S&P Capital IQ

CONTENTS

American Financial Group, Inc. NYSE:AFG

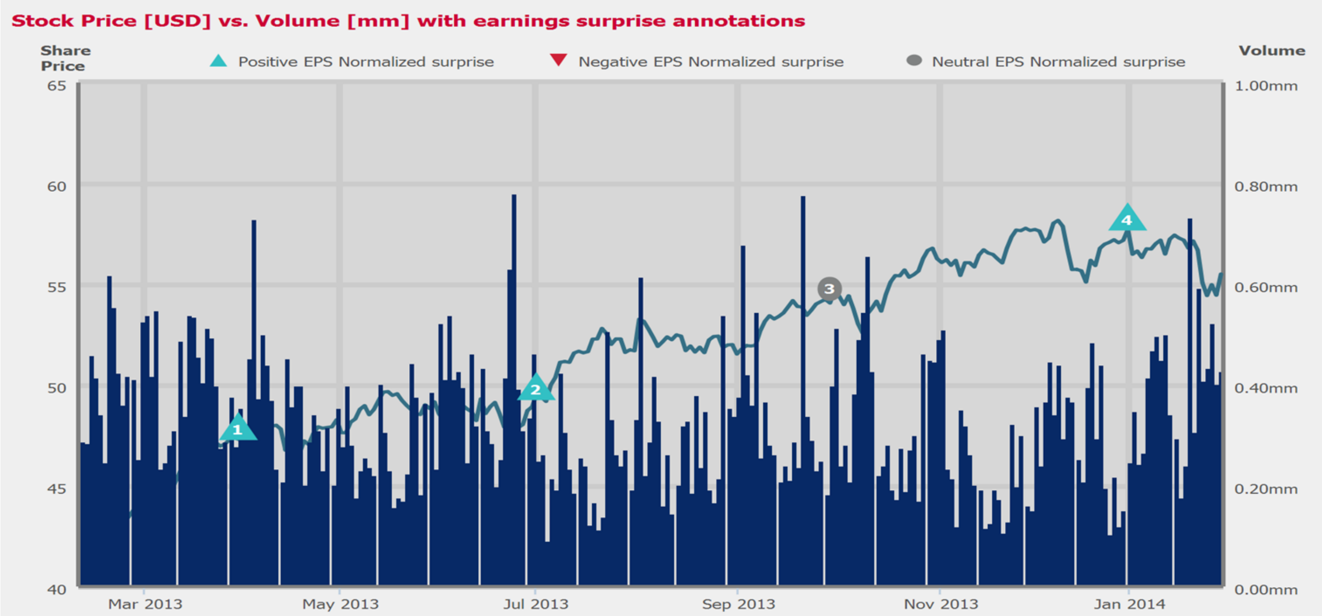
FQ1 2014 Earnings Call Transcripts

Wednesday, May 07, 2014 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.97	1.00	▲3.09	0.96	4.71	5.32
Revenue (mm)	852.40	754.00	▼(11.54 %)	-	3736.40	4352.00

Currency: USD
Consensus as of May-07-2014 1:04 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	0.81	0.92	▲1 13.58 %
FQ2 2013	0.86	0.96	▲2 11.63 %
FQ3 2013	1.06	1.06	●3 0.00 %
FQ4 2013	1.21	1.28	▲4 5.79 %

Call Participants

EXECUTIVES

Carl H. Lindner
Co-Chief Executive Officer, 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

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

ANALYSTS

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

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

Presentation

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the American Financial Group 2014 First Quarter Results Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to turn the conference our host, Ms. Diane Weidner. Ma'am, you may begin.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you. Good morning, and welcome to American Financial Group's First 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 conditions 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. Now we released our 2014 first quarter results yesterday afternoon. I'm assuming that our participants have reviewed our earnings release in the investor supplement posted on our website.

We are pleased to report core net operating earnings of $1 per share, a 9% increase from the comparable prior year period. These results reflect solid property and casualty underwriting results and continued strong profitability in our Annuity segment. Higher underwriting profitability in our Specialty Property and Casualty insurance operations was partially offset by slightly lower earnings in our Annuity segment.

