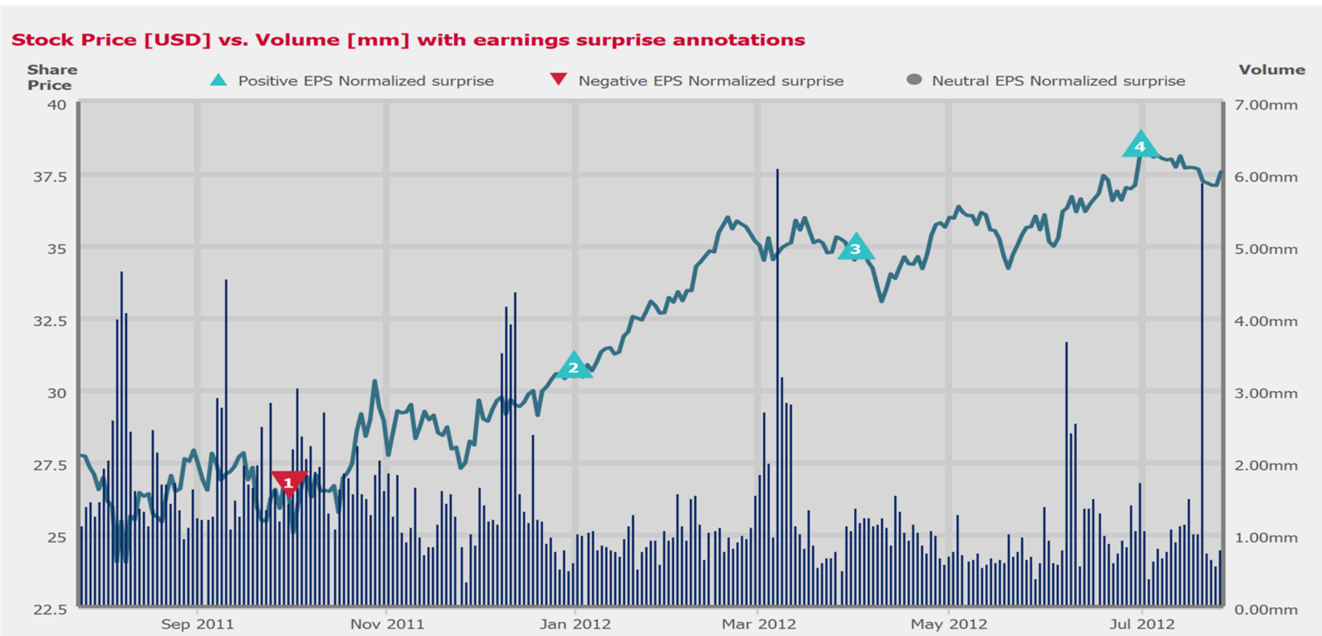
S&P Global
Market Intelligence

Cincinnati Financial Corporation
NasdaqGS:CINF
FQ3 2012 Earnings Call Transcripts
Friday, October 26, 2012 3:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.41	0.64	▲56.10	0.47	1.69	1.68
Revenue (mm)	1020.63	1035.00	▲1.41	1042.37	4060.83	4331.72

Currency: USD
Consensus as of Oct-26-2012 4:00 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	0.16	0.13	▼(18.75 %)
FQ4 2011	0.56	0.86	▲53.57 %
FQ1 2012	0.40	0.48	▲20.00 %
FQ2 2012	0.12	0.17	▲41.67 %

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Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Martin Mullen

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

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Ian Gutterman
Adage Capital Management, L.P.

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Raymond Iardella
Macquarie Research

Ronald David Bobman
Capital Returns Management, LLC

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

Presentation

Operator

Good morning, everyone. My name is Sarah, and I will be your conference operator today. At this time, I would like to welcome you all to the Cincinnati Financial Q3 2012 Financial Results Conference Call. [Operator Instructions]

I'd now like to turn the call over to our host, Mr. Dennis McDaniel, Investor Relations Officer. Sir, you may begin your conference.

Dennis E. McDaniel
VP & Investor Relations Officer

Hello, and thank you for joining us for our third quarter 2012 earnings conference call. Late yesterday, we issued a news release on our results along with our supplemental financial package, including the final version of our quarter end investment portfolio. To find copies of any of these documents, please visit our investor website www.cinfin.com/investors. The shortest route to the information is the quarterly results link on the navigation menu on the far left.

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 in the room with us, including Executive Committee Chairman Jack Schiff Jr.; Chairman of the Board, Ken Stecher; Chief Insurance Officer, J.F. Scherer; Principal Accounting Officer, Eric Matthews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer, Martin 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. 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.

With that, I'll turn the call over to Steve.

