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Cincinnati Financial Corp (CINF) CEO Steven Johnston on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.08 beats by $0.20 | Revenue of $1.7B (-11.23% Y/Y) beats by $168.9M

Earning Call Audio

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Cincinnati Financial Corp (NASDAQ:CINF) Q3 2019 Earnings Conference Call October 25, 2019 11:00 AM ET

Company Participants

Dennis McDaniel - VP & IR Officer

Steven Johnston - President, CEO & Director

Michael Sewell - CFO, SVP & Treasurer

Stephen Spray - SVP, Chief Insurance Officer & Director

Martin Hollenbeck - CIO, SVP, Assistant Secretary & Assistant Treasurer

Conference Call Participants

Michael Zaremski - Crédit Suisse

Paul Newsome - Sandler O'Neill

Joshua Shanker - Deutsche Bank

Mark Dwelle - RBC Capital Markets

Meyer Shields - KBW

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2019 Earnings Conference Call. [Operator Instructions].

I would now like to hand the conference over to your speaker for today, Mr. Dennis McDaniel with Investor Relations Officer. Thank you, sir. Please go ahead.

Dennis McDaniel

Hello. This is Dennis McDaniel at Cincinnati Financial. Thank you for joining us on our Third Quarter 2019 Earnings Conference Call. Late yesterday, we issued a news release on our results, along with our supplemental financial package, including our quarter end investment portfolio. To find copies of any of these documents, please visit our investor website, cinfin.com/investors. The shortest route to the information is the Quarterly Results link in the navigation menu on the far left.

On this call, you'll first hear from Steve Johnston, President and Chief Executive Officer; and then from Chief Financial Officer, Mike Sewell. After their prepared remarks, investors participating on the call may ask questions. At that time, some responses may be made by others in the room with us, including Chairman of the Board, Ken Stecher; Chief Investment Officer, Marty Hollenbeck; and Cincinnati Insurance's Chief Insurance Officer, Steve Spray; Chief Claims Officer, Marty Mullen; and Senior Vice President of 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 it over to -- call to Steve.

Steven Johnston

Thank you, Dennis. Good morning, and thank you for joining us today to hear more about our third quarter results. Our operating performance was again strong, and we're making steady progress on profitably growing our insurance business overtime. We believe our improving results reflect our winning strategy and dedication to executing it well.

Net income for the third quarter of 2019 was very good. Although, it did not match our results from a year ago when changes in the fair value of equity securities represented nearly 2/3 of the total. Non-GAAP operating income was up an impressive 31% and is up 26% for the first 9 months of this year. Every segment of our business performed well, and it was nice to see an underwriting profit in each of our property casualty operating units for both the third quarter and the first 9 months of the year.

Our 94.2% third quarter 2019 property casualty combined ratio was 2.6 percentage points better than a year ago, and it improved 2.7 points on a year-to-date basis. We continue to see benefits from work in recent years to diversify risk by product line and geography. We also are pleased with results from ongoing segmentation of risks, retaining more profitable accounts and getting better pricing on less profitable business. That gives us increasing confidence to decline opportunities when we determine profit margins are unsatisfactory. We also benefit from having outstanding independent insurance agents, representing the company. They understand how to communicate value to their clients, and they continue to produce more premium revenues for us as we earn a larger share of their business. Our consolidated property casualty net written premiums rose 8%, including renewal price increases and healthy growth in new business written premiums.

The commercial lines segment's third quarter 2019 estimated average price increases were similar to the low single-digit percentage increases of the second quarter. The combined ratio for commercial lines was 2.5 percentage points better than the third quarter a year ago and 1.8 points better on a year-to-date basis. Our personal lines segment also continued to experience average rate increases similar to the second quarter of 2019. We're encouraged by two consecutive quarters with the personal lines underwriting profit, and believe we are well-positioned for profitable growth in the future. Our excess and surplus lines segment continues to perform very well, including a third quarter combined ratio below 85% and net written premium growth of 25%. Cincinnati Re continues to perform as planned with the year-to-date combined ratio in the low 90s. Cincinnati Global experienced a very profitable quarter and has a post-acquisition combined ratio in the low 80s, including some favorable effects of purchase accounting for the first few periods following an acquisition.

