S&P Capital IQ

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American Financial Group, Inc. NYSE:AFG

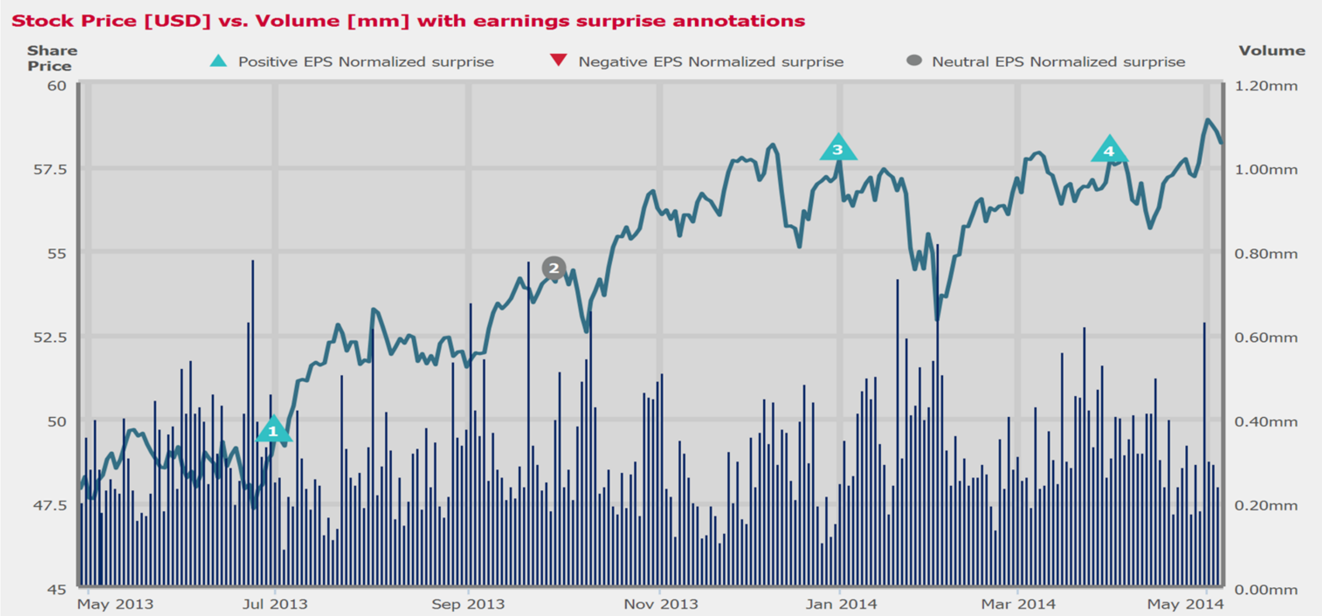
FQ2 2014 Earnings Call Transcripts

Tuesday, July 29, 2014 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.95	1.07	▲12.63	1.17	4.74	5.33
Revenue (mm)	919.00	931.00	▲1.31	-	3727.40	4321.00

Currency: USD
Consensus as of Jul-29-2014 1:27 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.86	0.96	▲1 11.63 %
FQ3 2013	1.06	1.06	2 0.00 %
FQ4 2013	1.21	1.28	▲3 5.79 %
FQ1 2014	0.97	1.00	▲4 3.09 %

Call Participants

EXECUTIVES

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Craig Lindner
Former Co-President and Director

Diane P. Weidner
Assistant Vice President of Investors Relations

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

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Janney Montgomery Scott LLC, Research Division

Vincent M. DeAugustino
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the American Financial Group's Second Quarter 2014 Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now turn the call over to your host, Diane Weidner. Please go ahead.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you. Good morning, and welcome to American Financial Group's Second Quarter 2014 Earnings Results Conference Call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Jeff Consolino, AFG's Chief Financial Officer.

