S&P Capital IQ

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Cincinnati Financial Corporation NasdaqGS:CINF

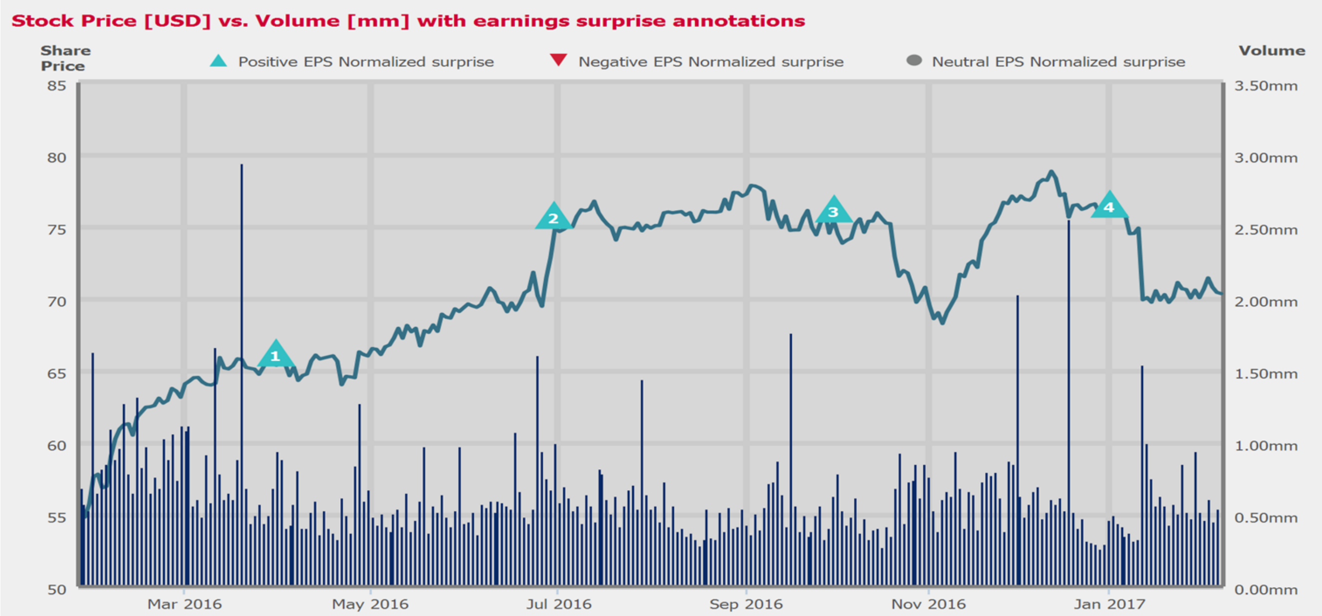
FQ1 2017 Earnings Call Transcripts

Thursday, April 27, 2017 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.51	0.59	▲15.69	0.52	2.73	3.11
Revenue (mm)	1373.20	1523.00	▲10.91	1391.00	5586.00	5852.20

Currency: USD
Consensus as of Apr-27-2017 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	0.72	0.89	▲1 23.61 %
FQ2 2016	0.39	0.57	▲2 46.15 %
FQ3 2016	0.78	0.86	▲3 10.26 %
FQ4 2016	0.65	0.75	▲4 15.38 %

Call Participants

EXECUTIVES

Dennis E. McDaniel
Vice President, Investor Relations Officer and Vice President of the Cincinnati Insurance Company

Jacob F. Scherer
Chief Insurance Officer and Executive Vice President

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

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

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

ANALYSTS

Arash Soleimani
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Craig Nelson
D.A. Davidson & Co., Asset Management Arm

Ian Gutterman
Balyasny Asset Management L.P.

Joshua David Shanker
Deutsche Bank AG, Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good morning. My name is Carol, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2017 Earnings Call for Cincinnati Financial. [Operator Instructions]

At this time, I would like to turn the call over to Dennis McDaniel, Investor Relations Officer.

Dennis E. McDaniel
Vice President, Investor Relations Officer and Vice President of the Cincinnati Insurance Company

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for our First Quarter 2017 Earnings Conference Call.

Late yesterday, we issued a news release on our results along with our supplemental financial package, including our quarter-end investment portfolio. To find copies of any of these documents, please visit our investor website, cinfin.com/investors. The shortest route to the information is the Quarterly Results link in the navigation menu on the far left.

