S&P Global
Market Intelligence

Cincinnati Financial Corporation NasdaqGS:CINF

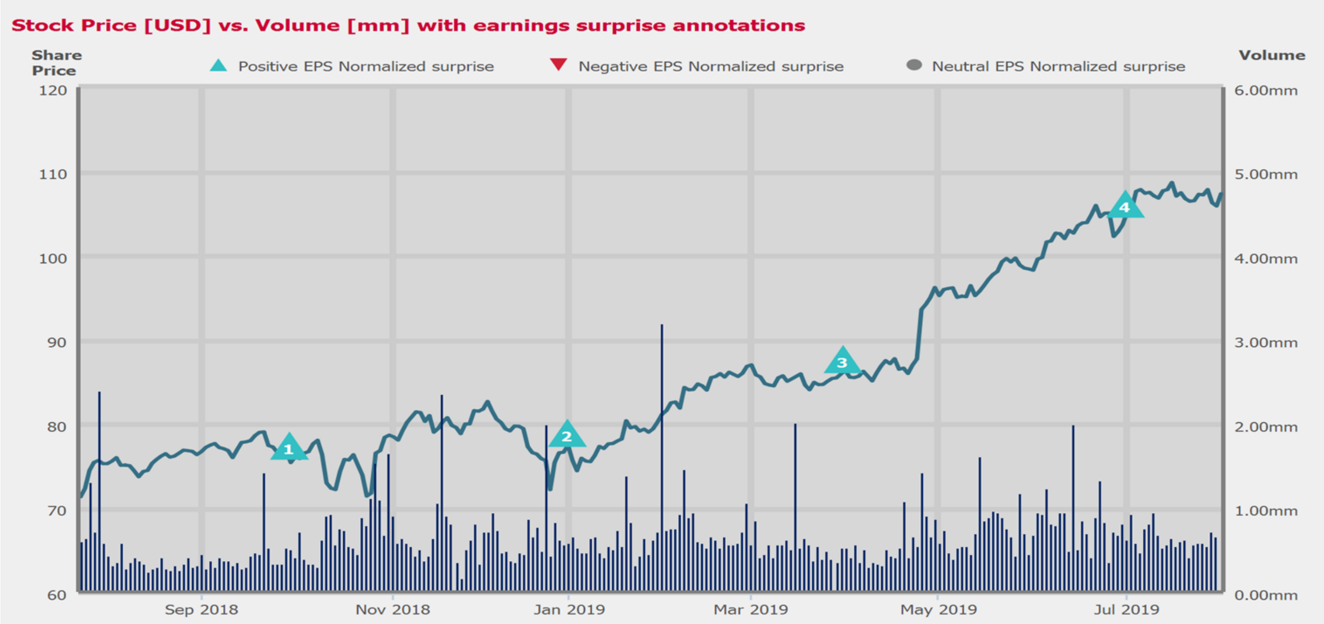
FQ2 2019 Earnings Call Transcripts

Wednesday, July 31, 2019 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.65	0.85	▲30.77	0.83	3.72	3.78
Revenue (mm)	1508.15	1913.00	▲26.84	1563.00	6851.00	6517.50

Currency: USD
Consensus as of Jul-31-2019 10:33 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	0.73	0.84	▲1 15.07 %
FQ4 2018	0.87	0.98	▲2 12.64 %
FQ1 2019	0.88	1.05	▲3 19.32 %
FQ2 2019	0.65	0.85	▲4 30.77 %

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Call Participants

EXECUTIVES

Dennis E. McDaniel
Vice President and Investor Relations Officer

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

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

Michael James Sewell
CFO, Senior VP & Treasurer

Stephen Michael Spray
Chief Insurance Officer & Director

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

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

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Michael David Zaremski
Crédit Suisse AG, Research Division

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning. My name is Natalia, and I will be your conference operator today. At this time, I would like to welcome everyone to the Second Quarter 2019 Earnings Conference Call. [Operator Instructions] Thank you. I would now turn the call over to Mr. Dennis McDaniel, Investor Relations Officer. You may begin, sir.

Dennis E. McDaniel
Vice President and Investor Relations Officer

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us for the Second Quarter 2019 Earnings Conference Call.