Our annualized core operating return on equity was 9.1% for the first quarter compared to 8.9% for the first quarter last year. Net earnings were $1.13 per diluted share and include $0.13 per share of realize gains. Annualized return on equity was 10.3%. Adjusted book value per share was $46.79 at March 31, 2014, up 2% from year-end 2013. Based on the results through the first 3 months of 2014, we continue to expect AFG's 2014 core operating earnings to be in the range of $4.50 to $4.90 per share.

Now if you turn to Slide 4, you'll see that since the beginning of the year, we've acted upon several opportunities to deploy our excess capital. We're pleased in that we completed the acquisition of Summit Holding Southeast, Inc. on April 1, and during the month of March, we launched our Aviation division. These transactions bring the number of our Specialty Property and Casualty businesses to 30.

In addition, we acquired renewal rights from selective insurance, which facilitate the expansion of our Public Sector division. We've also continued to grow our existing businesses. Most notably, we've achieved year-over-year growth of 19% in our average annuity assets and reported an increase of 12% in net written premium within our Specialty Casualty Group. In addition to these transactions, we repurchased $24 million of AFG's common shares at an average price per share of $56.68.

Now I'd like to review first quarter Specialty Property and Casualty results summarized on Slides 5 and 6 of the webcast. On Slide 5, you'll see summary results for the Specialty Property and Casualty group. Specialty Property and Casualty insurance operations generated underwriting profit of $59 million for the first quarter compared to $48 million in the first quarter of last year in 2013. The first quarter 2014 combined ratio of 92.2% was an improvement of about a point from the 93.1% reported in the 2013 first quarter and reflects slightly better accident year underwriting profitability with prior year reserve development and catastrophe losses at similar levels in both periods.

Gross and net written premiums were up 11% and 7%, respectively, in the 2014 first quarter compared to the second quarter a year earlier, due primarily to higher premiums in our Specialty Casualty Group. I'll discuss a timing change in the recording of reinsurance ceded within our Specialty Casualty Group in a little bit. But without this timing change, our overall net written premium growth would have been approximately 10%.

About 2/3 of our Property and Casualty businesses reported pricing increases during the first quarter, resulting in an overall renewal rate increase of about 3%. This is the 10th consecutive quarter that we reported overall price strengthening. Pricing continues to keep pace with loss cost trends, which appear to be relatively benign across almost all of our Property and Casualty businesses.

During the first quarter, we did become a first-time issuer in the insurance-linked securities market with the offering of a 3-year $95 million catastrophe bond. With an attachment point of $100 million, we believe this coverage, coupled with our traditional corporate property cap rate, optimizes our reinsurance coverage.

On Slide 6, you'll see a few highlights from each of our Specialty Property and Casualty business groups. The Property and Transportation Group, our largest subsegment by premiums, reported an underwriting profit of $6 million in the 2014 first quarter compared to $10 million in the prior year period. Improved results in our transportation and property inland marine operations were more than offset by lower profitability in our agricultural operations. Catastrophe losses in this group were $9 million, primarily as a result of winter storms in the month of January compared to $10 million in the 2013 first quarter.

Gross and net written premiums were up 7% and 3%, respectively, during the first quarter of 2014, primarily due to higher premiums in our transportation businesses resulting from rate increases. Net written premiums were also impacted by higher sessions in our crop insurance business. Excluding our crop insurance business, net written premiums in this group were up about 5% during the first quarter.

Spring discovery prices for corn and soybeans were 18% and 12% lower, respectively, than 2013 discovery process, which will have the effect of reducing our overall 2014 net crop insurance premiums by about 13%. Overall renewal rates in this group increased 4% on average for the quarter with our National Interstate subsidiary achieving a 6% rate increase.

Specialty Casualty Group reported underwriting profit of $38 million in the first quarter of '14 compared to $19 million in the first quarter of 2013, reflecting higher underwriting profits in our workers' compensation and excess and surplus lines businesses. Gross and net written premiums for the first quarter of 2014 were up 18% and 12%, respectively. While nearly all of the businesses in this group reported growth, our workers' compensation, excess and surplus lines and targeted markets businesses were the primary drivers of the higher premiums.

In addition, as mentioned before, there was a timing difference in this year's quarter related to reinsurance ceded. Absent this timing change, which will reverse in the second quarter, growth in net written premium for Specialty Casualty would have been 18%.

