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Earnings Call

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Call Participants

EXECUTIVES

Brian Scott Hertzman
Senior VP & CFO

Carl Henry Lindner
Co-CEO & Director

Diane P. Weidner
Vice President of Investor & Media Relations

Stephen Craig Lindner
Co-CEO & Director

ANALYSTS

Andrew E. Andersen
Jefferies LLC, Research Division

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

Charles William Lederer
Citigroup Inc., Research Division

Jon Paul Newsome
Piper Sandler & Co., Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the 2024 Second Quarter American Financial Group Earnings Results Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Diane Weidner, Vice President of Investor Relations. Please go ahead.

Diane P. Weidner
Vice President of Investor & Media Relations

Thank you. Good morning. and welcome to American Financial Group's Second Quarter 2024 Earnings Results Conference Call. We released our 2024 second quarter results yesterday afternoon. Our press release, investor supplement and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call.

I'm joined this morning by Carl Lindner, III and Craig Lindner, Co-CEOs of American Financial Group; and Brian Hertzman, AFG's CFO. Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Some of the matters to be discussed today are forward-looking.

These forward-looking statements involve certain risks and uncertainties that could cause our actual results and/or financial condition to differ materially from these statements.

A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website. We may include references to core net operating earnings, a non-GAAP financial measure in our remarks or responses to questions. A reconciliation of net earnings to core net operating earnings is included in our earnings release.

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

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

Carl Henry Lindner
Co-CEO & Director

Well, good morning. I'll begin my remarks by sharing a few highlights of AFG's 2024 Second quarter, after which Craig and I will walk through some more details. We'll then open it up for Q&A, where Craig, Brian and I will respond to your questions.

I'm pleased to report an annualized second quarter core operating return on equity of 18.5%. Underwriting margins in our Specialty Property and Casualty insurance businesses were strong and higher rates increased Property and Casualty net investment income, excluding alternatives, by 15% year-over-year.

Growth in the quarter was impacted by a few things, including the timing of premium recognition in our crop business and some underwriting actions we've taken to proactively manage exposures in our most social inflation exposed businesses. I'll talk a little bit more about that later.

Our strong operating results, coupled with effective capital management and our entrepreneurial opportunistic culture and disciplined operating philosophy enable us to continue to create value for our shareholders. Craig and I thank God, our talented management team and our great employees for helping us to achieve these results.

I'll now turn the discussion over to Craig to walk us through some of the details.

Stephen Craig Lindner

Co-CEO & Director

Thank you, Carl. Please turn to Slides 3 and 4 for a summary of earnings information for the quarter. AFG reported core net operating earnings of $2.56 per share in the 2024 second quarter, meaningfully higher P&C underwriting profit and higher P&C investment income, excluding alternative investments, were partially offset by lower returns in AFG's alternative investment portfolio when compared to the prior year period.

Now I'd like to turn to an overview of AFG's investment performance and financial position and share a few comments about AFG's capital and liquidity. The details surrounding our $15.3 billion investment portfolio are presented on Slides 5 and 6.

Looking at results for the second quarter, Property and Casualty net investment income was approximately 1% lower than the comparable 2023 period excluding the impact of alternative investments, net investment income and our P&C insurance operations for the three months ended June 30, 2024 increased 15% year-over-year as a result of higher interest rates and higher balances of invested assets.

As you will see on Slide 6, approximately 67% of our portfolio is invested in fixed maturities. In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 5.5%.

Currently, investment rates compare favorably to the 5% yield earned on fixed maturities and our P&C portfolio during the second quarter of 2024. The duration of our P&C fixed maturity portfolio, including cash and cash equivalents, was 2.9 years at June 30, 2024.

The annualized return on alternative investments in our P&C portfolio was approximately 5.1% for the 2024 second quarter compared to 9.6% for the prior year quarter. Within our alternative investment portfolio, both our traditional private equity investments and multifamily related investments produced mid-single-digit annualized returns for the quarter.

Longer term, we continue to remain optimistic regarding the prospects of attractive returns from our alternative investment portfolio with an expectation of annual returns averaging 10% or better. The average annual return on our alternative investments over the five calendar years ended December 31, 2023, was approximately 13%.

Please turn to Slide 7, where you'll find a summary of AFG's financial position at June 30, 2024. During the quarter, we returned $59 million to our shareholders through the payment of our regular $0.71 per share quarterly dividend. We expect our operations to continue to generate significant excess capital throughout the remainder of 2024 which provides ample opportunity for special dividends or share repurchases over the next year.

