American Financial Group, Inc. NYSE:AFG

Earnings Call

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Call Participants

EXECUTIVES

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Senior VP & CFO

Carl Henry Lindner
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Diane P. Weidner
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Stephen Craig Lindner
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Presentation

Operator

Good day, and thank you for standing by. Welcome to the American Financial Group 2023 First Quarter Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Diane Weidner, with Vice President of Investor Relations. Diane, you have the floor.

Diane P. Weidner
Vice President of Investor Relations

Good morning, and welcome to American Financial Group's First Quarter 2023 Earnings Results Conference Call. We released our 2023 first quarter results yesterday afternoon. Our press release, investor supplement and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call.

I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure in our remarks or responses to questions. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

And finally, if you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. And as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

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

Carl Henry Lindner
Co-President, Co-CEO & Director

Good morning. We're pleased to share highlights of AFG's 2023 first quarter, after which Craig, Brian and I will respond to your questions. AFG's financial performance during the first quarter was excellent with a core operating return on equity of 22%. Our Specialty Property and Casualty businesses produced strong underwriting margins. Investment income benefited from a higher interest rate environment when compared to the 2022 first quarter, and we continue to be pleased with the performance of our alternative investment portfolio where returns exceeded our expectations during the quarter.

Our entrepreneurial opportunistic culture and disciplined operating philosophy continue to serve us well in a favorable Property and Casualty market and a dynamic economic environment. Craig and I, thank God, our talented management team and our talented employees for helping us to achieve these exceptionally strong results.

Shortly before we shared our first quarter earnings results, we announced a definitive agreement to acquire Crop Risk Services from AIG. This business is a great strategic fit with our existing crop insurance operations and will provide opportunities to continue to benefit from economies of scale in this business. We're delighted to welcome CRS' CEO, Brian Young, its leadership team and employees to Great American Insurance Group. I'll share a bit more about CRS later in the call.

Now I'd like to turn the discussion over to Craig to walk us through AFG's first quarter results, investment performance and our overall financial position at March 31.

Stephen Craig Lindner
Co-President, Co-CEO & Director

Thanks, Carl. Please turn to Slides 3 and 4 for a summary of earnings information for the quarter. AFG reported core net operating earnings of $2.89 per share in the 2023 first quarter. The year-over-year decrease was primarily due to lower returns on AFG's alternative investment portfolio when compared to the exceptionally strong performance of this portfolio in the prior year period and lower year-over-year underwriting profit in our Specialty Property and Casualty Insurance operations. Both of these items were partially offset by higher other net investment income.

Now I'd like to turn to an overview of AFG's investment performance, financial position and share a few comments about AFG's capital and liquidity. The detail surrounding our $14.5 billion investment portfolio are presented on Slides 5 and 6. Pretax unrealized losses on AFG's fixed maturity portfolio were $523 million at the end of the first quarter compared to pretax unrealized losses of $630 million at the end of 2022, reflecting the decline in longer-term interest rates.

We have acted on opportunities presented by a higher interest rate environment and extended the duration of our P&C fixed maturity portfolio, including cash and cash equivalents from approximately 2 years at the end of 2021 to approximately 3 years at March 31, 2023. In the current interest rate environment, we're able to invest in high-quality, medium duration fixed maturity securities at yields of approximately 5%, which compares favorably to the 4.4% yield earned on fixed maturities in our P&C portfolio during the first quarter of 2023.

We expect the yield earned on our P&C fixed maturity portfolio to increase by about 10 to 20 basis points by the fourth quarter of 2023 compared to the 4.4% earned in the first quarter of 2023. This yield compares very favorably to the 3.63% earned for the full year in 2022.

Looking at results for the quarter, Property and Casualty net investment income was 7% lower than the comparable 2022 period. These results included an annualized return on alternative investments in the first quarter of 2023 of 14.2% compared to an exceptionally strong 29.1% return for the 2022 first quarter.

