S&P Capital IQ

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Cincinnati Financial Corporation NasdaqGS:CINF

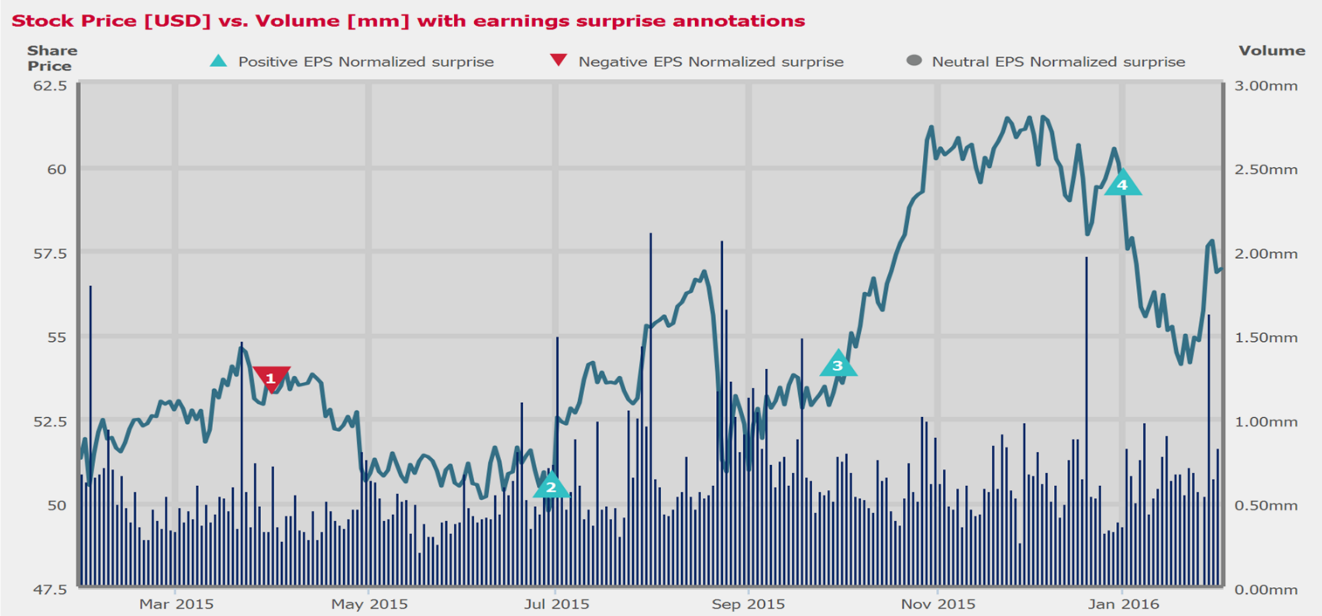
FQ1 2016 Earnings Call Transcripts

Wednesday, April 27, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.72	0.89	23.61	0.61	3.15	2.82
Revenue (mm)	1095.00	1364.00	24.57	-	-	5474.00

Currency: USD
Consensus as of Apr-27-2016 10:33 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.72	0.59	(18.06 %)
FQ2 2015	0.41	0.83	102.44 %
FQ3 2015	0.65	1.04	60.00 %
FQ4 2015	0.87	1.10	26.44 %

Call Participants

EXECUTIVES

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

Jacob F. Scherer
Former Chief Insurance Officer

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

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Deutsche Bank AG, Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good morning. My name is Jessa, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2016 Earnings Conference Call. [Operator Instructions]

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

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

Hello. This is Dennis McDaniel. Thank you for joining us for our First Quarter 2016 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 Insurance Company's Executive Committee Chairman, Jack Schiff Jr.; Chairman of the Board, Ken Stecher; Chief Insurance Officer for Cincinnati Insurance, J.F. Scherer; Principal Accounting Officer, Eric Mathews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer for Cincinnati Insurance, Marty Mullen.

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

Now I'll turn 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. We are pleased to report another strong quarter of operating performance. We continue to see ongoing benefits from executing our agency-centered strategy and working to enhance performance through various initiatives.

Underwriting and pricing on a policy-by-policy basis, which requires strong cooperation between our underwriting staff and the local independent agents who represent us, made a solid contribution to our excellent first quarter 2016 results. Our consolidated property casualty combined ratio of 91.4% represented a 6.1 percentage point improvement over last year's first quarter. The combined ratio before catastrophe effects, was 88.3%, 5.1 points better than the first quarter of 2015 and consistent with full year 2015.

