S&P Global
Market Intelligence

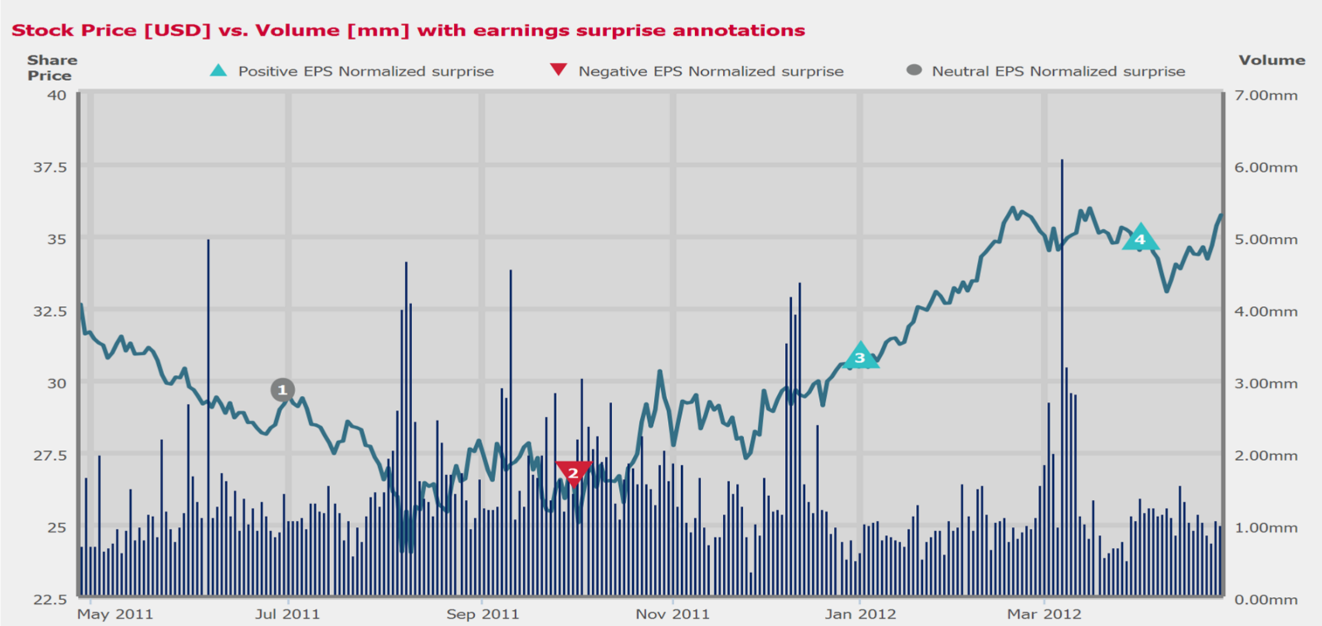
Cincinnati Financial Corporation
NasdaqGS:CINF
FQ2 2012 Earnings Call Transcripts

Friday, July 27, 2012 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.12	0.17	▲41.67	0.38	1.40	1.64
Revenue (mm)	989.26	1020.00	▲3.11	1014.30	4016.43	4253.70

Currency: USD
Consensus as of Jul-27-2012 2:11 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	(0.59)	(0.57)	NM
FQ3 2011	0.16	0.13	▼1 (18.75 %)
FQ4 2011	0.56	0.86	▲2 53.57 %
FQ1 2012	0.40	0.48	▲3 20.00 %

Table of Contents

Call Participants

EXECUTIVES

Dennis E. McDaniel
VP & Investor Relations Officer

Eric Matthews

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

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

Martin Mullen

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

Steven Justus Johnston
President, CEO & Director

ANALYSTS

Drew Woodbury
Morningstar Inc., Research Division

Fredrick Nelson

Ian Gutterman
Adage Capital Management, L.P.

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Michael Zaremski
Crédit Suisse AG, Research Division

Raymond Iardella
Macquarie Research

Ronald David Bobman
Capital Returns Management, LLC

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

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

Presentation

Operator

At this time, I'd like to welcome everyone to the Q2 2012 financial results conference call. [Operator Instructions] I now like to turn the call over to our host, Mr. Dennis McDaniel.

Dennis E. McDaniel
VP & Investor Relations Officer

This is Dennis McDaniel, the Investor Relations Officer for Cincinnati Financial. Thank you for joining us for our second 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 in the navigation menu on the far left of the screen.

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; Executive Vice President, J.F. Scherer; Principal Accounting Officer, Eric Matthews; Chief Investment Officer, Marty Hollenbeck; and Chief Claims Officer, Marty Mullen.

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. Good morning and thank you for joining us today. My comments on the second quarter parallel several I made at our last earnings call. Investment income remained steady and our investment portfolio continues to grow. Mike will discuss investment details in a few moments.

Underwriting performance before the effects of catastrophes was very much improved compared with the year ago, similar to recent quarters. On the other hand catastrophe losses continued above historical norms for us and for many in our industry.

Previously announced second quarter catastrophe losses added nearly 18 points to our combined ratio. Improved underwriting performance in part reflected pricing for property casualty policies that continue to increase. Overall, pricing was up a bit from the first quarter.