If you are viewing the webcast from our website, you can follow along with the slide presentation if you'd like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements, and are based on estimates, assumptions and projections, which management believes are reasonable, but by their nature, subject to risks and uncertainties. The factors, which could cause actual results and/or financial condition to differ materially from those suggested by such forward-looking statements, include, but are not limited to, those discussed or identified from time to time in AFG's filings with the Securities and Exchange Commission, including the annual report on Form 10-K and quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure, which sets aside significant items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, discontinued operations, and certain nonrecurring items. AFG believes this non-GAAP measure is a useful tool for analysts and investors in analyzing ongoing operating trends and will be discussed for various periods during this call. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

If you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy, plus it may contain factual or transcription errors that could materially alter the intent or meaning of our statement.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Good morning. We released our 2014 second quarter results yesterday afternoon. I'm assuming that our participants have reviewed our earnings release in the investor supplement posted on our website.

We're pleased to report core net operating earnings of $1.07 per share, an 11% increase from the comparable prior year period. These results reflect solid Property and Casualty operating earnings and continued strong profitability in our Annuity segment, and set a new AFG record for second quarter core operating earnings per share.

Annualized core operating return on equity was 9.6% for the 2014 second quarter compared to 9.2% for the second quarter of 2013. Net earnings were $1.15 per diluted share and include $0.08 per share of realized gains. Annualized return on equity was 10.3%, and adjusted book value per share was $47.95 at June 30, 2014, up 4% from year-end 2013.

Based on the results for the first half of this year, we continue to expect AFG's 2014 core operating earnings to be in the range of $4.50 to $4.90 per share.

During the second quarter, we repurchased $20 million of AFG's common shares at an average price of $57.95.

We've also continued to grow our businesses. We've achieved year-over-year growth of 19% in average annuity assets, and reported an increase of 33% in net written premiums in our Specialty Property and Casualty group. Even if you exclude the impact of Summit, our specialty workers' compensation subsidiary acquired on April 1st, 2014, our Specialty Property and Casualty group net written premiums grew by 15%.

Before we move on to discuss detailed results, I should note that last week, AFG's specialty insurance companies were, once again, named to the Ward's 50 Property and Casualty and life health list for safety, consistency and performance. When you consider that in the United States, there are over 3,000 property and casualty insurance companies and over 750 life and health companies, it's quite an accomplishment to be recognized on both Ward's 50 lists. In fact, of the 50 property and casualty companies selected by Ward's, only 2 have been rated A or better by A.M. Best for over 100 years. We're very proud that our flagship Property and Casualty insurer, Great American insurance company is one of those 2.

Now I'd like to review second quarter Specialty Property and Casualty results summarized on slides 4 and 5 of the webcast. On Slide 4, you'll see summary results for our Specialty Property and Casualty group. Gross in net written premiums were up 24% and 33%, respectively, in the 2014 second quarter compared to the same quarter a year earlier, due primarily to higher premiums in our Specialty Casualty Group, which includes 1 full quarter of results from Summit. The Specialty Property and Casualty insurance operations generated underwriting profit of $29 million for the 2014 second quarter compared to $21 million in the second quarter of 2013. The second quarter 2014 combined ratio of 96.9% was a slight improvement from the 97% recorded in the 2013 second quarter. Results for the second quarter of 2014 include improved accident year underwriting profitability and the impact of adverse prior year reserve development and lower catastrophe losses.

Second quarter 2014 Property and Casualty net investment income was approximately 17% higher than the comparable 2013 period, reflecting the investment of cash received in connection with the Summit acquisition.

About 2/3 of our Property and Casualty businesses reported pricing increases during the second quarter, resulting in an overall renewal rate increase of approximately 3%. It's the 11th consecutive quarter that we reported overall price strengthening. Pricing continues to keep pace with loss cost trends, which appeared to be relatively benign across almost all of our Property and Casualty businesses.

On Slide 5, you'll see a few highlights from each of our Specialty Property and Casualty business groups. The Property and Transportation group reported an underwriting loss of $18 million in the 2014 second quarter, compared to a loss of $31 million in the comparable prior year period. 2014 second quarter underwriting loss was primarily due to the adverse prior year reserve development in our National Interstate subsidiary. Improved accident year results and lower catastrophe losses in the Property and Transportation Group during the second quarter of 2014 more than offset the higher adverse prior year development.