Each of our segments grew profitably. The performance of our 2 auto lines of business needs to improve, and we remain confident that all of the actions we are taking, including first quarter 2016 average price increases that were higher than in the fourth quarter of last year, will improve results.

Premium growth continues to be a bright spot as we work to earn quality new business from local independent agencies and expand our reinsurance assumed operation, known as Cincinnati Re.

We remain focused on staying disciplined as we grow profitably that business in the midst of a challenging reinsurance market. So far, we've reported an underwriting profit for Cincinnati Re each quarter since it commenced business.

Commercial line's premium growth remains healthy in a very competitive marketplace, with net written premiums up 6% over the same quarter a year ago. Strong personal lines growth was enhanced by steady increases in the personal lines products and services we offer to our agencies' higher net worth clients. Almost all of the first quarter 2016 increase in personal line's new business written premiums came from high net worth policies.

While we increased our focus on high net worth personal insurance beginning in 2014, we have written high net worth clients for many years. In fact, prior to 2014, approximately 10% of our homeowners premium was already derived from higher net worth policies. However, we knew that to really grow this area profitably, we needed to have the right talent. The associates we've hired to lead this expansion are highly experienced, having averaged more than 20 years of experience in the high net worth marketplace. They understand its unique requirements for inspection of risks, coverage valuation and specialized claim service. Those leaders, in turn, have trained staff who can deliver enhanced services and quality underwriting, including local face-to-face interaction with agents and policyholders.

During the first quarter, we launched our Executive Capstone suite of high net worth insurance products in New Jersey and things continue to go well with the agencies we have appointed in New York City and nearby areas.

Turning to renewals of property casualty policies in the first quarter of 2016, we are pleased with average price increases that were generally in line with the fourth quarter of 2015. Average renewal price increases for commercial lines continued at percentages in the low single-digit range. That average includes the muting effect of 3-year policies that were not yet subject to renewal during the first quarter.

For commercial property and commercial auto policies that did renew during the first quarter, we continue to obtain meaningful price increases, both averaging in the mid-single-digit range. Our most profitable commercial lines of business in recent quarters, commercial casualty and workers' compensation, had price changes similar to a quarter ago. Commercial casualty averaged first quarter increases in the low single-digit range while workers' compensation averaged decreases in the low single-digit range.

Our personal auto policies averaged first quarter renewal price percentage increases in the mid-single-digit range, and the average for our homeowners policies was also in that range.

For our excess and surplus lines segment, each first quarter 2016 average renewal price percentage increases remain near the high end of the low single-digit range. That segment experienced another outstanding quarter, including a combined ratio below 70%.

Our life insurance subsidiary, including income from its investment portfolio, also had a strong quarter of performance. Earned premiums rose 9%, and operating profit was 25% higher than the first quarter of 2015.

Our primary measure of financial performance, the value creation ratio, came in at 5.7%. Generally higher valuations in securities markets boosted the contribution of our strong operating performance, setting a good pace for reaching our goal of an average annual VCR of 10% to 13%.

While we're pleased with the recent good performance, we remain keenly focused on underwriting profitability and growth. We are very confident in company associates and the agencies they partner with as we seek to continually improve performance.

I'll now ask our Chief Financial Officer, Mike Sewell, to share his highlights for other areas of our financial performance.

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. I'll start with some key points about our first quarter investment results.

It was a great quarter for investments, in part because we reported our 11th consecutive quarter of year-over-year investment income growth, with an increase of 4%. We also had increases in the fair value and unrealized gain positions of both our equity and bond portfolios and ended the first quarter of 2016 with a net unrealized gain of more than $2.3 billion before taxes, including over $1.9 billion for our common stock portfolio.

Our bond portfolio interest income again rose despite declining average yields, in part due to the first quarter 2016 net purchases. The bond portfolio's pretax average yield, reported at 4.65%, was 5 basis points lower than a year ago.

Taxable bonds purchased during the first quarter had an average pretax yield of 4.77%, 43 basis points higher than what we experienced a year ago. Tax-exempt bonds purchased average 3.03%, 10 basis points lower than a year ago.

Our bond portfolio's effective duration of March 31 was 4.8 years, up slightly from 4.7 years at year-end.