Our life insurance subsidiary continued to grow its business with third quarter term life insurance premiums up 12% on an earned basis. While as net income contribution was not as strong as last year, Cincinnati Life provides valuable diversification to our insurance risks and our earnings. More importantly, agents appreciate the ability to add life insurance solutions for their clients, all under the Cincinnati umbrella. Our investment performance also continues to be outstanding. Investment income continues to grow and our equity portfolio during the first 3 quarters of this year has outperformed the S&P 500.

I'll wrap up with our primary measure of long-term financial performance, the value creation ratio. Improving operating results and favorable securities markets resulted in a third quarter VCR of 3.6%, boosting the 9-month measure to 22.8%, well above our targeted annual average of 10% to 13%. The contribution from our operations measured as net income before investment gains was 6.3% for the first 9 months of 2019, up 0.9 percentage points from a year ago.

While our equity portfolio supported our healthy VCR, we understand the risk of short-term variability due to market effects. We believe its potential for long-term appreciation is important for creating value for shareholders overtime.

Now our Chief Financial Officer, Mike Sewell, will share insights on other important areas of our financial results.

Michael Sewell

Thank you, Steve, and thanks to all of you for joining us today. Our investment income rose again, up 5% for the third quarter of 2019 before income tax effects. Dividend growth from our equity portfolio was 11% as dividend rates have increased for many of our holdings. Net purchases of stocks during the third quarter totaled $77 million. Interest income from our bond portfolio declined slightly from the same quarter a year ago. The pretax average yield was 4.03% for the third quarter, down 16 basis points from the third quarter of last year.

We continue to invest in bonds with third quarter net purchases of $208 million. As we reported in our 10-Q, the average pretax yield for the total of purchased taxable and tax-exempt bonds was roughly 60 basis points lower than the same period in 2018, so interest income may continue to be pressured. Investment portfolio valuation changes for the third quarter of 2019 were again favorable for both our stock and bond portfolios. The overall net gain was $186 million before tax effects. That included $89 million for equity portfolio and $99 million for our bond portfolio.

We ended the quarter with net appreciated value of $4.2 billion, including $3.6 billion in our equity portfolio. Cash flow remained strong and fueled investment income growth. Cash flow from operating activities generated $880 million for the first 9 months of 2019, up 7% or $54 million, even after paying $114 million more this year in catastrophe losses. Another important area for management is balancing expense controls with strategic investments to aid in the profitable growth of our business.

The third quarter 2019 property casualty underwriting expense ratio was 0.3 percentage points higher than last year's third quarter. But on a 9-month basis, it matched the average of full years 2016 through 2018. Regarding reserving, doing so carefully is imperative. We aim for a consistent approach as we target net amounts in the upper half of the actuarially estimated range of net loss and loss expense reserves. During the third quarter 2019, we experienced a satisfactory amount of property casualty net favorable development on prior accident years. Favorable reserve development for the quarter benefit our combined ratio by 3.7 percentage points.

On a year-to-date, all lines basis by accident year, it included 33% for accident year 2018, 27% for accident year 2017 and 40% for 2016 and prior accident years. Regardless of weather, the root cause of particular changes and loss control trends is from social inflation or other matters, we do our best to establish adequate reserves. For example, we have disclosed that since the end of 2015, we've increased our commercial casualty total loss reserves by $324 million or 26%.

The IBNR component of that total is up $220 million or 49%. During the same period, annualized earned premiums, one way to estimate the change in insured exposure is up only 8%. For commercial auto, total loss reserves are up 44% with the IBNR component up 158%, while earned premiums are up 25%. Turning to managing capital, another critical function for the company. Our approach remains stable. Our financial strength is excellent as is our financial flexibility. As usual, I'll end my prepared remarks with a summary of the third quarter contributions to book value per share. They represent the main drivers of our value creation ratio. Property casualty underwriting increased book value by $0.40. Life insurance operations added $0.08. Investment income, other than life insurance and reduced by noninsurance items, contributed $0.62. Net investment gains and losses for the fixed income portfolio increased book value per share by $0.48. Net investment gains and losses for the equity portfolio increased book value by $0.43, and we declared $0.56 per share in dividends to shareholders. The net effect was a book value increase of $1.45 during the third quarter to a record high, $57.37 per share.

Now I'll turn the call back over to Steve.