We continue to view total value creation as measured by growth in book value plus dividends is an important measure of performance over the long term. For the six months ended June 30, 2024, AFG's growth in book value per share, excluding AOCI plus dividends was approximately 10%.

I'll now turn the call back over to Carl to discuss the results of our P&C operations.

Carl Henry Lindner
Co-CEO & Director

Thank you, Craig. Before we discuss Property & Casualty Group results, I wanted to briefly cover the CrowdStrike event from a few weeks ago. We believe we have minimal loss exposure to claims related to the widespread systems outage and I'm pleased to report that our own business operations experienced very little disruption.

Turning our discussion to the quarter. I'll be referring to Slides 8 and 9 of the webcast, which include an overview of our second quarter results. As you'll see on Slide 8, our Specialty Property and Casualty insurance businesses generated a strong 90.5% combined ratio in the second quarter of 2024, an improvement of 1.4 points from what we reported in the second quarter of '23. Results for the 2024 second quarter include 2.3 points of catastrophe losses compared to 3.5 points in the 2023 second quarter.

Results in the second quarter benefited from 2.3 points of favorable prior year reserve development compared to 4 points in the second quarter of '23.

We continue to feel good about the strength of our reserves and are especially pleased to see favorable prior year development from our commercial property, agricultural, executive liability, workers' comp and other businesses, which more than offset some adverse development in selected casualty businesses.

Second quarter 2024 gross and net written premiums were up 2% and 1%, respectively, when compared to the same period in 2023. We continue to achieve year-over-year premium growth as a result of a combination of new business opportunities, increased exposures and a good renewal rate environment.

This growth was partially offset by the timing of later reporting of crop acreage, which affects premium recognition and to a lesser extent, a proactive approach to managing exposures in our social inflation exposed businesses. Taking these factors and seasonality into consideration, we expect growth in net written premiums to be a healthy 7% for the full year 2024.

Average renewal pricing across our Property and Casualty Group, excluding our workers' comp business was up 8% for the quarter. Including workers' comp, renewal rates were up 6% overall. Both measures are in line with the previous quarter.

We've reported overall renewal rate increases for 32 consecutive quarters, and we believe we're achieving overall renewal rate increases in excess of prospective loss ratio trends to meet or exceed targeted returns.

Now I'd like to turn to Slide 9 to review a few highlights from each of our Specialty Property and Casualty business group. Details are included in our earnings release so I'll focus on summary results here. The businesses in the Property and Transportation Group achieved a 92.9% calendar year combined ratio overall in the second quarter of 2024, an improvement of 1.3 points from the 94.2% reported in the comparable 2023 period.

Second quarter 2024 gross and net written premiums in this group were both 2% higher than the comparable prior year period. Year-over-year premium growth was primarily attributed to new business opportunities, a favorable rate environment and increased exposures in our commercial auto businesses.

Later reporting of crop acreage, which impacts the timing of crop premiums more than offset additional crop premium associated with the CRS acquisition. This timing difference more pronounced because we experienced the opposite scenario in the second quarter of 2023.

The acreage reporting was early last year. This timing difference will reverse in the third quarter. Excluding crop, gross and net written premiums in this group grew by 7% and 5%, respectively. At this point, in the growing season, we're optimistic about the crop year.

The drought monitor continues to be significantly better than the prior two years in those growing regions of the country. And while we have some areas of the country that could use more moisture, we don't have any current concerns about widespread drought affecting our crop results this year. Actually, Hurricane Beryl pushed moisture up to the Midwest providing some relief to crops that were experiencing significant heat.

While current commodity price future's pricing is lower than spring discovery prices, it remains within acceptable ranges. Overall rates in this group increased 8% on average in the second quarter of 2024, about 1 point lower than the pricing achieved in the group for the first quarter of this year.

I'm particularly pleased with the renewal rates achieved in our commercial auto liability line of business where rates were up 16% in the second quarter. This follows a 21% increase in the first quarter, demonstrating our commitment to achieving rate adequacy and underwriting profits in this line of business. This is our 12th year of rate increases in this line.

Now the businesses in our Specialty Casualty Group achieved an excellent 85.4% calendar year combined ratio in the second quarter of 2024, an improvement of 1.2 points from a very strong 86.6% reported in the comparable period in 2023.

I'm especially pleased with the continued strength of our underwriting margins produced by our excess and surplus lines business as well as those within our executive liability and workers' compensation operations. Second quarter 2024 gross and net written premiums increased 1% and 2%, respectively when compared to the same prior year period.

Approximately 2/3 of the businesses in this group reported year-over-year growth as a result of new business opportunities, higher rates and strong policy retention. The growth in this group was partially offset by a planned measure of caution around some of our social inflation exposed businesses, which reduces the impact of significant rate increases on overall premium growth.

