S&P Capital IQ

CONTENTS

Cincinnati Financial Corporation NasdaqGS:CINF

FQ3 2011 Earnings Call Transcripts

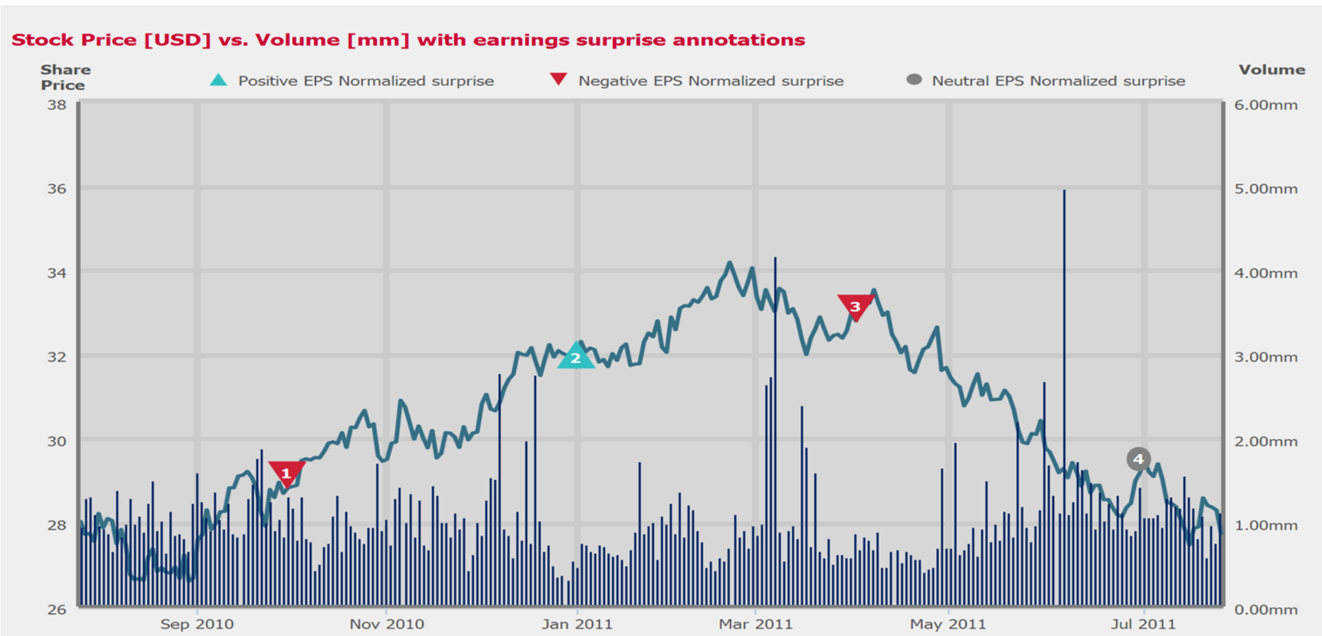
Friday, October 28, 2011 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.16	0.13	(18.75 %)	0.47	0.35	1.44
Revenue (mm)	931.20	944.00	1.37	940.35	3775.55	3906.55

Currency: USD

Consensus as of Oct-28-2011 12:47 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	0.40	0.34	(15.00 %)
FQ4 2010	0.37	0.70	89.19 %
FQ1 2011	0.37	0.33	(10.81 %)
FQ2 2011	(0.59)	(0.57)	NM

Call Participants

EXECUTIVES

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

Jacob F. Scherer
Executive Vice President of Sales & Marketing

Kenneth William Stecher
Non-Executive Chairman and Chairman of the Cincinnati Life Insurance Company

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

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

Ian Gutterman
Adage Capital Management, L.P.

J. Paul Newsome

Joshua David Shanker
Deutsche Bank AG, Research Division

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Presentation

Operator

Good morning. My name is Adrian, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2011 Conference Call. [Operator Instructions] 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

This is Dennis McDaniel, the Investor Relations Officer. We thank you for joining us on our third quarter 2011 earnings conference call. Late yesterday, we issued a news release on our results, along with supplemental financial information, and we filed our quarterly report on Form 10-Q. To find copies of any of these documents, please visit our Investor website, www.cinfin.com/investors. The shortest route to the information is in the far right column via the Quarterly Results quick link.