Steven Johnston

Thanks, Mike. As we head into the last quarter of the year, we're committed to maintaining the momentum we've created so far in 2019. We're confident that Cincinnati Financial was on the right track to deliver shareholder value far into the future. We appreciate this opportunity to respond to your questions and also look forward to meeting in person with many of you during the remainder of the year.

As a reminder, with Mike and me today are Steve Spray, Marty Mullen, Marty Hollenbeck, Theresa Hoffer and Ken Stecher.

Katherine, please open the call for questions.

Question-and-Answer Session

Operator

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

Michael Zaremski

First question. Thanks for addressing the loss trend discussion. If I look at your year-to-date losses paid versus incurred levels for commercial casualty and commercial auto, they -- just the ratio does seem to be higher year-over-year, I think, or I could be wrong year-over-year but it's close to 100%. Does that indicate that you potentially are seeing a rise in loss inflation trends? I don't know your view there. Are you guys seeing any changes, some of your competitors, the larger ones, have said that they are seeing an increase in trend? And they also pointed out that they're getting more pricing, so maybe you could comment on that.

Steven Johnston

Okay. Thanks, Mike. And that does seem to be the question of this earning season. As we look at the paid-to-incurred ratios, the paid -- as you mentioned, the paid to incurred this year is a bit higher than last year. But last year was actually one of the lowest paid incurred that we had. So if we look at it more over the long term, we think we've addressed our reserving position in casualty, commercial auto and really all the lines very consistently over time. And I think I break it down, going back to 2015, 2016 as Mike pointed out in his conference call.

We look at inflation in total. So social inflation or any other kind of inflation would be a part of that, and we have a very talented actuarial team. They use a very sophisticated basket of techniques to come up with the estimate.

One of them that they use is a multiple regression method that regresses not only over the accident years, the development years but also the calendar years. And that regression over the calendar years makes an explicit estimation of inflation effects.

And so I thought it was important that Mike pointed out that while the total reserve has been increasing much more than the earned premium or our proxy for exposure. Within that increase, the IBNR was up significantly. The IBNR for casualty over that period of time was up 49%; the auto, up 158%. And if you think about it, we like, most people, that IBNR component has a provision for both the development on case incurred losses, which our claims department does a great job of estimating, and those are claims that have actually been reported and we put an estimate on it. So within that IBNR, there's a good bit of -- for pure IBNR, pure incurred but not reported claims. And so I think a lot of the inflationary effects, no matter how we described them, would be in those ones that we really don't know about yet. The incurred but not reporting. And I think over the history of our company, we've just really done a good job of being prudent in terms of estimating the total reserve. And I think this increase in IBNR that we've had over a period of time has put us really in a good position. I think it's manifested in now 29 years in a row that we've had our reserves developed favorably, and we really just think our best to estimate for our lines of business are all in a good position right now. So that's part of it. That's the reserving part of your question, I think.

And I think that that's an important part of it because you don't want to have to be paying for adverse development on prior years. So we feel we're in a good position in terms of our current reserves.

On the pricing side of it, again, and I might ask Steve Spray to contribute a bit here too. But I think between where we estimate the loss cost trends and where we think we're getting rate. And when we throw in that rate, we really throw in the contribution of the segmentation that we're doing in terms of not treating every risk the same. We're really differentiating, segmenting, treating each risk on its own merits. And so we are -- we feel good about our position in commercial casualty. If you take just the overall commercial expense ratio of 32% and add it to either our accident year x-cap, loss ratio or the calendar year, and we're under 100. And so we feel both on the reserve side and on the property or on the pricing and underwriting side, we're in a good spot too.

Michael Zaremski

Okay. Great that's helpful. And I guess, I think, I've tried to ask this in previous quarter just because there's a number of moving parts, and it's -- workers comps are meaningful beneficiary and the -- to earnings mostly from reserve releases. But the top line is coming down a lot and the underlying loss ratio is deteriorating.

So is that trend mostly due to decreases in pricing? And on the other hand, what's causing so much of reserve releases to come out. Is it both severity and frequency are better, or is it mostly more recent accident years or the older accident years? Any color would be helpful.

Steven Johnston

Sure. This is Steve Johnston again. On the reserving said, I'll touch on that, and then Steve Spray will touch on the pricing side. But on the reserving side, we -- whenever we set these, we set our reserves with certain assumptions as to inflation settlement practices in all the data that we can look at. And basically what's been happening with the workers compensation is, and I think it's a real team effort around here in terms of every area the company contribute in, particularly our claims department, our underwriting department, the pricing department. The actuals have just been coming in underneath, what we said is our expectation for the reserve development.