The Property and Transportation Group's calendar year combined ratio, excluding National Interstate, improved 10.3 points in the 2014 second quarter when compared to the same 2013 period. But we're pleased to see improved results in many of the other businesses in this group year-over-year.

Gross and net written premiums for the second quarter of 2014 were 10% and 8% higher, respectively, than the comparable 2013 period. Crop premiums reported in the second quarter of 2014 are consistent with average historical results, whereas crop premiums reported in the second quarter of last year were lower than historical trends due to delayed acreage reporting from insureds. Excluding our crop insurance business, gross written premiums increased by 5%, and net written premiums increased by 4%.

Favorable growing conditions for corn and soybeans have resulted in strong yield forecasts this year. Offsetting this good news, however, our commodity price declines and also hail damage from spring storms, primarily, in Nebraska. With consideration given to all these factors, we've lowered our profit expectations in our crop insurance business. Since about 40% of our business is written at 80% to 85% coverage levels, we'll continue to watch with interest as the growing season develops. Our revised crop earnings projections are embedded in our current 2014 earnings guidance, which we'll discuss shortly.

Overall rates in the Property and -- Specialty Property and Transportation Group increased 6% on average for the quarter, with our National Interstate subsidiary achieving a 9% rate increase, we were happy seeing. Specialty Casualty Group reported an underwriting profit of $30 million in the second quarter of 2014 compared to $32 million in the second quarter of '13. Higher underwriting profitability in our Workers' Comp businesses was offset by lower underwriting profits in our international and general liability lines of business. Lower favorable reserve development year-over-year and our excess in surplus lines and executive liability businesses also impacted these results.

Gross in net written premiums for the second quarter of 2014 were up 49% and 76%, respectively, when compared to the second quarter of '13. Excluding premiums from Summit, gross and net written premiums grew by 18% and 29%, respectively. After further adjusting for a timing difference and reinsurance ceded in our international business, net written premiums in this group grew by 19%.

Speaking of Summit, we're very pleased with the transition to AFG, and results are exceeding our expectations. While all businesses in this group reported growth, our workers' compensation, excess and surplus lines and targeted markets business -- businesses were primary drivers of the higher premiums. Pricing in this group was up approximately 3% on average for the quarter.

Specialty Financial Group reported an underwriting profit of $15 million in both the second quarters of 2014 and 2013. Most of the businesses in this group achieved excellent underwriting margins during the second quarter of this year.

Gross written premiums were down 5%, while net written premiums were up 3% during the 2014 second quarter when compared to the same 2013 period. Growth in gross written premiums was tempered by the October 2013 sale of a service contract business, which ceded all of its premiums under reinsurance contracts. Net written premiums increased primarily as a result of growth in our fidelity and crime and surety businesses, partially offset by lower premiums in lender-placed mortgage property insurance offered by our financial institutions business. Pricing in this group was down approximately 1% for the second quarter.

Right now please turn to Slide 6 for an overview of the 2014 outlook for the Specialty Property and Casualty operations. Overall, we continue to expect growth in net written premiums in the range of 17% to 21%. And excluding Summit, growth in net written premiums is expected to be in the range of 5% to 9%. We now estimate a combined ratio between 92% and 95%, narrowed slightly from the range of 91% to 95% estimated previously.

And looking at our Specialty Property and Casualty Groups, we now expect net written premiums in our Property and Transportation Group to be down 2% to up 2% from '13 levels, a decrease from our previous estimates of flat to up 5%. Excluding the impact of our Crop Insurance business, we expect growth in net written premiums to be in the range of 3% to 6%, a slight decrease from the growth of 4% to 7% that we'd estimated previously. Based on results for the first half of 2014, the combined ratio in this group is now estimated to be in the range of 96% to 100%, up from the 94% to 98% estimated previously.