On this call, you'll first hear from Steve Johnston, President and Chief Executive Officer; and then from Chief Financial Officer, Mike Sewell. After their prepared remarks, investors participating on the call may ask questions.

At that time, some responses may be made by others in the room with us, including Cincinnati Financial Director, Jack Schiff, Jr.; Chairman of the Board, Ken Stecher; Chief Insurance Officer for Cincinnati Insurance, J.F. Scherer; Chief Investment Officer, Marty Hollenbeck; Chief Claims Officer for Cincinnati Insurance, Marty Mullen; and Senior Vice President of Accounting for Cincinnati Insurance, 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 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. And now I'll turn the call over to Steve.

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

Good morning, and thank you for joining us today to hear more about our first quarter results. Operating profit for the quarter was well below our expectations primarily due to severe weather as we previously reported. Starting the year with a 99.7% combined ratio means we have work to do, and we remain confident that we have the expertise and agency partners that will lead to better results as the year progresses. We reported another quarter of strong investment performance. And Mike will highlight key items in a moment. Before that, I'll note a few more important things regarding our insurance operations.

We believe the rate of premium growth we reported for each of our insurance segments is healthy. Steadfast effort by underwriters in executing pricing precision for each policy is imperative, and their efforts also strengthen our confidence in selecting and pricing new business from our agencies.

Pricing was generally consistent with the fourth quarter of 2016, a little stronger for some lines of business and a little weaker for others. As loss ratios for us in the industry indicate, higher premium rates are most needed for commercial and personal auto policies. Our first quarter average renewal price increases for those 2 lines were the highest among our major lines of business. As I mentioned earlier, elevated weather-related catastrophe losses challenged both our commercial lines and personal line segments in the first quarter. However, our commercial line segment improved its current accident year combined ratio before catastrophe losses. We're also satisfied with first quarter premium trends and the opportunities that our agencies continue to give us for profitable growth. Our personal lines segment also continued to see good growth in both middle market and high net worth premiums, and we continued to see success in getting needed rate increases. Our excess and surplus line segment continued to report outstanding results with a first quarter 2017 combined ratio of 62.3% and steady premium growth. Underwriting results for Cincinnati Re were also outstanding with another quarter of nice premium growth and a combined ratio below 80%. For our life insurance subsidiary, while operating revenues were flat for the first quarter of 2017, both segment profit and net income continued to rise. Our primary measure of financial performance, the value creation ratio, was 3.8% for the first quarter, a good start for the year.

It was nice to see another quarter of rising investment portfolio valuations augment the 1.4% contribution from operating performance.

Every associate remains focused on executing our strategy and delivering excellent personalized service to each stakeholder every day. As a result, we believe that shareholders will be rewarded over time. With that, our Chief Financial Officer, Mike Sewell, will comment on other areas of our financial performance and financial condition.

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

Great. Thank you, Steve, and thanks to all of you for joining us today. My comments begin with some first quarter investment highlights. First quarter 2017 was our 15th consecutive quarter of investment income growth as it rose 3% on a pretax basis and 4% on an after-tax basis.

Similar to recent quarters, both interest and dividend income contributed to growth. Our equity portfolio experienced another quarter of growth in unrealized gains, up 4% to $2.4 billion despite harvesting $149 million of appreciated stocks.

The bond portfolio pretax average yield was 4.49% for the first quarter of 2017, down 16 basis points from last year's first quarter.

Taxable bonds purchased during the first 3 months of 2017 had an average pretax yield of 4.38% and purchased tax-exempt bonds averaged 3.46% for a blended yield of 3.93%. Cash flow from operating activities continued to provide funds for our investment portfolio. Funds generated from net operating cash flows for the first 3 months of 2017 [totaled] $136 million, about half as much as the first quarter of last year.

Much of that decrease was due to higher-than-usual catastrophe losses in recent months. We continue to wisely manage the company's discretionary expenses, including strategic investments in our business that will enhance future success. Our first quarter 2017 property casualty underwriting expense ratio rose slightly, up 0.2 percentage points compared with a year ago. Transitioning to loss reserves, we continue to experience favorable development as we apply a consistent approach to setting overall reserves.

For the first 3 months of 2017, favorable reserve development benefited the combined ratio by 3.4 percentage points. While that was a little lighter than a year ago, it's very similar to the 3.5 points we averaged over the past 3 calendar years.