Steven Justus Johnston
President, CEO & Director

Thank you, Dennis, and good morning, and thank you for joining us today to hear more about our strong third quarter earnings and operating performance.

Looking first at property casualty Insurance, our 94.8% combined ratio was our best so far this year. We've now posted 3 consecutive quarters with the combined ratio before catastrophe losses below 90% and that followed 90.4% for the fourth quarter of last year.

Furthermore, our property casualty combined ratio for the first 9 months of 2012 is a good indicator of progress on our strategic initiatives. On both a current accident year and calendar year basis before catastrophe losses, it improved by about 10 percentage points from a year ago.

As for premium growth, each of our property casualty segments experienced double-digit increases in third quarter net written premiums. Property casualty underwriting results, both profitability and premium growth continued to benefit from higher and more precise pricing in the third quarter. Commercial lines renewal price increases on average were in the mid single digit range and were up slightly from the second quarter. Workers' compensation in smaller commercial property policies again led the way.

Our excess and surplus lines segment had higher renewal prices for the 25th consecutive month. The increases were in the high single digit range, which was slightly higher than the second quarter.

Personal lines renewal written premiums were up 11% for the third quarter and first 9 months of 2012 with rate increase and policy account growth each contributing about half. New business written premiums from the third quarter and 9-month periods grew at a double digit pace for both our commercial and personal lines segments driven by higher pricing and the cumulative effect of new agency appointments.

Our pricing analytics and modeling tools continue to indicate that our new business pricing is adequate and stronger overall than for our renewal business. These tools give us confidence to compete for good accounts and to avoid the underpriced ones. Also the increase in new business production over the last year's third quarter was evenly split between more newly appointed agencies and more established agencies.

One area that needs our focus is underwriting for property-oriented lines of business. We are working through several initiatives in addition to higher pricing to improve results. Those initiatives have several key components. We now have more specialization and enhanced expertise amongst our underwriting and loss control associates. We're increasing the number of properties we inspect as part of new business and renewal underwriting and we're making greater use of wind and hail deductibles in areas prone to convective storm losses.

Turning briefly to investment income, it has been fairly steady for the first 9 months of this year with growth in the third quarter due to a spike in dividends from our equity portfolio. Similarly, our life insurance business including these investments generated a 9-month 2012 operating profit to match last year's despite declining bond yields.

Term life insurance, our largest life insurance product line grew earned premiums at a high single digit rate for both the third quarter and the first 9 months of 2012. We're making good progress overall. Our associates are committed to providing the highest level of service to our agents and we all remain focused on creating value for shareholders. Our value creation ratio was strong in the third quarter.

I will turn the call over to Chief Financial Officer, Mike Sewell to explain the components that drove that result.

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

Thank you, Steve, and thanks to all of you for joining us today. Our third quarter value creation ratio was 5.4% including 1.3% contribution from our dividend to shareholders and 4.1% from the change in book value per share. I will now review the components for the third quarter change in book value per share.

Property casualty underwriting increased book value by $0.18. Life insurance operations added $0.05. Investment income other than life insurance and reduced by non-insurance items contributed $0.42. The change in unrealized gains at September 30th, for the fixed income portfolio net of realized gains and losses raised book value per share by $0.48. The change in unrealized gains at September 30th, for the equity portfolio net of realized gains and losses raised book value by $0.56 and we paid $0.4075 per share in dividends to shareholders. The net effect was a book value increase of $1.29 during the third quarter to $32.95 per share.

The third quarter was a good example of the benefits of our equity investing strategy in midst of a low interest rate environment. Our common stock portfolio experienced higher than usual dividend increases in the third quarter contributing to a 17% increase in dividend income. That growth pace is unlikely to continue in the fourth quarter of 2012 as timing differences in dividend payments from our current holdings will create a difficult quarter-over-quarter comparison. Yields for our bond portfolio continue to edge lower with the reported third quarter 2012 pretax yield of 5.10%, down 15 basis points from a year ago.

Our bond portfolio's effective duration remained steady at 4.3 years. We continue to put money to work in both our bond and stock portfolios, but in recent months the allocation to the stock portfolio has been relatively higher. Strong cash flow is also helping our investment income. Consolidated net cash flow from operating activities for the first 9 months of 2012, stands at $433 million. That total is already within a $100 million of full year 2009 and 2010 and it already exceeds the full year 2011 by $186 million. Both our stock and bond portfolios had nice valuation gains during the third quarter reflected in a fair value being up 7% and 1%, respectively. The stock portfolio's unrealized gains now exceed $1 billion before taxes and its fair value represents just over 1/4 of invested assets.