Net written premiums in our Specialty Casualty Group are expected to grow in the range of 49% to 53%, up from the 45% to 49% estimated previously. Excluding Summit, we now expect growth in this group to be between 16% and 20%, an increase from our initial estimate of growth of 12% to 16%. And our estimate for the combined ratio in this group is in the range of 89% to 93%, a slight improvement from the range of 90% to 94% estimated previously.

Specialty Financial Group, we now expect net written premiums to be flat to up 4% when compared to our 2013 results. This is a decrease from the growth of 3% to 7% we estimated previously. And our estimate for the combined ratio in this group is unchanged in the range of 87% to 91%, while we're continuing to target overall annual renewal rate increases this year for Specialty -- for our Specialty Property and Casualty group to be in the range of 3% or 4%. And we now expect Property and Casualty net investment income to grow by 14% this year as a result of cash received in connection with the Summit acquisition. This is an increase from the 10% growth previously estimated.

Now I'll turn the discussion over to Craig to talk about the results in our Annuity segment and AFG's investment performance.

Craig Lindner
Former Co-President and Director

Thank you, Carl. The Annuity segment reported core pretax operating earnings of $84 million in the 2014 second quarter compared to $82 million in the comparable 2013 period, a 2% increase is shown on Slide 9. Annuity premiums were at $949 million in the second quarter of 2014, an increase of 10% from the comparable prior year period, but slightly lower than the first quarter of 2014. The year-over-year increase was largely the result of growth in sales of fixed indexed annuities in the financial institutions market.

Turning to Slide 8, you'll see that AFG's 2014 earnings continue to benefit from growth and annuity assets, which are up 19% over the last year. The impact of the growth in annuity assets was offset by the runoff of higher yielding investments, and the impact of fluctuations in interest rates in the second quarters of 2014 and 2013, head on the accounting for fixed-indexed annuities.

On this slide, you'll see the impact of fair value accounting related to fixed-indexed annuities on our second quarter results in both 2014 and 2013. This impact can be measured by looking at the difference between the net spread earned and the net spread earned before impact of fair value accounting.

In the second quarter of 2014, the interest rate index used by AFG to discount certain fixed index annuity reserves decreased by 15 to 25 basis points versus AFG's assumption that interest rates would rise. This difference had a negative impact on AFG's earnings due to the fair value accounting prescribed for fixed-indexed annuities. Conversely in the second quarter of 2013, the interest rate index used by AFG increased 70 to 80 basis points, which was much higher than previously assumed by AFG. This difference resulted in a favorable impact on AFG's earnings. As a result of the above, AFG's net spread earned was 146 basis points in the second quarter of 2014, a decrease of 19 basis points from the comparable previous year period.

While these results followed GAAP accounting rules, the results don't necessarily reflect the economics of the business. The pretax after DAC impact of fair value accounting measured in dollars was a negative $9 million in this quarter compared to a positive $12 million in the year ago quarter, a decrease in year-over-year second quarter pretax operating earnings of $21 million. Excluding the impact of these fair value adjustments, the net spread earned would have increased by 21 basis points year-over-year as reflected in the bottom row of the table appearing on Slide 8. Additional information about the components of these spreads for AFG's fixed annuity operations can be found at AFG's Quarterly Investor Supplement posted on our website.

Please turn to Slide 9 for an overview of the 2014 outlook for the Annuity segment. While we expect fixed annuity investments and average fixed annuity reserves to grow by 15% to 18% in 2014, we continue to expect core pretax annuity operating earnings in 2014 to be flat compared to the $328 million reported in 2013. We estimate that our net spread earned, which is the basis for GAAP recorded earnings, will be 20 to 25 basis points lower than the 160 basis points achieved for the full year of 2013.