Favorable reserve development for the first quarter was again spread over most of our major lines of business and over several accident years, including 53% for accident year 2016, 21% for accident year 2015 and 26% for 2014 and prior accident years.

One item I'd like to note regarding first quarter reserves was an increase in prior accident year reserves for our commercial casualty line of business. That development was heavily influenced by an increase in commercial casualty large losses of $1 million or more per client, split about evenly between accident year 2017 and prior accident years.

We decided it was prudent to increase management's best estimate of commercial casualty reserves even though large losses are inherently variable. As we've disclosed in our critical accounting estimate section of our 10-K, large loss activity and trends are important factors to consider. Despite the large losses and reserve increases, adding an estimated underwriting expense ratio of 32 points or so to the 66.3% loss and loss expense ratio we reported indicates a first quarter estimated commercial casualty combined ratio of under 100%.

As more data becomes available for those large losses, we'll adjust estimate reserves up or down as appropriate. Large losses also increased for some other lines of business as the total for our commercial lines insurance segment rose 103%. We study those claims routinely and determined that the 5 largest ones were generally from well-established agencies and accounts that we've insured for many years.

Regarding capital management, our approach and financial strength remain stable. During the first quarter, we did repurchase 200,000 shares at an average price per share of $73.35.

As usual, I'll wrap up with a summary of contributions during the first quarter to book value per share. They represent the main drivers of our value creation ratio. Property casualty underwriting increased book value by $0.02. Life insurance operations added $0.06. Investment income other than life insurance and reduced by noninsurance items contributed $0.39. The change in unrealized gains at March 31 for the fixed income portfolio, net of realized gains and losses, increased book value per share by $0.18. The change in unrealized gains at March 31 for the equity portfolio, net of realized gains and losses, increased book value by $0.97. And we declared $0.50 per share in dividends to shareholders. The net effect was a book value increase of $1.12 during the first quarter to a record $44.07 per share. And now I'll turn the call back over to Steve.

Steven J. Johnston
Chief Executive Officer, President, Director and President of Cincinnati Life Insurance Company
Thanks, Mike. While the insurance business will always be challenged by the weather or other forces, investors, agents, associates and others can count on Cincinnati Financial to remain steady in execution of our strategy. We appreciate this opportunity to respond to your questions and also look forward to meeting in person with many of you during the remainder of the year. As a reminder, with Mike and me today are Jack Schiff, Jr., Ken Stecher, J.F. Scherer, Marty Mullen, Marty Hollenbeck and Theresa Hoffer. Carol, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question today comes from Arash Soleimani from KBW.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

So it looks like the core loss ratio had improved quite significantly within worker's comp. Can you talk about that was driving that? Was there anything unusual in there?

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

Good question, Arash. We didn't see anything unusual. It's been a line that we've given a lot of attention over the years. Every area in the company has worked hard on worker's comp, and it's just been really a profitable line for us. Things are going well and we're taking a steady approach, so really nothing unusual.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And what kind of rates are you seeing in that line?

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

Well actually, rates given the profitability and so forth are down a little bit in the mid-single-digit range right now, but we feel in terms of where we are against targets, that we're comfortable with that as a part of the overall package.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And I know, I think, like both ROI and Berkeley commented that they've been seeing rising loss inflation. Is that consistent, higher jury awards, more aggressive plaintiffs' attorneys. Is that consistent with what you're seeing as well?

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

I would say, in terms of our inflation, it's been positive, but we haven't seen, what I would call, a big spike or anything. We will -- we have seen some things in our commercial casualty in terms of large losses that we have commented on in our disclosure, but I don't see it in terms of necessarily being core driven or anything like that at this point, but we'll continue as we [indiscernible] to study that issue.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And can you just remind me -- in E&S, what specific lines are you writing in E&S? And then on top of that, the growth there, what exactly is boosting that? Is there a specific initiative? Or I just wanted some more color there, please?

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

We write more casualty than property within the excess and surplus lines. Our average premium would be in the $6,000 range. Although we do write larger policies, we like to say we write a wide spectrum of E&S policies that are written by our agencies. In terms of the growth, I just think that team has really worked hard in just having boots on the ground and getting out and visiting with agencies and I just think they are working hard to generate the growth and generate the looks that we're getting.

Operator

Our next question comes from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I wanted to go back in time a little bit and talk about what the thought was behind you guys starting to put toes in the water in the reinsurance market. And whether or not, given what's going on in reinsurance today, that still make sense and I guess how it fits into the overall strategy for Cincinnati?