So it's just been a matter of actuals comparing favorable to what we put in in terms of the expectation. And you have to be careful with setting those expectations. I'm sure you know in the workers comp, longtail line, a lot of the trends have been favorable over time but you have to be careful to keep an eye out for any turning points that there might be. And again, we take a prudent approach to the reserving of all lines. And Steve, you might want to comment on the pricing.

Stephen Spray

Yes, Mike. Steve Spray. On the pricing, it's similar to the discussions we've had in the prior few quarters. NCCI base rate declines across states are having a compounding effect. But I will tell you, I concur completely with Steve, it's been a total team effort here. Our field reps, our renewal underwriters are working with our agents on work comp pricing, making sure that our risk selections where it needs to be that we're getting the right rate. Of all of our lines, commercial lines, lines of business, the new business is really only off in 2 lines, workers compensation and professional liability. Professional liability is a much smaller segment. But I think it shows the discipline we have in risk selection and in pricing on the work comp book.

Just looking at the -- as Steve talked about the segmentation, specifically the workers compensation, and we use the analytics and the tools that we have there. We still feel good about our overall pricing of that book of business, but it's no doubt the accident year results are under pressure from the base rate declines.

Michael Zaremski

Okay. Great that's helpful. And just lastly on the excess and surplus lines segments. If you could remind us is this growth sustainable? Is there something one time, or is it -- I know there was a Lloyd's acquisition maybe that's in that segment too?

Steven Johnston

Yes. The CGE, the Lloyd's acquisition would not have any impact on our E&S company, CSU. I would say that I feel that the -- that we feel that the growth there in CSU is sustainable. I think it's -- it is showing what's going on in the marketplace. The submission counts in our E&S company are up considerably. I would make note there too Mike that we've got just a great experience team, and they have been consistent and stable in their underwriting appetite, the terms, conditions and the pricing, and the pricing is improving as well.

Our value proposition for our agents is still extremely attractive. I think we have more and more of our agencies turning to us and because of our value proposition with the E&S company, and I've talked about that in the past as well. So we feel good about not only the profitability that we have there but our growth trajectory too.

Michael Zaremski

And I guess just I could ask you sometimes I don't have the best answer. So just the -- like usually an E&S company doesn't fit in a traditional commercial insurance company. So what -- why are you -- how are you able to have the analytics or capabilities to have an E&S company, since you are more of a traditional commercial insurer? Is there something unique there?

Steven Johnston

Yes. I think one, we've just -- we've built a tremendous amount of expertise on the team for E&S underwriting. The majority of that book, about 88% of it, is really traditional casualty business, albeit a little tougher, all right? So it might be -- well, inherently it's going to be a risk that is not eligible for the admitted market. As an example, you might have a borrowed tab and the admitted market doesn't feel that it can get the proper terms and conditions or pricing, so that would end up in the E&S market.

Where I think our differences, and why we are outperforming the industry on our E&S operation is we've stuck to our knitting, like I said before, the underwriters, the entire team has been consistent in their appetite in terms, conditions and the pricing. And the value proposition we have for our agents and the policyholders and their community is different. The traditional E&S route is for a retail agent to go to the wholesale market, and then the wholesale market go to the broader E&S carriers.

We've formed our own brokerage, our underwriters are employees of the brokerage, our agents have direct access to the decision-makers in our E&S company. The other big thing is, now there's a several of them. But we gave our agents, I think more confidence on that E&S business because we use all the local resources of Cincinnati Insurance company to bear with our E&S company as well. Most importantly, our claims operation. So our agents have a relationship with that local claims adjuster that will handle both the admitted market business as well as the nonadmitted. We run our brokerage lean and mean. We can return more of the commission to our agents. And on top of that, we include the premium and losses from our E&S company into the Cincinnati Insurance company overall profit sharing arrangements. So we're aligned with our agents but they send us business that they feel is going to perform better than maybe some other E&S might.

Operator

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

Paul Newsome

Congrats on the quarter. One of the things just comes up with the call so far has been most of BCF reported incrementally stronger price increases in the third quarter and the second. But I think you said that you really weren't seeing that, it was more flat, not that that's terribly bad. But could you maybe, I think, I know what the answer is but could you maybe talk about why this might be the case that maybe you're not seeing quite the same dynamic as some other companies in the commercial insurance role?