Each of our Property Casualty segments again had healthy levels of net written premium growth. They each grew at a double-digit pace during the second quarter and our Life Insurance segments earned premium rose likewise. Factoring out reinsurance effects property casualty written premiums rose 12%, and were satisfied because more precise and overall higher pricing was a large contributor.

Commercial Lines renewal pricing moved somewhat higher in the second quarter compared with the first. Overall, average increases were in the mid single-digit range, including the blending effect of three year policies. Renewals of workers compensation and smaller commercial property policies again experienced stronger pricing during the second quarter than most of our other lines of business.

Our Excess and Surplus line segment had a higher renewal price for the 22nd consecutive month, again in a high single-digit range. And personalized premiums continued to experience rate increases over successive years with renewal premiums up 11% for the second quarter and first half of 2012.

Policy retention for Commercial and Personal Lines continues to remain steady in its contribution to total written premiums. The contribution of new businesses is increasing in significance, reflecting benefits from both higher pricing and the cumulative effect of new agency appointments.

Property Casualty new business premiums in the second quarter were 12% higher than a year ago. Recently appointed agencies again drove that growth. As of June 30, we have appointed 93 new agencies on pace toward a full-year target of 130.

Our pricing analytics and modeling tools indicate that our new business pricing is adequate and stronger overall than for our renewal business. These tools help us determine when to walk away from business that we believe is underpriced as well as when to have the confidence to compete for good accounts.

We are studying our property book of business and identifying opportunities to improve underwriting results for the property lines. Our approach is similar to the multifaceted effort that has been improving our workers compensation results. We've already put in place some of the pieces and in the future we will further discuss plans and progress.

Over time, we'll also benefit from earning the rate increases we've taken on property coverages. On a written premium basis in recent quarters, those property rate increases have outpaced the increases taken on much of our non-property business.

Our total property casualty combined ratio for the first half of 2012 showed good improvement over 2011, on both a current accident year and calendar year basis. That improvement holds up however you analyze it, with or without the effects of catastrophes and the extra reinsurance costs in 2011.

We're continuing to see the benefits of ongoing efforts to improve pricing, underwriting and claims management. We are confident further benefits will manifest in our operating results. At the same time, we remain steadfast in our approach to service excellence, reserve adequacy, investment management and strong capital.

Now, Chief Financial Officer, Mike Sewell, will comment on several financial items.

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

Thank you, Steve, and thanks to all of you for joining us today. Our investment portfolio continued its steady contribution to earnings in the second quarter. Investment income again matched the prior year's quarter and both major components, interest income and dividends were essentially flat.

Yields for our bond portfolio were slightly lower than last year. As we reported, the second quarter of 2012 was even with the first quarter at 5.2% on a pre-tax basis and 3.8% on an after-tax basis.

Our bond portfolio's effective duration edged down to 4.3 years from 4.4 years. In our common stock portfolio, we're seeing dividend increases over the past year for most of our holdings, but less funds were at work in that portfolio for much of the past 18 months. Its cost basis is just now approaching its yearend 2010 level, following a reduction in the first half of 2011 of almost 8%.

Our fixed maturity portfolio again experienced a valuation gain during the second quarter. For the equity portfolio, unrealized gains were 8% lower at the end of June compared with March. Still, that portfolio is pre-tax net unrealized gains of $891 million or 12% higher than at the end of 2011.

Consolidated net cash flow from operating activities for the first half of 2012, continued at a healthy pace. That helps fuel our investment income and offset the effects of the low interest rate environment.

At $265 million, net cash flow already exceeded the full year 2011 by $18 million. It's on pace to exceed the full year 2010 and 2009, each at roughly $530 million since the second half of the year typically has lower catastrophe loss payments and the bulk of the agency profit sharing was already paid in the first quarter.

Moving to balance sheet highlights, a consistent approach to loss reserving is one of our hallmarks. And metrics for reserve development on prior accident years, demonstrate that consistency.

Through the first six months of this year we benefited from 10.8 percentage points of net favorable reserve development before catastrophe losses. That result came within one-half of a point of 2011's six-month development. Every major line of business contributed to the favorable development for the first half, which totaled $201 million, including catastrophe losses.

Our six-month net favorable development was again spread over several accident years, including 19% for accident year 2011, 30% for accident year 2010, 16% for accident year 2009, and 35% for all older accident years. We also continue to maintain our consistently low debt leverage with a debt to total capital ratio of 14.8% at June 30.

As previously reported, we established a new $225 million line of credit in May. It replaced two credit facilities that totaled the same amount. Six banks participate and it's for a term of five years. Most of the major terms and conditions are similar to the former credit facilities, but we gained some flexibility in terms of borrowing capacity such as raising the debt to total capital covenant to 30% from 20%.

In addition to enhancing our already great financial flexibility with a new credit facility, we once again ended the quarter holding over $1 billion in cash and marketable securities at the parent company level. Our capital will remain strong and is available to support additional premium growth in our Insurance segments.

I'll conclude my prepared comments as usual, by summarizing the contributions during the second quarter to book value per share. Property Casualty underwriting decreased book value by $0.31. Life Insurance operations added $0.06. Investment income other than Life Insurance and reduced by non-insurance items contributed $0.44.

