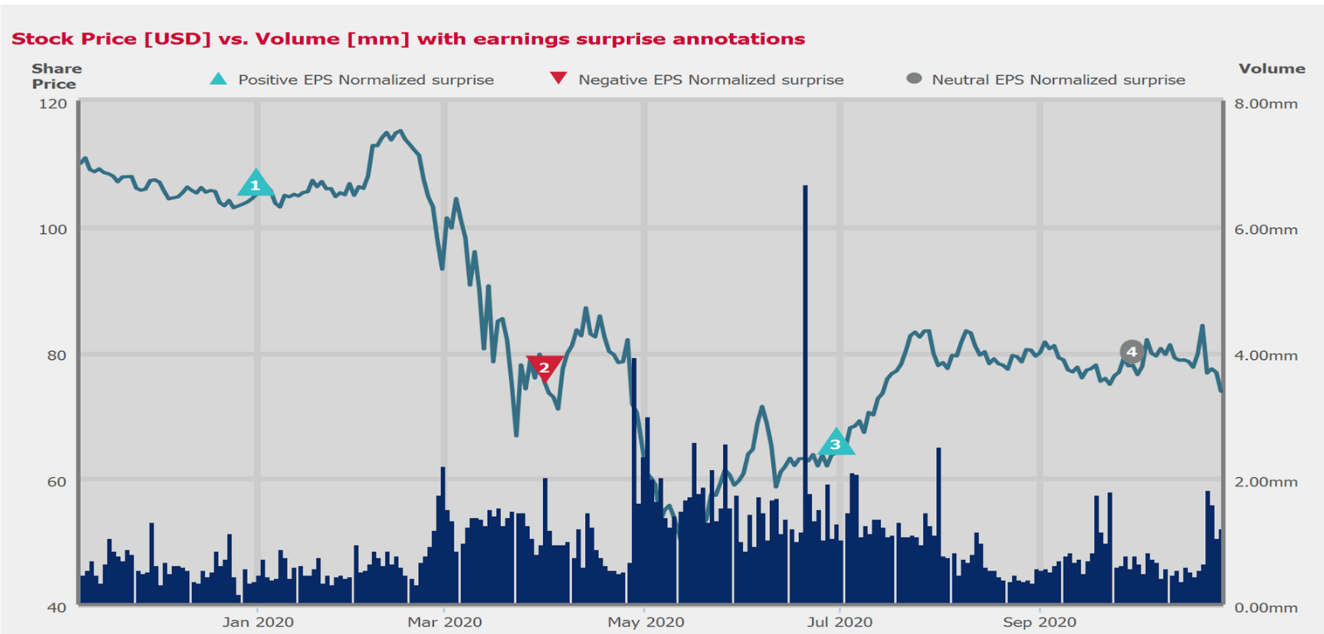
Cincinnati Financial Corporation NasdaqGS:CINF
FQ3 2020 Earnings Call Transcripts

Tuesday, October 27, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.39	0.39	0.00	1.16	2.83	NA
Revenue (mm)	1692.90	2227.00	31.55	1655.20	6496.87	NA

Currency: USD
Consensus as of Oct-28-2020 1:20 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.11	1.23	1 10.81 %
FQ1 2020	1.06	0.84	2 (20.75 %)
FQ2 2020	0.37	0.44	3 18.92 %
FQ3 2020	0.39	0.39	4 0.00 %

Table of Contents

Call Participants	....	3
Presentation	....	4
Question and Answer	....	7

Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

Martin Joseph Mullen
Chief Claims Officer & Senior VP of the Cincinnati Insurance Company

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

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Steven Justus Johnston
Chairman, President & CEO

ANALYSTS

Jon Paul Newsome
Piper Sandler & Co., Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Philip Michael Stefano
Deutsche Bank AG, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Cincinnati Financial Corporation's Third Quarter 2020 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Dennis McDaniel, Investor Relations Officer. Thank you. Please go ahead, sir.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our third quarter 2020 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 website, cinfin.com/investors. The shortest route to the information is the quarterly results link in the navigation menu on the far left.

On this call, you'll first hear from Chairman, President and Chief Executive Officer, Steve Johnston; 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 Chief Investment Officer, Marty Hollenbeck; and Cincinnati Insurance's Chief Insurance Officer, Steve Spray; Chief Claims Officer, Marty Mullen; and Senior Vice President of Corporate Finance, Theresa Hoffer.