Stephen Spray

Well, Paul, this is Steve Spray. Let me try to tackle that. Let me try to tackle from commercial, personal and E&S. We have had consistent average net rate change that we've reported over the last several quarters. But that doesn't tell the full story. What we're really trying to execute. And I think we're doing a great job in all segments. At the underwriting level working with our agents is focused on segmentation. We're really focused on retaining the most profitable business, the business that we feel we have an opportunity to have a better margin. We are really focused on getting larger rate that's needed on that business that we feel is less apt to drive a profit for us. And our retention spreads look really good there as well. So we are retaining more of that -- more profitable business. We're either getting rate or we're losing some of that business to the market, and we're comfortable with that. It's changing our mix, and I think it's -- you're seeing it in our results.

Now that's primarily, what I'm talking about there is commercial lines. The same story is going on in personal lines. You can see it in our auto results. We continue to improve our sophistication on pricing both on the auto, in home. That continues to evolve. It's good number that's going to continue to get better. And as everybody is reporting, you're seeing better personal auto results, and we're seeing that as well. But there is certainly some variability and volatility going on in the homeowner book and we've seen that as well.

And the good news there is we feel like we're in a positive rate environment on homeowner, and we think the runaway is long, and we'll continue that we'll serve everybody well and it's needed. Our E&S company has continued to get low single-digit rate even with the levels of profit that they've generated. They've gotten low single-digit rate quarter over quarter over quarter for quite a while. So that really sums up the way we look at rate, and the way we look at execution, the way we work day-to-day with our agents, Paul.

Steven Johnston

And Paul, this is Steve. I might just add 1, just -- I agree with -- 100% with everything Steve said. With the commercial casualty and it's more of a Q comment then we put in the press release or the scripts that we are gaining a little bit more on the commercial casualty, still in that same range that we put out. But it is a little bit higher than it's been in the second quarter on average and Steve's points about segmentation talk to the distribution about that average.

Paul Newsome

Could you home in on some of the -- on your commercial auto business and what's happening with your business as well as your perception of the market. That seems to be the most notable segment the people are focusing on -- across the industry.

Stephen Spray

Yes. Sure. Paul. And prior to the role I'm in now, when I was leading commercial lines. I lived this real time. So I think I can speak to it. This is Steve Spray. We really saw back in 2016 is where we really took a sense of urgency and started taking serious action on the commercial auto book. And again, it goes, to what I mentioned before, we really focused on the segmentation piece of it and risk selection. But just from a pricing standpoint, we really got aggressive starting in 2016, and I really believe that we're out in front of this issue. And the reason I can -- why I measure that is we have such a close relationship with our agents. We have so few of them, you know our distribution model. But we on a daily basis, we're delivering necessary auto rate change back starting in 2016. We were causing considerable pain, and we heard pretty regularly that we were, "an outlier" from our agents as far as how hard we were pushing.

Well, fast forward to fourth quarter '18, really beginning in '19, that pain has really, kind of, gone away. And I think it's because others really started noticing and started taking similar action. So if you look at our x-cap accident year on the commercial auto, it is continuing to improve. We haven't crossed the finish line. Now that loss ratio isn't where we wanted to be. But I can tell you we feel really good about the trajectory and where we're heading with that.

Operator

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

Joshua Shanker

Another great quarter. Congratulations. So I got a question this morning, somebody wanted to know just how well you're doing in the high net worth individual market? And I started trying to build a time series. I noticed that you've talked about overtime your growth rate differently. Some years you've talked about it in terms of most recently how much premium you're getting in that business, sometimes you've talked about it in the new business generated, some of them tend to change in new business generated.

In terms of going forward, this has been a good growth here, and you're talking about in terms of total premium. Are you planning on breaking this out into its own segment given the clarity of the disclosure?

Michael Sewell

Josh, this is Mike Sewell. We are not planning on breaking that out. That would still be a part of the personal lines, now whether or not we give additional information within some charts and so forth. But it would not qualify as a separate segment on its own under the GAAP rules. Go ahead, Josh.

Joshua Shanker

Well i was wondering, may be if we talk about the relative margin high net worth versus personal lines, the whole, whether it's a more profitable business or about the same level of profitability? And two, whether we can talk about rate in high net worth versus rate in the personal lines business more broadly?