New business opportunities, increased exposures on existing accounts and sustained pricing increases have driven the growth in our workers' comp businesses. Strong premium growth in our excess and surplus lines and targeted markets businesses is the result of broadening opportunities to write business coupled with the benefit from rate increases over multiple quarters. Pricing in this group was up approximately 3% on average for the quarter.

Now the Specialty Financial Group reported an underwriting profit of $10 million in the first quarter of '14 compared to $13 million in the comparable 2013 period. Higher underwriting profits in our fidelity and crime and surety businesses were more than offset by lower profitability in our trade credit and financial institutions businesses. Gross written premiums were down slightly for the first quarter, while net written premiums increased 3%. 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. Pricing in this group was flat in the first quarter of 2014.

Now please turn to Slide 7 for an overview of the 2014 outlook for the Specialty Property and Casualty operations. We continue to expect to achieve a combined ratio between 91% and 95% and growth in net written premiums between 17% and 21%. Excluding Summit, we expect growth in net written premiums to be in the range of 5% to 9%. We're targeting overall average renewal rate increases in 2014 for the Specialty Property and Casualty Group to be in the range of 3% to 4%. Our previously published 2014 guidance for each of our Specialty Property and Casualty Group remains unchanged and is summarized on Slide 7.

As a I noted earlier, the decline in crop commodity prices has impacted growth in our Property and Transportation Group overall. Excluding our crop business, we expect growth in our other Property and Transportation businesses in a range of 4% to 7% during 2014.

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

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Thank you, Carl. The Annuity segment reported core pretax operating earnings of $73 million in the 2014 first quarter compared to $76 million in the comparable 2013 period, a 4% decrease as shown on Slide 9. Core pretax operating earnings were significantly impacted in the quarter by fair value accounting for fixed-indexed annuities, which I will discuss in more detail shortly.

Annuity premiums were $967 million in the 2014 first quarter, an increase of 55% from the first quarter of 2013 but approximately 30% lower than the premiums recorded in the fourth quarter of 2013. The year-over-year increase was largely the result of growth in sales of fixed-indexed annuities and the financial institutions market. New products, expanded distribution and improved market penetration within existing distribution channels contributed to this growth. The sequential decline in premium reflects the impact of lower interest rates on the attractiveness of annuities and our commitment to maintain pricing discipline, as well as seasonality in premium volume. Although the fourth quarter premium volume is historically higher than the first quarter, factors such as new market entrants and aggressive pricing by competitors also contributed to lower premiums in the first quarter of 2014.

Turning to Slide 9. You'll see that AFG's average annuity investments grew 19% over last year. The benefit of this growth was more than offset by the runoff of higher-yielding investments, as well as the impact of the significant decrease in interest rates at a relatively flat market in the first quarter of 2014 on the fair value accounting for fixed-indexed annuities. By comparison, an increase in interest rates and positive stock market performance favorably impacted the fair value accounting for fixed-indexed annuities in the first quarter 2013. As a result, AFG's net spread earned was 130 basis points in the first quarter 2014, a decrease of 28 basis points for the comparable previous year period. Excluding the impact of fair value accounting, AFG's net spread earned in the first quarter of 2014 was comparable to the net spread earned in the first quarter of 2013.

The pretax after DAC impact of fair value accounting measured in dollars was a $15 million in this quarter compared to $2 million in the year-ago quarter, a swing of $13 million pretax. While this is GAAP accounting, it doesn't reflect the economics of the business. Normalizing for the fair value accounting which several companies in our industry exclude from core earnings, you would have seen a $10 million increase in core pretax earnings rather than a $3 million decrease. 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.

Now please turn to Slide 10 for an overview of the 2014 outlook for the Annuity segment, which remains unchanged from the guidance we previously provided. While we expect average fixed annuity investments and average fixed annuity reserves to grow by 15% to 18% in 2014, we continue to expect our net spread earned to be 20 to 25 basis points lower than the 160 basis points achieved for the full year of 2013. We also continue to expect core pretax annuity operating earnings in 2014 to be flat compared to the $328 million reported in 2013. Based on information currently available, we expect that AFG's annuity premiums will be flat in 2014 compared to the $4 billion achieved in 2013. Significant changes in market interest rates and/or the stock market could lead to significant positive or negative impacts on the Annuity segment's results.