The return on alternative investments in the first quarter of 2023 was the result of strong performance in both the multifamily and private equity portfolios. The average return on AFG's alternative investments over the 5 years ended December 31, 2022 was approximately 14%.

Excluding the impact of alternative investments, net investment income at our Property and Casualty Insurance operations for the 3 months ended March 31, 2023, increased by 54% year-over-year as a result of the impact of rising interest rates and higher balances of invested assets. We thought it would be useful to provide a summary of our exposure to the banking industry as well as exposure to the office real estate market, which you'll see on Slide 7 and 8.

In summary, our exposure to the banking industry is well diversified and highly rated. Our direct exposure to the office real estate market is very modest in size and reflects our historic underweight positioning of this asset class. In addition, indirect exposure to office real estate and our fixed maturity portfolio is principally in securitizations and is very small and well protected by the credit enhancement embedded in such securitizations.

Looking forward, our guidance for 2023 reflects a return of approximately 8% on our $2.3 billion portfolio of alternative investments. Although rental rates on our multifamily investments are flattening out after several years of very strong increases, we are confident in the long-term outlook for this portfolio.

Our properties are primarily in regions with very strong population growth. In addition, 53 of the 57 underlying properties have assumable attractively priced fixed rate debt. The debt has an average weighted term of approximately 8 years and an average interest rate of 3.85%. Our earnings guidance assumes a high single digit return on our multifamily housing-related investments for the full year 2023.

Please turn to Slide 9, where you'll find a summary of AFG's financial position at March 31, 2023. Our excess capital was approximately $1 billion at March 31, 2023. This number included parent company cash and investments of approximately $672 million.

During the quarter, we returned $418 million to our shareholders through the payment of a regular $0.63 per share quarterly dividend, a $4 per share special dividend and $24 million in share repurchases. Our acquisition of CRS provides an attractive opportunity to deploy our excess capital to expand our specialty niche businesses and serves as an example of our nimbleness and efficiency and executing a transaction of this nature.

AFG will pay AIG $240 million, which includes approximately $30 million in tangible assets in cash at the closing date. Following the transaction, we will have significant excess capital available for share repurchases or special dividends. We expect our operations to generate significant excess capital in 2023 to the point that we could deploy in excess of $500 million of excess capital for share repurchases or additional special dividends through the end of 2023, which is in addition to the capital returned to shareholders during the first quarter of 2023.

As you may recall, the portion of our excess capital that we view is available for special dividends and share repurchases is limited by our internal total debt-to-capital target of 30%, and that capital was impacted by unrealized gains and losses on fixed maturities. However, it's important to note that each dollar of debt repurchased frees up approximately $2 of excess capital for distribution to shareholders.

For the 3 months ended March 31, 2023, AFG's growth in book value per share plus dividends was 7%. Excluding unrealized losses related to fixed maturities, we achieved growth in adjusted book value per share plus dividends of 4.2% during the first quarter.

I will now turn the call back over to Carl to discuss the results of our P&C operations and our expectations for 2023.

Carl Henry Lindner
Co-President, Co-CEO & Director

Thank you, Craig. Please turn to Slides 10 and 11 of the webcast, which include an overview of our first quarter results. As you'll see on Slide 10, the Specialty Property and Casualty Insurance operations generated an underwriting profit of $155 million compared to $208 million in the first quarter of 2022. With each of our Specialty Property and Casualty Groups producing lower year-over-year underwriting profit following the record first quarter results reported in the prior year period.

The first quarter 2023 combined ratio was a strong 89.2%. So 5.2 points higher than the prior year period. Results for the first quarter in 2023 include 2.2 points in catastrophe losses and 4.5 points of favorable prior year reserve development.

Catastrophe losses were $31 million in the first quarter of 2023 compared to $9 million in the prior year period. Gross and net written premiums were both up 11% in the 2023 first quarter compared to the prior year quarter. Year-over-year growth was reported within each of the Specialty Property and Casualty Groups as a combination of new business opportunities, increased exposures and a good renewal rate environment.