Late yesterday, we issued a news release on our results, along with our supplemental financial package, including our year -- 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 are welcome to ask questions. At that time, some responses may be made by others in the room with us, including Chief Investment Officer, Marty Hollenbeck; and Cincinnati Insurance's Chief Insurance Officer, Steve Spray; Chief Claims Officer, Marty Mullen; and Senior Vice President, Corporate Finance, Theresa Hoffer.

First, please note that some of the matters to be discussed today are forward looking. These forward-looking statements involve certain risks and uncertainties. With respect to these risks and uncertainties, we direct your attention to our news release 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 over the call to Steve.

Steven Justus Johnston
President, CEO & Director

Good morning and thank you for joining us today to hear more about our second quarter results. Operating performance was very good, particularly, given challenging spring weather, including storms affecting the Dayton, Ohio area with insured losses that exceeded the $100 million retention level of our property catastrophe reinsurance treaty. We believe our steadily improving results reflect our proven strategy and careful execution as we continue efforts to grow profitably over the long term.

Net income for the second quarter of 2019 nearly doubled the amount of a year ago. Changes in the fair value of equity securities held at June 30 produced most of the increase.

Non-GAAP operating income was up 5% and is up 23% for the first half of the year. Our 96.5% second quarter 2019 property casualty combined ratio was 0.7 percentage points better than a year ago. Without the effects of natural catastrophes, it was 3.6 points better.

Our results benefited from efforts to diversify risk by product line and geography in recent years. That, along with various improvements over time and how we underwrite property risks, helps reduce adverse effects of catastrophic weather events in the Midwest that have tended to impact our second quarter results.

A major reason for our confidence in improved underwriting performance is progress in segmenting our business, retaining more profitable accounts and getting better pricing on less profitable business while walking away from opportunities when we judge profit margins to be too thin.

In addition to profit improvement and strong investment results, premium growth in pricing were bright spots for the second quarter as we earned more business through our agencies and augment that with growth in other areas. Our consolidated property casualty net written premiums rose 9%, including renewal price increases and [nice] growth in new business written premiums.

Commercial lines segment had second quarter 2009 (sic) [2019] estimated average price increases that were slightly higher than the low single-digit percentages increases of the first quarter. The combined ratio for commercial lines was 4.4 percentage points worse than last year's second quarter, although it was 0.8 points better on a before catastrophe loss basis.

Our personal lines segment continued to experience average rate increases. While slightly lower than the first half -- or the first quarter of 2019, personal auto remained in the high single-digit range. The personal lines second quarter combined ratio improved significantly and was below 100% as personal auto profitability continued to improve.

Our excess and surplus lines segment had another outstanding quarter with a combined ratio below 80% and net written premium growth exceeding 20%. We've seen abundant growth opportunities in the E&S market while our underwriting appetite has remained consistent with recent years.

Cincinnati Re had a very good quarter of growth and profitability with the combined ratio in the mid-80s. Cincinnati Global had its first full quarter contribution to our results and did quite well with the combined ratio in the mid-70s. As we noted last quarter, purchase accounting has favorable effects on Cincinnati Global's expense ratio for the first few periods following [its] acquisition.

Our life insurance subsidiary continued to grow term life insurance premiums in the second quarter, up 7% on an earned basis. The net income contribution was not as good as last year, but this part of our business is another source of risk and earnings diversification.

I'll finish with highlighting the value creation ratio, our primary measure of long-term financial performance. Strong operating results and favorable securities markets produced an excellent VCR at 6.8% for the second quarter and 18.6% for the first half.

The contribution from our operations measured as net income before investment gains was 4% for the first 6 months of 2019, up 0.9 percentage points from a year ago. Despite short-term variability effects, market appreciation over time as we manage our stock portfolio remains an important part of our long-term value creation for shareholders.

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

Michael James Sewell
CFO, Senior VP & Treasurer

Great. Thank you, Steve, and thanks to all of you for joining us today. Our investment income continued to climb, up 4% for the second quarter of 2019. Dividends from our equity portfolio rose 14% as dividend rates have increased for many of our holdings.

Net purchases of stocks during the second quarter totaled $75 million. Interest income from our bond portfolio was down slightly, decreasing just under 1%. The pretax average yield was 4.12% for the second quarter, down 16 basis points from the second quarter a year ago.

