S&P Global
Market Intelligence

American Financial Group, Inc. NYSE:AFG

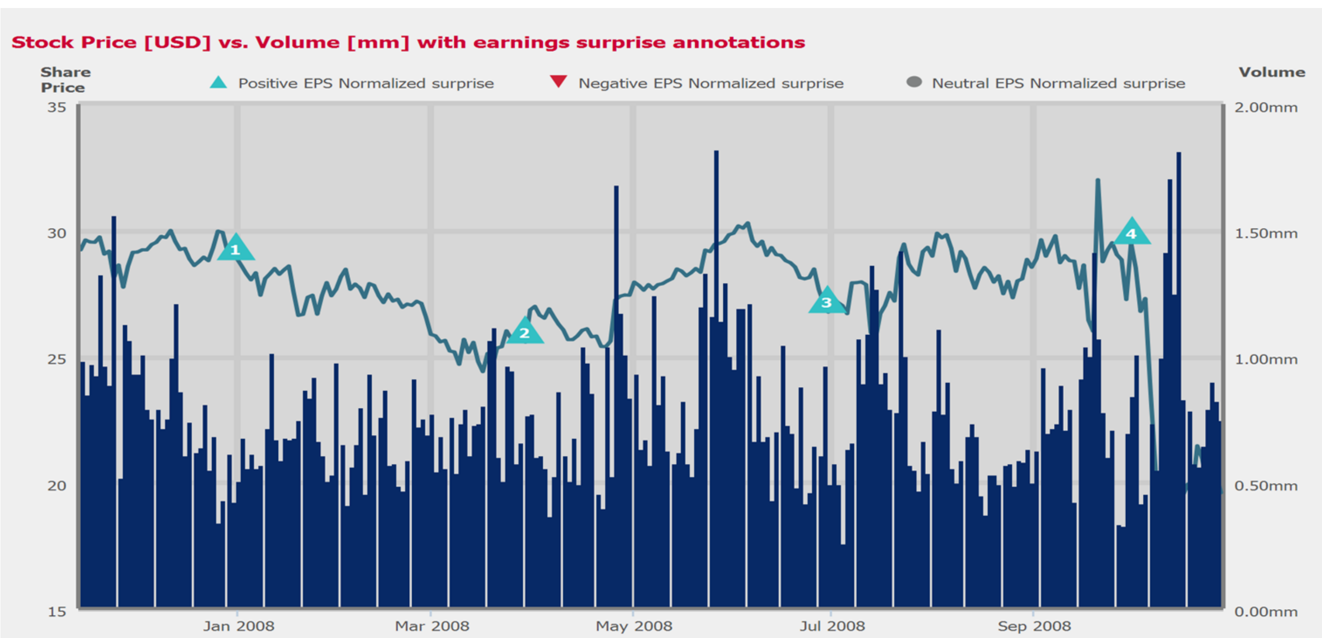
FQ4 2008 Earnings Call Transcripts

Tuesday, February 10, 2009 4:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.94	1.04	▲10.64	1.02	3.93	4.08
Revenue	-	-	▲9.74	-	-	-
Revenue (mm)	695.10	762.80	-	697.20	2799.50	2867.20

Currency: USD
Consensus as of Feb-09-2009 9:49 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	0.94	1.21	▲1 27.37 %
FQ1 2008	0.89	1.09	▲2 22.47 %
FQ2 2008	0.90	0.96	▲3 6.67 %
FQ3 2008	0.95	0.98	▲4 3.16 %

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Call Participants

EXECUTIVES

Carl H. Lindner III

Keith Alan Jensen
Former Senior VP & CFO

ANALYSTS

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Keith Jensen

Unidentified Analyst

Presentation

Operator

Good morning. My name is Lutania and I will be your conference operator today. At this time, I would like to welcome everyone to the American Financial Group's '08 Fourth Quarter Year-End Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

At this time, I will hand the call over to Mr. Keith Jensen, Senior Vice President. Thank you. Mr. Jensen, please go ahead.