Cash flow from operating activities continued to fuel investment income growth. Funds generated from net operating cash flows for the first 3 months of 2016 rose 20% compared to a year ago to $257 million and helped generate $111 million of net purchases of securities for our investment portfolio.

As always, we work carefully to manage our expenses, at the same time, strategically investing in our business. Our first quarter 2016 property casualty underwriting expense ratio improved slightly compared with a year ago.

Our loss reserves experienced another quarter of consistency, both in our approach to setting overall reserves and in favorable reserve development on prior accident years. For the first quarter of 2016, favorable reserve development benefited our combined ratio by 5.6 percentage points, better than the 2.2 points for the first quarter of last year and more in line with the 5.0 points for the last 3 quarters of 2015.

Reserve development so far in 2016 had a good spread over most of our major lines of businesses and over recent accident years, including 63% for accident year 2015 and 27% for accident year 2014.

Overall reserves, including accident year 2016, rose $99 million in the first quarter, including $95 million for the IBNR portion. Even with that prudent increase in IBNR reserves, our first quarter underwriting results were very good as our combined ratio nearly matched the 91.1% full year 2015 ratio.

We remain in excellent shape regarding our capital strength, liquidity and financial flexibility. Cash and marketable securities for our parent company at the end of the quarter totaled just over $1.9 billion, up 9% from year-end. Our capital is well positioned to support future profitable growth of our insurance operations and other capital management actions, such as returning capital to shareholders.

As I usually do, I'll conclude my prepared remarks with a summary of the 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 $0.38. Life insurance operations added $0.06. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.41. 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 $0.46. The change in unrealized gains at March 31 for the equity portfolio, net of realized gains and losses, increased book value by $0.93. And we declared $0.48 per share in dividends to shareholders. The net effect was a book value increase of $1.76 during the first quarter to a record $40.96 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. I'd like to take a moment to thank our associates who are stepping up to increase expertise, innovation and efficiency. The positive impact of their efforts is evident in our results.

But we aren't doing it alone. We enjoy working with the most professional independent agencies across the country. As we continue to meet with them during our sales meeting tour, we are hearing great examples of our agents and associates working together to be everything insurance should be for the people and businesses and their communities. As we work together with our agency partners to maintain this momentum, we continue to seek incremental operational improvements to produce value for shareholders in the near term and for the long term.

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, Eric Mathews, Marty Mullen and Marty Hollenbeck.
Jessa, please open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I think my first question is for Marty Hollenbeck. Want to know what your equity view is and how you're positioning the portfolio with the thoughts of the next 6 to 12 months in rates and whatnot?

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

Good question, Josh. As you know by now, we don't do a lot of short-term manipulation of the portfolio. We try to build a solid foundation and let it go. Our investing style, particularly on the equity front, didn't hold up all that well last year. Nondividend payers, nonquality names kind of ruled the day. First quarter clearly went our way, both with our style and with a few names in particular that had caused us a couple issues last year really nicely rebounding. So I'd say this next 6 to 12 months, you'll probably see us more or less hold in there. I think equity allocation is going to hover in that low to mid-30s range for a while here. On the fixed income front, we still tend to see value in municipals, an area I think we've got room to put some money. Energy names had taken a bit of a hit. We've seen some rebound there both on the equity and fixed income fronts. So to answer your question, I don't see a lot of large-scale reconfiguring of the portfolio.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And if you look at the E&S segment. Obviously, you guys don't have a big presence there, but there was a lot of favorable development in that category. Are you at a point where you have a big enough dataset where you can rely on your own data? Or is that one large case that proved particularly favorable? How should we think about such a large release in such a small segment?

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

This is Mike. That's a great question. First of all, we still -- we remain very excited about the progress that we've been making, the growth that's occurred since we started E&S. As you saw, the net written premiums were up 7% for the quarter to $45 million, the combined ratio doing well with the prior year development and so forth. But we've used a consistent approach to setting those reserves in the recent years. Although we lack many years of paid loss data and with the high growth rates in insured exposures, which, of course, is reflected in the premium growth, increases the uncertainty of the estimated ultimate losses. And so we tended to be conservative while setting those E&S reserves because we don't have that long history, but we're getting there. So the current process, what I can tell you, is consistent with the prior year. And time will tell, but we aim to be consistent with our process, and we think we're on the right path there.