On this call, you'll first hear from Steve Johnston, President and Chief Executive Officer; and, Chief Financial Officer, Mike Sewell. After their prepared remarks, investors participating on the call may ask questions. At that time, some responses may be made by others with us in the room, including Executive Committee Chairman, Jack Schiff Jr.; Chairman of the Board Ken Stecher; Executive Vice President, J.F. Scherer; Principal Accounting Officer, Eric Matthews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer, Marty Mullen.

First, please note that some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties. And 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 the statuary accounting rules and therefore is not reconciled to GAAP.

With that, 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. It's no surprise after our recent catastrophe loss announcement that our earnings for the third quarter and first 9 months of this year were weak. We see evidence that our initiatives for improving profitability are working and I'll highlight some of the key indicators.

First and foremost, pricing continues to improve. Specifically, third quarter increases and average renewal pricing occurred in each property casualty segment in total and also for most lines of business within segments. For our commercial lines segment, renewal pricing moved into positive territory. Nearly 3 quarters of our commercial lines renewing policies had flat or higher pricing compared with the premium for the expiring term.

In our excess and surplus line segment, we have experienced renewal price increases for 13 constitutive months and the rate of increase progress during the quarter to a mid single-digit range. For our September excess and surplus lines renewals, approximately 90% of policies experience price increases.

For personal lines, we are beginning our third conservative year of higher home rental rates. On average, in the high single digit range and our personal auto rate changes also continued to be positive. Our level of commercial and personal pricing position continues to improve with the more thinly price risks getting significantly higher pricing.

Importantly, our agents also tell us that recently they have been able more able to sell pricing increases, and that our improved pricing position is a key factor along with some benefit from broad market trends.

Our third quarter and 9 month combined ratios are unsatisfactory. Yet, looking beyond the more unusual items, we find validation for our analysis that our pricing improvements are starting to translate into improved underwriting profitability. On the calendar year basis, the 9-month combined ratio before catastrophes improved by 0.3 points. Factor out the effect of additional 2011 ceded premiums from reinstating our property, catastrophe reinsurance treaty and that improvement was 2.0 percentage points.

On an accident year basis, the loss and loss expense ratio before catastrophe losses also improved after factoring out the reinstatement premiums and inherent variability of large losses.

We also remain confident about the strength of our loss reserves and development patterns. Our approach is consistent, aiming to remain solidly in the upper half of the actuarially estimated range, and we believe that is important for longer term financial performance. Reserve development on prior accident years through three quarters this year continues to trend fairly consistently with our experience during full year 2010.

Another positive we see, is targeted premium growth, resin premium growth again occurred across all segments, including life insurance. For our property casualty operations, agency new business is up 9% for the year, reflecting strong contributions from new agencies appointed in 2010 and 2011. Our goal is to selectively appoint 120 of the best property casualty agencies this year and areas we consider underserved. And we are all well on our way to reaching that goal by achieving 84% in the first nine months. We aim to grow selectively and profitably helping to pure growth in earnings.

Excellent service particularly at the point of sale, and at the time of our claim, continues to be our best form of advertising. Our team of field claim associates has been a vital part of great service delivery and they have closed 90% of more than 30,000 claims this year that has stem from whether related catastrophes.

We continue to execute risk management strategies, that we believe protect capital and put us in the position to profitably grow the company. One strategy worth highlighting at this time is our reinsurance program which strongly benefiting capital in earnings during this record year of storm losses. As we prepared to work with reinsurers to construct our 2012 reinsurance program, we believe we will successfully balance the risk related benefits and costs. As in the past we will consider data from internal and external models, including the AIR and RMS version 11' as well as other company information to evaluate various potential changes to our reinsurance treaties in alternative structures. We believe our long-term relationships with our reinsurers and use of multiple data points to estimate risk will help us to effectively shape our 2012 program.