In terms of the liability side of the balance sheet, we continue to emphasize a consistent approach to loss reserving. Through the first 9 months of this year, our combined ratio benefited from 10 percentage points of net favorable reserve development on prior accident years before catastrophe losses, very close to 9.9 points for the same period a year ago.

Every major line of business contributed to the favorable development for the first 9 months, which totaled $287 million including catastrophe losses. Our 9 month net favorable development was again spread over several accident years including 33% for accident year 2011, 22% for accident year 2010, 20% for accident year 2009 and 25% for all older accident years.

Finally, financial strength and liquidity remained excellent. We ended the quarter holding over $1.2 billion in cash and marketable securities at the parent company level, up 19% from June 30.

In conclusion, our capital remained strong and is available to support continued premium growth in our insurance segments and other capital needs. With that, I will turn the call back over to Steve.

Steven Justus Johnston
President, CEO & Director

Thank you, Mike. The multi-quarter pattern of improving underwriting performance together with our history of strong fourth quarter results provides many reasons to be optimistic about the company's future. Still, the operating environment remains challenging and we have lots of room to improve. We are determined to maintain keen awareness and continue taking action where needed.
We appreciate this opportunity to respond to questions about our results and prospects for the future. With Mike and me, today are Jack Schiff, Jr., Ken Stecher, J.F. Scherer, Eric Mathews, Martin Mullen and Marty Hollenbeck. Sarah, we're ready for you to open the call for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Mike Zaremski of Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

We could take this offline if it's too complicated but with Sandy coming I thought it was worth asking. There were some language in the Q I think about the reinsurance treaties. Looks like there is some kind of movement, is there anything that we should know that's going to change given losses year-to-date that we should -- that could just, I don't know, impact 4Q? That's my first question.

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

Yes. This is Mike Sewell, and if you would like we can talk offline. But we do with our reinsurance, our attachment point is at $75 million. We had 3 catastrophe losses that so far have clipped into the first layer which is $25 million excess of $75 million. So those 3 losses at $89 million -- 2 really at $89 million, 1 at $78 million have clipped it. So therefore, at least as of right now we would collect $16 million on that. So we will have reinstatement premium but we still have -- still some reinsurance in that first layer before we move onto the second layer, which is above $100 million.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay, that's helpful, and related, was there some adverse development on 2012 catastrophes in the quarter?

Steven Justus Johnston
President, CEO & Director

Mike, this is Steve. Not on 2012. I think we are fine on -- I mean on 2011. I think on 2012 we do have some things to talk about and I'll turn it over to Marty Mullen at this point.

Martin Mullen

Yes, thanks, Mike. This is Marty. As we stated on our second quarter call, our $35 million estimate as of June 30, did not include any provisions for losses that incurred for July 1 and 2. That event was still fairly recent when we reported the second quarter results on July 26. In fact, the total event was quite large and covered 10 states including Ohio, which is by far our largest state in terms of premium volume. It was a 4-day event, and it resulted in over 7,000 reported claims for us. We have about 80% of those claims are already settled and although we still do receive some claims even through -- to date in October.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And lastly, so in commercial auto, I see there were some adverse developments. It seems that the entire industry has been grappling with some commercial auto issues for a while now. Could you talk about what's the driver of the average development and how commercial auto is trending?

Steven Justus Johnston
President, CEO & Director

Sure, great question. We are keeping a close eye on commercial auto. This is Steve and I'll take a stab at it and turn it over to J.F, if he has anything to add. I think what we're seeing is, I think there was an impact from the recession or the economic downturn that we went through. We're actually business insurance, the driving is more related to economic activity than maybe say personal auto. And so, as we went into the economic downturn, we actually saw improvement in commercial auto results. I think it was somewhat driven by or at least influenced by the downturn. I think as we come out of the downturn now, and we're seeing somewhat of a recovery, it's kind of a mild recovery, but we are seeing recovery. We're seeing some deterioration in the results of the accident year subsequent to the downturn. For us, looking at the current accident year the forecast on a year-to-date basis were 72.2% which is about equal to where we were through 9 months of last year. We did see some adverse development of 4.9 loss ratio points during the quarter, but as I look at it quarter-by-quarter, going back over the past 2 years as we show on the supplement, we've actually seen some quarters with considerable favorable development, a few with adverse development. So I kind of try to look at the big picture there and I think that we've been very consistent in our approach of reserving. I do think, in terms of a positive, that we are getting rate in commercial auto and that that rate is in excess of what we're seeing in terms of our loss cost trend, but we're going to keep an awful close eye on it, continue to get rate where we think it's needed and look for improvement in the future.

Operator

Your next question comes from Vincent DeAugustino of Stifel, Nicolaus.