Average renewal pricing across our Property and Casualty Group, excluding workers' comp was up approximately 5% for the quarter and up approximately 4% overall. We've been focused on achieving adequate pricing for some time and have achieved overall rate increases across our entire specialty book for 27 straight quarters. When we compare pricing to prospective loss ratio trends, there are some areas where more rates needed such as public D&O, commercial auto liability, and excess liability, particularly where we're writing higher layers for Fortune 1000 accounts.

While our overall pricing guidance, excluding workers' comp is in line with our overall prospective loss ratio trends excluding comp, it's essential that we're book -- that we're looking at this on a business-by-business basis. The impact of cumulative rate increases over time has generally enabled us to stay ahead of prospective loss ratio trends and helps us to feel confident in the adequacy of our reserves.

Importantly, we were successful in achieving or exceeding targeted returns in nearly all of our Specialty Property and Casualty businesses in the first quarter of 2023.

Now I'd like to turn to Slide 11 to review a few highlights from each of our Specialty Property and Casualty business groups. Property and Transportation Group reported an underwriting profit of $43 million in the first quarter of 2023 compared to $62 million in the first quarter of 2022.

Higher year-over-year underwriting profit in our transportation businesses was more than offset by lower profitability in our property and inland marine and agricultural businesses, which was primarily the result of elevated catastrophe losses attributable to the February and March storms across much of the United States. Crop insurance profitability was also lower year-over-year compared to the very strong results recorded in the first quarter of 2022.

Catastrophe losses in this group were $19 million in the first quarter compared to $6 million in the comparable 2022 period. First quarter 2023 gross and net written premiums in this group were 15% and 10% higher, respectively, than the comparable prior year period. New business opportunities arising from sales of crop insurance products with higher sessions, coupled with increased rates and exposures in our commercial transportation businesses were the primary drivers of the increase in premiums.

Overall, renewal rates in this group increased 6% on average in the first quarter of 2023, consistent with the pricing achieved in this group for the full year in 2022.

The crop year is off to a solid start. Corn plannings are in line with 5-year historical averages and soybean plantings are running ahead. Drought conditions improved over the winter. And based on our book of business, we don't have concerns about drought-impacted areas at this time. While there's been heavy rainfall in California, we don't expect this to impact our results.

Commodity pricing is in an acceptable range with corn and soybeans down approximately 12% and 8%, respectively, from spring commodity prices. It's still very early, but we're pleased with what we see so far.

While we're on the subject of crop insurance, we thought it'd be helpful to provide a brief overview of Crop Risk Services business. As our press release noted, CRS is a primary crop insurance general agent based in Decatur, Illinois, with 2022 gross written premiums of approximately $1.2 billion. They're the seventh largest provider of multi-peril crop insurance in the United States based on the 2022 premiums.

Multi-Peril Crop Insurance accounts for over 90% of total crop insurance in the U.S. and is provided by a total of 14 approved insurance providers or AIPs. Following the closing of the transaction, Great American will remain the fifth largest writer of U.S. crop insurance and the largest U.S.-owned participant in the United States Multi-Peril Crop Insurance program.

CRS rights business in 37 states with a premium spot mix of coverage offerings that are similar to ours and with a focus on many of the same states. We're especially excited about CRS' track record of organic growth and strong 2022 performance.

On a pro forma basis, the combined MPCI gross written premium by CRS and AFG for the year ended December 31, 2022, would have been $2.7 billion, with about half of this premium generated from the States of Illinois, Kansas, Iowa, Texas, Indiana and South Dakota. With an anticipated closing in the third quarter, the majority of the CRS crop business written for the 2023 crop year will stay with AIG.

We currently expect CRS to generate approximately $30 million in net written premiums for AFG in 2023 post-closing. And due to the absence of interest income that we would have otherwise earned on the purchase price, we expect the acquisition to negatively impact 2023 core earnings per share by a few cents.