The change in unrealized gains at June 30 for the fixed income portfolio, net of realized gains and losses raised book value per share by $0.20. The change in unrealized gains at June 30 for the equity portfolio, net of realized gains and losses lowered book value by $0.40. And we paid $0.4025 per share in dividends to shareholders.

The net effect was a book value decrease of $0.41 during the second quarter to $31.66 per share. That result is 2% above the yearend level contributing to the first half value creation ratio of 4.6%.

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

Steven Justus Johnston
President, CEO & Director

Thanks, Mike. While we remain encouraged by the trend of strong underwriting performance before the effects of catastrophes, we recognized that there is still plenty of work to be done. Our associates and agents continue to work together to make necessary improvements, while maintaining service excellence in creating long-term value for shareholders.

Our primary performance measure is our value creation ratio. And the incentive compensation aligned with adding shareholder value keeps every associate in the company focused on what is important.

With Mike and me today to answer your questions, and further discuss our results and outlooks are Jack Schiff Jr., Ken Stecher, J.F. Scherer, Eric Matthews, Marty Mullen, and Marty Hollenbeck.
We're ready for you to open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Mike Zaremski with Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

So on pricing, it appears that the pricing rate of change has slowed, and maybe you wouldn't agree with that and us. Steve, you used the word, adequate, a couple of times. So does that imply the current rate increased levels are enough and it might fluctuate near current levels or maybe even move south?

Steven Justus Johnston
President, CEO & Director

I think actually when we look at the first quarter and compare it with the second quarter, the rate increases are actually up just a tick. But flattening is probably a good term, but it is actually and it did not decline. Overall rate increases are actually up just a bit from where they were in the first quarter. We feel we're getting the rate in the areas that we need rate and we're continuing to be able to get rate. I think it's not just the average rate increases that we're taking, but we're using a lot of precision looking at risk on an individual basis, comparing what we think the exposure is to what the rate that's needed for that individual policy. And we think we're making good progress.

Michael Zaremski
Crédit Suisse AG, Research Division

So workers comp specific, next. The results clearly improved a lot this year. Is that been driven solely by increased prices and some of the new analytics you've talked about or have broader loss costs also helped out?

Steven Justus Johnston
President, CEO & Director

It has not been price alone. Price has certainly contributed. And I'm going to turn it over to J.F. Scherer, because he has just produced human effort in terms of been all-around approach to improving our workers comp results.

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

Mike, we have gotten strong upper single-digit -- consistently upper single-digit rate increases on comp. That's been good. The implementation of the predicted modeling, has been a big contributor to guiding us on the pricing. We'll be introducing our second generation of that model. We in fact are in the process of doing that right now. But in addition to that, we've done a lot more in loss control, specifically on accounts greater than $50,000. Every single one of those accounts is going through a more rigorous review by our loss control division they're are scored, based on the review. That resulted in a lot more insight on the accounts that we write. I think really, and Marty might want to add to this, Marty Mullen, our Chief Claims Officer. But in the claims area, there's been a tremendous amount of specialization and both in terms of putting loss control specialists in the fields, but bill repricing has contributed significantly. We have call center now where we ask the policyholder to call directly into Cincinnati, which accelerates the lag between when the injury occurs and when we are able to triage the injury, and address how it's going to be handled. So all of those things have contributed. Pricing continues to be therefore a force in the comp area. That still remains consistent. I think in terms of the contribution that loss control and claims will give us, we think there's still some to be gained there.

Michael Zaremski
Crédit Suisse AG, Research Division

And lastly if I may, so what I'm trying to not struggle with, but when I look at just the accident year ex-cats for the entire company, it's improved a lot in the last few quarters, which is great. I'm trying to figure out has any of that come from pricing really, because pricing just started to improve last year. Has it really been mostly from the analytics and calling of the books, and we should expect the pricing increases to come in later in the year or next year?

Steven Justus Johnston
President, CEO & Director

Mike, I think you've hit it pretty well right on the head. I don't think it is all pricing. I think is the other elements as well as you have mentioned. And I agree that I think the pricing will continue to earn as we go forward.

Operator

Your next question comes from Ray Iardella of Macquarie.

Raymond Iardella
Macquarie Research

I guess first maybe for J.F. or maybe Steve. As far the agency appointments you shared here today, obviously you guys are tracking above the 130 target 93, I believe year-to-date. I think, Steve, your comment was you guys are on pace. But I'm just curious, how do you think about that 130 target? Is that a target that could be moving? And then how do you think about appointing more agents relative to I guess your goal of getting to $5 billion in direct premiums by 2015?

Steven Justus Johnston
President, CEO & Director

Well, we set that goal of 134 late last year, based on the continuous contribution we wanted to see agencies make towards the $5 billion goal. Each one of the, now 129 field territories analyzed what they've needed to do to contribute to the premium growth that we needed, talk to the agencies in those areas. And determine whether or not based on what the agencies that have already been appointed have committed that they could do in terms of new business and overall written premium, how many more agencies we need to appoint. We make a point that based on the 134, we wanted to get as many of those agencies appointed earlier in the year. I don't think it will change much. I think we'll probably come in right at that level at the end of this year. So it's going as planned. We just accelerate the appointments as quickly as we can, once we know that we're going to make them.

Raymond Iardella
Macquarie Research

And when you guys think you'll be setting a target in terms of agency appointments for next year? Is that something already in the back of your mind?