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

If I go back to the 3Q '11 press release, I think it was the first time or one of the first times that you had mentioned commercial lines renewal pricing had just turned slightly positive. So I'm curious now that we've worked for about a year past that, if you'd know how much on a percent basis of your 3Q '12 renewals are seeing year-on-year price increases. And then I'd also be curious of your thoughts maybe now initially, if as we work through the next few quarters, if we should expect because of the year-on-year compounding if renewal rate increases should maybe taper off in the next few quarters as you get rate on rate, or should the current run rate keep persisting on the commercial lines renewal.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Vincent, this is J.F. What we're seeing is I think a fair amount of stability and the rate increases that we are getting. The atmosphere that exists there in talking with agencies about their individual accounts and just pricing in general, is that there is an expectation that pricing increases will continue and there is very little pushback. As we have talked before if you get into some very large accounts, very good accounts that get into the marketplace, there is still a fair amount of new business competition out there. But in terms of what we've seen with net rate increases rising slightly in the mid-single-digit range, we don't have any reason to believe that that can't be sustained through next year.

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

That's excellent. Kind of happy to be able to ask this question, it's nice to see you guys catch a break on weather and see some nice core margin improvement. So if I -- in that light, if I look at the holding company cash, it was about $1 billion a year ago, and now it's sitting about $1.2 billion. So should I think about the $1.2 billion as the new maintenance level or should we look at that maybe that the delta $200 million being net deployable capital, and if it's the latter imagine maybe an ordinary dividend increases in the cards. But what other options would you look to if you were thinking maybe $1 billion in holdco cash as the actual target?

Steven Justus Johnston
President, CEO & Director

Thank you, and good question. We look at our capital pretty holistically. I don't think we really, really have a target. We do like to see that $1 billion in cash and marketable securities with the holding company. But we want to have plenty of cash to grow, to pay our dividend and we have got this record now of going into next year of looking at 52 consecutive years of increasing it, and so the dividend is important. I think we are also looking at repurchases. In terms of our capital management it has been behind dividend in terms of our emphasis but we'll look at all those measures in terms of ways to deploy the capital.

I think also we have a good investment strategy and I think this is the first year in a while that we've actually increased the amount of cash that we've deployed in terms of buying common stocks and I think that's a positive. So I think as we look at the cash and marketable securities at the holding company on a go-forward basis, we feel pretty good in terms of fueling our growth and our capital management initiatives.

Operator

Your next question comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

We are talking about 1,200 to 1,300 basis points of margin improvement from 3Q '11. Now let me just say a compliment first, most insurance companies try and smooth out the results, but it's you guys who take volatility away from others and so it makes sense you guys should have some volatile results. But I am wondering if we can walk through maybe piece by piece, how we get down such a dramatic change from the sort of ex- cat, ex-prior year development combined ratio of 1,300 basis points of improvement?

Steven Justus Johnston
President, CEO & Director

Sure, Josh. This is Steve, and let's work through this together and make sure we're giving you the detail that you need. I think it's been a combination of a lot of things. We've been getting more rates. In addition to overall rate, it's being able to more precisely put the rate where the rate is needed and so I think the modeling that we're deploying is really helping to shape our book in a better position.

Joshua David Shanker
Deutsche Bank AG, Research Division

What do you think your rate in excess of loss cost was over the past 12 months?

Steven Justus Johnston
President, CEO & Director

Well, I guess, Josh, I'm a little more forward-looking than that, I'm more interested in as we take rate and we look at trends, I think of trends as where are we going to be next year with loss costs and are the rates that we are taking now and we'll take next year be above the loss cost that we'll see next year. Because as you mentioned there is a lot of volatility that goes into the history of loss cost, but basically we kind of see rate making as prospective. We're trying to look at next year in terms of estimating what are the accident year loss costs are going to be and are we getting the rate in excess. I guess just in terms of what we disclosed, we feel that we're above that, but I don't know that I could really quantify in terms of basis points the amount. And again, as you point out, there is a range around where we would see forecast for next year's loss cost. But we feel pretty confident that we are getting the rate that we need in excess of where we see our loss cost trends going next year.

Joshua David Shanker
Deutsche Bank AG, Research Division

What do you peg at the 3Q '11 combined ratio impact of large non-cat events -- I guess the differential between 3Q '12 and 3Q '11?