The second half of last year was a very strong period for fixed and fixed-indexed annuity sales for both AFG and the industry, which we attributed -- attribute primarily to the rising interest rate environment in 2013. That sales space [ph] declined in the first 6 months of 2014, which we attribute primarily to the decreasing interest rate environment this year. As a result, based on information currently available, we now expect that premiums for the full year of 2014 will be 5% to 10% lower than the $4 billion achieved for the full year in 2013. Significant changes in interest rates and/or stock market could lead to significant positive or negative impacts on the Annuity segment's results.

Please turn to Slide 10 for a few highlights regarding our $35 billion investment portfolio. AFG recorded second quarter 2014 net realized gains on securities of $7 million after-tax and after deferred acquisition costs compared to $26 million in the comparable prior year period. Unrealized gains on fixed maturities were $656 million after-tax, after-DAC at June 30, 2014, an increase of $215 million from year end. Unrealized gains on equities were $149 million after-tax at June 30, 2014, an increase of $27 million from year end.

As you'll see on Slide 11, our portfolio continues to be high-quality with 86% of our fixed maturity portfolio, rated investment grade, and 97% with an NAIC designation of 1 or 2, its highest 2 categories. We've provided additional detailed information on the various segments of our investment portfolio in the Quarterly Investor Supplement on our website.

I will now turn the discussion over to Jeff, who will wrap things up -- wrap up our comments with an overview of our consolidated second quarter 2014 results.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Thank you, Craig. Good morning, everyone. On Slide 12, you'll see highlights of our consolidated income statement for the 3-month period ended June 30, 2014 and June 30, 2013. This table summarizes the segment results Carl and Craig just reviewed with you, and highlights other key items impacting AFG's consolidated operating results.

Core net operating earnings were $1.07 per share for the quarter, representing an 11% increase from the second quarter of 2013. Core net operating earnings for the 2014 second quarter were $99 million compared to $87 million in the prior year's quarter.

Looking at segment results, our P&C segment operating earnings were $97 million in the second quarter of 2014. This compares to $82 million in the 2013 second quarter. This is an increase of $15 million or 18%. Carl has discussed the factors impacting underwriting income in the Specialty P&C Group, where underwriting profit increased from $21 million in the 2013 second quarter to $29 million in the 2014 second quarter. P&C pretax net investment income increased by $11 million year-over-year from $65 million in Q2 2013, to $76 million in Q2 2014. This increase is the result of cash received in connection with the Summit acquisition.

Other P&C expenses increased by $6 million year-over-year from $2 million in Q2 2013 to $8 million in Q2 2014, and were partially offset by a $2 million improvement in the prior year development in our P&C runoff operations.

As Craig described, our Annuity segment core pretax operating earnings were $84 million, an increase of $2 million or 2% when compared to the second quarter of 2013. Our runoff long-term care and life operations reported a loss of $2 million in the 2014 second quarter, consistent with results in the second quarter of 2013. Interest expense was $1 million lower in the 2014 second quarter, and other expense decreased by $1 million in the 2014 second quarter.

Finally, annualized core operating return on equity was 9.6% for the 2014 second quarter, an increase over the 9.2% in the second quarter of 2013.

You'll see on Slide 13 that our net earnings for the quarter were $106 million or $1.15 per share. Net earnings include $7 million or $0.08 per share in after-tax realized gains.

Turning to Slide 14. You will see that AFG's adjusted book value per share increased by $1.16 during the quarter to $47.95. Tangible book value per share on an adjusted basis at June 30, 2014 was $44.99. Our capital adequacy, financial condition and liquidity remain strong. We maintain sufficient capital in our insurance businesses to meet our commitments to the ratings agencies, and have more than enough capital flexibility to grow our business or take advantage of market opportunities as they arise. Our excess capital started approximately $740 million at June 30, 2014. This includes parent cash of approximately $240 million. We expect to continue to grow our excess capital through the remainder of 2014.

In the second quarter of 2014, we repurchased $20 million of our common stock. As of July 28th, there are approximately 5.2 million shares remaining under our repurchase authorization. AFG reviews its opportunities for the deployment of capital on a regular basis.