Please turn to Slide 11 for a few highlights regarding our $33 billion investment portfolio. AFG recorded first quarter 2014 net realized gains on securities of $12 million after tax and after deferred acquisition costs compared to $36 million in the comparable prior year period. Unrealized gains on fixed maturities were $556 million after tax, after DAC at March 31, 2014, an increase of $115 million from year end. Unrealized gains on equities were $129 million after tax at March 31, 2014, an increase of $8 million from year end.

As you'll see on Slide 12, 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, the 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 ramp up our comments with an overview of our consolidated first 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. Slide 13 shows highlights of our consolidated income statement for the 3-month period ended March 31, 2014, and March 31, 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 per share for the quarter, representing a 9% increase from the first quarter of 2013. Core net operating earnings for the 2014 first quarter were $91 million compared to $84 million in the prior year's quarter, increasing by 8%.

Looking at segment results. Our P&C segment operating earnings were $108 million in the first quarter of 2014. This is compared to $96 million in the 2013 first quarter, an increase of $12 million or 13%. Carl has discussed the factors impacting underwriting income in the Specialty P&C group, where underwriting profit rose from $48 million in the 2013 first quarter to $59 million in the 2014 first quarter. P&C pretax net investment income increased by $1 million year-over-year to $67 million in Q1 2014. Other P&C expenses increased by $4 million year-over-year to $17 million in Q1 2014. This increase is offset in equal measure by improved prior year development in our P&C run-off operations.

As Craig described, our Annuity segment core pretax operating earnings were $73 million, a reduction of $3 million or 4% during the first quarter. Results in our run-off long-term care and life operations were $1 million lower in the 2014 first quarter coming in at a negative $2 million. Interest expense was $17 million in both periods, and other expense decreased by $4 million in the 2014 first quarter. Finally on this slide, annualized core operating return on equity was 9.1% for the 2014 first quarter compared to 8.9% in the first quarter of 2013.

Having gone through the components of core earnings, when you turn to Slide 14, you'll see that our net earnings for the quarter were $103 million or $1.13 per share. Net earnings include $12 million or $0.13 per share in after-tax realized gains.

Turning to Slide 15. AFG's adjusted book value per share increased by $0.89 during the quarter to $46.79. Tangible book value on an adjusted basis at March 31, 2014, was $44.42. Our capital adequacy, financial condition and liquidity remain strong. We maintained sufficient capital in our insurance businesses to meet our commitments to the ratings agencies.

We completed the purchase of Summit on April 1, 2014. As a result, I'll talk about our excess capital position as of April 1 rather than as of the March 31 balance sheet date. Our excess capital stood at approximately $685 million as of April 1, 2014, including parent cash of approximately $100 million. As Carl stated, AFG has invested $400 million in Summit as of the date of acquisition. This was all funded from parent company financial resources. We maintain more than enough capital flexibility to grow our business or take advantage of market opportunities as they arise. We continue to expect that our excess capital will increase through the course of 2014.

In the first quarter of 2014, we repurchased $24 million of stocks. As of May 1, 2014, there remained approximately 5.5 million shares under our repurchase authorization. We review all opportunities for the deployment of capital on a regular basis.

On Slide 16, you'll find a recap for the 2014 guidance for AFG's core net operating earnings, as well as guidance reviewed earlier in the call for key financial measures in the Specialty Property and Casualty Group and for the Annuity segment. These expectations also include the anticipated results for Summit, which will be consolidated in our 2014 results for 9 months. AFG's expected 2014 results exclude non-core items such as realized gains and losses, as well as other significant items that may not be indicative of ongoing operations.
Now we would like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Amit Kumar from Macquarie.

Amit Kumar
Macquarie Research

Just a few, I guess, follow-up on the outlook section on Slide 7. The guidance overall is unchanged, and obviously, as you mentioned, crop is down. Would it be possible to sort of walk us through what the offsets are? Obviously, there are 2 new pieces to that, the Public Sector book, I think, is the $40 million book, and there's an Aviation book. But how should we think about the other offsets resulting in the guidance remaining unchanged versus Jan. 31?

