S&P Capital IQ

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American Financial Group, Inc. NYSE:AFG

FQ4 2009 Earnings Call Transcripts

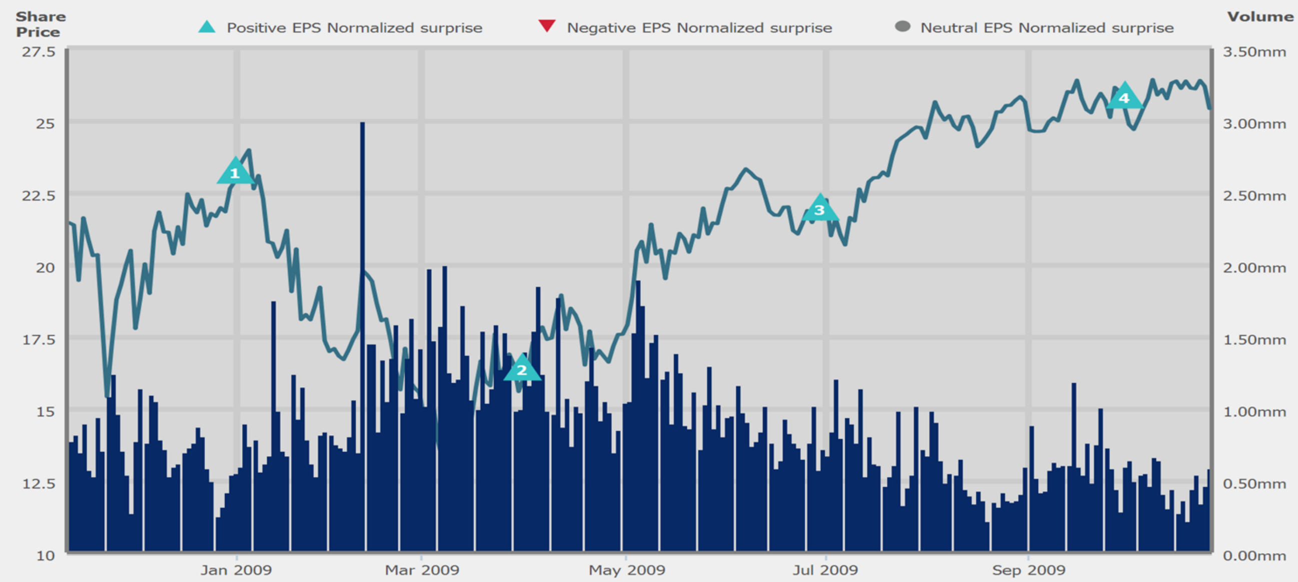
Wednesday, February 10, 2010 4:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.94	1.04	▲10.64	0.92	4.12	4.23

Currency: USD
Consensus as of Feb-10-2010 2:59 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2008	0.94	1.04	▲1 10.64 %
FQ1 2009	0.98	1.11	▲2 12.12 %
FQ2 2009	0.92	1.01	▲3 9.78 %
FQ3 2009	0.88	1.07	▲4 20.22 %

Call Participants

EXECUTIVES

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

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

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

ANALYSTS

Amit Kumar
Macquarie Research

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Ron Bobman
Capital Returns

Presentation

Operator

Good morning. My name is Sandrell and I will be your conference operator today. At this time, I would like to welcome everyone to the American Financial Group 2009 Fourth Quarter Earnings Conference Call. [Operator Instructions] And now, I'd like to turn the conference over to Keith Jensen, Senior Vice President of American Financial Group. Please go ahead.

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

Thank you. Good morning. I'm here with Craig Lindner and Carl Lindner III, co-CEOs of American Financial Group. We're pleased to welcome you to American Financial Group's 2009 Fourth Quarter Earnings Results Conference Call. If you're 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 nature subject to risks and uncertainty. The factors that could cause actual results 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 the 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 items that are generally not considered to be part of ongoing operations, such as net realized gains or losses on investments, the effects of accounting changes, discontinued operations, significant asbestos and environmental charges and other non-recurring items. AFG believes this non-GAAP measure to be a useful tool for analysts and investors in analyzing the 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. Now I'm pleased to turn the call over to Carl Lindner III, Co-Chief Executive Officer of American Financial Group to discuss our results.