Steady investment in bonds again occurred during the quarter as we made $69 million in net purchases. Although the average pretax yield for the total of purchase taxable and tax-exempt bonds was a little lower than in recent quarters, for the first 6 months of 2019, it was 6 basis points higher than the same period in 2018 and within 2 basis points of the full year 2018 purchases.

Investment portfolio valuation changes for the second quarter of 2019 were favorable, both for our stock and bond portfolios. The overall net gain was $564 million before tax effects. That included $366 million for our equity portfolio and $199 million for our bond portfolio. We ended the quarter with net appreciated value of more than $4 billion, including nearly $0.5 billion in our bond portfolio.

Strong cash flow again contributed to investment income growth. Cash flow from operating activities generated $476 million for the first 6 months of 2019, up $12 million even after paying $57 million more this year in catastrophe losses.

Regarding expense management, we watch our spending carefully as we make strategic business investments. The second quarter 2019 property casualty underwriting expense ratio was 0.4 percentage points higher than last year's second quarter but matched the full year 2018 period and was within 0.1 percentage point of the average of full years 2016 through 2018.

Moving next to reserves. We apply a consistent approach as we continue to aim for net amounts in the upper half of the [actuarially] estimated range of net loss and loss expense reserves. During the second quarter of 2019, we again experienced a healthy amount of property casualty net favorable development on prior accident years.

Favorable reserve development for the quarter benefited our combined ratio by 6.4 percentage points. Of -- two longer-tailed lines, commercial casualty and workers compensation, represented nearly 2/3 of the property casualty total.

Other than homeowner, each of our major lines of business experienced favorable reserve development during the first half of this year. On an all-lines basis by accident year, it included 29% for accident year 2018, 26% for accident year 2017 and 45% for 2016 and prior accident years.

On the subject of capital management, the approach there is also stable. Our financial strength remained stellar, providing plenty of financial flexibility.

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

Property casualty underwriting increased book value by $0.23. Life insurance operations added $0.06. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.58.

Net investment gains and losses for the fixed income portfolio increased book value per share by $0.96. Net investment gains and losses from the equity portfolio increased book value by $1.77. And we declared $0.56 per share in dividends to shareholders. The net effect was a book value increase of $3.04 during the second quarter to a record high $55.92 per share.

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

Steven Justus Johnston
President, CEO & Director

Thanks, Mike. The second quarter is often a challenging one, yet we are satisfied with our overall results. The storms that crisscrossed our nation over the past few months gave our independent agents and our claims associates who work with them a chance to shine.

In August, our field associates from across the country will come together in Cincinnati to celebrate the progress we are making to attend educational opportunities and to plan for the future. It's a great opportunity to reinforce our Cincinnati advantages and to learn from our associates about the opportunities they are seeing firsthand.

Our strong performance for the first half of the year bodes well for the future. As always, we remain focused on execution of our proven strategy, seeking profitable growth for the benefit of all stakeholders and creating shareholder value over time.
As a reminder, with Mike and me today are Steve Spray, Marty Mullen, Marty Hollenbeck and Theresa Hoffer. Natalia, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question is from the line of Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

My first question is regarding the catastrophe levels this quarter. I know it depends when you -- when I -- the long-term average catalog, I believe, for 2Q was higher than what you experienced this quarter. I know it depends when I start my -- start the average calculation, what year I start. I know a lot has changed since then.

You have grown into different segments and states and you have a new treaty. So I'm trying to understand whether this quarter's catalog was materially above your kind of base case normal expectations, if you can opine.

Michael James Sewell
CFO, Senior VP & Treasurer

Yes. This is Mike. So -- and that's a great question, Mike. It actually -- if I think about the second quarter cats that we had, so it's 10 points for this year. When we think about cat loads and we do look at averages, and that average actually was a right in there between a 5- and a 10-year average.

So a 5-year average for us was right at 10 points if you gauge it as of 12/31/18. So we actually were right on top of it. We were actually a little bit lower if you go and look at a 10-year average. But included in that 10-year average, remember back at 2011 when we had our 2 largest cats back to back, so we were actually right -- kind of right in the middle on this one.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. I'll check my math, and I -- I think I probably added more [catalog] for the reinsurance division. So then this would kind of be kind of within your normal expectations was -- is my takeaway.