On the final slide, Slide 15, you'll find a recap of 2014 guidance for AFG's core net operating earnings, as well as guidance reviewed earlier in the call for the key financial measures in the Specialty Property and Casualty group in the Annuity segment. These expectations also include anticipated results for Summit, which will be consolidated in our 2014 results for 9 months. As a reminder, AFG's expected 2014 results exclude non-core items such as realized investment gains and losses, as well as other significant items that may not be indicative of ongoing operations.
We would now like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just 2 quick questions. The first question goes back to the discussion on crop. I think your comment was you had lowered your profit expectations. Does that mean that it's still expected to earn based on where we are some profit? Or is it breakeven right now?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

No. I think we had assumed in our original guidance a kind of a solid average type of year. I think because of the hail damage from the spring storms, primarily in Nebraska that we've seen some, and I think the industry, probably, has to have seen on the nongovernment multi-parallel business as it impacts just the pure crop hail business that we write -- the industry writes. That and the commodity price declines, it's kind of hard to figure out when all is said and done, where those prices end up. But as of yesterday, I think commodity prices were down 19% from the spring discovery price to the current December corn future. So I think we're just trying to be as accurate and -- as we can as we reflect guidance going forward.

Amit Kumar
Macquarie Research

And where does your -- can you remind us what is your reinsurance protection on that kick-in?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

I think our stop loss protection steps in at 100% loss ratio. We believe, Jeff. And...

Amit Kumar
Macquarie Research

I'm sorry, I didn't mean to interrupt you.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

On our -- generally, on our mode of parallel business, we have an excess cover that I think were entry points, around 100% loss ratio or so.

Amit Kumar
Macquarie Research

And that's quite helpful. I guess the one other question I have and I'll read to you. I'm looking at your tax rate, looking at your capital position, looking at discussion with capital. And I'm curious, just based on the discussion on consolidation, what are your sort of broader thoughts about looking at a Bermuda platform and possibly inverting for tax benefit?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Amit, can I go back to the crop? I just want to make sure that I gave you an answer. We're still projecting a decent profit in our overall crop business. It's just we're projecting because of the reasons I mentioned, it being lower than what we had in our previous guidance.

Amit Kumar
Macquarie Research

Got it, and that's helpful. And I'm sorry, are there answer to the....

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Okay, would you mind -- I was still kind of focused on the crop. Would you mind repeating that.

Amit Kumar
Macquarie Research

The question I was asking was I was looking at the taxes you're paying, looking at the capital position and, I guess, your stock price. I was curious what's your thoughts might be in terms of looking at the Bermuda platform? And sort of acquiring it for a tax inversion strategy?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

I think as CEOs and Executive Management, we're always supposed to look at any and all strategies that would help build shareholder value over time. That said, when looking at Bermuda inversions, generally, and just to do something from a pure tax standpoint is not something strategically that is very attractive to us. For us to do something, to do an inversion or even look at that, we have to be doing it with a group of -- a business that has group of businesses that are highly complementary to what we're doing. And also, that would -- as we feel that our stock continues to be a bit undervalued compared to other peers, it would have to be without paying some big premium on an inversion, that wouldn't be to the benefit of AFG's shareholders.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Hey, Amit, this is Jeff. Shame on you for trying to bring me back to Bermuda.

Operator

Our next question comes from Ryan Byrnes with Janney Capital.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Great. I'll stick with Jeff here, he may have some insight. I'm being a little lazy here, but how often does National Interstate do deep dive reserve studies, just trying to figure out how much longer that could be a potential headwind for AFG as well?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Ryan, this is Jeff. I did not have a chance to listen to the National Interstate call, but I would encourage anyone wanting to learn more about National Interstate business to get a copy of that transcript, as well as their earnings release. But specific to your question, the study by leading international actuarial firm for National Interstate was not anything that is scheduled with any regularity or periodicity. It was an engagement that was the first of its type that National Interstate undertook in response to the trends they were seeing in their business, as well as in response to some public comments that were made regarding the reserving process that management wanted to make sure they were receiving other opinions in support of their best estimate of loss reserves.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Got you, okay. And then quickly on the Specialty Casualty segment, just trying to figure out how -- I realize it's only one quarter and it's tough to forecast that going forward. But I'm just trying to figure out what kind of impact Summit had, and trying to think about it going forward. Again, I'm only looking at this quarter, it looks like the underlying loss ratio in that segment picked up and the expense ratio went down. Is that fair to think about that way going forward? Or is there some one-timers in there? Just trying to think about that going forward.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes. We discussed this before the call. We thought it might be helpful to everybody to -- on a normalized, annualized basis -- our best guess is Summit will decrease our expense ratio overall as a group by about a point. And then, we'll probably increase our loss ratio by approximately 2 points in that. As if -- if you're looking at the individual components, we thought that would be an easy way to kind of -- and again, it's approximate, but that's our best guess.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