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

Good morning and thank you for joining us. We released our 2009 fourth quarter results yesterday afternoon. AFG has continued to post excellent operating results even as we are faced with soft pricing, decreased commercial demand resulting from the depressed economy and fluctuations in investment valuations. I'm pleased to report that for the full year in 2009, our businesses set new records by generating $493 million or $4.23 per share in core net operating earnings, and $519 million or $4.45 per share in net earnings attributable to shareholders. The depth and breadth of AFG's special insurance expertise has enabled us to deliver high-caliber service to our policy holders and agents and produce long term value for our shareholders. Craig and I want to thank God for His blessings and thank our talented management team and employees for their efforts and contributions this year.

I am assuming that the participants on today's call have reviewed our earnings release and the supplemental materials posted on our website. I'll review a few highlights and focus today's discussion on key issues in our outlook for 2010. Let's start by looking at our 2009 fourth quarter and full-year results.

Summarized on Slides 3 through 5 of the webcast. Our fourth quarter core net operating earnings were $1.04 per share the same as those in the prior year period. Full-year core net operating earnings, operating results were up 4% over the 2008 period. The 2009 periods reflect improved underwriting results in our specialty property and casualty operations

Our net earnings of $1.38 per share for the 2009 fourth quarter and $4.45 per share for the full year were also substantially higher than the 2008 periods, primarily because of net realized gains on investments.

During the fourth quarter, we recorded an after-tax realized gain of $49 million or $0.42 per share on the sale of a portion of our holdings, in connection with the IPO of the risk analytics. We're very pleased with our returns on this investment and continue to hold approximately 6.7 million shares of Class B Common with a cost basis of approximately $24 million. Class B shares are convertible into Class A shares on a share-per-share basis after the expiration of holding periods. The Class A shares had a market value of $186 million at Monday's closing price. Return on equity for 2009 was approximately 17%, and an annualized average return on equity over a five-year period was 12%. Both measures include realized gains and losses.

One of our important strategic objectives is to deploy our excess capital in a way that enhances shareholder value. To that end, we purchased 3.3 million shares of our common stock at an average price of $24.62 per share during the 2009 fourth quarter. We've also repurchased an additional 1.7 million shares through February 8, bringing total repurchases since October to 5 million shares at an average price of $24.79. We believe the purchase of shares below book value is an appropriate means of increasing shareholder's value.

As you'll see on Slide 4, AFG's book value per share including all unrealized gains and losses on investments increased to $33.35, as a result of strong earnings performance, a significant improvement in the market value of our investment portfolio and the share repurchase activity. This represents an increase of 55% from the $21.54 per share reported at the end of 2008. Tangible book value was $30.99 at December 31, 2009, up 63% from year-end 2008. Our capital adequacy, financial condition and liquidity remained strong, and our key areas of focus for us, especially in these times of economic uncertainty.

We've maintained capital in our insurance businesses at level that support our operations are consistent with amounts required for our rating levels. We've spoken often about keeping some powder dry and I believe that our management team has honored that philosophy in a manner that has allowed us to manage our business cautiously, yet opportunistically. At the end of the year, available cash at the parent company was approximately $200 million, with excess capital more than $450 million. We anticipate continuing to generate additional capital and cash through operations during this year. Our cash and cash equivalents of $900 million in our insurance companies, along with their annuity groups membership and the Federal Home Loan Bank of Cincinnati provide us with liquidity to meet any and expected unexpected events.

Now, turning to Slide 6, you'll see summary results of our Specialty Property and Casualty operations. Overall underwriting profits in the 2009 fourth quarter were excellent, generating a combined ratio of 84%, a three-point improvement over the fourth quarter of 2008. The largest components of this improvement included record profitability in our crop insurance operations, resulting from attractive crop yields and relatively stable commodity prices. Additionally, favorable trends in used car sales prices resulted in a reversal of lost reserves in our run-off automobile residual value insurance operations. These improved results were partially offset by reduced underwriting results and market forms Italian Medical Malpractice business and several of our other businesses. We're satisfied with the overall Property and Casualty accident year turn, which is in the high teens.