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

Yes, it is. We have probably in the next couple three weeks we go into our planning sessions. We'll assess where we are and start putting pencil to paper in that regard here in the next couple weeks.

Raymond Iardella
Macquarie Research

And then I guess in terms of the Life business, I mean premium is up a little bit there. I mean has that been a contribution from the new agency appointments or is that just you're seeing a little bit more interest? I know it's a relatively small part of the business, but just curious what's going on that side?

Steven Justus Johnston
President, CEO & Director

I think it's been a combination of both. I think they've been doing a good job in the life company of both supporting new agencies and achieving organic growth, the same agent growth so to speak. Worksite term is another product that we have really focused on in terms of the growth and I think that's contributing as well. And Mike may have a few comments to add as well.

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

On the universal life policies from collected cash is up about 11.5%. Each quarter we do unlock interest rates, not to get too technical on you, but when we do that there is an adjustment on the load upfront, which affects the premiums and the deferred acquisition cost. So you'll see that those kind of offset a little bit. But where we then end up with the bottom line changes here this quarter of about $1 million. But we're on pace and doing pretty well with the life company, and it should end up where we've planned it to be for the year.

Eric Matthews

I'd just add to it. About 70% of our life insurance premiums come from property and casualty agency appointments. And almost without exception, when we're making some of those 134 appointments, we're visiting with them about the potential to write life insurance at same time we talk about P&C.

Raymond Iardella
Macquarie Research

I think, Steve, you had talk about the price increases in the second quarter and that being inclusive of the three year policies. Has the attractiveness to consumers, to your insureds of the three year policies increased this year or have you seen any meaningful shift in that business relative to the one year policies?

Steven Justus Johnston
President, CEO & Director

I think it's always been attractive, especially to a certain type of clientele, who really wants to focus on their business and make their insurance buying decisions once every three years. So I think it's maybe a little bit more important now. But I think it's always throughout our history been an important feature that we offer.

Operator

Your next question comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

A couple of questions. One is related to last year's storms. If you look at travelers for all states numbers, they had some significant reserve release associated with overbooking last year's storms. Are you still thinking it's too early to call those reserves? Are you thinking that you got it right the first time? Where do you stand on cat-reserve for 2011?

Steven Justus Johnston
President, CEO & Director

I'll turn it over to Marty Mullen to handle that one. But I think we've been pretty steady, pretty conservative, have seen some favorable development on last year. But I'll turn it over to Marty to see if he'd want to add anything in addition to that.

Martin Mullen

Thanks, Steve. Yes, Josh, we feel really confident about our ultimate projections for this 2011 storms, especially cats 46 and 48, those are two strong storms of last year. But we're feeling like they're trending in the accurate and positive direction, and we feel like those ultimate projections are holding up very well.

Joshua David Shanker
Deutsche Bank AG, Research Division

So you're saying that you're confident you got it right the first time or you're confident you were conservative the first time?

Martin Mullen

I think the ultimate was right about on target the first time. We're still getting some small new claim activity, but it's less than probably five claims a week.

Joshua David Shanker
Deutsche Bank AG, Research Division

The other question for Marty Hollenbeck. Looking at the investment yields, from beginning of the year it seems an aggregate, maybe my numbers are a little more crude than yours. It's fallen by about 40 basis points, which is about as much as fall in the last three years combined. Is there something happening right now in the portfolio that's causing acceleration in yield decline or am I just like reading too much into it?

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

No, Josh, we're not really seeing a decline. Actually it's been fairly steady. Book yield is the metric I monitor. That's kind of the embedded yield in the portfolio. It's down 20 basis points from last year. It has been ranging from say 5 to 8 for a number of quarters here. We are seeing a little bit on the embedded yield in our bonds that we lose to maturity or call that has slowed a little bit. But obviously new money rates as you know with the 10 year down around the 1.4, 1.5 area, we're just not getting any relief on that front. Maybe you are looking stocks and bonds.

We have accelerated a little bit this year our equity purchases. We've been net sellers of common stocks I think every year since just prior the crisis. So we are starting to pick that up a little bit this year. I think in the quarter we probably averaged around 3.5 and 3.6 pre-tax yield on new equity purchases and about 3.7 again pre-tax on new fixed income money. So the decline in my opinion is not accelerating at this point.

Steven Justus Johnston
President, CEO & Director

I have been thinking about your cat question a little bit here. One thing, keep in mind just for modeling purposes and so forth, and I don't know specifically about other companies. But we did get into our cat reinsurance last year. So to the extent we have a movement in the estimate on a direct basis. If we see it at 95% say in the layer that those two big cats hit any movement in our estimate now will only be about 5% in the total, if you see what I'm saying.

Operator

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

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

Last quarter we had talked about personal auto loss cost trends, it's still being rather benign. But if I'm taking a look at the core loss ratio, it ticked up about 11 points year-over-year and then in 1Q '12 it ticked up by about 4 or 5 points. So kind of curious if there was maybe some non-cat hail or something along those lines this quarter that would've pushed auto up or if there was maybe any sort of observable change in loss cost trends more recently?