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

Thanks, Josh. Yes, with the reinsurance, as we're seeing, we seek a diversified stream of revenue and a diversified stream of income. It paid off this quarter. While we have concentration of our premiums in the Midwest and we are growing in other states to diversify both things like our excess and surplus lines company, things we do in management liability, surety help to diversify our income stream, and then also we see that from what we're doing with our small reinsurance operation. Strategically, what we tried to do is hire a small team of very talented people and use an allocated capital approach where, as you point out, it is tough in the reinsurance business, but we think as a startup with very talented, experienced people, a low expense ratio, we can look to the part of the reinsurance distribution that we feel confident that we can make a profit in, where we can understand the risk, quantitatively and qualitatively without pressure to grow. We didn't set up a separate company or anything like that or give them any targets that they had to meet in terms of growth. We just said use your experience, your contacts, get a wide look at what's out there and do your best to just pick the most profitable ones. And as you can see, just in -- I'd say it's about 7 quarters, they've built up a bank of about $15 million in profit just going about their business in a very selective way.

Joshua David Shanker
Deutsche Bank AG, Research Division

And did -- is there -- can you exist in that business without writing any premium? Can you keep it [open], even if markets aren't attractive, without taking on new business?

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

We'll take on new business but only if we feel that it's profitable. We don't want to have pressure to write a certain number of contracts or a certain amount of premium. Be very selective and I don't look at the reinsurance market as a point estimate. I see it as a point estimate with a distribution around it. And while that distribution and the point estimate has moved into the softer territory, we think there's still plenty of risks within the reinsurance space that, if you have talented people looking at them, bolstered by our A+ rating, that we can get good looks at business that we feel has a high propensity for profitability.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And maybe Marty can give out some updates on thought on the muni market a little bit? And obviously, we really don't know what's going to happen with taxes here and whatnot, but any thoughts on opportunities to get in or out of various positions?

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

Josh, we're definitely buy-and-hold. There's an awful lot of frictions trying to get ever out of munis, but we still find it an attractive asset class on a risk-adjusted, tax-adjusted basis. As you alluded to, we don't know yet how this whole tax reform will shake out. We'll deal with that when there's some more clarity, but we have been slightly favoring that over the last 12 months or so, so we still find value there.

Operator

Our next question comes from Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Just a follow-up with Marty then on the investment side, the -- just kind of where equities are right now, just they're sort of up at the sort of upper end of your target right now, the 35% of invested assets. And just wondering what you're thinking about your exposure there? And how comfortable are you moving considerably higher than these levels? Are you comfortable with where you are right now?

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

We're fairly comfortable. We have probably a little bit of room. The way we look at it as more from a bottom up by subsidiary company rather than a top-down aggregate view. So there's regulatory concerns, rating agencies, et cetera. A number of factors that go into it. So I mean due for all the right reasons, we are kind of getting more toward the top end of what we would be -- have a range, but we're not maxed out at this point, no.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, I mean that's a good problem to have, I guess, right? And then the -- just a question, too. I was wondering if you could touch more on the -- you mentioned the large losses, the commercial casualty, the large claims in excess of $1 million. I was wondering if you could get a little more detail on the kind of the nature of those claims? What type of customer? What accident year? And is that something where you kind of only saw that recently? Or did you see signs of that at some point the last couple of years as well?

Jacob F. Scherer
Chief Insurance Officer and Executive Vice President

Scott, this is J.F. We do a post-mortem or a deep dive on really all of the larger claims, $500,000 and greater, in the company. And we took a look at the, particularly, the 5 largest claims we had in this quarter. And as was mentioned in the prepared remarks, really no trends emerged there. And the biggest claim we had, had been insured with us for 21 years, and we found that, that was the case on all of those claims. The agencies, once again, long-tenured agencies, in fact, one of them was an agency that started with the company in 1951, so we're not seeing anything emerged from more newly appointed agencies. And of those 5 big claims, several of them have very good subrogation possibilities, so there wasn't really anything going on with our particular policyholders so much as that they were the victim, if you will, of some bad exposures surrounding them. So we really do take a look at a lot of things. We've appointed a good number of agencies over the last several years, so we're playing close attention to make certain that quality of the business that we're getting from those agencies is consistent with what we've been used to. Certainly, we're paying attention to a lot of the pricing we're seeing on new business coming in. So from our standpoint, at least at this point, and we're going to continue to pay close attention to it, the number of larger claims we had this quarter were random. It just so happened that they occurred in this quarter. If you go back several quarters, particularly in the greater than $5 million category, we really hadn't had any. So nothing that we've found. We keep a close look on it, though.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, that's helpful. And then you touched a little bit on new business, which was strong. I think it was a record quarter. And I know you had -- a lot of that was driven by new agency appointments this year. But is there anything else that kind of drove that pickup this quarter versus -- Q4, I know, was a little more guarded with that. So I was wondering if there's any kind of change or anything you can talk about specifically? Or was it just kind of ramping up with new agents and seeing a little -- a few more opportunities?