Looking forward to 2024, as we work to integrate CRS, we expect the CRS business to add approximately $0.20 to $0.25 per share to core earnings compared to continuing to hold the funds used to acquire CRS in our bond portfolio and then ramp up to double-digit returns over the long run beginning in 2025. When fully integrated in 2025, we expect this business to add an incremental $0.40 to $0.50 per share to core earnings compared to continuing to hold the funds used to acquire CRS in our bond portfolio. We look forward to sharing more about this business post-closing.

The Specialty Casualty Group reported an underwriting profit of $88 million in the 2023 first quarter compared to $124 million in the comparable '22 period. The lower year-over-year underwriting profit was due primarily to lower levels of favorable prior year reserve development in our workers' compensation businesses and isolated large loss activity and certain social inflation-exposed businesses. This was partially offset by higher levels of favorable prior year reserve development in our social services, environmental and executive liability businesses.

Underwriting profitability in our workers' comp businesses continues to be excellent. The businesses in the Specialty Casualty Group achieved a strong 87.5% calendar year combined ratio overall in the first quarter, 6.9 points higher than the exceptionally strong 80.6% achieved in the comparable prior year period.

First quarter 2023 gross and net written premiums increased 9% and 11%, respectively, when compared to the same prior year period. While most of the businesses in this group reported healthy premium growth during the first quarter, the higher year-over-year premiums resulted primarily from new accounts, strong account retention in our social services business, increased exposures from payroll growth and new business in our workers' comp businesses and additional businesses -- business opportunities in our E&S operations. The growth was partially offset by lower premiums in our mergers and acquisitions liability and executive liability businesses.

The majority of the businesses in this group achieved strong renewal pricing during the first quarter. Renewal pricing for this group, excluding our workers' comp businesses, was up approximately 5% in the first quarter and was 3% overall.

The Specialty Financial Group reported an underwriting profit of $26 million in the first quarter of 2023 compared to an underwriting profit of $29 million in the first quarter of 2022. The decrease was due primarily to lower year-over-year underwriting profitability in our Surety & Fidelity businesses. Catastrophe losses for this group were $4 million in the first quarter of 2023 compared to $2 million in the prior year quarter.

First quarter 2023 gross and net written premiums were up 11% and 16%, respectively, when compared to the prior year period due primarily due to growth in our financial institution services, surety and commercial equipment leasing businesses. Renewal pricing in this group was up approximately 1% for the first quarter.

Now please turn to Slide 12, where you'll see a full summary of our 2023 outlook. Overall, we continue to expect an ongoing favorable Property and Casualty market with opportunities for growth arising from both continued rate increases and exposure growth.

Based on the strong results reported in the first quarter, we continue to expect AFG's core net operating earnings in 2023 to be in the range of $11 to $12 per share, which produces a core return on equity of over 20% at the midpoint. Our guidance reflects an average crop year in our current expectations and assumptions regarding investment income including an estimated return on alternative investments of 8% in 2023 compared to 13.2% achieved in 2022.

We now expect the 2023 combined ratio for the Specialty Property and Casualty Group overall between 87% and 89%, an increase of 1 point at the midpoint of our previous range of 86% and 88% shared previously. Our growth for net written premiums is now expected to be in the range of 3% to 6%, an increase at the top end of our range of 3% to 5% when compared to the $6.2 million -- $6.2 billion reported in 2022. Excluding crop, we expect growth in the range of 4% to 6% in what we expect to be a more challenging economic environment.

Now looking at each subsegment. Based on our results for the first quarter, which included an elevated level of catastrophe losses, we've narrowed our combined ratio guidance to a range of 90% to 93% in our Property and Transportation Group. This guidance continues to assume average crop earnings for the year.

We now expect net written premiums for this group to be in a range of flat to up 2%, which is a decrease from our previous guidance that assumed modest growth in the range of 1% to 3%. Our premium growth guidance factors and the impact of commodity futures pricing and related volatility on crop rates, which negatively impact premiums and related exposure year-over-year in our crop business.