Joshua David Shanker
Deutsche Bank AG, Research Division

So this was an IBNR release, not a case release? Or how can I -- is there any way to wrap my head around it?

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

No, that's exactly right. It was really more so of a, I'll say, an IBNR release. And when you look at the prior year development that we had, the 5.6 points in total, about 1 point was related to E&S. So that -- we ended up with a 4.6 for the remainder of the book, but that's a good way to look at it.

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

And it wasn't due to any one claim. As Mike mentioned, it was an overall IBNR.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes, that's perfect. And then just one more. I think it's early days. There's a lot of moving pieces we're going to see. Can you talk about the high-net-worth homeowners market? You are entering into it, what your agents who are seeing changes with ACE, Chubb, whatnot, what their demands are and how we can think about this over the next 3 years, maybe?

Jacob F. Scherer
Former Chief Insurance Officer

Josh, this is J.F. You might recall that Will Van Den Heuvel joined us several years ago. And so we were pleased that he did join us. But as Steve mentioned in his remarks, we've been writing high-net-worth on a smaller scale, about 10% of our book of business in the past. But Will has joined us. He's recruited some very talented people, very experienced people. Our entry into New York, Long Island, New Jersey and, later this year, in California has been met with a lot of receptivity by agencies in those areas as well as, obviously, our agencies throughout the country. So obviously, there's been a little bit of disruption in that marketplace where the realignment has had an effect. Agencies do want to have a choice, a broad choice, to provide to their policyholders. And so between Will's experience and credibility in the marketplace as well as his team's and our good reputation with independent agents, we're pleased with the response we're getting. We're getting a decent flow of business. It's not in our intent to explode onto the scene, though we have had good success. So overall, we're pleased with the progress, steady as she goes. We think that we're going to be pretty successful in this area.

Joshua David Shanker
Deutsche Bank AG, Research Division

Historically, obviously, legacy Chubb is very large in this business. And they said the real growth in this business comes from finding homeowners who aren't -- who are potentially high-net-worth individuals who currently have traditional levels of coverage and are being ill served by the market. Do you find your growth is coming from expansion of the percentage of high-net-worth individuals seeking out a better class of insurance? Or do you find it's market share transfer among the players who particularly look to themselves as high-net-worth underwriters?

Jacob F. Scherer
Former Chief Insurance Officer

I think it's been mixed. We've -- some real great examples we have are policyholders that have been with direct writers or companies that might not necessarily have been described as having an expertise in the high-net-worth area. We've seen some business from some of the bigger players. So it's really been mixed. I can't really tell you exactly what the policyholder is thinking. We're more in tune with what the agent is thinking about how they want to position their service to people. We're getting opportunities across the board. We've got 1,500 agencies in the original 31 states of first lines for us that, because of the increase in our appetite for high net worth, the experience we're bringing to the table, they're more comfortably going out and soliciting high-net-worth business. And where in the past they may have isolated their submissions to other carriers, they're giving us a shot as well. So it's not any one thing. It's really, I think, across the board. We're seeing -- we're pleased with the kind of receptivity we're getting.

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

And Josh, I'd like to add, too, that the infrastructure that we have, I think, is important. When we thought about this decision originally, we really thought about our claims department and how strong they are, how they treat everybody like they're a high-net-worth client, and we feel we've got a great infrastructure there. Our technology is quite good. Our diamond system, we had a new agency appointment in here, and I asked her what drew her to Cincinnati. She wrote personal lines in the East Coast, and she said, without a doubt, without hesitation that our diamond personal line system was highly efficient, allowed them to do business efficiently. So I think that infrastructure is a plus. Also our expense ratio for personal lines came in the quarter at 29.2%, so I think that bodes well for us. One other point I'd like to make, and I think it comes through, but I want to emphasize it is we talk about high net worth -- what we're doing in the high-net-worth space, our respect for the -- all the players in that space, all the other carriers is extremely high. They're very talented. And we want to make sure to make that point as we discuss our entry into the space or our renewed focus on the space.

Operator

Your next question comes from the line of Paul Newsome from Sandler O'Neill.

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

I was wondering if you could kind of go through the accident year decline, particularly in the personal lines and just talk about the components of why it looked like it fell quite a bit. And obviously, I'm curious as just how sustainable that lower number is potentially.