For example, we non-renewed several large housing accounts in our social services business, where we had poor loss experience. In our public entity business, we non-renewed or reduced capacity in several programs and have generally increased the retention required for insureds.

We also chose to see more business in our excess liability business through the use of facultative reinsurance placements. Although these activities tempered growth, we believe these to be prudent underwriting actions.

Excluding our Workers' Compensation businesses, renewal rates for this group were up approximately 7% in the second quarter, about 1 point lower than the first quarter. Overall renewal rates in this group including workers' comp were up about 5%, consistent with the first quarter of this year.

I'm pleased that we continue to achieve renewal rate increases in excess of 10% during the quarter and several of those social inflation exposed businesses that I mentioned, including our public entity, social services and excess liability businesses.

Specialty Financial Group continued to achieve excellent underwriting margins and reported an 89.7% combined ratio for the second quarter of 2024, an improvement of 5.3 points from the comparable period in 2023.

Second quarter 2024 gross written premiums were flat. Net written premiums were up 3% in this group, respectively, when compared to the prior year period. Growth in our financial institutions business was partially offset by the decision to pause writing of new intellectual property-related coverage in our innovative markets business.

Renewal pricing in this group was up approximately 6% for the quarter, about 1 point lower than the previous quarter. Our Specialty other group, although small, includes our internal reinsurance facility that we typically don't discuss on our earnings calls as it is small.

Over the many years, this group has enabled us to corporately keep more net in certain historically profitable specialty businesses when those individual business unit leaders opt to cede more of their business. Over time, this has been a successful strategy for us.

More recently, we've recorded some adverse development here that would have been otherwise attributed to our other business units, most notably those in our Specialty Casualty Group had they retained that risk.

Of course, these results are also included in our overall second quarter of 90.5% Specialty Group combined ratio. For perspective, however, if the results for our internal reinsurance facility were simply pushed into the Specialty Casualty results in the second quarter of this year, that group's calendar year combined ratio would still be under 90%.

Craig and I are pleased to report these strong results for the second quarter, and we're proud of our proven track record of long-term value creation. Our insurance professionals have exercised their specialty P&C knowledge and experience to skillfully navigate the marketplace.

And our in-house investment team has been both strategic and opportunistic in the management of our $15 billion investment portfolio. We're well positioned to continue to build long-term value for our shareholders for the remainder of this year and beyond.

We'll now open the lines for Q&A on today's call. And Craig, Brian and I would be happy to respond to any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Michael Zaremski of BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

First question, I guess it's kind of high level unless you want to unpack any more details. But clearly, results overall excellent. But as an analyst trying to sometimes be focused a little bit on some of the negative items or less good items. So in terms of the pulling back in certain lines of business, especially the social inflationary lines, I guess what's changed versus a quarter or two ago that's causing the pull back?

And I guess then if you continue to see loss, prices in excess of loss trend, but now you're pulling back. Does that mean that there are certain lines where there's either more uncertainty in loss trend or maybe right pricing just isn't meeting loss trend in certain social inflationary lines?

Carl Henry Lindner
Co-CEO & Director

Yes. I think it's some of all of the above that you mentioned. Again, we fastidiously do quarter-by-quarter reviews, actuarial of all of our businesses and that. And we're continually adjusting our quarterly loss ratio trends according to what we're seeing. And over the past couple of years or even longer in lines like commercial liability clearly, the loss ratio trends have moved upward.

I do think in certain businesses, I like the rate that we're getting, particularly the double-digit rate that we're getting in a lot of the social exposed lines. But yes, I think there are accounts that had, at no matter what price or terms or at what price or terms, the given market will accept. Our appetite may be less aggressive than other of our competitors.

I do think that there is a -- that may be part of the reason, though, over time, we really have some of the best underwriting results and returns over, as you've seen, a sheet that we've had in our deck from time to time over 1-year, 5-year, 10-year and 15-year period of time. So I think there's a reason for that. Where we see that we need to make adjustments in our appetite and in a given line or given areas of our business, we're going to do that.

Michael David Zaremski
BMO Capital Markets Equity Research

And you might have said this, just -- commercial auto pricing had really accelerated in recent quarters to pretty high levels. Could you give us an update on kind of how that's trending currently in the portfolio?

Carl Henry Lindner
Co-CEO & Director

Sure. I think I just mentioned in the script that in the quarter, commercial auto liability increases were about 16% on top of 21%. In our case, when we look at year-to-date, our overall commercial auto results in that, we're kind of breakeven to a small underwriting profit overall. It's a commercial auto liability line that has a small underwriting loss in that.