Stephen Spray

Sure, Josh. This is Steve Spray. Let me first start with, I think some numbers I can give you on high net worth. It's -- right now, it's about 28% of our total personal lines book. It's how we would break out high net worth. When we started really focusing on high net worth, being deliberate about it. A little over 5 years ago, our book was at about $100 million, and it's now approaching $400 million, written premium this year is up over 30% and new business was up about 25% to give you a little flavor there.

I will tell you that we've got an experienced, Will Van Den Heuvel leads personal -- leads all personal lines, came to us with 25 years of high net worth experience, has brought nearly 40 people with him who had many years of high net worth experience as well.

So overnight, we became a 25-year high net worth experienced company. We were deliberate to get into that business because over time, historically, it has outperformed the broader personal lines market. Plus we like the value we bring as a company through claims and our coverage forms and all of that. So it was a natural progression for us there. I will tell you that on the homeowner front, from the very beginning as we're growing this business, we fully expected quarter-to-quarter variability. We're writing larger risks that can have larger losses may also bring larger premiums with them, but we have experienced some of that inherent variability. We did in the third quarter this year with some larger losses on high net worth homes as well.

We've dug in to each one of those. We don't see any trend on geography by agency. You name it. So we think it's, again, it's just inherent variability from quarter-to-quarter, it's expected. We expect it to continue on that front going forward as well.

Now I think, if you look at the industry, we're seeing many of the competitors are reporting some pain in the high net worth homeowner area as well, and that kind of goes to what I was saying earlier is we think the runaway for rate will remain positive there. And it's going to benefit us as well.

Joshua Shanker

And correct me if I'm wrong. But your strategy, not because -- for any of the reasons I think it's just where you started, is concentrated in the New York tri-state area more so than other places. Can we talk about the scaling that naturally, and whether or not the geographic concentration is sort of you're sticking with or should we expect in 5 years that your writing is robustly on the West Coast as you are in New York?

Stephen Spray

Yes. Well, no. It's a great question, Josh. Let me clear that up as well. It's not centered just into the Northeast. We've rolled out our high net worth product across the country. I believe now we're in 41 states -- 42 states, excuse me, active, where we have agents appointed. We're running high net worth across the country with all of our agents. Now candidly, a lot of those -- a lot of that clientele is on the coast, and we are growing in New York in the Northeast, and we are also growing in California. Now our California growth has slowed some and it's been by design. That market is, I would say, in flux from the '17 and '18 wild fire losses. We were undersized there, and we've talk about that in the past and our loss experience was -- we experienced losses. We didn't experience any total fire losses either, and we actually avoided 11 -- excuse me, 11 total losses on risks that we had declined. So we think our underwriting there is really solid as well. So California has slowed a bit but we are still completely committed to California. Our agents there, we think it's a good opportunity, and we'll continue to grow that too. Does that answer the question, Josh?

Joshua Shanker

Yes, that's great. That's great. And then in terms of the E&S market, can you talk about a little bit on where you think the business came from the past to you to the extent that you were taking it from the admitted market, form competitors who were well entrench within your agencies. And as next year happens do you expect that there will be as easier market to pull business away from it. It's never easy, of course, but does seem like there was a lot of business looking for an omen in 2019?

Steven Johnston

Yes. It's a great question. I think that it's kind of coming from a little bit of everywhere, Josh. I think there's certainly is an element to admitted market companies taking kind of retrenching in some of that business that flows back and forth between E&S and admitted market based on the cycle is flowing back into the E&S company. That's a big chunk of what they're writing. I still think our value proposition is -- the word still continues to get out, and we just continue to trip on our agents, and they continue to send more and more business our way. The key there though Josh for us, I think is that -- a key point is that our underwriting appetite and consistency and approach in terms of condition and pricing have stayed -- have remained stable, they've stuck to their knitting and just getting more opportunities because of a market, a little bit in flux.

Operator

Your next question comes from the line of Mark Dwelle with RBC.

Mark Dwelle

I think a lot of the ground has already been covered. But maybe just ask a two more -- two other question, I don't think we've hit on. First one for Mike. Just within the investment portfolio with interest rates having declined. Or anything that you're doing there different or just strategically for positioning? And if you could just remind me there, kind of what portion of that portfolio typically is up for reinvestment in any given year?