Steven Justus Johnston
President, CEO & Director

In terms of that I look at it more on a year-to-date basis, we've got little more specifics on the homeowners. We keep closer eye on that and so I think year-to-date we've seen about little less than 7 points of improvement in the ex-cat weather. I tried again to look at -- we tried to look at in a big picture too, and with ex-cats we can't invest ex-cat dollars and we can't invest non-weather -- or ex-cat non-weather type dollars. We can only invest our overall net income. So we're looking at it from the total of trying to do everything we can in terms of pricing, underwriting, inspection, managing our exposure so that we generate positive operating income, positive cash flow and positive net income.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Josh, this is J.F. I might add just a little bit to what Steve just said about what we are doing on the underwriting loss control and claims side. We are putting an awful lot of effort into increasing our loss control division of our company and ramping up the amount of physical inspections that we make of the property we insure both in homeowners and in commercial lines. Worker's comp, we made a lot of progress in worker's comp, specialization on the claims side, call center on the claim side and loss control, especially the loss control as well that's contributed a lot of improvement. So I think pricing, as Steve already has described has been a good contributor. But we do have a lot going on in the claims and loss control and underwriting areas that are really contributing I think to the overall results as well.

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you by any chance, or maybe you don't want to disclose it, have a sense of most improved states?

Steven Justus Johnston
President, CEO & Director

Most improved states, J.F. do you want to?

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Well, in the worker's comp area of course there are a few states that jump out at you as far as being fairly tough environment. Illinois would be one of those. So we probably have been more conservative and put a lot more effort into improvement of loss control results there in Pennsylvania. But in all honesty I think we are spreading what we are doing from an underwriting standpoint throughout all states. And beyond that I really couldn't say if there is any state that stands out.

Steven Justus Johnston
President, CEO & Director

Josh, I might tack on to this, because we talk about this quite a bit. And I'm pretty strong in trying to articulate that what we want to focus on is the next policy that we write no matter where it is, what state, what line, that we really understand the risk, the attributes of that exposure and that we get adequate risk adjusted rate for the next policy that we write, whether it's in Ohio or one of the new states, but wherever we write on an incremental basis we want to next policy to have adequate rate on a risk adjusted basis to cover the exposure.

Joshua David Shanker
Deutsche Bank AG, Research Division

And if I can one more question, because I think we have time. When you look at your desire to become ideally the #1 or maybe the #2 provider of insurance for your agency distribution channel, when you think about this year versus last year or the year before, successful conversion of that goal, what are the reasons why some years are better than others and what have you guys done in the past year that's really accelerated improvement along your long-term goals in that regard?

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Josh, this is J.F. Well, certainly in a softer market where you have quite a few carriers using the price lever to gain better shelf space in an agency that does impact things. There is a certain amount of inconsistency in the marketplace right now in terms of some companies driving rate maybe a little more strongly than some agencies would appreciate. Our 3-year policy, the way we handle claims, the fact that we don't appoint many agencies in an area, all of that, no one thing is the winner, but all of that causes agencies to focus a little bit more intently on doing business with us. I'd say one of the things that probably, as we report this type of a metric, will have an impact is that there is a lot of merger, acquisition activity in the independent agency system. We're finding that fortunately that our agencies are in some cases merging with others. That creates a lot more critical mass within the agency and since we weren't in the new part of that partnership, we may fall out of the #1 or #2 position. We do maintain our position of being a consequential partner for our agencies and that's the important thing. We want to be thought of as a company that contributes most significantly to our agencies' success. So that continues to be our goal. We think that's important. We're not going to be a big player if you will in agencies and fortunately based on all of the contributions we can make, agencies give us an opportunity to do it.

Operator

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

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

I was hoping you could give us some thoughts on how things may change in your personal lines business now that you've had a little bit of reorganization with J.F.'s promotion?

Steven Justus Johnston
President, CEO & Director

Well, Paul, it's a good question. I think you know as everyone that's followed our company can see the results have been a bit stubborn with personal lines. I do think that everybody is teaming up together, collaborating well to work to improve results. I think bringing J.F. to the table here to lead this effort is going to be extremely positive for our company. He brings many years of experience and expertise. I think he wrote his first Cincinnati homeowners policy in 1974, so he is committed to personal lines and we think we're going to see an improvement.

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

Are there any specific plans other than just trying to do the usual that you've thought about here or are you not quite there yet?

Steven Justus Johnston
President, CEO & Director

We are taking a close look at everything and maybe taking a close look at everything in a new light. But we will be executing the blocking and tackling and the same efforts and new efforts that we think will drive us forward.

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

Then on the E&S business, obviously I'm sure you want a combined ratio that's better there than you've had and this is obviously small too. But is that in your view mostly about rate to get that combined ratio there up? Is it scale -- are there still scale issues there, maybe just a little refresher would be great?