We continue to focus on pricing our business to achieve appropriate returns. We simply won't write business that won't generate appropriate returns. And as evidenced by reductions and topline growth in some lines, we know we'll see the results of today's pricing decisions for years to come and believe our disciplined approach will allow us to provide quality products to ensure the competitive rates. The average renewal rates and a specialty operations during 2009 were flat compared to the prior year. The decreases in net written premiums for the 2009 periods were primarily the result of our decision to exit certain automotive-related lines of business, as well as changes in our reinsurance for the crop business and lower crop prices.

We have an agreement under which we seated 90% of our net premium as compared to 50% in 2008. In 2010, we'll return to the prior level of sessions. The related profit-sharing component allows us to benefit from the favorable results in this business. As I mentioned, soft market conditions and planned volume reductions in certain product lines also contributed to the premium declines. To exclude our crop operations, the overall decrease in net written premium for the 2009 fourth quarter was about 12% and 10% for the year.

First investment income related to our Property and Casualty operations was down approximately 8% for the quarter when compared to the same period last year, primarily as a result of decreased holdings and higher yielding investments and generate lower reinvestment rates. Now I'd like to discuss a few highlights from each of our Specialty business groups on Slides 7 and 8.

Property and Transportation group generated excellent underwriting results during the fourth quarter and full-year 2009. Higher underwriting profits in both periods were driven primarily by record profitability in our crop operations. In addition, catastrophe losses in our Property and then the Marine operations were significantly lower for the year. The Risk Management Agency and the Federal Crop Insurance corporation issued the first draft of the 2011 Standard Reinsurance Agreement, commonly called the SRA, in December of last year. Comment period closed in mid-January and the second draft is expected within the next several weeks. The current draft of the SRA include several proposed changes to reduce revenue to participating insurers. The first policy, covered by the new SRA terms, will be effective July 1, 2010, so we'll have one more calendar year of business subject to the current SRA terms.

Regardless of the outcome, we ultimately need to adjust our business model to align delivery costs with underwriting margins. At this point, we're early in the process and we'll know more as the 2011 SRA is finalized. Our Specialty Casualty group posted an underwriting loss for the fourth quarter of 2009, primarily due to $48 million in adverse development recorded in market forms, Italian, public hospital, Medical Malpractice business for 2008 and prior years, which Marketform has ceased writing. Approximately 1/3 of this adverse development is offset by the portion of such losses attributable to non-controlling shareholders of Marketform. Excluding Marketform's loss, losses, the group had a combined ratio of 98% for the quarter. Other businesses in this group, such as our Specialty Human Services and Strategic Comp Operations produced excellent underwriting profit margins. But these results were more than offset by lower underwriting profits in our excess and surplus lines and general liability operations and a higher accident year losses and the book of program business. This group produced a solid underwriting profit for the year, but at a lower level than 2008. Average renewal rates for 2009 were flat compared to 2008.

And moving on to the Specialty Financial group, they reported excellent underwriting profits for the fourth quarter and full year of 2009, a meaningful improvement over 2008 results. These improvements were driven by improved results in our run-off RVI business, where we recorded an additional $21 million of favorable development during the fourth quarter and $90 million for the year as a result of significant improvement in used car sales prices during 2009.

Earlier in 2009, AFG made a decision to exit certain automotive-related lines of business, which among with the impact of the economy on sales of other auto-related products, contributed to declines in gross and net written premiums in this group. Average renewal rates for this group were up about 3% in 2009. Our California Workers' Comp business reported a $2 million underwriting gain for the fourth quarter and a small underwriting loss for the full year of 2009.

AFG's Republic Indemnity subsidiary filed for an 8% rate increase, effective January 1, 2010, in addition to the blended 8% rate increase filed last year effective July 1, 2009. Underwriting results continue to be affected by lower prices in a competitive environment. 2009 accident year combined ratio was 112% compared to 94% in 2008. We firmly believe that more rate is needed to achieve appropriate returns, especially as we're seeing some increases in severity trends in this business, primarily related to increases in medical costs. On a more encouraging note, our average renewal rates in California were up 9% for the quarter.