Keith Alan Jensen
Former Senior VP & CFO

Thank you very much. Good morning, and welcome to American Financial Group's 2008 fourth quarter earnings results conference call. I'm here this morning with Carl Lindner the III and Craig Lindner, the Co-CEOs of American Financial Group.

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. They're 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 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 items that are not considered to be part of the ongoing operations such as net realized gains or losses on investments, effects of accounting changes, discontinued operations, significant asbestos and environmental charges, and certain 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 to core operating earnings is included in our earnings release.

Now, I'm pleased to turn the call over to Carl Lindner the III, Co-Chief Executive Officer of American Financial Group, to discuss our results.

Carl H. Lindner III

Good morning and thank you for joining us. We released our 2008 fourth quarter and full results yesterday afternoon.

Despite a challenging year in the insurance industry, we're pleased with the American Financial Group's record core operating earnings per share and financial strength.

Craig and I want to thank our talented management team and employees for their efforts and contributions, and we want to thank God for blessing AFG this past year.

Let's turn to slides three and four of the webcast for some highlights. Our record core net operating earnings of $4.08 per share were 4% above 2007 and at the high end of our earnings guidance. Our core operating return on equity was a strong 17%. Core net operating earnings for the 2008 fourth quarter were $1.04, compared to a $1.21 in the same quarter a year ago.

Improved results in our annuity and supplemental insurance operations, and higher investment income in the specialty, property and casualty operations, were more than offset by lower underwriting profits.

Our net earnings for the 2008 fourth quarter and year were lower than the 2007 periods, because of higher net realized losses on investments, which includes impairment charges. However, AFG still generated a return on equity of about 7%, and over the last five years is averaged 12%, including realized gains and losses.

Our capital adequacy, financial condition and liquidity remain strong and our key areas of focus for us, particularly in these unstable economic times.

We've maintained capital in our insurance businesses that is consistent with amounts required for our rating levels. Our financial leverage is at the level committed to the rating agencies and the capital markets.

At year-end, we had approximately a $190 million in parent company cash and investments on hand, of which a $136 million will be used to pay-off the debt which matures in April 2009.

Our liquidity is strong, with cash and short-term investments of $1.1 billion, in our operating companies.

We anticipate continuing to generate additional capital and cash through operations during 2009.

Our book value per share, excluding unrealized gains and losses on fixed maturities was $27.77 at year end. Book value per share including all unrealized gains and loses on investments dropped to $21.54 from $26.84 per share at the end of the fourth quarter a year ago, reflecting the higher unrealized losses on fixed maturity investments brought on by disruptions in the financial markets.

Turning to slide five, I'd like to review the results of our specialty, property and casualty operations. Overall underwriting profits in the 2008 fourth quarter and full year were strong, generating a combined ratio of 87% for both periods. A combined ratio increased from 2007 as a result of higher than expected losses in our run-off RVI business and crop insurance earnings that were below last year's record levels.

Our overall rate levels remained fairly stable, excluding California workers comp, average rates in the specialty operations in 2008 were down about 3% compared to rates from the same prior year period. We were pleased to see the level of rate decreases moderate in the last quarter of the year which went maybe indicative of some firming in the market.

The increases in gross and net written premiums for the 2008 fourth quarter and full year were mainly driven by our crop operations and the affect of our 2008 acquisition of Marketform, which more than offset declines in several other specialty operations resulting from the soft market and the economic downturn.

Gross investment income related to our property and casualty operations was up approximately 19% for the quarter and 15% for the year. As we have benefited from higher yields in this segment's portfolio.

Now I would like to review the results for each of our specialty business groups on slides six and seven. The property and transportation group, our largest group generated solid underwriting profit for the fourth quarter and full year. Our crop operations insurance experienced some of the highest yields of corn and soybeans in our company's history.