And just to clarify, that's in the Specialty Casualty segment? Or is that for the P&C?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

That would be overall as a company.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

You're right. In the Specialty Casualty segment, Summit, in the quarter, represent a little bit more than 25% to the earned premium. And if you went back to the January presentation we gave upon the acquisition of Summit, I'm working with round numbers here, but Summit, on a trailing 12-month basis, was at about a 75% loss ratio and about a 21% expense ratio. And so that's why, as Carl outlined, the introduction of Summit, which is now better in the quarter, that premium would tend to raise the loss ratio and decrease the expense ratio once you factor that into the mix.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Got you. That's helpful. And then with the -- I believe, I recall that you guys guided cash for the Summit investment portfolio. Just want to see if that's all fully invested at this point? Or where are you guys are in that process?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

We indicated it would take 2 full quarters from the date of acquisition to get fully invested. We close the transaction on April 1st, so we don't expect to be fully invested until the end of next quarter. What I would say is that at first, we have an excellent money-management arm. They are part of our company, they participate in the planning. They've gotten a good jump on getting that cash invested, but we're not all the way done yet.

Operator

Our next question comes from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to start off. I guess, I'll put another crop question, maybe this one is -- just want to check my math against kind of what you guys might be thinking about, since you probably have a better handle on it. But if we're conceptually thinking about revenue policies, just in the conversation of what's going on with commodity prices, and if we take a look at the 75% average coverage level that has been elected out there. And think about yields that are probably going to come in above actual production history, by my math, I think we might need another 10% to 12% reduction using corn prices as an example before we'll start triggering revenue payments. So completely understanding on the government program that there's a loss ratio for. But with that math on a commodity prices for corn seemed about right based on what you guys should be thinking about?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

I think it probably gets a little bit more complicated than that is probably the right answer, I clearly -- part of the loss gets mitigated because of the improvements and the yields in that. But it's -- the end result is state -- what happened state-by-state, and it gets a little more complex than that. I think we felt, Vincent, that with the corn commodity price change and the hail losses early on that -- it would be prudent to shave our crop profit estimate a little bit, maybe -- I mean, last year, we were probably a little more conservative when all is said and done than others, that still could be the case. But we're really kind of giving it our best estimate at this point.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I don't think we can knock you from taking a more conservative stance, so it's appreciated. Just I guess on that topic for Jeff or Carl. If we take a look at the Property and Transportation segment and then try to strip out what National is reporting on its own, would get set into that segment. Implied AFG results, they're actually look pretty stable from a reserving standpoint even, potentially, a touch better. And so I'm just curious if AFG is providing some actual support for the entire house, how we end up seeing such disparate trends between the 2 books? And maybe I'm missing something or, of course, there's some difference in the composition of those 2 books, and I know it's not a good comp or even an identical comp. I'm just curious of any thoughts you might have in terms of the disparate trends between the 2?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