Now I'd like to move on to reveal far Annuity and Supplemental Insurance group on Slide 9. Annuity and Supplemental Insurance group generated pretax core operating earnings for the fourth quarter of 2009 that were approximately $3 million lower than the comparable period in 2008. Results for the fourth quarter include a $13 million pretax write off of deferred ac costs related primarily to our Fixed Annuity business.

We reported similar debt write-offs in 2008 related primarily to our Variable Annuity business. These charges were reported in connection with their review of major actuarial assumptions including management's expectation of investment yields.

Full-year pretax core operating earnings in 2009 were $4 million higher than 2008 results. Increased spreads in our fixed annuity lines in the first half of 2009 and the improved results in our annuity operations were partially offset by lower results and a long-term care segment of our supplemental insurance operations. We continue to experience strong persistency in our Annuity businesses.

During 2009, surrenders on our fixed annuity block were about 14% lower than last year, as many of our annuities are designed with surrender protection features. We continue to move toward product designs that reward policyholders and agents for long term persistence. We do believe the focus on healthcare reform and Medicaid cost reduction could expand demand for our supplemental health products. Statutory premiums for the fourth quarter of 2009 were down slightly from those in the fourth quarter of 2008, as increased sales of traditional fixed annuities were more than offset by lower indexed annuity sales and lower sales through the bank distribution channel. The decrease in premium is consistent with our strategy of exercising financial discipline and the pricing of our annuity products. Now please turn to Slide 10 for a few highlights regarding our investment portfolio.

During the fourth quarter of 2009, we recorded after-tax realized gains on investments of $40 million, including the gain on the sale of a portion of our Verisk investment mentioned earlier. This gain was partially offset by the net effect of impairments and gains in sales of other investments.

After-tax unrealized gains were $166 million at December 31, 2009. This number reflects a pretax unrealized gain on fixed maturities of $93 million. The vast majority of our portfolio was held in fixed maturities with approximately 92% being rated investment grade and 95% with the designation of NAIC 1 or 2. We have provided additional detailed information on the various segments of our investment portfolio in the investment supplement on our website. Now I'd like to cover our outlook for 2010 on Slides 11 and 12.

We announced yesterday that we increased our 2010 core net operating earnings to be in the range of $3.30 to $3.70 per share. Key assumptions factored into our 2010 guidance include: Less favorable reserve development than we recorded in 2009; underwriting profits in our crop operations, they're expected to be lower than the record results produced in 2009; a continued soft P&C market; and lower investment returns.

During 2009, we enjoyed the benefits of higher investment returns, particularly in our Property and Casualty business due to opportunistic purchases of investments. For 2010, we expect the investment returns in our Property and Casualty business to be approximately $70 million lower than 2009 results, primarily due to the sale and runoff of higher-yielding, non-agency residential mortgage-backed securities, and generally, lower reinvestment rates.

We expect to maintain adequate rates in our Specialty Property and Casualty operations because of our strong underwriting culture, and expect to achieve a combined ratio of about 88% and 91%. That said, were targeting modest increases and overall average renewal rates in 2010 due to competitive conditions in certain markets. We expect net written premiums in our Specialty Property and Casualty operations to be up 10% to 12% as we return to historical levels of reinsurance sessions under our crop quota share agreement.

The Property and Transportation group is expected to maintain its excellence underwriting track record with a combined ratio in the 84% to 88% range. Guidance assumes accident year crop earnings at a more normal run rate, therefore lower than our record 2009 results. Expect this group's net written premiums to increase by approximately 25% to 30%, primarily as a result of higher retention in our crop operations. In 2010, we plan to include our California Workers' Comp results with our Specialty Casualty group results due to the decreasing size of this book of business. We expect to combine Specialty Casualty group to generate strong underwriting profit with the combined ratio in the 91% to 95% range.
We anticipate net written premiums will be flat to up 3%. And we look for the Specialty Financial groups combined ratio to be between 85% and 88%. We project net written premiums to be down

4% to 6% due primarily to our exit from additional auto-related businesses. Based on recent market conditions and trends, we expect 2010 full-year core pretax operating earnings in our Annuity and Supplemental Insurance group to be 10% to 15% higher than in 2009. These 2010 expected results exclude the potential for significant catastrophe uncropped losses, significant adjustments to asbestos and environmental reserves and large gains or losses from asset sales or impairments. Thank you, and now, we'd like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Maybe let's talk about that crop bulk, can you just give us what the adjustment was in Q4 with reduced expenses?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

It was decreased by virtually the 2008 by 2½% if that's what you're looking for, Amit?