As a result of these factors, which are offset by additional premium from CRS. We now expect net written premiums in our crop insurance business to be down 1% to 2% year-over-year. As a reminder, the largest portion of our crop premiums are booked in the third quarter.

Excluding crop, growth in net written premiums in this group is expected to be in the range of 2% to 4%. Growth will be tempered by the nonrenewal of about $50 million in premiums related to underperforming accounts or programs.

We now expect our Specialty Casualty Group to produce a very strong combined ratio in the range of 82% to 86%, an increase of 2 points at the midpoint of our previous guidance and a reflection of more conservative loss fix with regards to our social inflation exposed businesses. Our guidance continues to assume strong profitability in our workers' comp businesses overall, but at a higher calendar year combined ratio when compared to the exceptional results reported in the prior year.

We now expect net written premiums to be 5% to 9% higher than 2022 results, an increase from the range of 4% to 8% provided previously. New business opportunities and increased exposures will be tempered by rate decreases in our workers' comp book, which are the result of favorable loss experienced in this line of business. Excluding workers' comp, we expect premiums in this group to grow in the range of 7% to 11% in 2023.

We now estimate the Specialty Financial Group's combined ratio to be in the range of 85% to 89%, up 2 points from our previous range of 83% to 87%, reflecting an isolated large loss recorded in the first quarter. Growth in net written premiums for this group is expected to be in the range of 6% to 10%, up from our range -- our previous range of 4% to 8% based on projected growth in nearly all the businesses across this group.

And based on results for the first 3 months of the year, we now expect renewal rates to increase between 3% to 5% in our Specialty Property and Casualty operations overall, which is 1 point higher than the midpoint of our previous guidance. Excluding workers' comp, we expect renewal rate increases to be in the range of 4% to 6%.

Craig and I are very pleased to report these exceptionally strong results for the first quarter, and we're proud of our proven track record of long-term value creation. We believe that our entrepreneurial opportunistic culture, combined with our strong balance sheet and financial flexibility position us very well for the remainder of this year.
We'll now open the lines for the Q&A portion of today's call, and we're happy to answer your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I'm sorry to beat on the crop a little bit more, but could you remind us sort of on the year-over-year comparison, what made it so exceptionally strong? Is that really the issue for sort of the year-over-year comparison there? Or is there something else we're missing?

Brian Scott Hertzman
Senior VP & CFO

So are you talking about the -- for the first quarter of 2023 versus the first quarter of 2022? In the first quarter of 2022, that would have been the, remnants of the 2021 calendar year crop business that was very, very profitable. So we had exceptionally strong results in the first quarter of 2022 compared to a more normal result in the first quarter of 2023. We're looking at underwriting expense ratios and loss ratios in Property and Transportation, particularly the current accident year loss ratio and the expense ratio. The real drivers there are the crop year-over-year, the higher level of profitability in the 2022 quarter.

Jon Paul Newsome
Piper Sandler & Co., Research Division

In the Specialty Casualty area, you mentioned social inflation being an issue. Is that really just your workers' comp book? Or is there other parts of that, that are causing the margin to change?

Carl Henry Lindner
Co-President, Co-CEO & Director

No, our workers' comp book continues to have excellent results. Our results of -- I think my point was, this year, they'll remain really good, but probably at a higher combined ratio than what they were in the prior year. I think that was one statement. The less -- lower favorable development, we had some -- we had a -- in one of our Specialty Casualty businesses, we had some severity in the quarter. And I think our point was is we're trying to have our picks reflect an environment of social inflation for -- in our Specialty Casualty business.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then if I could squeeze one more in. Your D&O book with the community banks is obviously a little topical issue of the day. Any thoughts on the results there and what we might see if we continue to have some of the issues that you've seen in the banks?

Carl Henry Lindner
Co-President, Co-CEO & Director

Yes. I mean our ABAIS unit is starting off the year with good results on both a calendar year and an accident year standpoint. We're pleased with the progress that we've made. We write about -- last year, we wrote about almost $100 million of gross written premium. It's well diversified in terms of the geographic reach.