First, please note that some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties. With respect to these risks and uncertainties, we direct your attention to our news release or our various filings with the SEC. Also, a reconciliation of non-GAAP measures was provided with the news release. Statutory accounting data is prepared in accordance with statutory accounting rules and therefore, is not reconciled to GAAP.

Now I'll turn over the call to Steve.

Steven Justus Johnston
Chairman, President & CEO

Thank you, Dennis. Good morning, everyone, and thank you for joining us today. We continue to confidently execute our agency-centered strategy, bolstered by the steady improvement we see in our core book of business.

The third quarter was active in terms of weather events and developments in the litigation landscape of pandemic-related business interruption claims. Recently, courts have granted some of our motions to dismiss based on lack of physical damage to property, while some others have been voluntarily dismissed by plaintiffs. In the cases that have proceeded past initial motions, we continue to believe that business interruption coverage under our policy does not apply and that the courts ultimately should decide that economic loss alone without physical alteration of property does not trigger coverage under a property policy of insurance.

We're confident in our legal strategy given our understanding of the law and decisions in the majority of business interruption court cases rendered to date. To the extent we have setbacks, we'll continue to pursue the judicial process. We remain focused on executing our long-term plans.

Net income for the third quarter of 2020 rose 95% compared with the third quarter a year ago, reflecting increases in the fair value of our equity security portfolio. Non-GAAP operating income was down $116 million for the quarter, with higher catastrophe losses reducing it by $152 million more than last year on after-tax basis.

Our 103.6% property casualty combined ratio was 9.4 percentage points higher than a year ago, with the elevated catastrophe losses representing 13.0 points of the increase. The current accident year loss and loss expense ratio before catastrophe losses continued to improve and was 3.1 percentage points better than last year on a 9-month basis.

We see an ongoing benefit to our results from efforts to diversify risks by product line and geography, and likewise, from segmentation of risks as we underwrite in price policies. While economic effects of the pandemic and pricing discipline continue to slow our premium growth, we believe we are growing our business profitably and our relationships with the independent agents who represent us remain very strong.

Consolidated property casualty net written premiums rose 3% in the third quarter of 2020. As a comparison, growth was 6% in the second quarter and 10% for both the first quarter of the year and full year 2019. We see indicators of good underwriting and pricing discipline.

Renewal pricing during the third quarter continued to be ahead of our estimate for prospective loss cost trends for each property-casualty segment with each one again experiencing mid single-digit percent range estimated average price increases. Average pricing was a little higher than in the second quarter for our largest lines of business, commercial casualty and commercial property. And those property policies renewing during the quarter averaged in high single-digit range.

New business written premium volume was again a key factor causing slower premium growth, while overall submissions from agencies for us to quote premiums for policies during the third quarter were higher than last year. For commercial risks, our underwriters declined submissions at a higher rate. The combined ratio for our commercial lines segment was 9.0 percentage points higher compared with third quarter a year ago, reflecting the 10.7 point increase in the catastrophe loss ratio.

Our personal lines segment grew third quarter net written premiums by 5%, and our high net worth business continues to progress as planned. The combined ratio for personal lines was 1.1 percentage points higher than the third quarter a year ago, with underlying improved performance masked by catastrophe losses that were 15.8 points higher. Our excess and surplus line segment returned to producing an underwriting profit with an 86.7% combined ratio and grew third quarter net written premiums by 8%.

As previously reported, both Cincinnati Re and Cincinnati Global experienced significant catastrophe losses, and their combined ratios exceeded 100%. Nearly 80% of their third quarter 2020 total catastrophe losses were from Hurricane Laura where our agency-produced business had only $4 million of catastrophe losses.

Our life insurance subsidiary reported outstanding results, with third quarter net income up 50% from last year and non-GAAP operating income up 31%. It grew term life insurance earned premium by 4%.

My prepared remarks conclude with the value creation ratio, our primary measure of long-term financial performance. Our VCR was 6.3% for the third quarter of 2020, including 5.5 percentage points contributed by improved valuation of our investment portfolio. That brought our VCR to 3.0% for the first 9 months of this year.

Now our Chief Financial Officer, Mike Sewell, will comment on other important areas of our financial results.

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

Thank you, Steve, and thanks to all of you for joining us today. Our third quarter 2020 investment performance was good, including investment income growing by 4% for both the quarter and on a 9-month basis, matching the real growth for full year 2019. Dividend income rose 10% for the third quarter.