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

Amit, this is Jeff Consolino. Carl talked about the impact of commodity prices on our crop business. On top of that, we talked on the call about the opportunity to get rate and continue to see improvements in the Property and Transportation segment from our non-crop businesses. And so I think we're more constructive on those parts of the P&T segment, and then we have been offset by the realization with commodity prices that crop premium overall will be down this year versus last year.

Amit Kumar
Macquarie Research

Okay, so that's nearly offsetting the decline in crop?

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

Obviously, they're the range depicted on Page 7. We're sticking with that range. But yes, to the extent we've moved down in the range for crop, we've moved up some for non-crop businesses.

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

Yes, as I mentioned on the first quarter, excluding crop, our business grew about 5% business excluding crop in Property and Transportation.

Amit Kumar
Macquarie Research

Yes. No, that's fair enough. I guess a follow-up to that question is can you expand -- I know you touched upon California comp -- or I'm sorry, comp. Are what you're seeing right now in California comp better than what you were seeing at year-end 2013?

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

Better from what standpoint?

Amit Kumar
Macquarie Research

In terms of about premiums, as well as profitability metrics.

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

I think we're continuing to see from a premium standpoint, the market is still firming up to allow us to get some price increase, and I think we got 4% in the first quarter in California and continue to grow double digit, which was a similar growth pattern last year. As far as profitability, compared to 2012, where we showed our, I think, our accident year profitability, we projected or projecting around $106 million, both 2013 and 2014, our best guesses at this point, have moved to solid underwriting profitability and solid returns on equity.

Amit Kumar
Macquarie Research

No. Wow, so $100 million, that's good to know. The only other question I have and I'll stop here is, going back to the thing Jeff was talking about, the overall excess capital position, talking about the acquisition sort of thought process. Has the thought process on repurchase changed in terms of compared to Q1 going forward? Or is it still the same?

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

I think our approach is still the same. We've used the word opportunistic in our share repurchase strategy, so with us being more aggressive in our use of capital maybe versus last year with the acquisition of Summit and starting some additional businesses, and that definitely makes us more bullish on the company, when we're -- when we see opportunities to put excess capital to use that way and that naturally increases or makes us more bullish about our stock. So we -- I think that opportunistic share repurchases will continue to be an opportunity for us to put excess capital to use.

Operator

Our next question comes from Vincent DeAugustino of KBW.

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

Just to start off, Craig, on the Annuity side, both in the press release and in your prepared commentary this morning, you noted that some new entrants and some increased competition contributed to just a less favorable sales environment on the Annuity side. And I'm just kind of curious that those comments go to the actions of just a few competitors or if this is perhaps a little bit of a larger-scale shift here in the competitive market just across the landscape.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

It's always competitive. There are a couple of our key competitors who were particularly aggressive in the first quarter. Having said that, we're pretty pleased with a premium level approaching $1 billion for the quarter. If we go back 5 or 6 years, our annual premium was only $1.5 billion. So to be on a run rate that is hopefully going to hit a $4 billion number, give or take a little bit, is, we think, a pretty good performance.

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

We're not getting hit by a tornado or anything. That's just the normal emergency response test on today.

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

That's good to know. Just speaking about the weather in that regard. So we're hearing more about 2014 being potentially a developing -- as an El Niño year, and I'm just kind of curious, from a crop standpoint, if you guys have any thoughts what that might mean both, a, from a U.S. yield standpoint and then, b, potentially, let's say, if maybe U.S. yields are maybe suboptimal, maybe if there'd be, with commodity prices already being so low, the benefit in global commodity prices looking out more than offsetting that.

I don't know if that's true in your guys' perspective or any thoughts that you might have there would be helpful.

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

I don't think that we consider ourselves experts on El Niño by any measure. So I wouldn't say we have a sophisticated -- we've not adjusted our guidance for any sophisticated viewpoint of that at this point. I think more importantly, this -- when you take a look at the way this crop year started, it's really early to really -- to know how things will develop on that. But I think the positive thing is, is that when you look at the amount of corn planted versus the 5-year average, it's catching up pretty quickly. There's been pretty much dry weather. With the technology that's available to farmers these days, in 3 or 4 days' time, you can make up that difference between -- I think, it's 29% through May 4, and the historical 5-year average is 42%. That difference can be made up pretty quick in that from what appear to be kind of an all wet kind of a spring. So I like the way that things are shaping up at this point, though it's very early. And from a price standpoint, the current commodity futures prices versus the spring discovery prices aren't anything to worry about either. I think both corn and soybeans are up 8%, so if there's -- there's probably some room for those to come down with no real impact at least at this point.