Steven Justus Johnston
President, CEO & Director

I have to say as I review our financials and was looking at things at every number in there and that personal auto got my attention as much as anything. Especially, after we've seen some deterioration in personal auto results for some others in the industry. As we dug into it, there's a lot of moving parts in there as you mentioned, you've got cat, different kinds of weather. So we tried to just drill down with all the noise going on to what we saw in terms of the non-cat paid losses. And as we looked at that for the second quarter the non-cat paid loss ratio was up 1 point from where it was second quarter a year ago. On a six-month basis it's actually down seven-tenths of a point from the first half of last year. But we're going to continuing, we've been taking rates in the low single-digits. I think with this new information we're going to continue to analyze and keep a very close eye on that one to make sure that we're maintaining price adequacy.

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

And then sticking within Personal Lines. If we think about homeowners, is it easier from a regulatory standpoint and also from an agent and customer standpoint to get tougher in terms and conditions or maybe implementing a higher deductible requirements or anything aside from pushing from a rate standpoint, is it just easier than getting the rate approvals?

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

I think they're both about the same to tell you the truth. I think obviously, with terms and conditions it's a contract language and you really have to make sure that everything is communicated very clearly, and make sure everything is filed appropriately. But I don't see too much of a difference in terms of the regulatory approval process in terms of terms and conditions versus rates with just kind of amplification that you really do need to make sure that everything is properly communicated.

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

Then one last one if I may. What was the audit premium benefit to workers comp in the quarter? I think commercial casualty and work comp together was a favorable $9 million. But just curious if you have the split or will be willing to say what it was?

Steven Justus Johnston
President, CEO & Director

Well, I've seen it. I know the $9 million in total. We're just kind of scrambling around for our numbers here, because we've got a couple of notebooks, and I think we have it, but I don't have it at my fingertip.

Operator

Your next question comes from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had a couple of questions. I was curious to know, are you doing anything, sorry if I missed this, on homeowners' deductibles?

Steven Justus Johnston
President, CEO & Director

Homeowners' deductibles, we are certainly over a period of time have been moving our homeowners' deductibles up, and in fact now we have over 40%, probably over 43% of the current reports book at a $1,000 deductible or higher. Virtually everything is over $500, and we're continuing to look at what we might be able to do more and certainly to keep that trend continuing.

Ronald David Bobman
Capital Returns Management, LLC

Do you have a goal a year from now for it to be a specific or a ballpark percentage over $1,000?

Steven Justus Johnston
President, CEO & Director

We do not have a goal at this time. We have been looking at all non-rate -- in addition to rate, looking at all non-rate ways that we can improve the results in homeowners', in our way that we handle catastrophe losses and so forth. But at this point, we do not have a specific quantified target.

Ronald David Bobman
Capital Returns Management, LLC

I don't think you're sort of a licensed player in this business, but as a city folk asking people in the Heartland, do you write any crop?

Steven Justus Johnston
President, CEO & Director

We do not write crop. We're still reading a lot about it because we see our fields. I've got about 50 acres of beans and its turning brown. So we read a lot about it and we don't write it.

Ronald David Bobman
Capital Returns Management, LLC

My last question was I think the late June storms, June 27, 28, something like that, running until almost early July, the first day or so of July, we'll call these just Derecho, and I was wondering if your sort of loss provisioned for second quarter is going to include currently your loss estimate for that event or will some sort of portion of it be apportioned or we have a new provision to some degree in the third quarter?

Steven Justus Johnston
President, CEO & Director

That's a great question, because as soon as someone seen that storm coming in, I was on the line to Marty and we only want to provide for losses that occurred up to June 30 in terms of our second quarter results. Any losses that happen subsequent to June 30 will go into the third quarter results. So we are tracking that. To this point, I haven't seen that rise to a level of materiality yet but maybe I don't know if, Marty Mullen, want to comment anymore on that.

Martin Mullen

I'll just give you an update on cat, was expanded in early July to 10 states, it's actually June 28 through July 2. Our main states involved in the cat are Indiana, Ohio and Virginia. Our claim count kind of breaks down to about 60% of all of our claims are in Ohio and 14% in Virginia. About 80% of those claims are Personal Lines and 20% Commercial. We've got about 51% of our claims are closed. I think one thing that's kind of unusual about that claim is most of the claims are wind related and about 40% of the claims with incurred on them are under $2,500. Although, we have our share of commercial losses with wind damage, there is also a lot of Personal Lines claims with small incurred.

Ronald David Bobman
Capital Returns Management, LLC

It's impressive I guess 51% close within less than 30 days that's great, I mean from the customer service perspective.

Martin Mullen

Well, I guess it's a good news bad news. Ohio is our largest state. So we have a lot of business in premium there. But we also have a lot of our top-notch field claim representatives, the majority in Ohio so we have a lot of feet on the ground to handle those claims.

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

So before we go to the next caller I'd just like to go back, Vincent had asked a question related to the effects of audit premiums and for the quarter, the effects or the audit premiums for the quarter was almost $15 million. $23.5 million for the six months, which when you look at the six months, it's about $15 million increase over the prior year, $5 million for the quarter. So I just want to get that out there.

Operator

Your question comes from Scott Heleniak of RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Just wondering if you're seeing any competitors that are rolling back some of the price increases that they had in Q1 because they were too significant. So did you see any of that in Q2 where maybe they had a double-digit rate increases in Q1 and they rolled that back to 6% or 7%, of that had any kind of impact on your business at all or retentions?