However, declines in commodity prices during the fourth quarter generated higher claims which reduced underwriting profits approximately 40% from last year's record levels. Other businesses in this group generated healthy profitability, but at lower levels than 2007, due primarily to higher catastrophe losses and soft market conditions.

The growth in gross and net written premiums for the full year was largely driven by higher spring commodity prices which benefit our crop operations. These premium increases more than offset the volume declines in our Property & Inland Marine operations resulting from the competitive marketplace.

This group's average rates and renewal for the full year were about 3% below the same period a year earlier. The level of rate decreases moderated slightly during the fourth quarter. Specialty casualty group continued to produce strong underwriting profits in the 2008 fourth quarter and full year. A six point improvement in a combined ratio for the fourth quarter affects higher favorable prior year reserve development, primarily from our general liability and executive liability operations.

Underwriting profit for the year was down slightly from 2007 as the improved results and our executive liability operations were more than offset by declines in underwriting profits due to lower premiums in our excess and surplus in general liability operations.

Net written premiums increased in the fourth quarter and full year compared to the 2007 periods. Additional premium from the January 2008 acquisition of Marketform more than offset premium declines caused by strong competition in the excess and surplus lines and softening in the homebuilders market for a general liability products.

The level of rate decreases moderated slightly during the fourth quarter. Specialty financial group reported underwriting losses for the fourth quarter and full year due to significantly higher losses from our final run-off auto RVI contract. These losses related to a contract with Honda. We didn't incur losses on this contract prior to 2008.

As previously reported, increasing frequency and severity from dramatic declines in used car prices have affected the SUV and luxury car market during most of 2008.

Over the past few months, the mid sized market has begun to experience the same trends, even in vehicles that have historically retained their resale values.

Majority of vehicles under insured contracts are on leases that expire by the end of the third quarter of 2009. We have reserve for losses based upon the current facts and circumstances, which assumes some further deterioration.

Excluding the RVI impact, the group's 2008 combined ratio was 86.8, and its underwriting profit was higher than the previous year, mainly due to improvements in our surety and fidelity and crime operations.

Net written premiums for the fourth quarter and full year, were relatively flat. While gross written premiums for both periods increased slightly. This group's average renewal rates for the full year were about 2% lower than in the year earlier.

Moving on to our California comp business, this business generated excellent profitability during the fourth quarter and full year of 2008. The group's combined ratio for the 2008 fourth quarter was up slightly from the 2007 fourth quarter, while the 2008 combined ratio was virtually unchanged from 2007.

Improved claims environment, resulting from the California workers comp reform legislation has continued to benefit our insurers, as well as our results and those of the industry.

Due to long tail nature of this business, we remain conservative in our reserving on more recent claims until a higher percentage of claims have been paid, and the ultimate impact of the California Reform Legislation can't be estimated with more precision.

Gross and net written premiums decreased for the quarter. Although, we have seen rate decreases begin to moderate somewhat. Decreases in gross and net written premiums for the full year 2008 were driven by rate reductions in our traditional workers comp business, but were offset somewhat by increased sales of our new excess workers comp products.

Average rates on renewal of the Californian business, were down approximately 14% with the fourth quarter decreases moderating from the early part of the year.

Republic Indemnity subsidiary, did file for a 5% rate increase effective January 1, 2009. This was consistent with the increase approved by California Insurance Commissioner, Poizner, several months ago.

Now I would like to move on to review of our annuity and supplemental insurance group on slide eight.

We are particularly pleased with the operating results in this group, which has benefited from the impact that increased spreads are having on new sales in the fixed annuity line. Our focus on fixed annuities is particularly advantageous in the current investment environment. The annuity and supplemental insurance group generated pre-tax core operating earnings for the 2008 fourth quarter that were more than 75% higher than the same period a year earlier.

Pre-tax core operating earnings for the full year of 2008 improved 25% over 2007. These results reflect increased earnings in our fixed annuity operations, primarily the result of wider spreads, higher earnings in our supplemental insurance operations, and improved results in our run-off life and operations. These favorable results in 2008 were partially offset by lower earnings in our variable annuity operations, which include a write-off of deferred acq costs, due to the poor performance of the stock market.