I'll now to the call over to Chief financial Officer, Mike Sewell for his comments on results during the quarter in our capital position.

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

My comments will focus on investment performance, expense management and several capital related items. Net investment income rose 2% for the third quarter on a pre-tax basis, bond interest was up 3%, as the higher bond portfolio base offset declining yields. We have expanded the tabular [ph] disclosure in our Form 10-Q that shows that on a nine months basis, our bond portfolio pre-tax yield is 30 basis points lower than a year ago. Dividend income for the third quarter was down slightly, while it grew 5% on a year-to-date basis. In any given quarter, dividend income can vary based on the timing of dividend declarations or ex-dividend dates or due to timing of security sales in reinvestment of proceeds.

It was a rough quarter in terms of common stock market swings. Despite outperforming, the S&P 500 and Index, our equity portfolio fair value ended the quarter down 12% from its level at the end of June. Our bond portfolio had a nice gain in fair value during the quarter up 2%. Evaluations for our equity and bond portfolios in recent quarters have fluctuated of levels within what we consider normal variation and our investment approach remains consistent. Another consistent aspect of our culture, is careful expense management and we continue to invest more resources where it makes business sets including in the areas of field service, technology and data analytics.

Our property casualty expense ratio for the first nine months of 2011 improved by 90 basis points to 32.2%. We see the expense ratio continuing to benefit from future paying premium growth. We also expect to continue realizing policy processing efficiencies over time. As we leverage technology investments and further deploy performance metrics.

Net cash flow provided by operating activities for the first 9 months of this year at $148 million was less than a half the amount of the same period a year ago. That reflected highly paid loss and loss expenses, which were up $321 million net of reinsurance, mostly due to elevated level of catastrophes this year. The relatively low level of cash flow puts added pressure on investment income for us and other companies in our industry.

On the other hand, the industry-wide nature of this pressure may help our efforts in sustaining rate increase for our property casualty insurers segments.

During the month of August, we also repurchased over $1 million of our shares for approximately $30 million. The average price we paid was 17% less than the average daily closing price for the first 7 months of this year. The repurchase was funded principally through a July borrowing are one of our lines of credit. The terms for borrowing are very favorable including a floating interest rate currently under 1%. Our debt-to-total capital ratio at September 30 was 15.7% well below the 20% upper end of our target range. We ended the third quarter with excellent liquidity totaling nearly $1 billion in cash and marketable securities at the holding company level.

On January 1, 2012, we will be required to adopt a new accounting standard related to deferred policy acquisition cost, commonly refer to as DAC, which will have a negative effect on shareholders' equity. We have developed a preliminary estimate but this effect will be less than 1% of the September 30th shareholder’s equity and we anticipate using the retrospective approach upon adoption. Our capital remains strong and well positioned for capital management purposes and for growing our insurance business.

Last week, Moody’s Investor Service has performed our A1 financial strength ratings sighting our strong regional franchise, solid risk-adjusted capital position, consistent reserve strength, strong financial flexibility and significant holding company liquidity. Moody’s outlook is negative on concerns about high weather-related losses and weak operating profitability. We share those concerns, but our outlook is decidedly positive. We are confident we can bill build on the progress like our third quarter and 9-month loss ratio improvements and workers compensation and profitability of our excess and surplus lines operation.

I’ll wrap up my prepared comments by summarizing the contributions during the third quarter to book value per share. Property causality underwriting losses reduced book value by $0.32. Life insurance operations added $0.04. Investment income other than life insurance has reduced by non-insurance items contributed $0.43. The change in unrealized gains at 9.30, September 30th, plus realized capital gains from fixed-income portfolio increased interest book value per share at $0.31.

The change in unrealized gains at September 30th plus realized capital gains from the equity portfolio reduced book value by $1.53 or nearly 5%. And we paid $0.40 in one quarter per share in dividends to shareholders. The net effect was the book value decrease of a $1.47 during the third quarter to $29.54 per share. Adding the dividend, our value creation ratio for the quarter was negative 3.4%. While, that is clearly not the kind of result we want over the long-term, short term movements in the equity market can cause variability and our strong capital allows us to observe that during any given quarter.