Steven Justus Johnston
President, CEO & Director

No, I did not see any of that.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

What were the retentions by segment, do you have that number at all?

Steven Justus Johnston
President, CEO & Director

I think we had them, they were stable. They are going to be up close to the 90% range, varying a little bit slightly lower for Commercial Lines, slightly higher for Personal.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

The only other question I had was you mentioned, increasing expose your equities, could you could you talk about how much you deployed either in second quarter or first quarter? And how likely we might be able to see equities at the higher end of the 25% to 30% range, that you've talked about before?

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

Sure. For the first quarter common stocks, we were net sellers and this is a very round number of around $24 million. For the second quarter, we were net purchasers of around $87 million. I think for us to get to that 30% in the short-term would probably take some help from the market, obviously, an increase in prices as well as possibly, if interest rates go up the value of the bond portfolio comes down. We're not being aggressive about this. Obviously, with interest rates where they are, we find the type of equities that we buy that you're very familiar with, very attractive, both on a pre-tax and after-tax basis. So we're not in all out push. We're still very committed to putting new money into the bond portfolio, and building latter portfolio over time, has kind of been our strategy.

Operator

Your next question comes from Matt Rohrmann of KBW.

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

Steve, most of my questions has been answered, but I just wanted to follow-up on, sort of, the continued revisions within the property book. Second quarter I know has been frustrating in last couple of years. In terms, of how you view the concentrations in the submarkets within property. Has that changed much in terms of how you view it for the book today, as it stands versus a year ago on a note. It's not exactly apples-to-apples on the weather, by a long shot, but your thoughts there in terms of your handling concentration, managing that going forward?

Steven Justus Johnston
President, CEO & Director

I'll take an early step and then I'm going to turn over to J.F. because he's been doing, again, lot of great work in that area. We have been getting good organic growth as you've seen in the results. We are focusing on increasing our geographic footprint, our diversification by agency in terms of where the business comes from. I might talk about homeowners just a little bit before I turn it over to J.F. And that we recognized that we have a concentration issue. For example, our top-six states for homeowners, that the Ohio, Indiana, Illinois, Kentucky, Alabama, and Georgia, they represent over two-thirds, about 67.3% of our homeowners' premium. And those states, we actually saw new business down 4.4%. So the growth in new business that you see in our published financials came outside of the states where we have the geographic concentration. And so that is part of our strategy to spread our footprint and diversify our catastrophe risk. And so I was just trying to put a little color on, in terms of numbers on the homeowner side of it, and I'll turn it over to J.F. for the second.

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

Matt, just on the Commercial Line side, just to give you a little bit of perspective, on commercial property it would exclude inland marine. Our five-year average cat loss ratio on that is about 13.6 points. If you take our ex-cat net underwriting results for property through year-to-date, we're running at if we were to have average cats, at about 105 combined ratio for commercial property. It's not horrible, considering the kind of cats that we've had, but it's certainly not satisfactory. So we are expanding geographically, but honestly the population of Idaho and Utah and Oregon, that alone is not enough to balance out the kinds of concentrations, we have more in the Midwest. So we're trying to spend a lot more time here in the Midwest trying to identify ways in addition to rate and property rates are solidly getting into the upper single-digit ranges, and they're accelerating. But we've got a lot going on with deductible increases in property, a lot more discussion in the marketplace about percentage deductibles. There is a tolerance on that though. In coastal areas, people are used to 2% and 5% win deductibles, in the Midwest they are not, but there's a lot more discussion there. We're taking a lot closer look at habitational risks, apartments, condos, all type of things that have asphalt shingles, very much susceptible to hail types of claims. Those are areas where we're looking at much stronger deductibles. Less owner risk only property, you may hear a lot of other carriers talk about that, but in addition to rough exposures there, we've spend a lot more time verifying through inspections and loss control, who the tenants are, whether or not during these tougher economic times, maintenance might have deteriorated. Claim specialization is part of what we're doing in the property area, as well. And I mentioned loss control but specifically, in terms of inspections we're doing a lot more in that area and adding a lot more in loss control.

So the solution to property filling the Commercial Line side, it's not monumental. We want that combined ratio including tax to be in the 90 range. We think we are that kind of company, but there is a lot other moving parts to trigger it there.

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

Just in terms of lot of what you touched on was, sort of, more at the micro level which is great, and in terms of middle to more macro level. Are there any, sort of, like portfolio specifications in terms of, you are a only write say, X amount of business per county or zipcode or street or how do we define it?

Steven Justus Johnston
President, CEO & Director

We do have loss tolerances in place. We look at that. It may not be quite as green orders as to where we are heading, but we are steadying that in terms of down to a street level or zip code level. At this point, it's more driven by a state or a marketing territory, more at that level.

Operator

Your next question comes from Drew Woodbury of Morningstar.

Drew Woodbury
Morningstar Inc., Research Division

I was wondering if you guys could talk a little bit more about your appetite for new business. Just given where we are in the pricing cycle, and looking at your accident year ex-cat ratio of above 100%, wondering if you could talk a little bit in more detail about how you're adding to your book?