Michael James Sewell
CFO, Senior VP & Treasurer

I would say so, yes.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. In terms of the commercial pricing environment, it sounded like in the press release that pricing is -- there hasn't been much momentum quarter-over-quarter. I think some peers have shown, I think, a good deal of momentum. Specifically, Travelers showed over a point of momentum in their book quarter-over-quarter. Any color or thoughts there?

Stephen Michael Spray
Chief Insurance Officer & Director

Yes, Mike. This is Steve Spray. You're right, second quarter, just from our major lines of business, what we've -- what we're experiencing is in commercial auto, we're still in the high single-digit range; commercial property, mid-single digits; casualty, low single digit; then workers compensation is down mid-single, just as a reminder.

I think we talked -- or I commented on this on the last quarter as well. I don't think that the averages really tell the complete story for the way we're trying to execute with our agents, both on new business and on renewals.

As an example, while we remain consistent in that high single-digit range on the commercial auto, we're really focused on executing on segmentation. So a portion of our book that the analytics that we have that would indicate that we have a lessened -- opportune chance for profit or least adequately priced business, another way to put it, we are getting increases far in excess of our average. And then on the business that we see that is most adequately priced, we're working with our agents to really focus on the retention there.

And that will impact the average, but it also, if you think about it, it's improving our mix. And we don't just do that in commercial auto. We take that across all major lines of business in commercial lines, new and renewal.

Now the comment -- I think I'd like to add a little extra color [to] because we are seeing in the marketplace a pronounced firming, hardening, however you like to put it, and it's focused on some specific areas in commercial lines. As an example, habitational risks, so apartments, condos, anything coastal, large property schedules or large property risks, we're seeing an additional firming in that.

Commercial auto, of course, we're seeing that there. Commercial auto would be the area that we would track with the industry. Those other areas, we certainly have larger property risks, larger property schedules. We have some [tougher] casualty, we have a little coastal as well. But on a relative basis, not to the rest of the industry. So I think that's what's driving some of the muting of what you're seeing there as well. Does it make sense?

Michael David Zaremski
Crédit Suisse AG, Research Division

Yes. Yes, that's good color. And as a follow-up too, you and some of your peers have talked over the years about being more precise in determining which accounts need more or less rate. Just curious, at a high level, is this -- are these tools you're using to determine this, are they proprietary to Cincinnati Financial? Are they -- is it a change in the last couple of years versus the prior decade? Or it's just kind of off-the-shelf software that most of your competitors are using, too?

Michael James Sewell
CFO, Senior VP & Treasurer

No. I would say it's proprietary to Cincinnati [Financial]. Others obviously use predictive analytics and tools as well, and theirs would be proprietary to them. We implemented this from -- on the workers compensation front about 9 or 10 years ago. And then our packages lines, our major package lines, auto, GL, property and work comp -- excuse me, and property followed right after the workers compensation.

I just think we are continuing to execute better and better on the segmentation across all those lines, Mike, and just really focused on it. Our underwriting teams are doing an excellent job working with our agents, and it's picked up steam over the last couple of years. And I think that's -- well, I'm confident that's what we're seeing in the results.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. All right. Great. And maybe a piece of that is your field underwriters have gotten more comfortable using the analytics. I don't know if you have a thought about that.

Michael James Sewell
CFO, Senior VP & Treasurer

Yes. That's a great follow-up. Absolutely, the analytics we use, we use the tools both on new business and on renewals. And I would say that both our HQ renewal underwriters and our field sales underwriters, it took time to evolve on this, get more comfortable, communicate with the agents and work with the agents.

I think we're -- our underwriting teams are doing a great job of getting out in front early and [often] in communicating with the agents on those risks where we think we need to take maybe the most drastic action. So yes, I feel really good about that, and we can see in the analytics too that our new business pricing has continued to improve. It's continued to improve this year as well.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Great. One last question I'll slip in probably for Mike. Did you say in the prepared remarks that the gap between the new money investment yield and your portfolio yield or whatever is expiring in the portfolio is 2 basis points?

Michael James Sewell
CFO, Senior VP & Treasurer

Yes, that's right. And let me have Marty maybe give a little bit more detail on that.

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

Yes. Net -- all-in purchases of about $490 million, book yield purchase was $427 million, that's about, call it, 3 basis points less than the prior quarter end embedded book value, so very slight.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. So then it seems like you guys have less -- if that's on a go-forward basis, you -- it doesn't seem like you guys have much of a drag, whereas some peers have a bigger gap?