Amit Kumar
Macquarie Research

Can you sort of give an absolute dollar number which reduced obviously the expense ratio to 5.3%?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

I don't have the absolute number with me on an annual specifically.

Amit Kumar
Macquarie Research

And maybe I can cycle back on that. Maybe just staying on the crop book. And obviously we've heard and read and talked about the changes to the SRA. Simplistically, can you give us your viewpoint regarding the proposed annual reduction. Maybe refresh us as to what funds you are in the state groups and the crops. And if we were to look at the SRA draft as of today, what would be a possible EPS impact on a normalized basis?

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

I think that generally, with what is initially proposed and what ends up in reality is so much different. We've been hard at work along with the industry, really trying to hash out the industry's response and to try to hash out what might be the file form that we're going to see in a couple of weeks. Maybe in a few weeks, we might be able to give you a little bit better clarity as we understand exactly what the changes are going to be in there. I guess keep a view or take a crack at in the existing deal the way that its proposed initial and probably would impact us buying at 25%.

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

At 25% to 30% I think.

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

But we don't expect that, that to be the final result. Generally, the industry hashes through things and usually, there is some compromises that are made that, you know we'll see.

Amit Kumar
Macquarie Research

And then directionally , do you see those compromises happening this time? Because I know as you go back and look at the earlier draft, it was -- the final thing was very different. But just based on the climate this time around, do you think that you would be able to make meaningful headwinds, sort of reducing some of these numbers? Or where do you stand in that?

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

I would think so, and there are things that we can also do within our business.

Amit Kumar
Macquarie Research

What would those be?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

Commmisions had been a major thing that we'd look at. And that's one of the things that the industry has been providing input as the people in Washington are working through the bill. I guess the other auction rates that makes me optimistic for the improvement is this would be if it was carried out exactly as drafted. Be a fairly significant hit into an area where the national interest in terms of farm policy would tend to want to moderate at some. There's clearly going to be some adjustment, but they can't make it. So draconian that they've dramatically affect the economics of the farmers.

Amit Kumar
Macquarie Research

I guess just moving on, can you spend maybe just talk about the market form Italian that now adverse development. Honestly, I was a bit surprised just based -- actually, some of the broader med mal trends. Was there something specific going on in that hospital book, which was altered in this? And are those -- is that a development now sort of the full policy limits? Maybe just give a bit more color on this?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

This was focused, as you said in the public hospital arena. And the majority of the issues seemed to be around the birthing side there. The work has done as babies are born and some of the issues that arose. We also had an issue with one TPA that was not performing and doing the adequate reviews of potential claims and making an initial claims adjustments. In connection with the closeout of a year of account, we had an actuary view by a third-party actuary who went in and as they examine they've found a number of issues that are being worked on. We've terminated the contract, we've had administrator because they were proposing a significant issue. And the other I'd I point out is the number $48 million is what's embedded in the underwriting. But because we have minority shareholders in the agency that sharing this or the net effect, pre-tax to us is about $32 million. So it's something that we're concerned about, we continue to work aggressively on, we think that it was isolated in Italy. Our other med mal books are performing very well and this is one that we're working to get behind us.

Amit Kumar
Macquarie Research

And what was the size of the book as a percent of premium overall?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

It's actually had been put into runoff, and so it's 0% of premium as we go forward.

Amit Kumar
Macquarie Research

And what was the historical basis? Before this point in runoff or what percent?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

My recollection is it was about 20% in the market form premium.

Amit Kumar
Macquarie Research

So if I understand this correctly, you're saying it was a localized issue and not sort of indicative of the entire market form franchise?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

Correct. In fact, all of the other books of business in the market form franchise are performing according to our expectations, and were really pleased with the startups. As you know, we went into market form. Part of our objective was to take a five businesses that we've done well in the U.S. and expand our geographic region. Those processes are going quite well.