We continue to work towards improving the annuity and supplemental insurance group's return on investment, and are encouraged by the improved results in this group.

Annuity business written during 2009 is expected to have a return on investment, in the mid-teens.

Statutory premiums for the fourth quarter of 2008, were slightly lower than those in the fourth quarter of 2007. Annuity sales through our new bank distribution channel launched in the second quarter of 2008 were offset by lower sales of indexed annuities in the single premium market.

Premiums for the year increased 5% over 2007. The increase from annuity sales to the bank channel was offset by lower indexed annuity sales.

Now, let's turn our attention to investments, which you can find on slide nine.

During the fourth quarter, our investment portfolio continued experience the effects of the current economic downturn. As of December 31, 2008, AFG had after-tax net unrealized losses of $683 million. We recorded realized after-tax losses, including other than temporary impairments of $83 million or $0.72 per share. As a part of our program to lower risk in our investment portfolio, we have significantly reduced our investments in common stocks. Excluding our investment in the risk analytics, formally known as ISO, a leading provider of risk assessment services, our holdings in common stocks were less than $50 million at December 31, 2008.

Challenges in the global credit markets continue. Spreads between U.S. government bonds and investment grade and high yield bonds have widened in year all-time highs affecting the market values of many of our fixed maturity investments. Our investments remain high quality, investment grade securities represent 94% of our fixed income portfolio.

Because of our high quality portfolio and strong liquidity, we have both the ability and intent to hold our fixed income investments to maturity or until they recover in value. We believe over time, values will be restored as spreads to treasuries near to more normal levels.

Our investment philosophy with respect to mortgage-backed securities has been consistent over many years. Our focus has been almost entirely on the senior tranches of these securities. We continue to believe that the economic loss on this portfolio is not likely to be significant in relationship to the level of investment.

Accounting rules, however, require the security must be written down to current market value, not to the value that we believe we will ultimately recover. If its cost it is not expected to be recovered. For example, although we've recorded a per-tax impairment charge of $65 million on mortgage-backed securities in the fourth quarter, our expected economic loss on those securities was less than $20 million.

As I said before, we continue to have minimal exposure to other investments that we -- that have received widespread attention recently. We don't provide credit default protection. We have $25 million of asset-backed CDOs. We hold approximately $3 million in hybrid and preferred securities issued by European financial institutions. We have less than $57 million in what would be deemed alternative investments principally private investment funds.

In the aggregate, these holdings represent less than 1.5 of 1% of our investment portfolio. More information about our investment portfolio may be found on our website in our financial and investment supplements.

The turbulence in worldwide financial markets has led to industry challenges and opportunities; let's take a few moments to discuss a few of these. Because of the significant reduction in capital in the industry are resulting from changes in valuations of investments, we believe that fundamentals are in place for a meaningful price strengthening.

In the fourth quarter we've seen some moderation in the rate decreases of the past few years and are seeing some price firming in reinsurance that we're purchasing. In addition, changes in the competitive environment and dislocations of people and businesses in the industry are creating opportunities for growth and expansion through acquisition of talent and businesses. We also see opportunities for some of our businesses as we look to the Obama administration in a democratic control Congress.

The new administration has already indicated an interest in reducing payments to Medicare advantage providers. We believe this change will make our supplemental insurance business more competitive. Stimulus packages that will fund public works projects are likely to benefit the surety insurance business, as well as the housing market.

Additionally, it appears that there may be increased support for our position regarding the unfair tax advantage now being held by some offshore insurers.

We would be remiss if we didn't touch on the implications to our investment portfolio. Notwithstanding the severe economic challenges, we believe there are unique opportunities in the market. Historic spreads, treasury have enabled us to enhance our investment portfolio, in a manner that enables us to achieve spreads in our fixed annuities that support very attractive returns on new sales.