Jacob F. Scherer
Chief Insurance Officer and Executive Vice President

Well, Steve made reference to it being elbow grease, I guess, as much as anything else in the E&S side of things. We did process, probably a little more than normal, business that was written in the fourth quarter but got processed in the first quarter. So it was a little bit of that, that helped with the growth rate in the first quarter. Other than that, maturing of agencies that we've appointed over the last several years. High net worth had a -- is really having a very positive effect. As Steve mentioned, CSU continues to do very well. And I think a lot of agencies just continued to embrace the strategy we have there. We've got a great model. And we have a lot of field people out in the field. We're adding field people on the E&S side, that helps with new business. And but beyond that, no. Actually, we've got no incentives out there. There are aren't any special deals that are commission driven. We -- it's just been good solid opportunities. I will say that in the marketplace right now that, particularly driven by commercial auto, there's a lot of fairly sizable rate increases that are being requested by carriers, and that's, I think, driving a little bit more shopping, if you will. Agencies taking accounts to market, perhaps, than it would've been the same time last year. So we're getting decent at-bats there. So but no, good very good. We're pleased with the new business. The pricing on it looks strong. Loss control continues to be an even larger part of what we do in terms of profiling accounts, so we're very comfortable with the rate of growth of new business.

Operator

Our next question comes from Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Maybe start off with a follow-up on the reinsurance growth. Any color on the mix? Was it more property, more casualty, even? Just where are you growing? And is it mostly quota share, I guess, also?

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

Yes, it is mostly quota share and it is very similar to what it has been, pretty close to an even mix. In fact, I think it was 45% property this time. So just again, a good effort by the team in just scouring the market for good opportunities without really a focus on any 1 particular segment.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And did the property component contribute at all to the cats in the quarter?

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

No, I think that was part of the reason that the diversification is helping and not that the reinsurance won't be subject to a chance to have their turn with catastrophe losses, they will. But they are in a different place and so the hope would be that we wouldn't -- would not have the Midwestern weather at the same time. We're trying to keep the reinsurance, as best we can, out of the Midwest severe convective storm. I want to do 1 check, you said -- I wanted to make sure -- your question was kind of it didn't contributed at all, it was minimal but Mike is checking to see if we're right.

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

It actually helped by about $1 million, so it was favorable, so.

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

Even better.

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

Even better.

Ian Gutterman
Balyasny Asset Management L.P.

That's a good problem. The -- just the last part on that one before I move on is given it's now $40 million of premium, that's not that far from the E&S, is it big enough now where you consider breaking it out? It's getting to the point where I feel I have to make a few guesses to get all the numbers to get to underwriting income these days?

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

Yes, there are certain guidelines for -- this is Mike, for breaking items out as separate segments. It probably has a ways to go. And if you really look at the accounting rules, one could argue that E&S, according to the accounting rules, wouldn't have to be broken out as a segment. So we're going to kind of play that by year. I'm not sure I would take the $40 million that was written in the first quarter and just automatically times that by 4. We're going to have to kind of wait and see what the team is doing, the number of deals, the different sizes of the deals. And so we're going to be watching that, assessing it each quarter, but definitely every year, as we report it on our 10-K. But as it -- certainly as it gets a little larger, even if we leave it where it is, we'll try to provide additional color on that.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. Fair enough. Yes, I guess -- so I was assuming that since this was quota share, if it was $40 million, it was going to be pretty close to that throughout the year. So that's not going to be the case, then, necessarily?

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

It may not be. When you look at some of the deals that were bound in 2016 by quarter, I mean, it was -- I'm going to round it off and say it was about 20 deals per quarter were bound, some higher, some lower. So we'll have to kind of wait and see. Go ahead.

Ian Gutterman
Balyasny Asset Management L.P.