Our book is hyper focused on banks with less than $5 billion in assets. And generally, lower -- we use -- deploy lower policy limits, average net limits in that book would probably be $3.5 million. And our banks have a real diverse depositor base. That might be most important. I'm not aware of us being on any of the headliner risk that you read about in that. January banks would have a much more diverse depositor base in that. And clearly, higher insured deposit ratios and a book that doesn't serve the tech industry or start-ups pretty much.

Operator

Our next question comes from Michael Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Great. The first question on Specialty Casualty segment. Just maybe just if we step back and appreciate that AFG's results are excellent on an absolute basis, and I was looking back in the model over the last decade plus and the combined ratio is much lower currently than it has been historically on average. You can correct me if I'm wrong, but just what -- is pricing in that segment not moving much just because of the fact that results are excellent for the industry?

And also maybe touching on that on some of the comments, Carl, you made on social inflation exposed businesses, maybe you could just also add -- elaborate more, as loss cost inflation moving a bit higher too in some of the Specialty Casualty lines?

Carl Henry Lindner
Co-President, Co-CEO & Director

Sure. I'm happy to. We're continuing to get -- when you look at our pricing, excluding workers' comp, we achieved about 5% in the quarter. That varies line by line. So we're continuing to achieve price increase. I think I mentioned in the call the couple of areas that I'm not happy with on pricing keeping up prospective loss ratio trends. Public D&O, like everybody else, we're seeing rate declines on our public D&O book.

I think one thing that's different about us is only about 22% of our D&O book is public D&O and probably 1% of the policy count. So we have a real diversified D&O book. In our case, very pleased with -- we have excellent results in our D&O business and might even make a small underwriting profit in public D&O when you look at '22 and '23.

So public D&O, I kind of mentioned we're not growing a lot because of the competition and kind of particularly the higher excess liability area, particularly in Fortune 1000 accounts, there seems to be not -- kind of like public D&O, a lot more competitors as there are in public D&O. And we continue to get some price increase in that book but we're just not growing because of the competition. So that would be an area that I would -- when you take a look at what we use on prospective loss ratio trends on our excess and our umbrella book, we're using 10% plus prospective loss ratio trends.

So if we're only getting low single digit increases or mid-single digit overall increases on that book. I think that's long term, that doesn't work. In our case, again, our -- when you look at our results, our E&S and our umbrella excess liability results are outstanding. So I'm not too worried in the short term, it would be more over the long term.

My gut tells me that all the new competitors jump in into public D&O and excess liability are going to get burned -- a lot of them are going to get burned. And this is more of a short-term phenomenon on rate being below prospective loss ratio trend. I think as some of the new capacity gets burned, I think there's a chance you'll see our rates reenergized as -- in those 2 sectors as that happens.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. That's helpful. And I know I asked a long-winded question, but regarding your specific comments about listening more conservative loss costs estimates with regards to social inflation, I ought to read the transcript. But did you -- so are you saying specifically you are seeing a bit of an uptick in loss costs in certain lines? Or it seems like most of the answer was just regarding -- there's just -- there's some excess competition on the pricing side in certain lines, but just curious if you can...

Carl Henry Lindner

Co-President, Co-CEO & Director

Yes. We review every business quarter-by-quarter on pricing and reserving and that. And we're making adjustments all the time. I think we're in the business and the particular businesses that we saw some more severity in that, yes. We would adjust our loss picks as we feel necessary to try to stay up with or ahead of what those loss ratio trends are.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. And as a follow-up on the crop insurance acquisition, when we looked at the statutory information on the portfolio that you're acquiring, there's some noise on crop on the expense ratio that maybe -- so maybe we're looking at bad data, you can tell us. But it looks like that portfolio under its current ownership hasn't thrown off much in the ways of underwriting income. And if that's correct, is the -- is -- will AFG be able to kind of turn that portfolio into -- merge it into your portfolio, which is meaningfully more profitable? Is that kind of directionally you guys will be able to do things that the current owner hasn't been able to do?