AFG and the P&C business operates as a collection of very distinct franchises and businesses, and so I don't think that anyone is like any other one. I think, Vincent, it's widely published that the commercial auto sector has been troubled over the last several years and there was a prolonged soft market. And as a commercial auto specialist, that's affecting National Interstate to a greater extent than it would for the rest of our business because our other business doesn't have nearly that weighting of commercial auto with that level of participation. Now you flip it on its head and you look at the trends in Workers' Comp, they're all very favorable at this moment, and we talked about that in January and forward. The benefit of having a diverse group of specialty businesses is that you get the opportunity to have them deliver profits that are unrelated to each other. But in this case, National Interstate is just out of step. With great results in many of our other businesses, we have a lot of confidence in the management team there. As we said before, we will do everything we can to help them restore the profitability. And you didn't invite the comment on the underlying profitability, but you take out the $28 million of reserve strengthening. We think the underlying accident year is trending in the right direction. And you would expect that when management goes out and gets appropriate rate increases.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And to your point on the rate increases, I mean, so clearly their piece of rate change has drastically improved even sequentially from first quarter. Are you guys seeing in your own transportation book a similar change? Or should we be thinking about that as being much more specific to their appetite as far as business that they're setting to reach the asset in your profitability goal that they're targeting?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

The business -- the Great American Trucking side is primarily physical damage. So it really is a lot different, I think, than National Interstate's book, and is doing just fine. So yes, again, as Jeff said, it's kind of hard to compare the different businesses because they're not really similar.

Operator

Our next question comes from Paul Newsome with Sandler O'Neill.

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

My impression from the earnings guidance is that you may have had an elevated expectation for the results out of Summit. I was wondering if that's a fair assessment. And is it the case because you -- maybe give us some color on what that may be.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Did you -- Paul, did you say that -- I was a little confused by the question. You said we had an elevated expectation, I think? My comment this morning was as, is that Summit is exceeding our expectations at this point.

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

That's what I mean. Exceeding, elevated, above -- why is -- why do you think that is the case it's doing better than you feel [indiscernible] currently?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

A good management team. A lot of the act, the pricing that they -- the management team put in place for the last couple of years. And the underwriting focus and selection of the business, I think, has led to a solid improvement in the results, which is good. And I think what we're saying is it's early, but so far it's exceeding our expectations from when we did the transaction.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Paul, a couple of little date [ph] items there. Again, going back to the January presentation where we laid out the case for the business and also the run rate. We talk about what it would take to bring it into AFG. The loss ratio is performing as we had hoped. Pricing is at least as good as what we had hoped. We bought external reinsurance on the business, really for the first time since it was protected in the Liberty Mutual pool beforehand. And we wound up doing slightly better on the reinsurance costs than we had anticipated. And apropos the earlier question when we went to invest the cash, we had a target for the investment yield and we had a target for the timing, and we're slightly ahead of schedule on the timing of those funds getting invested. So I think that would be my comment on kind of the pieces of lines performing better than our expectation.

Operator

[Operator Instructions] Our next question comes from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes. I just want focus on the favorable reserve development within Specialty Casualty, that source of earnings can jump around quarter-to-quarter. Can you talk about where -- it was a modest number, but I'm sure there were some puts and takes. So what are you seeing in different lines of business, or different years even, from a reserve development standpoint?

Joseph E. Consolino

CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Jay, this Jeff Consolino. You were asking about the Specialty Casualty business, correct?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Correct.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Give me 1 second, I just want to get an exhibit here. So the Specialty Casualty business reserve development year-over-year was affected by a strong release last year in DNO. In addition to that, also in the excess [indiscernible] lines also affected the year-over-year comparison and the development.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Are there any lines of business or classes of business where you are called running a temperature, where you're seeing some adverse development of note?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Maybe Australian general liability through market form. That might be -- as far as the businesses -- out of the Casualty businesses -- if we've had any issues, some issues there...

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Sounds like in the U.S., the claims trends remained fairly benign based on your commentary, is that fair?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, I think that's fair. We're pleased with the performance of almost all of our Specialty Casualty businesses today.

Operator

[Operator Instructions] I am showing no further questions. I will now turn the call back over to management for closing remarks.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you for joining us this morning. We look forward to talking with you again when we release our third quarter results.

Operator
Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect. And everyone, have a great day.