For the first 9 months of 2020, net purchases for the equity portfolio totaled $169 million. Interest income from our bond portfolio grew 3% compared with the same quarter a year ago. The pretax average yield was 4.03%, matching the third quarter of last year. The average pretax yield for the total of purchased taxable and tax-exempt bonds during the third quarter was 3.42%.

We continue to invest in the fixed maturity portfolio with net purchases during the first 9 months of the year totaling $236 million. Investment portfolio valuation changes for the third quarter of 2020 were again favorable for both our bond and stock portfolios. The overall net gain was $645 million before tax effects, including $530 million for our equity portfolio and $115 million for our bond portfolio.

We ended the quarter with total investment portfolio net appreciated value of nearly $4.9 billion, including almost $4 billion in our equity portfolio. Cash flow continues to help us grow investment income. Cash flow from operating activities for the first 9 months of 2020 was very good and generated $1.1 billion, up 27% from a year ago. Expense management remains a priority as we work to balance strategic business investments with expense controls.

The third quarter 2020 property casualty underwriting expense ratio was 1.6 percentage points lower than last year's third quarter. The pandemic has caused lower spending for several items, such as business travel. We expect some of those expenses to return to a normal rate in future quarters as governmental restrictions ease. In addition, catastrophe losses at levels closer to our historical average should cause agency profit sharing ratios to return to a more usual level.

Turning to loss reserves. Our consistent approach aims for net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. During the third quarter of 2020, we experienced property casualty net favorable development on prior accident years. The combined ratio effect was 0.8% for the quarter, or $11 million, and was still favorable overall but lower than a typical quarter. Each quarter, we consider new information such as paid losses and estimate ultimate losses and loss expenses by accident year and line of business. As we obtain and study new data during the year, we update estimates as needed.

While most other major lines of business and our excess and surplus lines segment experienced favorable reserve development during the third quarter, the updated estimates resulted in an unfavorable amount of $10 million for our commercial auto line of business. While the ratio effect for the quarter was noticeable, the total dollar amount was less than 2% of total outstanding reserves for the commercial auto.

The development was driven by large losses for accident years 2018 and '16. Because commercial auto case incurred losses for those periods were higher than we expected, we again took prudent action and kept IBNR reserves at a level that increased our estimated ultimate loss for those accident years.

On an all lines basis by accident year, net reserve development for the first 9 months of the year was favorable for the 2 most recent accident years, with $71 million for 2019 and $42 million for 2018. In aggregate, accident years prior to 2018 were unfavorable by $22 million. Capital management is another important company function. We believe that our financial strength remains excellent, including plenty of financial flexibility.

As I always do, I'll end my prepared remarks with a summary of the third quarter contributions to book value per share. They represent the main drivers of our value creation ratio.

Property casualty underwriting decreased book value by $0.25. Life insurance operations increased book value, $0.11. Investment income, other than life insurance and reduced by noninsurance operations, added $0.58. Net investment gains and losses for the fixed income portfolio increased book value per share by $0.57. Net investment gains and losses for the equity portfolio increased book value by $2.60, and we declared $0.60 per share in dividends to shareholders. The net effect was a book value increase of $3.01 per share during the third quarter to a record high $60.57 per share.

And now I'll turn the call back over to Steve.

Steven Justus Johnston
Chairman, President & CEO

Thank you, Mike. While severe weather again challenged our results, we see reasons for optimism. The dedication demonstrated by our associates is one reason I'm optimistic. While most of our headquarters associates continue to work from home, they are proving that they are equipped and motivated to continue providing outstanding service to agents and their clients.

Our IT associates have continued to move technology initiatives forward. Through their efforts, we earned 2 awards from IVANS, a division of applied systems, that were announced in September. The IVANS digital insurer program recognizes carriers that are committed to supporting independent agents' needs for digital connectivity using modern technologies. We are 1 of only 7 gold award winners in personal lines and also a silver award winner in commercial lines.

Our field associates continue to work closely with agents. Each time we are able to help our agents manage risk for their clients or make a policyholder whole after a covered loss, we're inspired to refocus our efforts, delivering outstanding, empathetic service and building financial strength for the future.