So we're particularly focused with workers' comp with National Interstate, the business is really good, really solid underwriting profit. We're focused on the commercial auto liability are part of the business where the loss ratio trends are higher. I think for that reason, that's why we're getting double-digit plus price increase. And I think we're also looking to make other underwriting adjustments over time.

We're serious about wanting to improve our commercial auto and in particular, our commercial auto liability results. Now at a small underwriting profit breakeven, we have a solid return on equity in that business. And with the workers' comp in the transportation business, we're making a very good return.

I think our results are probably 5 or 6 points better is what our guys would tell me than the industry. But we're an underwriting-focused company, and we'd like to see the commercial auto liability and the overall commercial auto at more of a solid underwriting profit in that. Does that help?

Michael David Zaremski
BMO Capital Markets Equity Research

Yes, that helps. And just lastly, if there were material crop reserve releases -- we heard your commentary, we can see the data on the prospectively crop returns back on wood, looking good. But if there were a material amount of crop reserve releases this quarter, is that unusual in terms of seasonality? And so what is the seasonality on crop, if you can remind us, releases and what happened?

Carl Henry Lindner
Co-CEO & Director

Yes. Brian can add some color on that, and I can add additional color on crop here in a minute also.

Brian Scott Hertzman
Senior VP & CFO

Sure. So on the profit margins for crop, we tend to book the profit in that business when the crops come out of the ground and for the corn and soybeans, the main products that's sort of at the end of the year. So when we're booking our crop profit, it tends to be heavily weighted into the fourth quarter.

But there's still a lot of crop business to be settled after that. So we typically have a significant amount of reserves still up at the end of the year. And because we're conservative in our booking that has tended to lead to some favorable development in the first quarter of the subsequent year. And then sometimes with some of the products like area coverages and things like that, some of that takes a little bit longer to settle.

So there can be some favorable or adverse development in the second quarter of the year, this kind of the final settlements from the prior crop year. In this particular case, that was a little bit higher level of favorable development this year than last year. So when we talk about favorable development in the Property and Transportation Group, a good chunk of that's coming off of crop, and it's a little bit more than it would have been in the typical second quarter.

Carl Henry Lindner
Co-CEO & Director

Yes. I'll maybe add a little bit more color on crop overall. When you look at the corn and soybean good and excellent percentages, they're much higher as of the latest USDA report August 4 and what they were last year. As far as the current commodity prices, I was just looking this morning corn's down 13.6%, soybeans, 11.7%.

And that's weighed against an average deductible excluding rainfall on our business of around 23%. So we don't have a tendency to get too concerned until you start seeing price declines of closer to 20% or so as it would impact on your losses in that.

I think additional positive things at this point is winter wheat, which is I think maybe 8% or 9% of our business is in much better results this year, I think, than the prior year, the same thing with rainfall.

And somebody was asking me today -- I think my brother, Craig, was asking me about Hurricane Debby, and how much that might impact on us. We think it's probably a nonevent as far as the crop business and one particular reason is we do write rainfall in Florida. So that actually offsets any exposure that comes out of Debby. We don't have -- we have a very -- almost an insignificant amount of our premiums come from the Debby affected area in that.

So a little bit additional color there. Overall, again, I think we're very optimistic about the crop year.

Operator

Our next question comes from the line of Gregory Peters of Raymond James.

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

So in your -- one of your previous answers, you spoke of the favorable development in the Property and Transportation component. And I think you called out the crop impact there. I'm wondering if you could provide any color to the moving pieces of favorable development in either the casualty business or the specialty finance business?

Brian Scott Hertzman
Senior VP & CFO

Sure, Greg. This is Brian. So in the Casualty group, we do have net favorable development overall. And what we have going on there, there are things going in both directions. The workers' comp business, which has historically been a source available, development for us continue to be favorable -- a similar amount of favorable development relative to recent quarters.

The second quarter of 2023, we had a little bit less favorable development than we had kind of in the typical quarter, but this quarter was a fairly normal quarter there. There are other areas of favorable development, as Carl mentioned, in things like executive liability in some other areas. But offsetting that is a modest amount of adverse development in different business units.

We particularly mentioned an excess liability business, and that really is -- because that's the only line of business that had any kind of sort of larger amount of adverse development. But even that wasn't a material amount overall.

So it's not that we have huge takedowns out of the normal course in workers' comp offsetting other things, it's just there were small blips in a couple of business units across a couple of accident years in the social inflation exposed businesses there.

So overall, we feel really good about where our reserves are and are pleased that we have a favorable development overall in that category.