That concludes my prepared comments, and I will turn it back over to Steve.

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

Thanks, Mike. Every associate in Cincinnati Financial is highly focused on successfully executing corporate department and individual goals. Restoring underwriting profitability is job number one for each of us. We are tackling it with improved pricing, loss control and expense control, as well as growth plans that incorporate risk management considerations. We are confident that will lead to future success and will benefit long-term shareholder value. We appreciate the opportunity to discuss our 2011 results during the third quarter and our future opportunities to grow shareholder value. Jack Schiff Jr., Ken Stecher, J. F. Scherer, Eric Matthews, Marty Mullen and Mart Hollenbeck are here with Mike and me and we are all available to respond.

Adrian, we're ready for you to open up the call for questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Mike Zaremski from Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

Would you be able to quantify the impact of what you believe to be unusual items maybe large non-cat losses this quarter?

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

Mike, this is Steve. I think we can do that on the personal lines segment. I think our systems were a little bit out of head there. We know that they are there for the commercial line segment, but we don't have a specific dollar amount they. But for the personal lines, it was about 2.8 loss ratio points on a year-to-day basis.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. So Ken, can you talk about kind of your outlook for continued pricing momentum in commercial and then somewhat related. Kind of -- what kind of rate increases you think you need in commercial and home to keep kind of working on the combined ratios loss cost trends?

Kenneth William Stecher
Non-Executive Chairman and Chairman of the Cincinnati Life Insurance Company

Well, that's a good question, maybe I'll take it first out and then turn over to J. F. I think - we think a lot here about all our rate increases keeping pace with loss cost inflation. We discussed a lot internally and it's really not that simple question, because we're not taking uniform rate changes across all of our policies, which makes a situation more dynamic one. We're taking more increases on the policies, we think have the highest expectation for loss and less increase on the policies with the lowest expectation for loss. So in addition to getting more rate, we think we're changing the distribution of risk towards the last risky policies. And this shifting of the distribution has a favorable impact on the loss constraint. And our other initiatives such as, how the way we're handling claims, loss control, risk inspection underwriting, we believe that's also having the favorable impact on our loss cost inflation. So I think what we consider on this, the answer is yes, that we believe that the rate changes we're putting in right now today will keep pace with our estimate of loss contemplation. And maybe I'll turn it over to J. F., in terms of a little bit of more color on that.

Jacob F. Scherer
Executive Vice President of Sales & Marketing

Yes, Mike, I'll just make a little bit more color. I think, one other things in terms of the atmosphere we're dealing with is that, as Steve mentioned in his opening comments that our agents are responding to us that they are better prepared to deliver rate increases. And that's a bit of a shift, over the last 3 or 4 months, I think the industry in particular Cincinnati insurance with the help of our predicted modeling -- integrated predicted modeling. We've seen agencies, be more receptive. A good example of what Steve just mentioned would be introduction of our property, liability and auto predicted models. We selected a sample of what we consider to be the most underpriced policies and which represented 3% of our policies. The loss ratio, the historical loss ratio on those policies was 116%. The 97% non-included in that group the historical loss ratio is 50%. And then to add more granularity, of the 3% of the policies that have the 116%, 30% of those accounts are loss free. So the approach that we're taking is to identify the policies at good model and our experience tells us, we need the most rate and in a somewhat surgical approach, go to our agencies, identify those accounts that we need to be underpriced and take aggressive action.

Price is an important lever, that to pull that as Steve mentioned a lot of the other initiatives that we're in the middle of that, that we think are going to help us, are going to improve the loss ratio as well. He mentioned in claims and I'm sorry to give long-winded [ph] about it, but I think this tells a bigger story. And then on workers comp claims we have a call center now, were claims are called in directly to the company. We've reduced in two years, less than 2 years the number of days between the date of loss and the date of report from 8 to 4. That's a significant improvement that reduces our cost. We have more claims -- workers claims specialist out on the field, our medical bill rate pricing is taking hold, loss control department has grown from 54 individuals to 69, so there are variety of things that we are doing. Price being one of the important ones that we think we're going to continue to improve the loss ratio.