As a reminder, with Mike and me today are Steve Spray, Marty Mullen, Marty Hollenbeck and Theresa Hoffer.
Jason, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Phil Stefano from Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Yes. I was hoping to get a little more color on the drop-off in favorable development for commercial lines. And look, as -- for example, if I look at commercial auto, we have 5.5 points of adverse in the quarter, but the underlying loss ratio improved something like 10, 11 points. How should we be thinking about the reconciliation of these 2 seemingly opposing trends?

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

Yes. Great question. This is Mike. When looking at our favorable development for the quarter overall, obviously, it was down to 0.8 points, as I noted. Commercial auto, having really one of the larger effects of being adverse for $10 million and some of that is really from larger losses, as I indicated, in some older accident years. And so as the case incurred there, what we did is we kept the IBNR up until we see the ultimate payments for those to really play out.

So current accident year is improving. It was really what we were seeing in 2018 and '16 that was causing that. So we'll see how the rest of the year plays out. If I think about overall reserve development for the last several years, we've been running, I'll say, 2.5 to 5 points of favorable development. Full year 2017 was 4.7. On a year-to-date basis, right now, we're at 2.1. So we're going to follow a consistent basis. Let's wait and see what the fourth quarter has in store for us and follow our actuaries' consistent approach.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. And maybe thinking more generally about underlying loss ratios. Can you remind us how you're contemplating rate versus trend in the current environment? And to what extent should we think about an underlying benefit coming through versus the conservatism and the waiting for this business to season to make sure that the pricing was indeed in excess of loss trend?

Steven Justus Johnston
Chairman, President & CEO

That's a key point, Phil. This is Steve Johnston. And we do feel, as we mentioned it, loss cost -- the rates are ahead of our loss cost trends. And we think we're seeing that as we've seen continued improvement in our core book with our underlying core accident year ex-cat combined ratio improving by 6.2 points, I believe.

I think the key point is it's difficult to precisely bifurcate the improvement that we've seen in the loss experience between this COVID period and the actions that we've been taking over a number of years to improve that loss experience. They're kind of blended in there together. And I think the key point is to look perspectively. Rate making is perspective.

Right now, our actuaries are working on what the appropriate rate level should be filed for effective dates in 2021. And so they'll be doing that on a state by state -- very granular, state by state, coverage by coverage basis. They'll be looking at a number of quarters of past data to come up with their trends to come up with the rate. So we're confident that the key point is, as we go forward, that we continue to have our rates in an adequate position and also in a position in which we can grow, just as we've had here the last several years.

We've been growing faster than the industry, with a combined ratio lower than the industry for 8 or 9 years in a row now. And so the key is, I think, to look forward, use the data that we have, understand that during this pandemic period, there are some distortions in there and just make sure that we can hit the sweet spot with our rates next year that put us in a position to grow and grow profitably.

Philip Michael Stefano

Deutsche Bank AG, Research Division

Got it. Okay. And the last one I'll ask about -- in the opening remarks, kind of you dug into this, but there's this judgment in North Carolina that obviously broke against you. How does it change the posturing of your defense moving forward? Have you seen any claims start to get re-filed now that we potentially have a plaintiff argument that works against you? How should we get comfortable with the potential exposure here from our seats? Any color you could provide will be truly appreciated.

Steven Justus Johnston
Chairman, President & CEO

Sure. Good question. And we remain confident in our legal position. We plan to appeal the decision. We continue to believe that the business interruption coverage under our policy in this case does not apply because there was no structural alteration to property. Prevailing view by courts around the country has been that economic loss alone doesn't qualify as direct physical damage or loss of property, which is the trigger for business interruption coverage. So there's no change in the legal strategy. And also, we haven't seen any uptick to this point in claims being reported.

Philip Michael Stefano
Deutsche Bank AG, Research Division

I've been watching my conjunctions much more closely.

Operator

Your next question comes from the line of Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congrats on the quarter. I wanted to revisit the reserve issue just a little bit. I think I heard you say that the reserves prior to 2018 were in aggregate negative. Could you -- that's a little bit different than what you've historically reported. Could you talk about sort of the trends back in that section? And were there any kind of mass torts in there or asbestos or anything like that, that would have distorted that, I guess, 2017 and prior number?

Steven Justus Johnston
Chairman, President & CEO

Right, Paul, this is Steve again. And it really was, I think, generated by some large losses in those prior accident years. So we still, as always, feel confident in the reserve that we booked our estimate, our best estimate that our reserves are in a good position as they've always been. It's a little bit less than we've seen in other quarters. We're still showing favorable development year-to-date at 2.1%, and that's not that far out of the range of where we've been in previous full years.