Brian Scott Hertzman
Senior VP & CFO

Mike, this is Brian. I'll try to answer that for you. There's a couple of things going on. One is under AIG's ownership, CRS has made some significant improvements in recent years to their private product business. So the results in the more recent years are probably stronger than going back further than that.

Beyond that, also, as we work to integrate CRS' book in the AFG's book, a couple of things are important to note. One is that where they're in a lot of the same states and has the same type of focus on corn and soybeans as our existing business. So the business itself is fairly similar to Great American's business. As we transition that to Great American, we will be applying our economies of scale there and potentially reduce some of the overhead type of expenses that they had over time compared to what AIG would have been charging them for those services.

On top of that, we will put it through our similar reinsurance structure to what we have in our existing business. So our retentions -- net retentions will be lower. If you look at our historical business, we retained about 40% of the gross written premiums. We'd expect the same thing on CRS beginning in 2024. And then also with our reinsurance structure, if things go well, there is a profit-sharing component, which enhances the returns in good periods.

So we think overall, between applying our use of the federal reinsurance program, our reinsurance program as well as the economies of scale that the profitability will be enhanced beyond what CRS has already done on their own in the past couple of years.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Great. That's helpful. And one last one, and maybe, Brian, this might be for you. We get asked a lot about AFG's peer-leading return on equity profile. If you look at the company's ROE profile over a longer time frame, which included life, the ROE was lower. Would you say -- I don't know if you have any math that you guys know off the top of your head, was most of the -- is the uplift in the ROE today mostly because life insurance is gone? Is there any quantification life was amount of basis point drag? Or is it mostly just P&C is much more profitable today than it has been historically?

Carl Henry Lindner
Co-President, Co-CEO & Director

I think -- this is Carl. When you look at a 1-year, a 5-year, a 10-year and a 15-year period of time, we're -- outside of progressive, we're pretty much on the top on pretax Property and Casualty returns on that. So that's per Dowlings data not ours. I do think, yes, the sale of the annuity business clearly impacts overall AFG. So that's why we in our investor decks, we really kind of point towards the property and -- pretax Property and Casualty returns.

Operator

Our next question comes from Gregory Peters with Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Just as, I guess, a follow-up, Brian, to your answer before about the crop CRS and reinsurance. Can you step back and provide us just some perspective on reinsurance conditions, pricing conditions for crop? It seems like reinsurance pricing, the spillover from the losses in property have hit multiple sectors. And I'm just curious if there's been some spillover into crop with higher costs and/or higher retention, things like that?

Brian Scott Hertzman
Senior VP & CFO

Our crop reinsurance program is a multiyear program, and it's been very, very profitable over a long period of time for both parties. So we're not seeing significant increased costs or challenging terms and conditions changes on our crop reinsurance.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

So if it's a multiyear program, does it automatically compensate for the increased premium with CRS? Or do you have to reset the contract with your reinsurance partners?

Brian Scott Hertzman
Senior VP & CFO

We have worked with the reinsurance partners to incorporate it on very similar terms as it ultimately is going to just come into the same program. So I would think of 2024 with CRS being the same terms as what we've had historically.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Great. Just pivoting to commercial auto, we've seen some companies report some uptick in the underlying loss ratio in commercial auto. And I know you provided some basic comments about it, Carl, in your prepared remarks but perhaps you could give us some more color about how your commercial auto business is performing relative to expectations?

Carl Henry Lindner
Co-President, Co-CEO & Director

Yes, I'm happy to. Kind of put things in perspective, when I'm talking about commercial auto, it's primarily National Interstate, Vanliner, Great American Trucking and that. When you look at our commercial auto book, it's about 12% of direct written premiums last year. I'm pleased with the performance of our overall commercial auto in the first quarter of this year and last year. And with continued price increase in '23, we want to stay that way.