Naturally, we're also faced with continuing pressure on our mortgage-backed securities as the valuations of many securities have been diminished. We continue to believe that the economic value of those securities and their life time yields will be attractive as a result of our investment strategy to focus on senior tranches and securities with fixed rate collateral.

Now let me cover our expectations for 2009 on slides 10 and 11. We have increased our core net operating earnings guidance to be in the range of $3.70 to $4 per share. The increased guidance takes into account our expectation of significantly improved earnings in the annuity and supplemental businesses, and increased yields in our investment portfolio.

The 2009 expected results, exclude the potential for a significant catastrophe in crop losses, unforeseen major adjustments to asbestos and environmental reserves, and large gains or losses from asset sales or impairments.

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% to 91%.

That said, we are targeting flat to modest increases in overall average renewal rates in 2009, due to competitive conditions in certain markets.

We expect net written premiums in our specialty, property and casualty operations to be down 13% to 16% from 2008 levels, primarily due to increased reinsurance sessions under our crop quarter share agreement, and lower spring commodity prices. Excluding this change in crop, we expect a decline of 2% to 5% in net written premium.

The property and transportation group is expected to maintain its excellent underwriting track record, with a combined ratio in the 86% to 90% range. Guidance assumes action at year crop earnings which were approximately in line with 2008 results.

We expect net written premiums to decrease by about a fourth as a result of crop reinsurance and commodity prices. Excluding the decrease in crop, we expect net written premiums to increase between 2% and 5%.

We expect the specialty casualty group to generate strong underwriting profit, with a combined ratio in the 86% to 90% range. We anticipate decreases in net written premiums between 4% to 7%, as continued competitive pricing pressures in some of our operations will offset growth from our new initiatives.

We look for specialty financial groups combined to be between 92% and 96%. We expect these results to improve in 2009, as the vast majority of leases and a loss position, under our RVI contract, expire by 2009's third quarter.

We project net written premiums to be down 10% to 13%, as we expect to further reduce our exposure to auto-related risk in 2009. We project a combined ratio between 83% and 87% for our California workers' comp business.

Despite the expansion of our excess workers' comp program and a 5% filed rate increase, we anticipate that net written premiums will be down about 10% to 13% this year, due to the economy.

Based on market conditions, we expect full year core pre-tax operating earnings in our annuity and supplemental insurance group to be 15% to 20% higher than 2008. This growth will be driven primarily by wider investment spreads on our fixed annuity business.

In today's economic environment, another important objective for us is to maintain at least $250 million in cash availability, to the parent company through the year-end, of that at least a $100 million of parent company cash on hand.
Now, we would like to open the lines for any questions. Thank you.

Question and Answer

Operator

Thank you. (Operator Instructions). Your first question comes from the line of John Wen with JDG Research (ph).

Unidentified Analyst

Good morning. Carl, one of your competitors in the work comp market in California, Zenith who I think you know and regard well, had a spike in both excellent calendar year results in the last quarter. Would you care to comment on the diversions of results of your Republic versus Zenith?

Carl H. Lindner III

I don't follow Zenith that closely. They're a good competitor. I respect Stanley and how he's run his business over a long time. I can speak to our business. In January, we've been -- we've said we've been more conservative probably in our reserving, probably than most as we kind of see how the order action years (ph) develop out with the effects of the reform legislation. I think that maybe the biggest differential between us and quite a few people within the industry.

We are also to emphasize more the small or medium sized accounts, not larger accounts which seemed to be -- attract more attention over time and that. We have an excellent claims group that know that environment well, and are very capable. I think those are probably the few things that might differentiate us from others.

Unidentified Analyst

Keith, your GAAP, P&L, OTTI charges, are your STAT P&L charges in that category roughly the same or significantly less?

Keith Jensen

They would be pretty similar, John.

Unidentified Analyst

Okay. And also Keith, I assume you have changed the crop quarter share?