Martin Hollenbeck

Sure. Mark, this in Marty Hollenbeck. We really don't do a lot of different in the fixed income portfolio. The exception in the last couple of years is being skewed more favoring taxable versus tax-exempt bonds. There's really 2 -- kind of 2 variables as to what determines our interest income that will be kind of the yields on purchase, which would detain you treasury in 100 basis points year-to-date, that's really seeing some pressure on that front.

On the other hand, and I've mentioned in the prior calls, bonds that we have lost through maturities or calls, those yields were very high, it was about a lot of corporate bonds 10-year not a call paper during and in the aftermath of the financial crisis. So we've been bleeding fairly good out the back door on yields lost, that seems to be abating now. The worst of that, we feel confident is over. So if we can get the 10-year treasury, for example, up to, let's say, the 2.5% to 3% range. We think we can get some traction on interest income growth. So we -- again, we typically will choose the point on the yield curve that's got those risk-adjusted, tax adjusted yields and kind of go with that. So and short answer is, we're not really doing anything much different.

Mark Dwelle

Okay. That's helpful there. And the same question, and it's probably too soon to have any particular. But obviously, the devastating tornadoes in Dallas, that's traditionally been a big market for you. Is that a lost event that you would expect to have for some fairly substantial exposure to?

Steven Johnston

This is Steve, and it is too early to really comment on that. We've obviously seen that, we're getting our claims people on the ground but don't really have specifics for you at this point in time.

Operator

[Operator Instructions]. And your next question comes from the line of Meyer Shields with KBW.

Meyer Shields

I was wondering if we could get a breakdown of the accident year '18 reserve leases by line of business.

Steven Johnston

Yes. We have that, and Mike is pulling it up.

Michael Sewell

Accident year '18?

Steven Johnston

'18.

Michael Sewell

Yes. So on a year-to-date basis, is what you asked for, Meyer?

Meyer Shields

Yes. Whatever's in it or third quarter?

Michael Sewell

Yes. So for the reserve development for 2018. So if we can drill down on any of these. So for commercial lines, it was 4.7%; personal lines, 1.6%; Cincinnati Re, we actually had -- that was 3.7%; and for the surplus lines, 12.6%. So overall, it was a 3.4%.

Steven Johnston

And those are all percents.

Michael Sewell

Those are all percents. That's exactly right. And it was -- when I said the 1.6% for personal lines that was strengthening there.

Steven Johnston

So just in total in terms of dollars, Meyer, it was $68 million for the whole thing.

Michael Sewell

For the whole thing.

Meyer Shields

Right. Understood. Okay, yes we can top that I think. Two other quick questions. When I look at workers composition lines. And I'm asking that in the light of your comments about recognizing worsening trends a few years ago in casualty. Are you seeing something in workers compensation that's for that the year-over-year higher loss pick or is this just anticipating that favorable trends may not continue?

Steven Johnston

I think it's the latter there. You just -- with the longtail line like that, it pays to be prudent with your picks and just a small movement in medical inflation can turn that number in a big way. So difficult with our prudent approach, we don't want to get too aggressive there.

Meyer Shields

Okay. That's helpful. And the finally, so you mentioned that the E&S book is predominantly casualty. I'm wondering is that by design, do you want less property because I would've thought the submission flow would have increased there earlier than casualty.

Steven Johnston

Yes. It's been by design, Meyer, on the casualty side. And just to give you a little flavor of what the book looks like, it's -- our average premium size for the general liability on E&S is just a little over $6,000. So certainly on the small end, our limits profile there, 80% of our limits are $3 million or less. So kind of gives you a feel for that too. The other thing that I would add there is about -- it's between 40% and 50% of the time when we write an E&S, say casualty line, Cincinnati Insurance company is picking up the other lines of business on the admitted side. So it might be a manufacturing concern as an example that has a really tough product liability exposure where our E&S company can underwrite it term, condition and price it appropriately, and then Cincinnati Insurance will write the property, will write the premises liability, the auto workers compensation. So that happens 40% to 50% of the time. So that's driving us more towards casualty as well.

Operator

[Operator Instructions]. And I'm showing that there are no further questions. I'd like to turn the call back over to Mr. Johnston.

Steven Johnston

Thank you, Katherine. Well done, and thanks to all of you for joining us today. We look forward to speaking with you again on our fourth quarter call. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.