I think if we go back to 2014, we've had a couple of years where we've been in the 2% range of favorable developments. So I think one thing for the quarter, just of note, also, when you compare the third quarter a year ago is workers' comp which is a big -- one of our bigger reserved lines. It developed favorably third quarter a year ago by 27%. Still a strong number at 9.6% this quarter, but that's in terms of a difference in dollars, that's a big difference between this year and last.

Jon Paul Newsome
Piper Sandler & Co., Research Division

No mass torts in there, just the big losses that would distort that 2017 and prior?

Steven Justus Johnston
Chairman, President & CEO

Yes. I failed to identify that question, and yes, it -- no mass torts.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. Any updates on some of these new businesses like the reinsurance business and the Lloyd's of London business that are notable in the quarter and having increased impact, I assume, on the business?

Steven Justus Johnston
Chairman, President & CEO

Yes. I mean we're confident in both. They're both growing nicely, as you saw from the numbers in total, up about 26%. Very confident in the underwriting. We know there's going to be some volatility there in terms of results. I think both on an inception-to-date basis, even through this really tough time for those lines of business, they're both at breakeven or a little bit better than breakeven. Both are looking for ways that they can take advantage of a firming market to write new business, and we feel good about both of those businesses.

Operator

Our next question comes from the line of Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

A couple of follow-ups on some of the previous questions. So clearly, a great underlying accident year loss ratio and a lot of lines. And so I just want to kind of be clear, should we be kind of take -- assuming that there's been a kind of a somewhat of distortions?

I think you said a benefit from COVID in terms of lower frequencies, especially in some of the longer tail lines. So maybe we should run rate that? Or do you think that there's potential for some of that to be sustainable maybe at a lesser level in the near term? Just trying to just get a little bit more color given how good it looked?

Steven Justus Johnston
Chairman, President & CEO

Yes. I think that -- this is Steve again. I think that there was some benefit from the pandemic-related slowdown that you would see. It's just we've also been working, and Steve Spray may want to talk about this a little bit more. We've really been working hard to improve the core results. That's been our mantra through this whole COVID period, is that we want all of our people to not be distracted by everything that's out in the environment and to really focus on improving the core book of business. And Steve can touch on some of those reasons.

So we think that a lot of the improvement is independent of what we've seen from the pandemic slowdown. It's just hard to split those accurately into 2 pieces. So going forward, we're confident that we can hit the profitability targets and growth targets that we've communicated to you over the long term. And Steve, you might want to comment on some of the specifics?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes, sure. Mike, Steve's right, difficult to bifurcate it. But it's continued execution that we're seeing out of both our field underwriters and our headquarters underwriters and segmenting the book by line of business and then by account. And just focused on getting the right rate on a risk-adjusted basis, account by account, getting more rate on those that we feel give us less opportunity for making a profit and then really focusing on retaining that business that we feel gives us a better shot at margin.

So it continues to evolve. The underwriters continue to get better and better at execution, working with our agents. I think that's an advantage for us as well, mike, is the fact through something like this, that almost 2,000 of our associates already work from their homes in the communities where our agents are making decisions locally. And we think that, that contact, that those deep relationships with fewer agents are going to help carry us forward to with growth and profitability.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Got it. And this is helpful, and I understand it's difficult. So then would this tie in a little bit to -- it seems like the tone in the 10-Q and kind of on some of the growth metrics slowed down a little bit, kind of when you talked about, even though submissions were up, we declined more.

So are you guys just trying to be a little bit more cautious now, which seems like there was a little change of tone versus last quarter when it felt like playing a little bit more offense? So anything I should read into, into this quarter? Or is it just normal volatility?

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Yes. I think it's normal volatility. But I would tell you this, we are still playing offense. We've got plenty of capital. We are out there looking to help our agents grow. I think it goes back to your -- kind of your prior question, too, Mike, is we've just got such a better look into the book, and we continue to evolve with these pricing sophistication, pricing precision tools that our underwriters, both field and headquarters, just are executing on discipline to walk away.