Michael Zaremski
Crédit Suisse AG, Research Division

If you don't mind, if I interject. On a workers' comp, we've been hearing about price increases, you guys -- are you seeing anything in terms of frequency and you feel confidence that you'll get price increases, and workers comp has been an issue?

Jacob F. Scherer
Executive Vice President of Sales & Marketing

Well, on pricing, the workers comp pricing, we innovate for us, where we are having lot of success and improving in our workers comp pricing. As far as frequency is concerned, we're continuing to see, how that Marty Mullen our, our Chief Claims Officer comment on the frequency, that's I think pretty stable.

Michael Zaremski
Crédit Suisse AG, Research Division

Yes. Actually, through 9 months were down on new claims activity 7% through the same period in 2010?

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

I am Mike, I'll add just a little bit on the mortgage and right on with the lower climes on a year-to-date basis. We do have a little bit of cyclicality in terms of the comp claims. Historically, the third quarter is always high for the number of claims, as we think the business activity that was a lot of our customers and contractors, I guess specifically and the summer months is higher. So the overall trend is definitely favorable, as Marty described, there is a little bit of cyclicality in the third quarter that we see.

Operator

The next question comes from the line of Vincent DeAugustino from Stifel, Nicolaus.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

I just like to guess first start of with the capital management question and hit a follow-up if I may. I guess looking at the 3 senior debt issues that you have in given current low interest rates out there, is there any opportunity to maybe restructure that either in terms of duration or just refinancing to that, capture some interest rate saving there, is that just not that easy?

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

Hey, it's probably not [indiscernible] it's probably not necessarily that easy. But we have been looking at that and it's -- what we've got up there right now, there is really non-callable, so it would be a very difficult to bring that in. But we do work as we're evaluating our capital needs, whether or not, we want to borrow long-term fund, short-term funds, or need anything. So as you heard in my prepared remarks, we did borrow somewhat on line of credit, the short term borrowing, the credit rates are very favorable for us, and we put that mainly to use with the share buybacks. So we felt that was prudent, but we're looking at that and considering it throughout each quarter.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And I -- you brought it up. In terms of the buybacks, I mean in terms of understanding that this is probably one of the more over capitalized insurers out there. I'm curious why not, I guess, use cash to get those done and then I guess also with the buybacks in third quarter '11 certainly provided good buying opportunity, in terms of the price, but I'm just curious if that was the extent of that or if buybacks would likely be a tool that we could see obviously given the other conditions in the market?

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

That is something that we're consistently looking at and we made the decision in the third quarter to basically return some of that capital of $30 million worth and we felt that, that was prudent at that time. Whether or not we will continue that, we will be looking at that from a quarter-to-quarter basis. We do talk about that amongst the senior management team and get advice from the Board. And so, we will be considering it in the future. I don't know we'll do it.

I don't know, Steve, if you have any additional comments?

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

Well, I agree with you Mike and just I guess the only additional color at the end is that we did in addition to the dividend by $30 million in that period where we're experiencing really record level catastrophe losses. So I think I agree with the point you're making that we are strongly capitalized and even in such an environment are in position to repurchase shares.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

That's great. If I could slip one in there, follow-up. Looking at worker's compensation and commercial casualty lines on an ex-cap, ex-reserve development basis on the loss ratio, it looks like there are some year-over-year improvement there for this important there for this 2 important lines and I'm curious if you have any sense of the factors driving that for example maybe half is driven by market forces and the other half driven by the underwriting actions that you've taken that sort of framework if you have any sense?