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Paul, this is J.F. On the E&S results, I think you may have noticed in the release that there is a more difficult comparison to the third quarter of last year due to a larger IBNR reduction from last year. We did have and I guess there was just a little bit of unusual number of larger claims in E&S. We continue to grow very quickly. We will finish the year somewhere around $105 million in our E&S book of business. So we are reserving as we do on other lines fairly conservatively. So it's a bit hard to drive the combined ratio down below a 100% with the fast growth and the stronger reserving. So it's disappointing to have the quarter that we had just from a standpoint of the losses that we had in that line. But as was mentioned we have had 25 straight months of rate increases in CSU that continues to go up. So it's closing in on 10% average net rate increase. So we think we are doing a good job there. So no, I'd say we are very satisfied with how things are going, and I guess by way of more color nothing -- we are not writing anything differently this year than we did last. We still have a fairly conservative appetite in that class in the E&S company. So we're feeling good about it.

Operator

Your next question comes from Ray Iardella of Macquarie.

Raymond Iardella
Macquarie Research

Just wanted to touch back on maybe Josh's question, maybe approach it a little bit differently. What is the right base should we think about in terms of the 2011 accident year, a loss ratio for commercial lines and kind of how we should look at that relative to the year-to-date accident loss ratio in commercial lines as well?

Steven Justus Johnston
President, CEO & Director

This is Steve and just to touch on, I think we're seeing improvement. Anytime there is an accident year it's always an estimate, we're putting forth our best estimate. But we think the improvement makes sense in terms of what we can see with the execution of all the initiatives that we're putting in place that J.F. has put in place under his leadership and in terms of not only price but the precision of that price. The underwriting, the loss control, the inspection, the claims under Marty Mullen's leadership and the things that we've done in workers' compensation, in terms of the call center that we've put in place. The increased specialization that we've had in terms of our workers' comp, whether it'd be from the claims handling, the medical, looking at every issue, turning over every stone, we had been working diligently to improve those results and so we see improvement. Now in terms of the exact number of points and so forth on an accident year loss ratio, I think again that is subject to some estimation that we feel certainly confident in the direction that we see, things going and it makes sense, makes good common sense that's consistent with the initiatives that we've been employing.

Raymond Iardella
Macquarie Research

Okay, that's helpful. Maybe just sort go going forward, do you guys expect to get incremental improvement from the initiatives outside of just straight pricing in commercial lines?

Steven Justus Johnston
President, CEO & Director

I will let J.F. comment on that. But certainly I believe that is a work in process as we'd like to say we don't feel we've crossed the finish line. We're still running the race hard. I think we'll continue to see incremental improvement. I do think 1 thing that I want to make sure to point out is that when we look at the accident years just please keep in mind that we did have reinstatement premium back in 2011. In total that amounted to 1.4 loss ratio points for 2011. For commercial lines it was 1.1 and for personal lines it was 2.4, so that's just a data point that you all might want to keep in mind in comparing the 2 accident years.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

Just by way of commentary, and let me know if I'm not answering your question. I think in terms of what we're doing in loss control, number of risks that we are inspecting that previously we did not -- the expertise that we brought in, in loss control from outside the company that has specializations in property, casualty and auto, that we didn't have before, all what we believe is going to contribute incrementally to our commercial lines loss ratio. On the claims side, we've mentioned this many times before, but we've just had so many initiatives that are yielding terrific results on the worker's comp side in claims handling. And on the property side we have put together a group of people where we are approaching it just as aggressively. So these are things that up to this point we had not been doing, so we expect some lift from all of these initiatives in addition to the pricing lift we are getting.

Raymond Iardella
Macquarie Research

Okay, that's helpful. One other question I guess in terms of pricing, could you maybe talk a little bit about sort of the band of pricing that you are seeing across different lines? I'm assuming worker's comp is probably on the higher end of the sort of the mid-single digits, which you guys have talked about. But can you maybe talk about the spectrum across different lines of business?

Steven Justus Johnston
President, CEO & Director

Yes, you are right, on the workers' comp side it's on the higher end and property is probably the one that is rising the fastest now. Surprisingly, as tough as the weather was last year or has been, I thought we would have seen a market place that would have really been a lot more aggressive on the property side. And we are now seeing this, we are seeing every single month pricing improvement on the property side, so that stands out. Casualty not as much, auto I think just as we talked a little earlier about some of the results in commercial auto and private passenger auto for that matter, I think we will probably see a little bit more effort in raising rates on the auto side. But right now, property and worker's comp would lead the way.

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

I might just tack on a little bit to that, that we look at it risk by risk very granularly and we have gotten rate increases on individual risks that are much in excess of the averages and a lot times as you look at it, it's just what you will consider "a good risk" that we write every day. It is just through the soft market and so forth. The price has been driven down as we look at it in a new light with all of our tools and as we understand the risk that it presents better. We put out a considerably higher rate and I think we've had decent ability to have those stick.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

I would add to that, the modeling that we are doing on our entire commercial lines book of business as Steve made reference to, shines a brighter light on those accounts that deserve more attention. In the past you may have an account that was loss free and we might not have done much, but just to talk about an average rate increase because the model is detecting things from its point of view that past loss experience may not have exposed we're sending people out to visit the account, we're verifying attributes of our business that are not in the model to make certain that whatever we're doing, we've touched every base. So it's been a great underwriting tool for us, not only from a guidance or pricing standpoint, but pointing us in a direction on some accounts we might not have prepared as closely.