Steven Justus Johnston
President, CEO & Director

Again, kind of to reiterate the comments I may have made on homeowners before. We are getting new business. A lot of that new business is coming from areas that are outside of our traditional footprint. We do feel that in terms of our pricing and looking at our models that we are in a place that we have or will have price adequacy. I think with homeowners is an example. Coming up October 1, we have 14 states that I think represent over 80% of our premium volume. We'll be getting double-digit, low double-digit increases on average over those 14 states. And in fact certain segments within there will be getting much more. So we feel this next round will put us in a place that we feel we're adequately priced to cover the expected losses that we'll have. And so again, in terms of the new business, I would not want anybody to think that we are in agencies writing more new business, because we are under priced. It's more that we are expanding out into new agencies, new territories, and we feel that the rate levels that we have in place are at the appropriate place or will be shortly.

Drew Woodbury
Morningstar Inc., Research Division

And then my next question is, kind of, a bigger picture, a longer term, one about investments, specifically about the equity allocation. So with pricing maybe getting a little bit better and if that trend continues in the future, and we eventually see something maybe hardening market with robust price increases. Have you guys given any thought to lowering the equity allocation or to invest more in policies and writing new business there? And if you could just talk a little bit about your thought process in the trade off between those two types of investments?

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

I'll just start about the equity allocation. We're a little over 25%, now. Historically, if you follow us for a while and that number five years ago was probably 54%, 55%. So we're actually at a very much the low range of our historical norm. We're not uncomfortable. We like it, hit this level. As it was mentioned earlier, if we went to 30%, that would be okay as well. We're not going to go back to having half the portfolio in common stocks, but we invest consistently overtime, and I don't see us selling down below 25% nor much higher than 30% of the portfolio. Again, we believe in the long-term, growth aspects of the type of the stocks we have, and again, the income component of it doesn't get mentioned off, but it's just as important as the growth aspect of it. So I'll let Steve, comment on the underwriting piece.

Steven Justus Johnston
President, CEO & Director

I guess, I would just add right on that everything that Marty, said is that we have been conservative with our balance sheet. Currently, we're running premium surplus ratio of just under 0.9% to 1%. We have an additional $1 billion plus in cash and marketable securities at the holding company. So we keep that conservative balance sheet, so that we're in place. So we can both support our growth goals and our investments in capital management strategies. So I think given where we are in terms of a very strong balance sheet, we're in a position to grow profitably, invest for long-term and do our capital management dividend paying and so forth.

Operator

[Operator Instructions] Your next question comes from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I had a question on new business and then on cats. I guess, on new business first, Steve, you personally said that your new business largely came from agents added in the last 18 months. Can you just put some numbers around that how much of your new business actually is from the newer agents?

Steven Justus Johnston
President, CEO & Director

I believe we have that number, and I think J.F. is going through his sheets of paper. So I'll do my best to tap dance here for a while.

Ian Gutterman
Adage Capital Management, L.P.

Maybe, I can ask the related question while you look at the exact number, which is you said that the new business is based on your analytics. The new business is priced better than renewal. How do you measure that? I mean, I thought new pricing is very hard to sort of have confidence given you can't see the kind of history you can see on your own businesses as far as claims and so forth?

Steven Justus Johnston
President, CEO & Director

That price adequacy is very much held by our models, and I think for both of those questions, J.F. is very well prepared at this point.

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

Let me just address the new business and the price adequacy. We model our entire book of business. It's on the books as well as in every single policy that's written on a monthly basis.

So when we write new business, we know based on the models we're using, what the price adequacy of those risks should be. Now, the model doesn't answer a 100% of the question, in terms of full quality of the account.

It's a huge contributor to it, but there are lot of other things that you might call non-modeled attributes. So we take that down to the policy levels, and so actually, if you can do that we can take it down to the agency level, to the field territory level, to the state level. The fact of the matter is that in terms of all the new business we've written in 2012 to date, agencies appointed in 2010 and 2011, the business we've written from those folks has been most price adequate, of all the new business we've written throughout the year. So we're pleased with the amount of new business we're getting. Frankly, we would expect to write slightly more new business, based on the new agencies that we've appointed and the conversations with agencies we've had. But that is one area where we monitor, very granularly the direction that we've gone in terms of pricing of the new accounts that we've written. So we meet monthly on that. So we're comfortable that, though, a new business is up, it's not at the expense of underwriting profitability.

Ian Gutterman
Adage Capital Management, L.P.

So can you sort of, explain why that business is in the market place, if you will, at that attractive price? And I guess, I'm used to thinking of you being is sort of new business penalty, right? And that business is being shopped is partly because it's not priced as well as someone's renewal books. So what's allowing you to see business of such high quality, rather than staying where it was?

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

There is always possibility for the new business penalty. We understand that, and monitor it. I guess, there will be a variety of reasons. When you appoint a group of agencies or appoint an agency, we make it very clear in the appointment process that we expect to be a meaningful part of the agency. One way of the agency making that happen, is to consolidate the number of carriers they have in the agency. So we may be given an opportunity to look at business, simply because they want to cut down the number of carriers they have. Some carriers in the marketplace have announced that they're going to take a very, very tough pricing approach. That they are going to get a minimum rate increase on all of their renewals, translation, agency shops most of that business just to be on guard, so we see some business because of that. The three-year policy is a significant advantage, I guess, or certainly an important thing for an agency, right now. There is an expectation that pricing increases will continue, that the market will continue firm for a while. So therefore, an agency would might want to put the policyholder with us on a three-year guarantee. So all of those things together, give us an opportunity to see very good business in the marketplace.