Amit Kumar
Macquarie Research

In terms of your capital management, and obviously, you have to buyback. You have the excess capital number in the slide. How do you view this going forward in terms of making changes to the dividend payout? Or looking at some of the debt? I don't know, I think it's imminent. But maybe just talk about what's the broader thought process here?

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

I think as far as plans for excess capital, capital management, Amit, we do want to keep some powder dry. There is some chance that we could see interest rates move back up over this next year. We want to have an appropriate flexibility, both defensively and offensively to take advantage of opportunities. Share repurchases below book value would continue to be something that we think it makes a lot of sense. As you know, we've started out and then added, done small to medium-size acquisitions over many years and we're continuing to look at opportunities and we'll continue to do that. So I think those would be the primary approach that we're going to take to capital management, excess capital. As far as we've increased our dividend and I think each of the last four years, at the end of next this year, we'll revisit that and we think that a steady increases in dividends over a long period of time are meaningful to investors. So Greg and I understand that and...

Amit Kumar
Macquarie Research

And so if I understand this correctly, what's the remainder in your buyback? And is it likely that it would be expanded just based on your comment on the price book?

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

Yes. I think there's 1.5 million.

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

Or a 1.1 million.

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

1.1 million left and where we have a board meeting tomorrow. And were going to be asking whether to be an additional 5 million shares authorize to repurchased.

Operator

Your next question comes from the line of Ron Bobman with Capital Returns.

Ron Bobman
Capital Returns

About market form as well, I was wondering, it sounds like I think it was Carl's comments but in a even. It was really sort of aside from the Italian med mal book, there's no other change to the underwriting guidelines that you're employing. I think you in affected that it's just for a localized...

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

That's correct.

Ron Bobman
Capital Returns

Are the losses that are coming from that book going to cause any complications or problems to closed out. I'm not sure what year it would have been closed out, '06 or '07 for the syndicate. Is that going to be a problem at all or no?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

'07 is the year in question and that comments we made by the end of this month. And so we will be working that through over the next two or three weeks and making our final decision.

Ron Bobman
Capital Returns

And then Carl, you mentioned the playing with market form was to sort of use it as an entré or a vehicle to sort of replicate some of the specialty lines that you're right in the U.S. And for the most part, my impression is that you've sort of have a localized approach to underwriting. Whether it would be workers' comp concentrating California, crop in certain parts of the country and presumably you have sort of a localized operation. The market form vehicle of sort of underwriting from London insurance across Continental Europe is a bit of a departure from that. Is that not the case? Or...

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

No, We've hired some really top local talent that understand those markets. So I don't think its really a departure from what our philosophy is. In the area of specie, an equine and ocean marine, some of the lines that we want to expand off the market form platform. We've hired some highly talented individuals that have worked in and worked at business in those markets for a long time. We've had good success here this past year. We would probably expect to add, I don't quite expect to write and keep $50 million to $70 million this year of the four or five expansion mines that we set out. And so far, we think the loss experience looks about as expected.

Ron Bobman
Capital Returns

Market form, I thought it used to write like a little over $100 million of premiums. Is it dropping down? Or are you just like highlighting a couple of subsets of the $100 million?

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

What you've just said is additive to what the trade...

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

First and then maybe a quick one, we'll start with Verisk. After your required holding period is up, will you be marking that position to market?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

Jay, we're actually marketing it to market now. As we would any security, we'll run that through gain/loss on it until our investments are at that point. If it comes that we dispose of any of the shares. But at this point, we're marketing to market.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That unrealized gain is in your book value already.

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

That's correct. And just be aware that in the market, we're cognizant of the fact that what we hold is not immediately salable. And so we've taken a slight discount to what the currently trading shares are. But it's less than 10% discount.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And then just to follow-up on the Casualty business, first on market form. Where in your P&L is that offset of related to I guess the minority interest in market forms?

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

That would be the earnings attributable to non-controlling shareholders field of minority interest.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And then the last question is surplus. Was your statutory surplus help at all by the change in accounting regarding valuing mortgage securities and a statutory basis?

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

Yes it was. By a number that is approaching $200 million.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's total for the company property casualty and life?