Jacob F. Scherer
Executive Vice President of Sales & Marketing

Vince, this is J. F. again. I went through a couple of items just previously in terms of -- particularly our worker's comp line, where we think we have contributions on the claims and we believe that, that's a fairly significant reason for the improvement between claims enhancements and loss control initiatives that we have in both of those lines. Those are both adding to the improvement in loss ratio, we can understate the value of the modeling that we're using right now as well that's guiding our underwriting to small pricing position, greater confidence to press for pricing increases on certain accounts. 3 years ago, we didn't have that tool available to us and it's clear that that's improving our results.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. So I mean you you'd be safe to say that you'd probably expect the majority of the to be from active management and you guys as part to oppose to just market forces in terms of price and loss cost absolutely. And when I mentioned a few minutes ago about the 3% of the policies, that's a good example in our view that 97% of our policies are really indicates that, that's a fairly low percent to say that we're not going to get some modest increases on those as well, but we're taking, I think, a real aggressive approach in a lot of areas that we weren't taking several years ago.

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

]

And just -- this is Steve, just to tie a little bit there. As we look at segmenting of the risk within comp. For those that we feel we have the highest expectation of loss with our new pricing models, we're getting about 5x the rate increases on those risks that we are on those that have the better expectation for lower losses.

Operator

And the next question comes from the line of Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I was wondering a little bit more on workers cum trainers and how the math works a little bit. Obviously, you're seeing some improvement on the accessing your combined ratio here. You are also giving a lot of favorable development and then we go back a couple of years where the ratios were very good, but you're having unfavorable development. Can we talk about -- let's say, the years that are being reserved for, I presume, you are adding the cushion for stuff you're wearing today. How does it different accident and you're sort of ash out and thinking about where the moments are coming from?

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

Josh this is Steve. I'm not sure I'm quite up to speed with your question, whereas, where you've asking from which years, which accident years where we are seeing the favorable development just at this time?

Joshua David Shanker
Deutsche Bank AG, Research Division

But, to some extent, but also pointing out that it's a line that you have some problems, that you're restructuring, but there is also a significant amount of favorable development coming out of it simultaneously. So I'm just trying to reconcile those two things and understand the different years and how things have sort of evolved there.

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

Okay. Yes, I'm with you now. And we do feel that it's, the main point we make is that we are consistent in our reserving approach. We did increase reserves back in 2009, where we think we were ahead of the curve in terms of recognizing the workers comp could be an issue. We got our reserves up there and so now we are seeing a favorable development on that and again through a very consistent process and we're getting in across a number of the accident years. As we look at the development, I can't say that it's the new years, the old years, to the extent, we get some development form the more recent year is just because there is more dollars up and an immature here. And I guess the key point to get across as we're being consistent in our approach, we're not playing any games to try to take out in the soft market and put it back in the hard market. It's very consistent and systematic approach across time.

Joshua David Shanker
Deutsche Bank AG, Research Division

I guess another way, which use are you seeing your pricing has not be adequate, where does it turned in your history on that line, where you started having net unfavorable developments I guess, growth, there was more than the net favorable I guess?

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

I guess, I don't know what point, we were negative, kind of -- I'd say, we've written in the present, looking forward and feeling that right now. We are getting rate in excess of loss cost trends and it is showing up in the favorable movement in our accident year comp results.

Joshua David Shanker
Deutsche Bank AG, Research Division

And one of those lines in the prior question, you are speaking more generally about the business, you are saying that your rate increase are keeping pace of loss cost trends, is that even or is that you think there is excess or where do you stand on the -- on your forecast on loss trends?

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

Actually I think -- I hope I said, I think we are actually ahead of making ground on our rates right now, or in an access, we feel of the loss cost trends.

Operator

And the next question comes from the line of Matt Rohrmann from KBW.

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

I just wanted to touch quickly back on pricing, obviously last couple of quarters we've seen some more positive commentary, of course on personal lines for obvious reasons. But it seems like commercial lines and ENS things of -- moving in the right direction. Steve, I was wondering if you could kind of talk may be line of business just about where you're seeing the pocket of strength as opposed to weakness and has the dynamic between new and renewable business change though?

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

I might ask J. F. to take a swing at this one, Matt.