In the Financial segment, there were ins and outs, but nothing individually material there. So we had some favorable development in some lines, some adverse and others, and they just net it down to a very small amount, but none of those are large amounts going in either direction.

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

And then just maybe a step back on the Specialty Financial segment. Gosh, it's been producing pretty stable results and excellent results for an extended period of time. Just curious when you go through planning, what does a bad year in Specialty Financial look like for you guys? Because I'm not sure we've really had it. And what kind of loss events should we be on the lookout for that might trigger a less than desirable result inside Specialty Financial?

Carl Henry Lindner
Co-CEO & Director

Well, obviously, a major hurricane would cause a year not to be as good. But one way we do business in FIS and our lender-placed property business is a little different than maybe Assurant or some others in that. With our producers, we have a sliding scale kind of a commission type of agreements where to a certain extent, if the loss ratio is worse in a given year, some of the ceding commission goes down.

Conversely, if it's really great results, the ceding commission goes up. That's why -- I think Brian's pointed out in different years, there can be an aberration in our expense ratio tied to the way that we do business and lender-placed property.

We kind of like that approach because it helps to limit -- it helps to soften your downside when you have a kind of larger event years in that. So I think that would be the main thing that would be a driver there on Specialty Financial because of the size of the lender-placed property business. That business today will be $600 million plus in gross written premium.

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

Maybe building on just my last question would be, Carl, I believe in your comments, you mentioned inside the casualty business, the use of some facultative reinsurance and certain circumstances. Maybe you could, to the extent you're willing, provide us a little more information about what's going on with that decision.

And maybe from a different view, what was the pricing like obviously, is favorable, I guess, for you to utilize the product, but maybe you can just talk about the decision behind that and where it was used.

Carl Henry Lindner
Co-CEO & Director

Yes. Well, first of all, overall, on pricing on our -- I think you're kind of asking me to address kind of the excess liability part of our business, I think. When you look at -- we have a couple of businesses that are major riders of that. Happy that we're seeing double-digit price increase in both of our large businesses in that.

We have -- one of the businesses, in particular, has a bigger emphasis on Fortune 500, Fortune 1000 type of business. That's the business that we've seen more unfavorable loss reserve development. But in both businesses, and in that business, we'd be using more facultative reinsurance, maybe on certain risks if we want to downsize our exposure, risk by risk, depending on the risk profile. I think that's what the strategy is.

Obviously, we, along with other carriers have also been moving up the tower to potentially move farther away from risk, particularly that have heavy commercial auto liability exposures. So those would be a few examples of the kind of things that we're doing in excess liability, obviously, besides price and that.

Operator

Our next question comes from the line of Charlie Lederer of Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

The improvement in the Specialty Casualty, current accident year loss ratio, ex-cat accelerated in the quarter, can you talk about what drove that, whether it's changes to prospective loss trends or if it's due to some of the underwriting actions you've taken?

Brian Scott Hertzman
Senior VP & CFO

Sure, Charlie. This is Brian. The biggest driver of the improvement in the accident year loss ratio ex-cat for casualty is coming out of our targeted markets businesses.

So not only have we been getting good rate increases there and taking underwriting actions in areas like our Specialty Human Services business that we talked about last quarter or our public entity business that we talked about last year, where we've been making some decisions on pricing as well as, for example, in the public entity business, looking at the insured retentions, so they were writing coverage over pooled retentions. And we've been requiring higher retention by insurance, all of that's leading to improved profitability in our targeted markets business.

Offsetting that a little bit is in our workers' comp, we are being cautious in our accident year picks there. As you know there, a portion of our business is in Florida, where there have been rate decreases as well as we're just being cautious on costs -- going forward on medical costs. So the big driver of the improvement there really is, I would say, is the underwriting actions and pricing in the targeted markets.

Charles William Lederer
Citigroup Inc., Research Division

I guess on the top line headwinds in Specialty Financial, can you help us kind of think about, I guess, the runway for that? The pause you mentioned in the innovative markets business, how long do you see that playing out? And how big of a headwind that is still over the next 2 or 3 quarters?

Brian Scott Hertzman
Senior VP & CFO

Sure. So there's a few things going on in financial. The first thing that I'll remind you of is the biggest business in there is our financial institutions business with a lender-placed insurance is. And that's a business that really started growing significantly in the second quarter of last year, and that continued on to where now it's more leveled off. So in the second half of the year, there, we kind of think things will be -- not as much growth coming out of FIS just because we had the growth last year, and it's more of maintaining it there.