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

That's correct. The biggest part of it is on the life side because the portfolio is much bigger there.

Operator

[Operator Instructions] And you do have a follow-up question from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

In terms of the adverse development, there was some other adverse development apart from the Italian med mal. Can you just sort of expanded on that a bit?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

The adverse development, as you said, Italian med mal is certainly a part of it. We had some modest amounts, I'm just looking down my list here to see the there's anything else that -- the largest, other was less than $3 million. So there's a potpourri of items that went in. But the huge driver was the Italian med mal.

Amit Kumar
Macquarie Research

And maybe just going to going back to the guidance change, can you sort of talk about what incrementally changed apart from the buyback?

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

I think probably plain and simple is probably the net amount of share repurchase activity that we've had in the fourth quarter and first quarter and kind of a -- as the markets have return, the impact on the excess capital that we have to use this year towards additional share repurchases or acquisitions et cetera, et cetera.

Amit Kumar
Macquarie Research

So it's only the buyback, your view hasn't changed whatsoever from the time of Q3 call to current.

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

During that time, to be fair, Amit, we have finalized the ground up financial planning process for the next year. And that didn't drive huge changes, but there were certainly fine-tunings that took place in that process.

Amit Kumar
Macquarie Research

And maybe I missed this, can you just sort of talk about a bit more about the investment portfolio and your plans for the new money?

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

We saw some extraordinary opportunities last year to invest in mortgage-backed securities, as well as corporates. And Frankly, the spreads on most things have tightened up fairly significantly. And recently, we've been derisking the portfolio. We're investing mainly on a high-grade corporates, the non-agency residential mortgage-backed securities are running off. And frankly, the combination of those couple of things the lower reinvestment rate and runoff of some higher yielding paper is going to result in a decline in the investment income.

Amit Kumar
Macquarie Research

And maybe just one final question, can you talk about what your expectations are for inflation going forward?

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

We would be concerned about it over the next -- if you look at it over a little longer period of time. And we are doing everything that we can to prepare for the day when inflation is going to rear it's head. I don't think its going to happen anytime soon. But certainly over the next two or three years, we would expect to have higher rates and we're going to position the portfolio as best we can. And structure our annuity products as best we can to prepare for that day. I think the duration of our assets today is actually slightly shorter than the duration of liabilities. Were keeping an unusually large amount of cash on the portfolios, and the design of the annuity products as I mentioned is changing to give us an added protection against arising rates.

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

I would just add a couple of thoughts on that with respect to the property and casualty. You'll remember that in the Property and Casualty business, the duration of reserves it was about two and a half years. And the duration of the investments associated with property and casualty would be shorter than what they are in the Annuity and Supplemental businesses. And so that, plus the fact that were looking carefully at trends so that we can adjust, we just don't have a huge exposure because not much of the book is long-term. So it turns over pretty quickly and we can stay on an asset and liability perspective in a pretty similar basis.

Operator

We do have a follow-up question from Jay Cohen from Bank of America and Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just to make sure we cover this fully, the adverse development in the Casualty business outside of market form. I'm sure there is no major things. But are there any trends -- I think this is a pretty sensitive issue, I think there's a lot of investors and analysts that are watching the development that we've seen looking for any inflection points. And I'm wondering if you look at this quarter and said, gee is there something here that broadly speaking, if someone is disturbing from the claims inflation standpoint that you need to start addressing?

Keith A. Jensen
Former Chief Financial Officer and Senior Vice President

I don't, Jay, when I look at this form an adverse development in the quarter, it is driven primarily by the market form issue, which is not an inflation indicator at all. And when I look at across the year and each of the individual quarters, there have been favorable development. And of course you can continue with that forever. But by the same token, I don't see anything dramatic that's changing where we have been.

Operator

[Operator Instructions]. There are no further questions at this time. I would like to hand the call back over to the floor for any closing remarks.

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

Thank you very much, and we express appreciation to all of you for joining us this morning. And look forward to reporting our first quarter results as the year progresses. Thank you, and have a good day.

Operator

Thank you, ladies and gentlemen. This does conclude today's American Financial Group 2009 Fourth Quarter Earnings Conference Call. You may now disconnect.