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

Maybe I'll start out and Mike can jump in here. We did see improvement. We think there's a lot of hard work that's paying off. We did have favorable development in there. Part of that had to do with how we allocate our DCCE reserves. And I think probably Mike might be the best to cover that at this point.

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

Great. Thanks, Steve, and thanks for the question. So on the personal line side, we did have $18 million of favorable development between the personal and homeowners, which is primarily where it was at. The personal auto was $9 million. The homeowners was $8 million. First, what I'll start off with is to say, again, we do follow a steady and consistent methodology in setting the reserves. And we do look at that process every reporting period. So from time to time, we make refinements to better the estimates for changing times, trends, cost indicators, efforts applied, et cetera. And so as we stated in our 10-Q, we did need a refinement during the quarter to our expense reserves, which is also known as AOE, which are an estimate for the costs related to our Claims Department associates as they settle claims. And so that estimate includes assumptions of, really, varying labor intensity by type of claims or line of business. So this refinement, while mentioned, is it moved AOE reserves among all the lines of businesses that we have, but in total, it had a 0 effect amongst all the lines for the company in total. So on a given line, like personal lines auto, you can actually see the refinement a little bit better. So all of the $9 million favorable development in the personal lines auto was really related to this refinement, while there was virtually little to really no effect to be seen on the personal lines homeowners. So had we not reflected this refinement personal lines auto prior year development, really would have been nearly flat or about $1 million adverse. So when you put all that together, it is a -- there was a little something special in there, but we are constantly looking at our processes, how we set our reserves. From time to time, we do have refinements. And so you're seeing a little bit of that in the personal lines that you may or may not be able to see, refinements in the future, but they do occur. So I hope -- sorry for the long answer, but I hope that got to the basis of your question.

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

I think so. But, I mean, does that -- so that affects the reserve development, but does it affect the accident year number?

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

All of -- for the most part, really, all of that occurred in accident year 2015. So when you're looking at the refinement, we are looking at the different accident years, personal auto being a little bit shorter tailed. It's going to affect really the recent year more so than going back any prior years. So predominantly, 2015.

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

Would it affect the 2016 first quarter...?

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

Well, that's going to be baked in with how we -- the refinement is now already baked in for 2016, so it's -- you'll see that already in the initial reserves as they've been set.

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

And I guess maybe to make sure we're addressing it, you're probably looking at the current accident year, 51.5% in the supplement relative to where it was at 55.5%. And I just think there's going to be a blend there. We do feel very confident in the work that's being done in personal auto in terms of what we mentioned with the rate increases, the underwriting and the renewed emphasis there. But we also know it's a tough line not only for us, but for the industry as well.

Operator

Your next question comes from the line of Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Just want to start off just by asking we've heard a number of conference calls already just people talking about a lot of dislocation out there, and I know some of the companies you're referring to don't exactly play in the same lines you guys do, but wondering if you could just comment on that, what your perspective is and what you're seeing over the past couple quarters from some of the trends going on in the marketplace?

Jacob F. Scherer
Former Chief Insurance Officer

Scott, are you talking about the merger activity that...

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Yes. And AIG and Zurich and people pulling back in lines in M&A. And I just -- I didn't know if there's any read through on that for you guys, specifically.

Jacob F. Scherer
Former Chief Insurance Officer

In all honesty, no. I don't think we've seen an awful lot of it in the lines we're playing in, in the size of accounts that we're -- that we generally go after. In all honesty, we've been to 16 sales meetings the spring talking to agents from around the country, talking to all of our field underwriters, and I can't say that it really, in all honesty, that it was brought up at all as a -- an opportunity or something that they're seeing a lot in the marketplace. So I don't know that we'd have much comment there.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. And then just on workers' comp, you guys have had really good margins there for a while. looks like you pulled back a little bit this quarter. I know some of the other companies, that they're still pretty aggressively growing in this line. So just wondering if you could just talk about your appetite and kind of what you're seeing out there within workers' comp, specifically.

Jacob F. Scherer
Former Chief Insurance Officer

We consider ourselves a market. We tell our agencies that we're interested in it. But we're not as aggressive as some of the folks that you've described. I'd say our appetite is conservative. We really don't write mono-line comp, for example. We don't target workers' comp policies. We write package business. So -- or account -- I should say accounts. So when we're writing the package, the auto, the umbrella and we're comfortable based on underwriting that we'd like to write the comp and then we'll go after it. We're -- but I would say you would never describe us as an aggressive player in comp, notwithstanding the fact that it's going well for us. We couldn't be happier with the improvement in our loss ratio and the services that we're offering. It's just the -- a line of business that just requires a lot of cautiousness, in our opinion.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. Good answer. And you guys announced entering New Jersey and then, later on this year, California. Is that going to be personal lines only? Or is that going to be eventually commercial lines as well?