And the innovative markets business that we mentioned in the past, and that's been a small business for us. We -- in our innovative markets business, we write a number of different coverages and not only the IP-related coverages, but also unemployment risk as well as some environmental-related compensatory mitigation products, where we paused in the new IP risk, that's two products really a patent infringement, defense expense product as well as an intellectual property title protection products.

They're not real big businesses. But when you sort of look at on the financial institutions business that growth there is kind of already happened that with the intellectual property-related coverages on pause, that kind of makes it flat for that segment.

Charles William Lederer
Citigroup Inc., Research Division

I guess -- so in your -- in the like the great American Insurance statutory statements, we kind of -- there's a separate line for collateral protection. Is that -- I guess, what businesses are in that? Is that just the IP business? Or is that also the patent infringement business? Just curious, I guess.

Brian Scott Hertzman
Senior VP & CFO

We probably have to look at that to figure out all that rolls up in there to make sure that we give you the right answer. But maybe Diane can follow up with you on that later.

Charles William Lederer
Citigroup Inc., Research Division

Just lastly, I guess, can you just talk about how you're feeling about, I guess, the cat exposure in the lender-placed business heading into kind of peak wind season?

Carl Henry Lindner
Co-CEO & Director

We not only manage our lender-placed property business, but our exposure is overall through our modeling [indiscernible]. And we still have -- when you look at our 1 in 250 and 1 in 500-year projected average kind of hurricane exposures, Brian or Diane today, I mean those would be roughly, what, 2 points and 4 points?

Brian Scott Hertzman
Senior VP & CFO

Yes. Yes, even at 1 in 500-year event, it looks like about 4% of shareholders' equity. So not something that's going to be overly material at AFG, should that happen.

Carl Henry Lindner
Co-CEO & Director

That said, in our lender-placed property business, we just don't lollygag around and the risk that we pick. We continue with our less desire to have coastal exposure relative to others. We try to pick accounts that would have a lower Florida, lower, Southeast Coast or Texas exposure generally over time.

We like our profile of our business to be lower than what the industry generally is from a cat exposure. But as that business has grown tremendously over the past 18 months, clearly, it added to our exposures. We still feel comfortable with the cat cover and the cat bond that we have in place. And -- at $70 million of reasonable retention for the risk that we write.

Operator

Our next question comes from the line of Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I was hoping to ask a couple of maybe bigger picture questions. One of your peers talked a little bit -- a couple of your peers talked about the challenge of talent and expanding into new segments in the specialty commercial world and that perhaps it's gotten a little bit more competitive. Is that your perspective? Or do you have any thoughts on sort of the challenges of new talent?

Carl Henry Lindner
Co-CEO & Director

I guess, first of all, from a macro standpoint, our turnover overall as a company would be much lower than our peers and others in general. That said, I think it -- to attract and keep good people, I think, is a continual challenge, both in providing the right compensation packages within our industry in that.

I think we've had a number of our 35 business units at one time or another over the past couple of years where we've lost some key personnel. But nothing that we couldn't handle. As a company for 20, 25 years or so, we not only do business reviews of every one of our businesses, strategically every couple of years, we do people development reviews every year of all of our businesses.

And we have -- we're very fastidious about developing very specific succession plans for each of those 35 businesses with fairly detailed -- laying out fairly detailed ideas of how -- what each of the potential successors, what they need to do to develop into being the lead person in those businesses. So I think one thing that's helped us is that succession planning that we do that could be a little bit different and more intensive than some of our peers.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then another bigger picture question. Maybe an update on capital management thoughts and Special dividends versus buybacks versus M&A and where you sit and think the most likely use of your future cash flow will go.

Stephen Craig Lindner
Co-CEO & Director

Sure. Paul, this is Craig. As Carl stated in the past, there's always a flow of M&A deals that our group is looking at. And as we said, we're pretty selective. We expect that the right return is not just a deal that is accretive, which is very easy to do with interest rates where they are today, but you're constantly looking at potential acquisitions.

As you know, we have a significant amount of excess capital today that is expected to build through the balance of the year. And consistent with what we've said in the past, we're always looking at possibility of share repurchases and add additional special dividends. I probably want to get a little further along in the hurricane season and before we make final decisions on that. But those are two things that we're certainly considering.

Operator

Our next question comes from the line of Andrew Andersen of Jefferies.

Andrew E. Andersen
Jefferies LLC, Research Division

You had mentioned some adverse development on excess liability. Could you talk about what accident years that was from and maybe size the magnitude there?

Brian Scott Hertzman
Senior VP & CFO

So it's small amounts over multiple accident years. So it covers a little bit from '19 to '23, so a little bit in several of those years. It's not a huge amount overall. It's just the largest individual line of business that had some -- any adverse development at all. So it's not a real big dollar amount. It was spread across multiple accident years.