Keith Jensen

We have on a go forward basis, what we have done John is we have maintained the existing quarter share which is a five-year deal and we've entered into an agreement where we have the option of ceding another 5 to 45% of the book. The profit share arrangements are similar, except when we go beyond a 20% underwriting margin then there is a sharing that has us share a 90-10 with us having 90% of the profit. Other than that it's similar to what we have had.

Unidentified Analyst

Okay. And the share is your trigger, not the -- not Munich?

Keith Jensen

No, it is our trigger into the share, and the other thing John we've extended the existing quarter share so that both of them will be co-termed as five years from now. So they are five year deal from this point forward.

Unidentified Analyst

Okay. Craig, Carl mentioned net investment income was also outstanding and obviously you all have much less alternative investment exposure than most of your peers, would you say that's the major reason that your investment income was up with such a -- very pleasant for the quarter?

Carl H. Lindner III

Certainly that was one of the reasons, John. We also moved out of some common stocks and we invested in the fixed income securities.

Unidentified Analyst

Okay.

Carl H. Lindner III

I mean frankly just the spreads on corporate bonds, high grade corporate bonds which is principally what we're buying today are very large, very wide.

Unidentified Analyst

Right. And Craig, in your annuity business we have been reading a lot about deferral through the market changes that have occurred. Have you seen any material impact on your operations or your penetration of school districts?

Carl H. Lindner III

Yeah, I mean, John I would say just in general the -- that market is pretty much in disarray right now. The school systems generally we're not ready for the implementation of the new regulations. We think that we're coming out just fine. We have a planned administration company that is able to give the school systems a lot of help in handling our new responsibilities and it's too early to know with certainty because there are some school districts that we lost or lot of new school systems that we gained. We think net-net that we have at least as big a market share as we did before. But the whole market is unsettled right now as people are trying to figure it how to comply with the new regulations.

Unidentified Analyst

And the status of the Ballack and Hartford (ph), is that in the play yet?

Carl H. Lindner III

Certainly, as it relates to different school systems choosing companies that they are they are allowing to sell products in their system, there has to be a consideration, if the company's reporting that numbers.

Unidentified Analyst

Okay. Well, thanks a lot. That's all I have.

Operator

Thank you. Your next question comes from the line of Adnan Alam with ADAR Investment (ph).

Unidentified Analyst

Hi, I had a question regarding your investment portfolio. Can you please, give us a little bit of color as to how you're marking it, and if the methodology has changed any?

Carl H. Lindner III

The methodology has not changed any. There is, if you think of it in terms of the levels that are disclosed publicly, level one which would be our marketable securities are traded and public exchanges are obviously using those exchanges for the vast majority of the portfolio. We use broker quotes, and at times we will obtained two or three quotes, then our investment professionals will review those to ensure that they are reasonable, in light of the circumstances that we're aware of. And then, about 5% of portfolios in the Level

3 category where we use models and other means of evaluating the securities, but there has been no change.

Unidentified Analyst

In Level 2 when you use quotes, are you using the bit or the midpoint?

Carl H. Lindner III

Usually the midpoint. Again, we don't take it without having some of the expertise that we have in-house looking at it, but generally it ends up being a midpoint type quote.

Unidentified Analyst

Okay, thanks a lot.

Carl H. Lindner III

You're welcome.

Operator

Your next question comes from the line of Amit Kumar with Fox-Pitt, Kelton.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Well thanks, and congrats on the quarter. Just quickly, I guess going back to the crop book, I might have missed this, did you separately breakout the premiums from the crop book?

Keith Jensen

No we did not; they are embedded in the property and transportation.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Approximately, what would that number be?

Keith Jensen

This past year it would have been about $1 billion gross.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

And in -- I'm sorry.

Keith Jensen

That it would have been -- I mean look I can look for that, did you have a follow-up while I'm looking.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Yes in terms of your crop book, is there any cotton in it or it mostly corn and soybean?

Keith Jensen

It's corn, soybean, so it would be the largest. The net MR would be 390.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Okay. That's helpful. I guess just moving on in terms of the guidance and obviously your guidance shifted from what it was previously, what would you say was the biggest component which changed compared to your prior guidance?