So that's why the declination ratio would be higher. There's many reasons why an underwriter would decline a risk. It could be distressed from prior losses. They could do an inspection and find the premises to be unacceptable. A lot of times, it's just terms and conditions, and they'll get an indication of what the renewal pricing is going to be and just say that, like we were talking before, they just don't feel that they can make a risk-adjusted return, risk by risk.

So we think that, that's creating some -- the market is kind of bouncing around. It's based on mix of business. It's based on size of account, where we'll see more firm pricing in the marketplace. So it's -- that's, I think, creating some volatility is a fair way to state it.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And a follow-up on the North Carolina appeals process. Do you -- any color on -- does the appeals process take many quarters? Or is this kind of something that could -- we could hear a resolution on in the -- before year-end? Any color there?

Steven Justus Johnston
Chairman, President & CEO

Good question, and I'm not a lawyer. I think our notice of appeal is due here in the first part of November. And my understanding is after that, the court will establish a schedule for briefing and oral arguments. And then we -- it's just uncertain after that. We don't expect a decision by the North Carolina court of appeals maybe until -- into early 2021. But that's all, like I say, I'm not a lawyer, that's uncertain. I'd say just the one thing that I would know is that we'll get our notice of appeal in -- here in the first part of November.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Great. And I guess one last one, and I haven't checked this yet. Any change on the pay to incurred loss levels that maybe got you guys to -- trend-wise that kind of caused you guys to release a little less than we're used to? Or did we already kind of talk enough on the call and give enough disclosure on kind of what happened?

Steven Justus Johnston
Chairman, President & CEO

That's a good question. I think that there was not something that would be necessarily in the pay to incurred ratios that had to do with this. I do think it's more looking at some of the larger losses in the older accident years and just being prudent in that regard.

Operator

Your next question comes from the line of Meyer Shields from KBW.

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

I want to follow-up, if I can, on Philip Stefano's question. And that is in both personal and commercial auto, we saw better year-over-year underlying loss ratio improvement in the third quarter than the second quarter. And I think the general sense we've had is that there was probably more driving in the third quarter. So just hoping you can clarify whether -- what drove that sequential improvement in the year-over-year improvement?

Steven Justus Johnston
Chairman, President & CEO

Yes. That's a good point, Meyer. And we did see -- we follow the Google Analytics in terms of what they report in driving activity, it's public information, and there was an uptick in driving through the third quarter. And so that's what gives us some confidence that the actions that we're taking are taking root and also having a good influence. We just -- we don't want to be overconfident in that as we go forward, and that's why we're being maybe a little bit cautious or subdued in our comments.

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

No, that's fair. Was there any adjustment to the first half of the year in the auto lines in the third quarter loss ratio?

Steven Justus Johnston
Chairman, President & CEO

Well, I don't have that number. We usually look at prior year developments. I'm not sure about any development from first and second quarter into third quarter.

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

Okay. And then a broader question or, I guess, it's more of a request. Obviously, there's a lot of interest in how the business interruption plays out. Is there any way we could get access to, let's say, the appeals of the other documents you'll be filing just so we can see how that's playing out?

Steven Justus Johnston
Chairman, President & CEO

That falls into me not being a lawyer, Meyer. I don't know. My lawyers -- our lawyers will tell us, but I'm not sure where they get it. You've got me on that one.

Operator

[Operator Instructions] Your next question comes from the line of Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I think a lot of people have been asking on the same question. Let me try it a different way. When I look at the personal lines segment, the accident year margin from the second quarter to the third quarter improved by about 10 points. 5 of that relates to the expense ratio, but what are the factors in the other 5 points of improvement?

There's a similar 1 point improvement in the third quarter to second quarter commercial combined ratio and, again, expense ratio had a little to do with it. So I'm just trying to reconcile those 2 points. Why was the third quarter better than the second quarter?

Steven Justus Johnston
Chairman, President & CEO

Yes. It's just a mixture of things. It's just difficult for us to separate them out. We know that we got rate. We know that, that was ahead of loss cost trend. We also know that even in personal lines, we talk about our segmentation quite a bit in the commercial lines, but they've really been working hard in the personal lines side as well. We have a new rating company that we're deploying called Cincinnati Casualty that takes our predictive modeling up to a new generation, really focuses on -- really trying to write the best risks. We're getting good growth in that new writing company. So I think the mix is helping in that regard. It's just difficult for us to -- in this environment to really precisely attribute the improvement to 1 point or another.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Were there any notable differences in things like non-cat weather or anything like that?