Andrew E. Andersen
Jefferies LLC, Research Division

And on the IP collateral protection product, can you talk about the frequency trends that you're seeing there? And I guess, is that in reaction to increased default rates that some peers have been talking about, and if so, has there been any impact on the underlying margins or reserves?

Brian Scott Hertzman
Senior VP & CFO

So it's a very small business for us with a limited amount of exposure. We're reacting to what we're seeing in our individual products. So we're not able to comment on competitors' products or their experiences, but the losses do occur in that business if there is a default on the loan as well as a decline in the value of the collateral, who wouldn't cover the loan.

We're reacting to the information that we have available at the time. We have strengthened reserves in that area in the first six months of this year. We're monitoring it closely, but this is not a real big business for us.

Operator

Our next question comes from the line of Meyer Shields of Keefe, Bruyette, & Woods.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

A couple of small questions first. Within the current level of rate increases and loss trend in commercial auto, when do you think you'll be at target margins for commercial and reliability?

Carl Henry Lindner
Co-CEO & Director

That's a good question, considering we're in our tenth or 12th year of taking rate, I would have thought that we would have been at the right margins now. But with the perspective of loss ratio trends for everyone that have kind of gone up with it's -- we're continuing to even maintain adequate and good solid returns.

We're having to take double-digit rate in commercial auto liability over many years so far. So I wish I had a specific answer there for you. I'm -- we're doing everything we can, both price and underwriting action wise to drive towards an underwriting profit. I'm hopeful that over the next 12 months that we'll see some positive improvement.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

The press release mentioned improved workers' compensation profitability year-over-year. Last year, obviously, there was sort of an accident year true-up and adjusted approach to reserve development. Was there any other issue translating into better profitability this year than last year in workers' comp?

Brian Scott Hertzman
Senior VP & CFO

No, not really. Last year, in the second quarter, we just experienced a lower level of favorable development than we did this year in the second quarter. So the second quarter this year was more of a -- it was more consistent with what's been happening in recent quarters. It's just the second quarter of last year, it was a lower level of favorable development. So overall, workers' comp profitability is better this year than last year because of that.

Carl Henry Lindner
Co-CEO & Director

Yes. As far as our overall workers' comp results for second quarter and 6 months, they're excellent. We still think the '24 accident year combined ratio will be higher than last year, but still at a solid underwriting profit. And still pleased, even with a 15% rate decline there in Florida.

I think Summit's overall prices are down maybe 13% through 6 months. But we're still projecting, even with that rate decline in Florida, I saw an accident underwriting profit this year. So I think that's a positive.

And the comp business at National Interstate and strategic comp. The other large businesses continue to have good calendar and accident year underwriting results through the first 6 months. our California comp business is the only one that has an underwriting loss through 6 months. And we are seeing some -- actually, I think there was a 3% price increase that we got in our book in California through the first 6 months, which was a positive. And we're getting some price increase on strategic comp business.

So overall, continue to be very pleased with the excellent results and premiums are pretty flat with the -- an overall price decline, I think within our comp business of about 3% in that. So all in all, in a very competitive business. Very happy with our workers' comp, continue to be very happy with the workers' comp results. And yes, overall prospective loss ratio trends continue to be very favorable.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

And then final question, you talked about the, I guess, the late acreage report. Given the seasonality of earned premiums for crop, did that have a significant impact on the earned side of things? I understand that written premium was delayed.

Brian Scott Hertzman
Senior VP & CFO

It should not affect the earning of the premium. So we earn the premium in the crop business starting the growing season. So what you'll find is with our biggest products being the corn and soybeans and most of the earned premium is in the third quarter and that will be consistent. So it's just -- July is the -- it's just the timing, almost like a flip from June to July on the corn and soybean premium reporting, so it won't affect the earn.

Operator

[Operator Instructions] Our next question comes from the line of Bob Farnam of Janney Montgomery Scott.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

I had a question on the excess and surplus lines market. Just -- I'm trying to get an idea for the submission flow today and how the competitive environment is in that market today relative to maybe where it has been in the past few years?

Carl Henry Lindner
Co-CEO & Director

I think some submission flow for us has been pretty consistent with what it has been over the past 12 months.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

So no encroachment yet from the admitted market that you're seeing anything of note?