Jacob F. Scherer
Executive Vice President of Sales & Marketing

Well, as far as line of business is considered, as we mentioned, workers comp is leading the way as far as pricing increases, net rate increases. Every single lines, all of our lines showed positive moments. As we look into the fourth quarter on policies that we've already issued or quoted, we see an acceleration of the improvement in pricing. So I guess -- I want to make sure I answer your question, but I think across our lines, we're seeing improvement improved. We did introduce early in the third quarter, right in the second quarter, we predicted modeling and pricing guidance in our casualty property and auto lines. And I would suspect that, that will also help us accelerate some of the pricing increases that we're going to see moving forward. So did I touch all you're asking?

Operator

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

J. Paul Newsome

I have 2 separate questions. One is on the competitive front, usually when you see renewal price increases or rates increases, there is someone else back in out of the market. Who do you think, can you characterize who is less competitive now than they were, say 6 months ago?

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

Paul, this is Steve, I'll take -- how much of the [indiscernible] is this. I don't see in our discussion what's the agency, a particular name to give to you. I think everybody has their own unique strategy and we have ours, and I'm not aware of any particular competitors that I would call to, is becoming less competitive. But I'd like to see if J. F. has [indiscernible].

Jacob F. Scherer

Executive Vice President of Sales & Marketing

I wouldn't contrast national to regional. I think that's a as just Steve described that it - the best way, I can -- every single carrier is trying to be a surgical as they can. And we don't see the carnivorous activity in the new business area. I think our agents aren't feeling that the instance. One off extreme examples on the new business side, where there is aggressive pricings has subsided a bit. So it's - and from our standpoint -- from our standpoint, a lot of our new business activities coming from newer agencies, newer states, so that's expected. We will expect that to happen. So I really can't I made many, on either Paul.

J. Paul Newsome

And my second question is investment question. I'd like to see if we can handle on just how much is the fixed income portfolio, may be rolling of in the next year or so. And what could that do to investment returns on the fixed income book, as we given the lower interest rates environment?

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

Paul, it's Marty Hollenbeck. It's -- for remainder of 2011 that in the fourth quarter about 1.3% of our fixed portfolio loss at 5.1% book yield 2012 and in 2012 it's about 5.7% and 5.4% book yield. To give you one more year 2013, 8.5% and 4.7%. So we are -- our reinvestment rates is great now or actually at lower rate and we've been losing probably on average 8 to 9 basis points in the quarter over the last 2.5 years in book yield. So we kind of give you an idea of the run rate.

Operator

Our next question comes from the line of Doug Mewhirter from RBC Capital Markets.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

I've had 2 questions. First, could you, Jeff or Steve, maybe comment, maybe the demand side for -- on your commercial customers, are you seeing favorable trends in audit return premiums. Are you seeing more -- what kind of unit growth trends are you seeing given that your commercial policies are somewhat tied to economic activity?

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

Good question, the Steve. I'll just give the number and then turn it to J. F. for the color it. We are seeing a favorable moment there and the increase in audit premium contributed about $8 million to our own premium this quarter.

Jacob F. Scherer
Executive Vice President of Sales & Marketing

And, I guess, just by way of taking a look at our book of business, a substantial amount of that is in the construction area. So in terms of how we are viewing the marketplace, construction is not particularly recovering. So in terms of any increase in unit counts or payrolls or sales, we are not seeing that in a construction area. We are seeing it in the manufacturing area. We're like -- we are a player in the more light manufacturing, so there is some improvement there. But for states like Texas and some areas where there is slightly more government spending, we are not seeing a lot of increased demand.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

Okay. That's helpful. My second question, you may have mentioned it in your opening remarks or your release. But did you -- what were your net agency appointments in this quarter, through the number of agencies?

Jacob F. Scherer

Executive Vice President of Sales & Marketing

Well we - our goal this year is 120, I believe we're at 101 through the third quarter of this year. And so - and just by way of just a little bit of commentary on that, I like to say we'll finish the year at 121, 23 of those will be in new states. We've done a fairly good job in Texas, Colorado and Oregon and adding agencies there. But 78 will also come from what we would consider to be established dates but as he said in his opening remarks we consider it to be unreserved. So if you will, we be not only are expanding in the newer areas, but we're also refreshing our agency plant is needed throughout the country.