Jacob F. Scherer
Former Chief Insurance Officer

It is personal lines only in both of those states. We would anticipate sometime in the future that we would probably go in from a commercial line standpoint but not anytime in the near future.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. And then just one last question on, I guess, this question's for Marty, just on some of the new securities you purchased this quarter with the higher yields. Can you just give just some commentary in what areas specifically you're talking about? And would you continue to do this in the next few quarters, assuming these securities are at similar levels, just to get the higher yield?

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

You're talking fixed income or equities or both?

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Fixed income, yes.

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

I think in the quarter you saw a clear widening of credit spreads on the corporate front, particularly the first half, that moderated quite bit. Munis tended to track treasuries. As I mentioned earlier, Munis, just because of our profitability, continue to be attractive on that front as well as just on an absolute [ph] after tax risk-adjusted basis, we continue to find them attractive. We've also lost a lot of munis in the last several years, as you might expect, due to calls. So we continue to just grind away. We're primarily new-issue buyers. It's almost exclusively the case in munis. Predominantly the case in corporate. So it partly depends on the calendar. So we'll continue to do what we've been doing. It's just looking all-in and after-tax risk-adjusted opportunities.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

So mostly the higher muni purchases and corporates is what drove the average yield a little bit higher then?

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

Yes. Typically corporates, yes.

Operator

[Operator Instructions] Your next question comes from the line of Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Steve, I was a little late getting on, so hopefully, I'm not asking anything you guys already talked about. But -- the reinsurance business in the quarter, can you just give any color on what lines of business? And I'm guessing it was mostly quota share, but maybe the mix of quota share and XOL as well.

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

Good question, and it hasn't come up yet, Ian. And I think it's just a mixture. We are using a very opportunistic allocated capital approach, so we're really not focusing on particular lines of business. And so we're just looking at them account by account, trying to make sure that we understand each one both quantitatively and qualitatively. And since we're, I think, in a pretty good position as a start-up. We can be very selective, but it is not driven by any particular line or coverage type.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I just wondered -- I mean, was it -- was there a split of like property versus casualty reinsurance you can share or anything like that?

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

Yes. I don't really have a precise number. It was a good mix, in that 50-50 range, give or take. But I don't think you should read anything into that in terms of run rate or anything as we do look at it opportunistically.

Ian Gutterman
Balyasny Asset Management L.P.

Got it, got it. And the comment about the AOE update. Did that also -- is that also the explanation for the big release in the other commercial? Or was there something else going on there?

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

No. I think that's -- that issue is a little bit separate. So again, it's just looking at the reserves, following a consistent process and looking at it from a quarter-to-quarter basis. So that was a little bit different. Following the normal process so -- but mostly case in the D&O.

Ian Gutterman

Balyasny Asset Management L.P.

Okay. Got it. And then just a follow-up on Josh's question on the E&S releases. This is the second quarter in a row, frankly, where they've been very large. I mean, they've been very strong for a while but maybe double the run rate the past 2 quarters. Is there any sort of -- does it have to do with just the business being a year older, that more is coming through? Or does it have to do with more comfort in your own data? I'm just sort of wondering not necessarily was there a process change but just was -- is there a sort of a mechanical change, I guess, that just as that business has gotten more mature, that we should kind of expect more of the last 2 quarters' trend than we saw before?

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

Certainly, there was nothing -- again, nothing that was special that was in there following our normal process. I would say that it was spread over -- actually, that one was spread over some pretty evenly accident years. So you're looking at '15, '14, '13, about 4 million for really each one of those. And 3 -- 4 million per year. And then it was 3 million for accident year 2013 and prior. So it was really just following our standard process. And again, it's kind of tough as we're growing it, it's still, I'll say, young, but you got a lot of new policies coming in. We're just being conservative in the way we set our picks there.

Ian Gutterman
Balyasny Asset Management L.P.