Martin Francis Hollenbeck
Chief Investment Officer, Senior VP, Assistant Secretary & Assistant Treasurer

I wouldn't quite go that far. We do have a drag in that. We have a number of corporate bonds purchased 10 years ago in the aftermath of the financial crisis that had very generous credit spreads that for the last 1.5 years or so, we've been experiencing those leaving us. So that's created some drag. So we're doing our best to counter it, but there's still some drag there.

Operator

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

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

My -- I was looking at the paid losses relative to incurred. And it looks like they've risen significantly in both commercial lines and personal lines this year. And I was wondering if you could kind of reconcile what's underneath that to -- I mean it looks like paid losses are pretty flat but the incurred is down. What do you think is going on with that?

Steven Justus Johnston
President, CEO & Director

This is Steve. I'll jump in. I think there's a very steady approach to setting the reserves. And I think if we look at the half year and its total, the paid to incurred looked pretty reasonable. I think we've added about 2.4 loss ratio points to the first half in terms of IBNR additions. And I think the one thing to consider is that we're coming out of a period that had relatively higher catastrophe losses. We're looking at this paid to [incurred] on kind of a calendar-year basis. And so we could have the emergence of claims that are being paid and also some takedown in reserves that's showing up in the favorable development column.

And so I think the deeper that we dig into it and the confidence we have in our consistent approach to setting the reserves gives us great confidence. To the point on the cap payments, they were $57 million more so far this year than they were for the first half a year ago. So I think that [has some] explanation there.

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

Great. Given the environment with pricing sort of outside the core business being a little bit more attractive, have you thought about putting more capital than you had previously thought into the reinsurance and awards business?

Steven Justus Johnston
President, CEO & Director

We are pleased with the way both of those are performing. I think one thing that we've done that was -- the way to do it on the Cincinnati Re was to not establish a separate company there. Basically, it's a part of Cincinnati Insurance, and it puts us in a position to just not have pressure to grow into a capital base to maybe be incented to take a little bit more risk to provide a return on a capital amount that's been allocated.

To that point, we have a very small but talented group. I think there's about 20 in the Cincinnati Re that are performing, I think, at a high level in there. It puts them in a position where they can just, on a risk-adjusted basis, look policy by policy. It's not at all top-down dictated, it's very much our people getting more and more opportunities.

As we see in the marketplace, Cincinnati Re is just developing their reputation and getting a lot more looks, maintaining their underwriting discipline. And we can be very selective in the risks that we entertain and the contracts that we entertain.

In terms of Cincinnati Global, our Lloyd's subsidiary, again very happy with the way they're started. They're a talented group that's been profitable 20 out of the last 24 years. We think we have sufficient capital there to execute on the business plans that they have submitted and received approval for, and we will keep a close eye on that.

So in the sense that I don't want to show any lack of confidence in it either by not saying we're going to pour more capital into it. But we think we have adequate capital in both places, and we think that both are executing at a high level.

Operator

Your next question is from the line of Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I don't know if I'm connected, but hello?

Steven Justus Johnston
President, CEO & Director

Yes. Can you hear us?

Joshua David Shanker
Deutsche Bank AG, Research Division

Good. I'm glad you're there. I just wanted to hear -- I mean the workers comp reserve leases continue to be quite excellent, and I expect that they will be in the future for the industry. I was hoping you could give us some color on what years you're seeing excellent reserve leasing trends in the workers comp book and whether you've touched upon the recent years at all.

Michael James Sewell
CFO, Senior VP & Treasurer

Yes. Josh, this is Mike. And so for the year-to-date, on the workers comp, we had $42 million in favorable development. And so thinking about that and looking at our details, it's actually kind of spread throughout

-- evenly throughout the years. So for accident year 2018, it was $6 million; accident year '17, it was $9 million; accident year '16, it was $9 million; and then for accident years 2015 and prior, it's $18 million. So it's kind of evenly throughout the most recent accident years.

Joshua David Shanker
Deutsche Bank AG, Research Division

And in terms of your forward writings, to what extent are -- is the pricing that you guys are putting to place a function of regulatory requirement? To what extent are you taking those profitabilities on yourself and saying that you can offer better prices to your customers?