Raymond Iardella
Macquarie Research

That's certainly helpful. And the last one, in terms of -- maybe I'll ask sort of a capital question more directly. Any thought of special dividend before year-end or is that something you guys are not even considering at this time?

Steven Justus Johnston
President, CEO & Director

This is Steve. I think we look at that dividend a long-term. We look at it as having increased it now for going on 52 years. We haven't been one to really pay a special dividend. We'll look at it every quarter with our Board, but I think consistency, long-term approach would be more the way to look at us in terms of our dividend.

Operator

Your next question comes from Ron Bobman of Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had one question about comment earlier on the call about new business being, I'm not sure if you used the word "priced", but in effect new business being priced above renewal. Could you explain that on a more fuller fashion please?

Steven Justus Johnston
President, CEO & Director

Yes, sure Ron. And I'm not sure -- just to clarify that it's necessarily above -- that the price apples-to-apples for a new would be above renewal. It's just in general, as we look at new business, we feel that the relative adequacy of the rate for the group, all of the new business relative to all the renewal business is better and I think it probably has to do with the renewal book which is most of the business. Having been through a soft market, having been driven down in terms of its price, with a new piece of business you look at it in a fresh light and you make a decision of -- will we write that piece of new business and at what price. And so, just as we look at overall, the total book of new business vis-à-vis the total book of renewal business, we see relatively better pricing on the new business.

Ronald David Bobman
Capital Returns Management, LLC

Interesting. Your underwriting tools are improved, I guess they are always improving, but they are improved, and so the new business that you're pursuing and presumably the subset that you're winning and binding is in effect better targeted higher sort of expected return at the prices you're binding it at, than the legacy book of business that was attracted and bound with [indiscernible] less developed sort of underwriting tools and just sort of the natural progression?

Steven Justus Johnston
President, CEO & Director

Yes, I think that's fair. Although I would want to point out that don't think of it as the gap is great. I mean we are making good strides on the renewal business but I do think that we are really focused on really competing for adequately priced new business.

Ronald David Bobman
Capital Returns Management, LLC

Okay. We are hearing that more and more, it's just not an intuitive observation.

Steven Justus Johnston
President, CEO & Director

There really isn't. I mean if you look back over the history of things, you always think of that new business penalty. But I think we are just bringing more tools to the game today.

Operator

We have a follow-up question from Vincent DeAugustino of Stifel, Nicolaus.

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

As far as your field reps go, I'd be curious even if these numbers are a commentary, about how many agencies on average is each responsible for and would you know how many renewals are crossing their desk in a month or quarter? Also more importantly, how those 2 metrics compare to the industry? Just to give you an idea of why I'm asking, I'm basically trying to gauge how granular you can get on analyzing renewals versus some of your larger peers which have been promoting their account-by-account review process. And I just have some skepticism on that for some of your peers just based on the agency commentary that I'm hearing. So any color that you can provide on that would be great.

Steven Justus Johnston
President, CEO & Director

Couple of observations there, first of all, the field reps, we have a 127 of them in 39 states do not handle renewals, so all of that takes place here in Cincinnati in conjunction with the agency. From time to time a field rep will get involved in a renewal to help the home office underwriter. But the field rep's role is to underwrite and price all the new commercial lines business that we write, promote all the other products we write, but most of the time is spent with the commercial lines. We have, as I mentioned, 27 territories. We have 1,711 I think it is -- those numbers are -- roughly 1,711 in 2011 or so locations, it averages about 14 locations per field rep. In sum, more active agencies where we write a large share or the agencies themselves are large. They may call on us as few as 6 agencies in rural areas where the activity level per agency is smaller, they might call on as many as many 20 or 24 agencies. So that would be how we would split it up. What was the rest of your question, I want to make sure I get to it.

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

Sure. I was just trying to gauge, I guess, the second part would be is, are you seeing larger national carriers as a source of new business perhaps because they can't be as granular as they say that they are is really the crux of the issue that I'm trying to get to.