Operator

[Operator Instructions]. The next question comes from the line of Ian Gutterman from Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I had a follow-up on couple of things. The earlier question about non-cat weather on the personal lines, I think you gave year-to-date, you have that for the quarter?

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

No, Ian, I don't have it for the quarter. I don't know if anybody else in the room has it. I have it on the year-to-date basis, but not for the quarter.

Ian Gutterman
Adage Capital Management, L.P.

Okay. The reason I was asking, is it -- I'm looking at you homeowners loss ratios x development, X cats, for all of last year, in the first quarter this year, or is was roughly around to 70 and then went up to a 98 last quarter and 86 this quarter. I'm wondering why there has been such a stock upwards movement in last year quarters ex-cat?

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

Yes. Let me just - the way I look at it is comparing the full year of 2010 to 2011. And I think explaining that and that's kind of why I had the full or the year-to-date number of 2.8 on the ex-cat also from our reinstatement premiums, that's an additional 2.4 points. And this is for the entire personal lines segment not like just homeowners. I think, if we look in that regard is where we see that we're. It's been a tough year, it's been tough year for personal lines. I think when you consider both of those factors, the reinstatement premium at 2.4 points the x-cat whether at 2.8 points. It puts us in a pretty good position. And I think more important and again being forward-looking, as we follow these personal lines rate changes thus far, building a considerable cat load, I think it's about 26 loss ratio points on the homeowner side. We feel we're going to be at a run-rate where our homeowner's rates will be sufficient to get us to 100 combined ratio on a go forward basis on a written basis. So that's the way we're looking at personal lines at this time.

Ian Gutterman
Adage Capital Management, L.P.

All right. That's helpful. Also on the new business you made the comment about -- in the press release about the growth from the Asian side last year, which is obviously a good sign, but if I sort of backed it out and applied new business from -- the order agents was down in the quarter, can you -- I don't know what call that in the past, is there been a decline at the order agents and what may be driving that?

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

Hold on Just a second here, I'll get the information. So we had no other, in fact this quarter was actually a pretty decent quarter as far as new business coming from existing agencies. We had -- from our established states, an 8% increase in new business, the 32 of what we would call established states and then from the newer states a 19.7% increase. So we're satisfied across-the-board, with how things are going.

Ian Gutterman
Adage Capital Management, L.P.

Okay, great. And this is my last one, as far as, and at the nation's signs of better pricing. Is there anything you've seen from a type of account or whether it's package versus smaller line or 3 year versus one year. I mean, any sort of trends popping up or is it a more broad-based?

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

I don't think, it's broad-based. I don't doubt for a minute that -- and we're -- as we use our 3-year policy in this marketplace where there is a recognition, I think in the marketplace that rates are going to start rising. We're taking a duel approach on our pricing, where we will offer a one-year policy price and then a much more aggressive, but that I mean a higher price on three-year policies. So I do think that the advantage we enjoy with our three-year policy will probably benefit us, as time goes on, as far as new business is concerned.

Ian Gutterman
Adage Capital Management, L.P.

Okay. So that, is that differential wider than normal I think, because that was going to be my follow-up was, is there any signs of agents we're going to start kind of lock industrial policies before rates move up?

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

The differential between one year and three prize press is wider than normal. And, yes, I do think agencies will start trying to lock in.

Operator

And the next question comes from the line of Vincent DeAugustino from Stifel, Nicolaus.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Just one follow-up and apologize if I have had missed It, but in terms of the besides the back guidance from the 10-Q it looked like the book value per share impact should be limited to about $0.15 to $0.30 if I'm thinking about that correctly?

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

Yes. This is Mike. So that's correct. We really don't think it's going to really have a material impact.

Operator

And there are no further questions at this time. I'll turn the call back over to the presenters.

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

Well, thank you for listening to our long-term perspective, and now our agent-centered business model and our investment approach build value over the long term. We look forward to speaking with you again on the fourth quarter call. Have a great day.

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