The one part of commercial auto that is still not where we want it to be is the commercial auto liability part of the coverage. We're running breakeven to, my guess, would be 102-ish in the first quarter and last year. So we -- National Interstate and Vanliner, we continue to take strong commercial auto liability price increases. In fact, with the market still struggling, I think we got 13% price increase in the first quarter versus a loss ratio trend of, we think, is around 7.5% on commercial auto liability in that.

Overall, we're getting -- I think in the first quarter, we got at National Interstate and Vanliner 7% and 6% price increases compared to overall about 6% prospective loss ratio trend for the overall book in that. We've seen claims frequency is definitely returned, but we think it's still less than pre-pandemic levels.

Elevated severity, that's why we continue to -- on the commercial auto liability as why we're continuing to take rate and where things aren't where we want them to be. That's impacted by social inflation, and we're trying to continue to place an emphasis on early resolution of claims in order to try to settle matters more quickly.

Clearly, it seems -- I think in the first quarter, we've had a kind of high single digit growth. I think probably will grow the business low to mid-single digit for the whole year as we're, again, emphasizing rate on commercial auto liability. So hope that's helpful.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

That was great color. I guess the final question, I don't want to literally kind of embarrassed to ask it, but you called out this large loss in Specialty Financial. And so I just want to get -- I don't want to focus on the loss itself. I just don't -- I don't remember you calling out a large single loss in Specialty before. Is there something in the system that is bothersome to you? Or should we really just view this as a one-off event?

Carl Henry Lindner
Co-President, Co-CEO & Director

I'd probably view this as more of a one-off kind of event.

Operator

Our next question comes from Ling Lee of KBW.

Unknown Analyst

So just wondering can you add some color on the expense side? We see that expense ratio seems to have increased for this amount year-over-year. So what do you expect going forward?

Brian Scott Hertzman
Senior VP & CFO

You're asking about our expense ratio overall?

Unknown Analyst

Yes.

Brian Scott Hertzman
Senior VP & CFO

So if you look at -- expense ratio can bounce quarter-to-quarter for us, one of the things in our business, not only can the mix of business change but also many of our lines of business have profit-based ceding commissions from reinsurers. So when the reinsurer is profitable, they would pay us a higher ceding commission than they otherwise would. So that can cause the numbers to bounce around from time to time. For example, in the first quarter of 2022, we had higher profit-based in commissions in our crop business than we did in the first quarter of 2023.

If you look across the full year, we would expect a slightly lower -- that slightly lower profit sharing in crop that happened in the first quarter. We wouldn't expect that to be replaced in the later quarter. So that will impact the full year. And we also -- both in the quarter and for the year, we do have several IT initiatives going on that are driving up expenses a little bit that will ultimately benefit us in the long run.

So the expense ratio for the year could be a little elevated relative to last year, and that would just be because of the lower profit sharing in the crop business in the first quarter and then a bit of an impact from some of the IT initiatives.

Unknown Analyst

Got it. Also can you talk about any trends you see in the D&O pricing, what's the current bank issues these days?

Carl Henry Lindner
Co-President, Co-CEO & Director

Yes. On -- from a pricing standpoint, overall, we're getting about a 1% price increase in the first quarter on our overall D&O book. I think as I mentioned earlier in the call though, public D&O, which is about 22% of our business had a 15% price decline in the quarter. The public D&O, as I mentioned before, is one of the lines that's more competitive than what it should be and that.

Our D&O book, as I mentioned before, we're continuing to focus on small account lines, nonprofit, private company, EPL. We probably, as a company, have a much more cautious approach to large account public and private equity business than most. We would have written very -- probably practically no specks over the past couple of years. So our book is a little bit different than a lot of other companies. That's probably one reason why we're still getting some price increase.

Operator

This concludes our Q&A portion. I would now like to turn it back over to Diane Weidner for closing remarks.

Diane P. Weidner
Vice President of Investor Relations

Thank you all for joining us this morning as we recapped our results for the first quarter. We look forward to speaking with you all again as we share our second quarter results. Take care, and have a great day.

Operator
Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.