Got it, got it. Okay. And I don't think -- I hope I'm not re-asking -- I don't think I heard anyone ask much about market competition. It seems fairly stable from last quarter but just wondering, anecdotally, if there's -- again, we all see Marcus Guy [ph], which I know isn't the best -- or a CIAV [ph], which aren't necessarily the best indicators, but they do seem to suggest and I think Brown & Brown suggested increased competition but doesn't really necessarily seem to be showing up for you or the other share [ph] reported so far. Just -- does it feel as if the climate is stable? Or are you trying to see some -- maybe in some regions some competitors being a little bit more aggressive on the margin and you're trying to hold the line? Or just any color you can provide.

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

Ian, I think that's a good way of describing it. There are some competitors on the margin that are -- they kind of distinguish themselves as being out there. But anecdotally, the feedback we've gotten from both agents and, like I mentioned before, our field underwriters, is that it's a competitive market. But it's stable, and the field reps have felt very comfortable that we've got good submission flow and that we have to pick our way through things. I think the concerns that are out there at the agency level is that there is competition. So there probably are more accounts that are being shopped just to protect and make certain that they're comfortable with the pricing. One of the areas that we're pleased about is our 3-year policy strategy. That keeps -- because of the commitment we make to policyholders and with that -- with the 3-year guarantees, we think fewer of our policies are shopped through soft markets and hard markets but, particularly right now, it's attractive from our standpoint. The one area that I would mention that we are seeing a conspicuous amount of competition would be in the E&S side. We have a fairly conservative underwriting appetite in E&S. So I guess it's fair to say that we might be a little bit on the margin between standard and nonstandard in a lot of the business that we write. But we are seeing more, larger E&S accounts that are being taken into the standard side. And so -- and that's probably a little bit of why the E&S growth rate wasn't as robust as it has been in the past, is that we have seen some larger accounts leave us. And so, and once the standard market carrier is willing to take the account, there's no amount of pricing that we can apply, if we wanted to, to retain it.

Ian Gutterman
Balyasny Asset Management L.P.

Exactly. I mean, is there -- do you have any ability to move it amongst your balance sheets, I guess? Could it move from an E&S account of yours to a standard account of yours if you wanted to keep it? Or is it just -- it's not the same...?

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

No, absolutely. We tend to write accounts in that area. In other words, it's normal for us, probably close to 40% to 50% of the E&S policies we write. We are writing the standard side of that business or that account. And there is discussion between our excess and surplus line subsidiary and our standard side when we may feel that -- where we've taken an account and had it for several years on the E&S side, we feel that it's operating profitably and that there would be a receptivity for us to go ahead and write it in the Cincinnati Insurance Company. So we actively discuss that possibility. But we're pretty comfortable that the accounts that we've lost to the standard side, it's raised our eyebrows that a standard market would have taken it.

Operator

Your next question comes from the line of Fred Nelson from Crowell, Weedon.

Fred Nelson
Crowell, Weedon & Co.

I just wanted to say that I get a lot of calls and thank yous for what you folks have done for people that own the stock over the last 15 years. And they say what is the secret? And I said, number one, it doesn't take any real special credentials to bring joy and happiness to others, but I have found the people at Cincinnati, they -- number one, they go to the fronts. They find out what their customers are doing, what their agents are doing, and I said, and they spread it around the company, and they promote people. And I said I call that a Christ-conscious philosophy, and I just want to say it's been wonderful and just keep it up, and, by the way, Fireman's Fund is leaving California. They canceled me, and there's an opportunity here for what you folks do. And what share count are you using for your financials for the first quarter? That's all I need to know.

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

In terms of our share count, it's about 166 million, Fred.

Fred Nelson
Crowell, Weedon & Co.

160 -- 156 million or 166 million?

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

166 million. Well, thank you, Fred, and thank you so much for your comments regarding us.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

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

Okay. Thank you, Jessa. Before we end, I did want to correct one set of numbers that I gave in answer to Paul Newsome's question. I picked up the wrong line and in terms, Paul, of the auto current accident year combined -- loss ratios before catastrophes, it's 79.1 for the current quarter, 81.6 same quarter a year ago, but my comments reflected the auto. And with that, I'd like to thank all of you for joining us today. We hope to see some of you at our Annual Shareholders Meeting, Saturday, at the Cincinnati Art Museum. Others are welcome to listen to our webcast of the meeting. It's available at cinfin.com/investors, and we look forward to speaking with you again on our second quarter call. Thank you very much.

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