Carl Henry Lindner
Co-CEO & Director

No, I don't think we're seeing any migration back to the admitted market in that. Again, we're not as aggressive on coastal property as a lot of our competitors are in the E&S side. And that, I think some of the strong submission increases that are getting reported are tied to both California, Florida, maybe even Texas property kinds of submissions in that.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

And just one quick question on continuing on workers' comp. So it sounds like you're being conservative with your medical inflation expectations. But have you actually seen any change in medical inflation at this point? Just trying to have an idea of maybe kind of what you're seeing relative to the broader medical indices.

Carl Henry Lindner
Co-CEO & Director

Not really at this point.

Operator

Our next question comes from the line of Charlie Lederer of Citigroup.

Charles William Lederer
Citigroup Inc., Research Division

Just a couple for Craig. I guess, your use of buybacks is really kind of -- I don't think you've done any this year, so it slowed a little bit. I guess, can you just talk about the reason for that just given attractive valuation?

Stephen Craig Lindner
Co-CEO & Director

Yes, Charlie. What I would say to you is if you look at our long-term record of repurchases, I think we've kind of picked some -- like our timing has been pretty good. There have been periods when the market was soft, where we were trading at a significant discount to what we thought was the underlying value where we repurchased a very large number of shares. It is something that we're constantly looking at. We do think that our stock today is trying to get a discount to peers. So -- I mean, repurchases are something that we're taking a look at.

Charles William Lederer
Citigroup Inc., Research Division

And then I guess my other question was just on the [indiscernible] portfolio. I don't think you mentioned if the 6% guide for the year is still how you're thinking about it. I know you said 10% is kind of the longer-term expectation. But I guess, can you just update us on the outlook for the multifamily real estate.

Stephen Craig Lindner
Co-CEO & Director

Sure. I mean what I would say to you is in the first 6 months of the year, we generated a 7% return. The guidance -- we didn't give guidance, but what we put into our plan, the assumption we put into our plan was a 6% return for the year. So for the first 6 months, we outperformed by a small amount.

The multifamily piece, what -- let me talk about at least my perspective of multifamily. The operations in multifamily are doing fine, even though we do have a lot of new supply in several of our markets. We're in markets with very strong population growth, very strong job growth, and that's where a lot of the new building has taken place.

It's probably going to take another 12 months or so for that new supply to get absorbed. But even with the new supply, the -- our underlying properties are doing just fine. We're projecting that the operating income for the group of properties for the year will be flattish, give or take a little bit.

The negative marks that we incurred earlier in the year or really interest rate related as opposed to deterioration of the operations. We don't do the marks, our general partners do the marks but you would think with the decline in interest rates that the -- certainly, the bulk of any interest-related changes should be behind us.

We're very optimistic about the longer-term prospects. There's still a shortage of housing, still a very high cost of home ownership. And so we're very optimistic about the long-term prospects of our multifamily portfolio.

Operator

Our next question comes from the line of Michael Zaremski of BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

A quick follow-up to -- for Craig. Just curious, I think there's the understanding that you all have been great investors in the real estate side. Just curious if you've ever sized up or willing to share what you think kind of the mark-to-market gains are in your real estate portfolio that aren't reflected kind of in your -- versus your carrying value, if that's something you're willing to share?

Stephen Craig Lindner
Co-CEO & Director

I could give you the marks on multifamily for the year, if that's helpful. As I said, the negative marks that we have incurred this year are not related to deterioration of the operations. It's related to higher interest rates, which resulted in higher cap rates. That has reversed here recently. But to size things for you in the first quarter, we incurred mark-to-market losses of around $22 million pretax. In the second quarter, it was around $2 million large pretax, so $24 million year-to-date.

Michael David Zaremski
BMO Capital Markets Equity Research

And there wouldn't be any -- I'm just curious, some of your peers who have also been opportunistic in real estate have sold properties that they partially or fully owned and realized some very large gains that weren't marked on the balance sheet. So you're -- my question is more on that, you don't think that's reflective of some assets in your portfolio that are marked at much lower values than what their mark-to-market appraisal values might be today if they were sold?

Stephen Craig Lindner
Co-CEO & Director

So what I would say to you is our multifamily properties are owned in partnerships. We have general partners, and they're doing a regular review of the value of the property. So those are mark-to-market on a regular basis. We do have several other real estate properties. The large ones are the Charleston Harbor Resort in Marina. And then we have a major marina right outside of Palm Beach by the name of Sailfish Marina. We believe that those are on our books for significantly less than the current market value.

Operator

I'm showing no further questions at this time. I would now like to turn it back to Diane Weidner for closing remarks.

Diane P. Weidner
Vice President of Investor & Media Relations

Thank you all for joining us this morning and for the opportunity to share a little bit more about our story for the second quarter. We look forward to talking with all of you next quarter. Have a great day.

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