Keith Jensen

I think that the largest thing that happened is that we had the benefit of the results of the fourth quarter looking at the various businesses and as Carl said, some of the rate decreases we are starting to moderate and that was helpful to us as we looked at it and we also are very encouraged by what's going on in the annuity and supplemental business as we look forward.

Carl H. Lindner III

And investment income...

Keith Jensen

Correct.

Carl H. Lindner III

How we project investment income this next year.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Okay, and in terms of the annuity and supplemental business, can you talk about maybe some of the spread assumptions or maybe the new money rate? Just give us some more color on that.

Carl H. Lindner III

I can do that, sure. The new money rate really depends upon the product that we are selling. We try to match duration of assets and liabilities, but I can take a 10 year product to give you an example. We're assuming on 10 year product that we kind achieve a 620 reinvestment rate. And at that type of reinvestment rate we're generating a return in the mid teens after-tax.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Okay, that's helpful. And just two quick questions. And I'll re-queue, in terms of the MBS portfolio and you talked about the marks and there have been question on how the marks were set up, but do you have some sort of a guesstimate how much that mark would have moved if you looked at it as of today?

Keith Jensen

It would have improved a couple of points.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

Okay. And I guess final question and I will re-queue. The unrealized gains, has that number changed meaningfully in over Q4 or is it I think it was like $100 million or so?

Keith Jensen

Just to be clear, we do not do a detailed valuation of our real estate each quarter or in some cases each year. I think the $100 million, we felt good about that at the end of last quarter. There has undoubtedly been some change in the real estate markets. But I wouldn't say that it's dramatically different than what we had estimated previously.

Carl H. Lindner III

We certainly still have meaningful unstated value there, I would just say I wouldn't want to have to go sell those properties in this environment.

Amit Kumar
Fox-Pitt, Kelton Cochran Caronia Waller

That's okay, this very helpful. Thanks so much.

Operator

Thank you. (Operator Instructions). Your next question comes from the line of Peter Sue with Lincoln Square Capital (ph).

Unidentified Analyst

Yes, hey guys. I was just hoping that you can kind of quantify and also provide some color as for the nature of your professional liability exposure from last two (ph) years '07 and '08 and also if you could discuss where the loss ratios are tagged and how they've developed? Thanks.

Carl H. Lindner III

We probably don't give out that specific a data. We're with our D&O and we say professional liability, if you're talking about directors and officer's liability and those related products. We're pleased with the results in that business. When we look at our D&O book probably a $112 million of the $170 million or $180 million of the business or two-thirds is small accounts and Canadian related business, financial institutions are roughly 10% of the gross written premiums, policy count in that area is less than 1% of our D&O policy count.

We have very little hedge fund exposure. We probably have 850,000 of gross premium related to the hedge funds. So, in general we're pleased as far as claims related to the sub-prime crisis and that type of thing, Keith what -- how many claims do we have, seven suits maybe or two notice?

Keith Jensen

We've got... we have seven suits and if those went to fully net losses, it would be about $50 million, but we have no expectation and take of (ph) for limits. And one other thing Carl, I'd add in terms of the accident year, our accident year in '06 and '07 with D&O has been, it was 92 at the beginning when we first set them and that was going to improve since that time.

Carl H. Lindner III

As far as made of exposures to D&O, I think we have maybe one claim which is pretty minimal. And now we have probably five funds or funds managers, one primary and four excess so not a lot of underwriting exposure there in the D&O side.

Unidentified Analyst

Okay, that's very helpful. Thank you.

Operator

(Operator Instructions). At this time there are no further questions.

Keith Jensen

Alright, thank you very much. We appreciate you taking the time to join us today. We look forward to reporting to you at the end of the first quarter. Have a good day.

Operator
Thank you. This concludes today's American Financial Group '08 fourth quarter year end results conference call. You may now disconnect.