Steven Justus Johnston
Chairman, President & CEO

No. The non-cat weather was fairly stable. And in fact, maybe a little bit less non-cat weather in the third quarter. So I guess that could have a little bit of an explanation.

Stephen Michael Spray
Senior VP, Chief Insurance Officer & Director

Mark, this is Steve Spray as well. Just we -- for several quarters, we've been taking more stringent underwriting action in personal lines in specific states, and that's -- we think that is culminating. We're getting through those books, and we think we're starting to see kind of the fruits of that labor, too.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. On commercial lines premiums, I mean you talked about some of the submissions and new business. I guess I would have thought that you are continuing to see a lot of premium return as a result of economic conditions, cancellations, people going out of business, whatever. I guess I would have thought that you incurred most of the economic graph in the second quarter. And that the third quarter would have had certainly not a negative trend, maybe not an improving trend, but it was a little bit contrary to expectations there. Could you maybe help drill down a little bit on what was going on underneath the hood?

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

This is Mike. Let me -- maybe I'll start with that and maybe just make a few comments about audit premiums and where that has gone. And then if others want to chime in. But we've been generating, during the third quarter, about $3 million to $5 million per month in audit premiums. And that is down a little bit from previous quarters. If I look back at the second quarter, it was probably about $4 million to $6 million, so -- per month. So we're down $3-plus million or so related to the audit premium.

So the audit premiums were declining as we're auditing the policies during the -- as we're getting deeper into the pandemic period. The largest decreases in there were coming from the general liability lines, but we're also seeing decreases in the workers' comp area also. E&S audit premiums really has not been impacted so far.

So we do take a look out at -- and we've got an accrual for future audits. And we did decrease that accrual this quarter by $7 million, so that's affecting it also. We had taken that accrual down $3 million during the second quarter. So in total, $10 million with most of it coming in the third quarter. So that's what it is on audit premiums. Let's just see if others have other comments.

Steven Justus Johnston
Chairman, President & CEO

Well put, Mike.

Operator

Your next question comes from the line -- my apologies. Please go ahead.

Steven Justus Johnston
Chairman, President & CEO

Mark, are you still on?

Operator

Mr. Dwelle is still on.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Oh, sorry. I thought I was moved on. The last question that I had relate to the Iowa losses, the derecho losses. I mean we understand that was a large event of fairly significant scope. And I guess I wasn't surprised that there were losses, but $100 million single event loss for you guys is sufficiently unusual, but I guess I thought I'd ask the question in terms of -- to what degree is that tally primarily IBNR? Or is it primarily all claims that are well in the pipeline and are in the process of being resolved?

Steven Justus Johnston
Chairman, President & CEO

I would think they're in the process of being resolved, but I think Marty Mullen may have some information on that. But it's just -- those were hurricane type winds that went right through Iowa and right up in towards Chicago, right in any company that writes in the Midwest, where we're going to have -- we're going to have exposure. I think that we're doing a pretty good job managing our exposure there. But from time to time, we're going to have a loss of that magnitude here in the Midwest.

Martin Joseph Mullen
Chief Claims Officer & Senior VP of the Cincinnati Insurance Company

Yes, Mark, this is Marty. It's kind of an unusual event for us in the Midwest. Along with those hurricane winds, the actual count for the claims was 37% for commercial lines and 62% personal lines on the account. However, when you look at the loss, 84% of the incurred loss was commercial lines. So it just hit us in an area of a belt where we had a commercial presence and the losses were of a nature where they were more severe than might expect in the Midwest for that type of wind loss.

So I think we've got a great handle on that event. Losses have been inspected, reserved and ultimate established, as you saw in the release. And I think that's one event that we can put behind us and move forward.

Operator

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Just one follow-up. The policy being appealed -- sorry, the decision being appealed in North Carolina, is it fair to say that, that policy is similar to a lot of the Cincinnati financial policies? Or is that one more -- would you say kind of more unique and maybe an outlier?

Steven Justus Johnston
Chairman, President & CEO

Well, I think given that we're filing an appeal and that we're in litigation on this one, I think you can understand, I just don't want to talk anything about the specifics on the advice of counsel to the specific provisions of any of the policies.

Operator

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

Steven Justus Johnston
Chairman, President & CEO
Thank you, Jason, and thanks to all of you for joining us today. We look forward to speaking you -- with you again on our fourth quarter call. Have a great day.