Stephen Michael Spray
Chief Insurance Officer & Director

Yes. I think -- Josh, this is Steve Spray. It's hard to ignore the base rate declines that are coming through from the [very] state rating bureaus, and that's putting pressure on the accident year results for sure. But we've seen the loss trends be benign. We're an open market for work comp. I couldn't -- we couldn't be more pleased with the way we're managing work comp, underwriting risk selection, pricing, loss control claims, everybody hitting on all cylinders there.

So we're open for business, but that line can be volatile. It can be variable, as everybody knows. So we're just watching that closely and want to grow it. But as we're seeing these base rate declines come through, again, we're using the tools that we have, both the art and the science of it, and we're trying to mitigate those base rate reductions running through our book as much as possible.

Joshua David Shanker
Deutsche Bank AG, Research Division

Terrific. And one more if I can. I'm wondering if you can give any color -- I know obviously, we -- you gave great detail. On the personal lines, net premium growth rate, is there any way to segregate your traditional business growth rate from your high net worth homeowners growth rate? And if you could talk about a few geographies where you've found recent success in the high net worth homeowners business outside the, I guess, the New York metro area, I'd love to hear about it.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes. Our high net worth, we are really pleased with the progress there, and that just continues month after month. Our high net worth is growing. It's obviously on the coast, is the main areas where that business is and where it's growing. But we're seeing growth across our entire agency footprint.

I would tell you, our middle market business, the growth there has been under maybe more pressure than the high net worth because of necessary rate actions we're taking, that's put pressure on the new business as well. But we think it's appropriate. We need it.

We're targeting it by state and some of our larger states need the most action, Michigan, Kentucky, Georgia, are three states to -- just to name -- the three of the larger ones that we're taking very aggressive rate action. It's needed, it's prudent, but it's putting pressure on both the new business, retentions and written premium and on the whole book.

Joshua David Shanker
Deutsche Bank AG, Research Division

Would it be wrong to say that high net worth homeowner policy account growth continues to be in the healthy double digits for you?

Stephen Michael Spray
Chief Insurance Officer & Director

Yes.

Joshua David Shanker
Deutsche Bank AG, Research Division

That would be correct or -- would that be wrong to say or is that correct to say?

Stephen Michael Spray
Chief Insurance Officer & Director

That would be correct.

Operator

[Operator Instructions] Your next question is from the line of Sean Reitenbach with KBW.

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

I was wondering what lines are driving the reinsurance growth?

Steven Justus Johnston
President, CEO & Director

The reinsurance growth would be the Cincinnati Re, at least starting...

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

What like -- specifically what, I guess, types of business are you -- yes.

Steven Justus Johnston
President, CEO & Director

It is -- we look at it on a very ground-up basis, it is about, I think for the year, 42% property right now. Let me check that number. It's 40% property year-to-date, the rest would be in our casualty and specialty. That is varied over time. But as we go through various times of the year and we're getting a lot of great [looks] at some of the property business here in the second quarter, we were a little bit higher on the property this quarter. But if we look inception to date, it's a very balanced portfolio, 35% in property, the other 65% in the casualty in specialty buckets. So again, very much a ground up contract-by-contract emphasis on where we grow.

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

I appreciate that. On the Lloyd's, can you just give a little color on what you're seeing in the pricing and margin environments there? I think we -- there was one insurer who just recently mentioned they're seeing some E&S business bouncing from Lloyd's back into the U.S. E&S market. And are you seeing that as well?

Steven Justus Johnston
President, CEO & Director

It has been a firming market. I would say it's been a firming market both in what we see with our CSU in terms of excess and surplus lines. Also, what we're seeing in the Lloyd's market is firming that is welcome. We're seeing it from some of the bigger carriers in the United States as well in terms of firming. So I think it's just overall -- especially given the experience over the last couple of years, it's definitely been a firming market, and we're seeing it in our Cincinnati Global underwriters and Lloyd's as well.

Operator

We have a follow-up from the line of Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

One follow-up on the high net worth space. Just curious, do you feel -- do you have any sense of whether the high net worth marketplace is growing or whether you're mostly taking share? And also, do you have a sense of whether your pricing is similar to that of peers? Or are you kind of taking share because of it's less price sensitive [in] more of the relationships with the agents, if that makes sense?