Yes, I'm sorry. So the other thing I was going to ask about, the one thing that caught my eye in the quarter, your paid losses were up pretty substantially, up over 20%. And from looking at the details, seems other than comp, pretty much everything was up double digits. Any color on why the paids are growing so fast?

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

I would think it -- with the catastrophe losses that we had in the period that are of the short-tail nature would have an impact on that.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, the casualty was up a lot, too, though? Casualty was 99 last year's first quarter, 141 this time, so that's 40%. I don't know if [indiscernible] into any of the adverse development. Were there cases that caused the adverse development that you now had to pay out on or...?

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

We're going to have to look a little deeper into that. I don't know that I have that number right in front of me in terms of the paid.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, okay. Yes, the cat doesn't concern me that much, but obviously when you see casualty pick up at the same time as reserves are getting a little tough, it just made me wonder if there's something additional stressing the book. Okay, and it wasn't tied to the large claims. I guess, that looked like some of the over $5 million claims were also in the casualty book as well, right?

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

Right. And I don't have the payout of -- it would be good for us to look and see what the -- where we are in terms of payout of those large casualty losses as well as some of the adverse development that we -- so, where those paid out during the quarter? But I don't have that split with me.

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

Ian, 2 of the 5 claims that J.F. had mentioned on the 5 losses were work comp.

Ian Gutterman
Balyasny Asset Management L.P.

There were comp, actually? Okay, interesting. Okay, okay. And I was just going to ask, too, of those 5 claims, was there -- I know you mentioned that they were -- there wasn't any sort of obvious correlation, but was there anything by region or size of client or were they more construction or were none of them construction? Anything additional that stood out?

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

Sure. This is Marty, Ian. Of the 5 claims, all 5 claims, each 1 was in a different state, 2 were work comp, 2 were commercial fire, and then we had 1 general liability exposure. So they were pretty much a spread.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, and so obviously maybe the GL would be different but there's other ones obviously wouldn't have been a legal verdict that went against you or anything right? So maybe the GL could have been but the others seem fairly straightforward, I guess?

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

Correct.

Ian Gutterman
Balyasny Asset Management L.P.

I was worried that they were 5 lawsuits that went the wrong way. That would have bothered me more than worker's comp, but, okay, just some bad luck, it sounds like.

Operator

[Operator Instructions] And our next question comes from Arash Soleimani with KBW.

Arash Soleimani

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

I just wanted to ask, did you say already what premiums in force are now for your high net worth business?

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

No, we didn't say that. Let's see what we've got. It would probably be around $150 million. I was going to say $150 million to $175 million.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Of annual, okay?

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

Yes.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And can you remind me, you mentioned this earlier, but what the book yields versus new money yields are?

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

The current book yield, all in, is $451 million. And in Q1, we tend to break it out, taxable was $438 million, tax-exempt, $345 million. And back to the high net worth, Arash, we were at $180 million in the annual premiums at year-end so we're up a little bit from there. So dividing that by 4 and giving it a little bit of growth would give you a good estimate for your model.

Operator

Our next question comes from Fred Nelson from D.A. Davidson.

Craig Nelson
D.A. Davidson & Co., Asset Management Arm

I just want to say to all of you, it's been a phenomenal journey and still continues. Now the next thing is I'm in California and sanctuary cities, sanctuary states, homeless housing, free medical care, free busing to hospitals, no property taxes, no insurance, maid service, have you seen this in any other place besides California? And is the California market something that still offers opportunity?

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

Thank you, Fred. As we've gone into California, we've gone in with the -- our personal lines segment. So far we have not seen the adverse items that you've mentioned, but I do think we appreciate your input and we'll keep our eye on the ball and be alert for those type of things because we take input from a loyal Californian.

Craig Nelson
D.A. Davidson & Co., Asset Management Arm

I went to my local water company and I said we're going to have water rationing and they said how do you figure? And I said you're going to have a city for homeless of approximately with 30,000 to 50,000 people with free water. Where is the water going to come from? And they said, oh, we never thought of that. It's interesting. I'm here to help, that's all.

Operator

We have no questions left in queue at this time. I'll turn the call back to Steve Johnston for closing remarks.

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

Thank you, Carol. And thanks to all of you for joining us today. We hope to see you some -- see some of you at our annual shareholders meeting, Saturday, May 6, at the Cincinnati Art Museum, and you're also welcome to listen to our webcast of the meeting available at www.cinfin.com/investors. We look forward to speaking with you again to on our second quarter call. Thank you.

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