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

I want to add just a couple of more thoughts in there. One is, that we actually have two different models, one for new business, one for renewals. So to the extent that you can get different information from a renewal piece of business, versus a new piece of business, we have a model for new business that hones in specifically on the pertinent information that we can get for new business. And then, I think in terms of the new businesses that's available to us, and I kind of try to touch on it in my opening comments is that, that the model allows us to really analyze the new business that's presented to us, and have confidence to go after the ones that we want to go after. But also have confidence to walk away from the ones that would historically create a new business penalty.

Ian Gutterman
Adage Capital Management, L.P.

And then I have actually I kind of have a question, do you have that number on how much of the new business from the newer agents?

Steven Justus Johnston
President, CEO & Director

We wrote both in Commercial and Personal Lines, $21.6 million in agencies that have been appointed in 2011 and 2012.

Ian Gutterman
Adage Capital Management, L.P.

And then on the cats, I know it's always trickier to use sort of, market shares and try to estimate heap of cats, but I guess just sort of wondering, what your take is on your cats relative to the industry this quarter? And what I was looking at is, if you start what the big picture I saw, I think of using a $6 billion, $7 billion cat number, and the odds are like $8 billion. If I look at some of your competitor's cats and extrapolate from their state market shares, as they come and start to move up to maybe 10, 12. But based on your market share analysis, that was playing $20 billion or $25 billion of industry cat losses, which makes to seem like you performed, sort of, worse than your share would have indicated. Do you agree with that? Or is it just state market share is obviously a very broad tool, and if I add county market share, you'd look more normal or was this little bit outsized quarter for you guys relative to what it should have been?

Steven Justus Johnston
President, CEO & Director

I have been analyzing this myself. And I think that state market share is broad, and maybe, just kind of describing how the rates are made, we'll just take homeowners. It might answer the question a little bit. And that, the way we provide for the cat provision is we used RMS version 11, they are most recent up-to-date model. One that is pretty conservative. But we use the RMS version 11 model. We then put in at a very granular level, right down to the street address, our current exposures. What is the coverage A and all the characteristics of the houses that we write, so that we have both a current model and a current picture of our exposures. The model is run at numerous scenarios, thousands of scenarios are generated and we come up with an expected value for catastrophe losses, and that is what we build into our rate level. So it's not our last 20 years of history or our last 10 or any years of history, it's what does the most recent model show. And so then we're at a point where we're comparing, what actually happens versus what did we built into the models. And I just think as we look at overall, in terms, of where these catastrophes happened versus where our footprint is, it just happened to be more in line with where we were and produced outsize losses vis-à-vis what we're building in, and in terms of expected losses for cats.

Ian Gutterman
Adage Capital Management, L.P.

And is there anything when I look at sort of, your long-term history versus the past two or three years, wondering has been sort of these elevated industry losses. It seems relative to your own history, the Commercial has been a little bit more impacted than Personal. Historically, is that accurate? I know you talked about homeowners changes you're making, are there any changes you're seeing necessary on the commercial property side?

Martin Mullen

Actually on the Commercial side, we did have two storms that were kind of outliers on the Commercial piece. We got hit pretty hard on the Commercial side. In Joplin last year, we were hit in the city, actual city areas where we hit some Commercial activity and large Commercial losses, which is pretty much an outlier for us in a cat situation. This year, in our first cat in April, we had our share of Commercial losses in St. Louis from the hail damage. That was pretty much more than 50% of the losses in St. Louis on the incurred basis from cat, pretty much related to Commercial. So with those two were outliers as far as individual storms are concerned.

Ian Gutterman
Adage Capital Management, L.P.

So it sounds more like bad luck necessary, than a new front or any change?

Steven Justus Johnston
President, CEO & Director

Well, we never attribute anything to bad luck. I think it may even be bad luck, but we're not going to accept it within the billing here that that's the answer, because it's natural when things don't go your way; say, well, luck was against us, and when things go your way, it was due to your extreme skill and expertise.

Operator

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

Fredrick Nelson

My question is on the book value, is that an after-tax book-value as you deducted the gains, if you sold everything or can you explain in little more detail?

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

Yes. That is a after-tax book value.

Fredrick Nelson

And if you add it back, would it be $2 more $3 more?

Steven Justus Johnston
President, CEO & Director

The tax impacts on investments are unrealized gains.

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

We're taxed at 35% for our realized gains.

Fredrick Nelson

But I just want to know if you had it figured, what you would add back. I mean it must be a pretty good figure?

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

It's a pretty good figure. The 35% of that unrealized gain.

Fredrick Nelson

Well, you don't have to give it to me. I just wanted to know if I was correct on my thought process.

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

Yes, absolutely are.

Operator

There are no further questions at this time. I'll turn the call back over to Mr. Johnston for closing remarks.

Steven Justus Johnston
President, CEO & Director

Thank you. And thanks to all of you for joining us. Thanks for the great interest in our company and great questions and we appreciate it. And we look forward to talking to you on our next call if not before.

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