Steven Justus Johnston
President, CEO & Director

Yes. I'll take the first. This is Steve Johnston. I'll take the first quick shot at it and turn it over to Steve Spray. But we're seeing both growth from -- in both areas. And I think not only from what you would think of as the traditional high net worth carriers, but also much of the business is also written from just standard carriers that clients have been with for many years. And I think they see the value that we bring in terms of upgrading coverage and expertise and handling the higher net worth policies. So I think a lot of the growth can come from that area, both the traditional and the nontraditional.

Stephen Michael Spray
Chief Insurance Officer & Director

Yes. And I would just add, Mike, as well that as far as the pricing goes, we feel like we have an excellent value there we -- with the agents, and we feel like our pricing is in there with the marketplace. It's more of a value play for us in the claims service that we bring, the broad coverage firm that we have, the services that we provide. We've just been -- received -- our strategy and our model has just been received really well by all of our agencies.

Operator

[Operator Instructions] Your next question is from the line of Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Maybe just a couple of quick follow-ups. The first is on the commercial auto discussion. I was looking at the supplement, the current AY LRs looked to be trending in the right direction. Can you just refresh us on the discussion? Because your numbers are getting better, however, Travelers had more noise in this quarter. So I'm trying to figure out what exactly is going on in the book.

Stephen Michael Spray
Chief Insurance Officer & Director

Amit, this is Steve Spray again. Yes, I -- every quarter that goes by, we get even more confident that we were out ahead of this commercial auto, the trends that we've seen. For us, it's a severity. I think it's a severity for the industry. Our frequency has been good and trending even more positively.

The macro things in the marketplace, so those macro effects, haven't gone away. Those would be examples of just distracted driving. We have an improving economy. There's increased miles being driven. Employers are having difficulty hiring qualified drivers to put behind the wheel. And then I think we all can see the construction that goes on in the infrastructure of the highway system. So all that's leading to the severity.

But I think we -- again, we were out ahead of this. We've worked with our agents starting back probably about 2 years ago, maybe a little longer than that, of really focusing on segmenting the book. And we've got the pricing in a good spot and we still have room for improvement. There's still a runway there. The market's going to allow us to continue to improve.

But we feel really good about where we are with commercial auto right now and a matter of fact, are looking for opportunities inside our agencies. As this market's firming, we think we can help our agents write some new business, well underwritten and at more adequate prices than we've seen in the past several years.

Amit Kumar

The Buckingham Research Group Incorporated

Related to that answer, we've been reading more and more about the oversupply of, I guess, big rigs, falling freight rates, et cetera. How does that factor into your book? I know you talked about the driver issue and the overall economy. But how does that oversupply of big rigs and freight rates impact your book?

Stephen Michael Spray
Chief Insurance Officer & Director

Yes. I don't think it -- it doesn't really apply to us. I mean not that we don't have some of that business with our agencies, but we've just -- we've never been a big transportation market for long-haul trucking and such. But I can -- it kind of goes to the question earlier too, that market, when we do see those risks presented to us, you can understand why that market is as firm or as hard as it is, that segment of the market.

Amit Kumar
The Buckingham Research Group Incorporated

A fair point. It's been a challenge for a long time. The other question I had was the discussion on the Child Victims exposure. And I didn't recall you mentioning in the opening remarks. Can you remind us what exposure you may or may not have to those claims?

Steven Justus Johnston
President, CEO & Director

I'm assuming you're talking about New York and some of the things we've seen there with the Diocese that go forth, and Marty Mullen may want to chime in here a little bit on that.

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

Sure. Thank you, Amit. This is Marty Mullen. That really won't be a very big factor for us with Cincinnati in New York as we wrote little -- very little of that back in -- 20 or 25 years ago in New York, which I think you're referring to the statute of limitation change for these claims. We really weren't in New York at that time. In fact, I think it mainly pertains to '80s and mid-'90s. So our exposure, as a result of those changes in the statute, should have very little impact on us.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. And the only final question is -- maybe a broader question is the discussion on social inflation and jury awards and sort of plaintiff awards have been climbing a bit. Any thoughts on that? And has your thought process changed, let's say, over the past few quarters?

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

This is Marty again, Amit. The -- in our experience, it's a jurisdictional issue. And it's very specific to the type of claim, the type of defendants that you might have and the actual details of the incident. And our experienced claim staff that's been with us in Cincinnati, we promote from within. So we have what we feel cultural within Cincinnati, just recognize those types of situations where severity may play an impact in certain jurisdictions over another. And it certainly is impacting the industry. You just have to take it on a case-by-case basis and be aware of the potentials for an adverse verdict.