Steven Justus Johnston
President, CEO & Director

I think for us I couldn't say that. I can't say that we're seeing a higher distribution of our new business opportunities from national carriers. So I think it runs the gamut between regionals and nationals. One of the tractions that they use in Cincinnati Insurance Company is that we do use a 3-year policy. We charge more for it, but right now we're really in the middle of a period of time where rates are rising. No one knows for sure how long they will. So as a company, I think, that's an attractive option. I think the biggest difference is that, relatively speaking, our field reps have relatively few agencies they call on. In higher activity agencies, they are in there once a week. They are visiting producers. They are going out and seeing the risk. It's the same model we've had for years, it produces results for us. So we get perhaps more of our share of that, that's a business that we'd like to write. I think also particularly given the amount of claim activity we had with the weather, all of our field claim reps are assigned to agencies. They are in the agency's office on a regular basis. The conscious decision an agency makes just in terms of momentum of where business goes in an agency, certainly price is an issue, but probably in my view and I think our -- if you ask our agencies in their view, the way that they know their policyholders would be treated if they have a claim gives them a lot of confidence to put a significant portion of their business with us. Finally, I guess I'd add that in everyone of our field -- we have excess and surplus lines, property, personal lines field reps, machine and equipment, premium auditors, all assigned to agencies, all get to know the agencies pretty well. I know it sounds a bit corny but our agencies are doing business with the Cincinnati family and there is just a lot of confidence and consistency on that.

Operator

Your next question comes from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I guess the only thing just to go back to the improvement in the accident year again on the commercial side, I was looking in the supplement at the line by line detail, it looks like the majority of the improvement if am looking sort of versus the first half for this year, was commercial casualty and commercial property. Commercial casualty is about 15 points better, commercial property about 10 points. So I guess, 2 parts, commercial property is it fair to assume that there was a non-cat weather or a large loss benefit? In commercial casualty I guess I'm a little bit more lacking in explanation, if you could give a little bit more color why there is such a dramatic improvement there? I understand directionally there should be improvement. It is just the magnitude I guess I'm trying to understand.

Jacob Ferdinand Scherer
Former EVP & Chief Insurance Officer, Cincinnati Insurance Company

I do think that it's always good to focus on the direction. There is certainly an estimation when it comes to accident years with the casualty lines. There is more uncertainty there. But I do think that we've been very consistent in our approach to reserving. I think we have been, again sorry to kind of repeat the same issues, but we really have been addressing it holistically for all lines, very granularly every policy in terms rate of rate, precision of the rate, understanding the risk, doing what we can to modify the risk if we can to have a win-win for everybody if we can reduce risk. It's just we feel the elements of blocking and tackling in doing the business and executing our model has resulted in improvement.

Ian Gutterman
Adage Capital Management, L.P.

Was there any release from the first 2 quarters actually or into this quarter?

Steven Justus Johnston
President, CEO & Director

We really don't look at it in that way. What we look at it right at this point would be the previous full accident years and we will have that type of analysis on what's going on next year 2012 when we get to January.

Ian Gutterman
Adage Capital Management, L.P.

I guess I'm just looking that commercial casualty lines for the past I guess 6 quarters have been in mid 60s to 70 type range, and the drop to 52 on an accident year basis seems pretty dramatic. I just -- that's actually more than what the year-end rate would be. So I guess I'm puzzled by why there would be that much volatility in a causality line property. I guess it makes more sense to me, just it could be lack of events but?

Steven Justus Johnston
President, CEO & Director

Sure. There is going to be that kind of movement by quarter. I think if we look at the year-to-date, we look at the 9-month, we have improved by 6.5 points on the accident year for the full year-to-date and that might be the better way to focus on it than to look quarter-by-quarter, because there could be some noise in the quarterly numbers.

Ian Gutterman
Adage Capital Management, L.P.

Okay, great. Then just one quick one, I don't think you said, maybe I missed it. You talked about price increases in commercial and E&S. On the personal lines, do you have what the price increase was for the quarter?

Steven Justus Johnston
President, CEO & Director

Yes, we do. I mean, with homeowners, we just came in with another round in our annual rate increases and we're in the upper single digit to low double digit range there on average. I think, again, with the models that we're employing, we're getting more on certain risk. That's an average, but there certainly is a distribution around that average and we're getting more rates on those that we feel need more rate. For personal auto, we are continuing again for about the third year in a row to get low single-digit increases.

So when you average them out, we're getting in the mid to upper single digit rate increase through the personal lines as well.

Operator

There are no further questions queued up at this time. I'll turn the call back to over to presenters, for closing remarks.

Steven Justus Johnston
President, CEO & Director

Well, thank you, Sarah. Thanks for everybody for joining us today. We have come to understand that there were some technical difficulties in people accessing the webcast when we first started the call, and we apologize for that. But please remember that you should be able to hear the full replay of the webcast this afternoon. Again, we thank you for joining us today and we look forward to speaking with you again on the fourth quarter call. Thank you.

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