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

Good. And just one quick last one for me or hopefully, quick anyway. I'm just always a little uncertain of reforms coming out of California, and so I'm just a little curious of your opinions on the effectiveness and then impacts to the workers' comp market in California in response to the state bill 863, if you guys would have any thoughts there.

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

I think it's still, so far so good, I think, but it's -- our guys would tell me that it's still too early to draw any hard and fast conclusions.

Operator

Our next question comes from Ryan Byrnes of Janney Capital.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

My first one is in the Annuity segment. The guidance was unchanged, and obviously, the 10-year interest rates have been kind of bouncing around or probably a touch lower from earlier this year. Just wanted to figure out what kind of 10-year or yield are you guys thinking about in your guidance there.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

We are assuming that the 10-year, that rates are going to trend up between now and year end. I believe in the plan that we put together, we assume that the 10-year rates would increase by something in the neighborhood of 25 basis points from year-end 2013.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Got you. Great. And then separately, obviously, there's been kind of some recent interest in some of these run-off blocks at some of your competitors in terms of them being able to get -- to sell their blocks. Just wanted to see if you guys -- have you guys looked at any recent transactions or maybe get your thoughts on your long-term care block as maybe -- as well as your asbestos block.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

As it relates to the long-term care, we have seen a couple of the recent transactions, and it's certainly something that we would, yes, we consider if the right opportunity was there.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. You had mentioned that the crop underwriting profitability in the first quarter was not great. I'm wondering what was going on there? Was there some spillover from last year?

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

I think when you look at the first quarter, we have less favorable development this year than what we had in the previous year. So the crop profits were lower, and we were -- everybody had a lot more claims to deal with that's -- that have been in the business, and we were, I think, pretty conservative and careful on what we booked through year end until we really knew what the answer was. So from -- I think, from a positive standpoint, I think we got it right in that we did have some continued favorable development in the first quarter looking back. But it was less than what we would have had in the first quarter of the previous year.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That makes sense. Second question, in the Specialty Casualty segment, the favorable reserve development you recorded was the largest in about 6 or 7 quarters. And I'm wondering what drove that favorable development?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Jeff, you want to speak to that or...

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

Hey, Jay, this is Jeff. It is the largest in the last several quarters, although I'm seeing a schedule here that indicates that the second quarter of last year was nearly the same level. We continue to have favorable developments emerging from our E&S businesses, and we continue to have favorable development emanating from our executive liability business, and in fact, our workers' comp business is also coming through with favorable development now. There's not one area, Jay, where there was a big takedown. There's just a continued favorable trend across all of those lines with probably the workers' comp piece being the most-notable mover over the last couple of quarters.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's good to see. And the last question, National Interstate, since your effort to buy the rest of the company was unsuccessful, should we assume at that point that, that deal is just dead for the time being?

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

Jay, this is Jeff. Why the tender offer was terminated, AFG issued a press release about that tender offer being terminated, and in that press release, AFG affirmed our commitment to National Interstate, the core business as a business where we value the people and the franchise. But we also that day filed an amended Schedule 13D, which states that we had no current plans to acquire additional shares in

National Interstate nor do we have any current plans to make any proposals to acquire additional shares. And National Interstate is consolidated within our financials. It's a controlled corporation. We think the management team there is doing all the right things to establish the profitability to higher level, and we're pleased to be invested to the tune of 52%. We would have been pleased to invest at a higher level, but we're moving on and looking forward. We're not looking back.

Operator

[Operator Instructions] And there are no further questions at this time.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you, Eric, and thank you all for joining us this morning. We look forward to talking with you again when we report our second quarter results.

Operator
Ladies and gentlemen, this does conclude today's conference. Thank you for your attendance. You may now disconnect. Everyone, have a great day.