Operator

Your final question is from the line of Fred Nelson.

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

Number one, I want to tell you -- to thank all of you for what you've done because the ownership of your company has changed peoples' lives and allowed them to do things they never dreamed of. And you never hear much about that in our society, but I do and I want to say thank you for what you've done.

A couple of questions now, the taxes on the dividend income and equities, could you tell me how it's done now? Is there a certain percentage that's free and a certain percentage that's taxed at 21%?

Steven Justus Johnston
President, CEO & Director

Fred, I'll start out. This is Steve Johnston. I'll turn it over to Mike Sewell. And first off, I want to thank you for your initial comments. They're very much appreciated. When we look at the tax rate for the dividends received deduction as it was changed a bit by the new tax reform and jobs creation act, it really didn't affect the overall tax rate for the dividends because the rate came down, but the part that could be offset there went up a little bit, and the overall effective tax rate for the dividends that we receive remained really pretty much unchanged. I don't know, Mike might have more specifics.

Michael James Sewell
CFO, Senior VP & Treasurer

Yes. No, it's -- Fred, that was a great observation. It really hasn't changed between the different subsidiaries, if you will. So for the Life Insurance Company, there is -- no dividends received deduction, so you're still going to have a 21% rate there. So therefore, we don't hold any stocks where we get dividend income in the life company.

For the property casualty companies, you do get partial dividends received deduction. So our effective tax rate on dividend income there would be about 13%. And then for the noninsurance subsidiaries, which would be like the parent company or CFCI, again, we do get a dividends received deduction. The effective tax rate there is going to be about 10.5%.

So there still are benefits for holding that. There were also a few changes on the tax-exempt interest. But if I think about it in total, related to our investment income, whether it's interest income or dividend income, our effective tax yield or effective tax rate would be about 16%. If you add that on top of the noninvestment income, so through operations, gains and losses, which will come in at 21%, our effective tax rate will probably be in the 17%, 18% range if you have the same mix.

This quarter, our effective tax rate was around 19%, a little bit higher, but that's primarily because of the movement of unrealized gains and losses on our equity portfolio and our bond portfolio were so much that kind of skewed it a little bit more towards the 21%.

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

[Just a bit there] , was the percentage of the dividend income that was exempt from taxes like 60% and then that remaining 40% was taxed at 35%, is that formula kind of still in use but just for different rates and different structure?

Steven Justus Johnston
President, CEO & Director

That's right. And it -- that effective tax rate, when you blend it all out, has stayed pretty much unchanged from before the tax reform of -- after it's down just a little bit.

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

The other question is I have is on your book -- [affecting] book value. Your deferred tax liability has increased. Has that reduced your book value?

Michael James Sewell
CFO, Senior VP & Treasurer

Well, yes. So you've got your -- the reason that's going up is because our unrealized gains on our equity portfolio, if that goes up $1, then your deferred tax liability in that case is going to go up 21%. That is an offset to the asset, that increase, so it is offsetting that. And so that's -- it's a good thing that, that liability is growing, because the asset is growing on the other side.

Steven Justus Johnston
President, CEO & Director

There's another way you...

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

So it could be $3 a share that's taken off book value? I'm just rambling with my math here.

Steven Justus Johnston
President, CEO & Director

No. Another way of looking at it is we carry on the balance sheet the equities net of their tax liability. And so as the overall total value goes up, the liability goes up. And as Mike mentioned, it's a good thing because if we net it all out, it's very positive.

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

Well, thanks for making my life, you guys and gals. And everybody in your company deserves a pat on the back as you've been terrific. So I just want to say thanks again.

Steven Justus Johnston
President, CEO & Director

Well, thank you, Fred. We really appreciate your comments and your questions. They were excellent.

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

You deserve it.

Steven Justus Johnston
President, CEO & Director

Thank you.

Operator

There are no further questions. I will turn the call back over to Mr. Johnston for any closing remarks.

Steven Justus Johnston
President, CEO & Director

Thank you, Natalia. Thank you for joining us all today. We look forward to speaking with you again on our third quarter call. Have a great day.

Operator
This concludes today's call. Thank you for your participation. You may now disconnect.