S&P Global
Market Intelligence

American Financial Group, Inc. NYSE:AFG

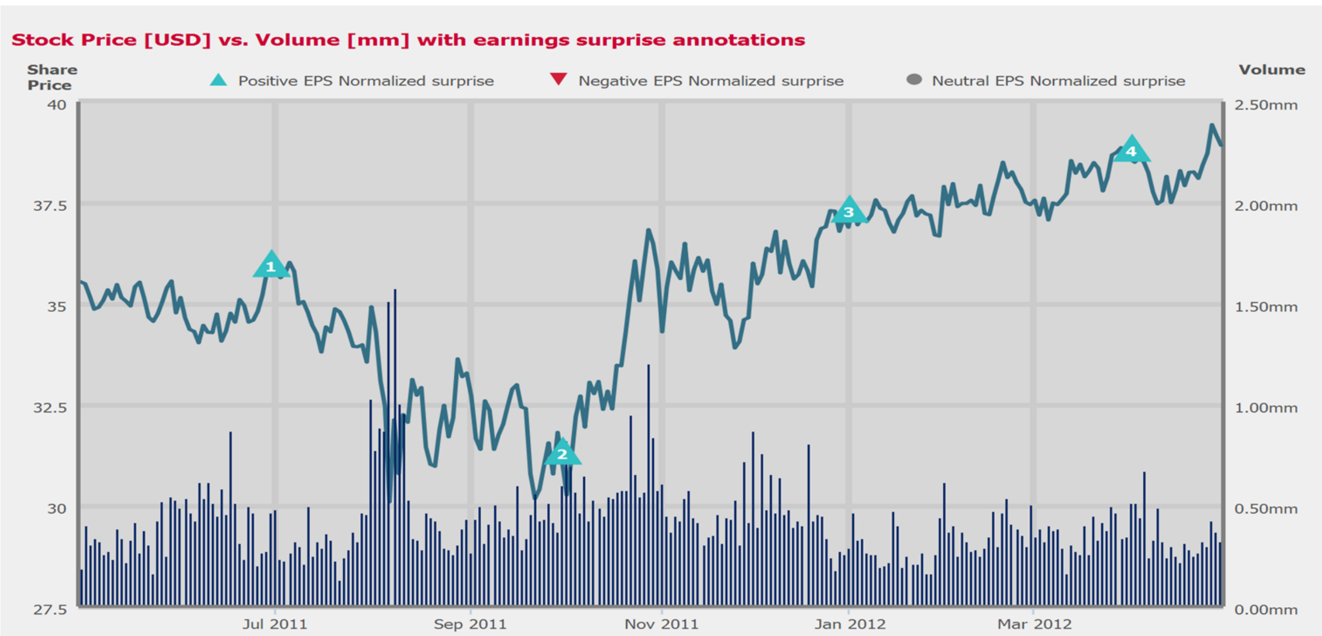
FQ2 2012 Earnings Call Transcripts

Tuesday, July 31, 2012 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	0.91	▲15.19	0.66	3.30	3.75
Revenue (mm)	701.90	640.00	▲(8.82 %)	725.75	2728.35	2914.55

Currency: USD
Consensus as of Jul-31-2012 3:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	0.56	0.78	▲1 39.29 %
FQ3 2011	0.82	0.90	▲2 9.76 %
FQ4 2011	0.94	1.06	▲3 12.77 %
FQ1 2012	0.78	0.86	▲4 10.26 %

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Call Participants

EXECUTIVES

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

Craig Lindner
Former Co-President and Director

Keith Alan Jensen
Former Senior VP & CFO

ANALYSTS

Amit Kumar
Macquarie Research

Gabe Schwab

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Ronald David Bobman
Capital Returns Management, LLC

Ryan J. Byrnes
Langen McAlenney

Presentation

Operator

Good morning. My name is Tina and I will be your conference operator today. At this time I would like to welcome everyone to the American Financial Group's 2012 Second Quarter Earnings 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) Thank you.

Mr. Jensen, you may begin your conference.

Keith Alan Jensen
Former Senior VP & CFO

Good morning. Thank you and welcome to American Financial Group's second quarter 2012 earnings results conference call. I'm joined this morning by Carl Lindner III and Craig Lindner, co-CEOs of American Financial Group. If you are viewing the webcast from our website, follow along with our slide presentation if you'd like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements and are based on estimates, assumptions and projections which management believes are reasonable, but by their nature subject to risks and uncertainties.

Factors which could cause actual results and/or financial conditions to differ materially from those suggested by such forward-looking statements include, but are not limited to those discussed or identified from time to time in AFG's filings with the Securities and Exchange Commission, including the annual report on Form 10-K and quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements or to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operation earnings is a non-GAAP financial measure, which sets aside significant items that are generally not considered to be part of ongoing operations, such as net realized gain or loss on investments, and the usual unlocking charges, effect of certain accounting changes, discontinued operations, special 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 ongoing operation 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 to discuss our results.

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

Good morning. And thank you for joining us. We released our 2012 second quarter results yesterday afternoon and are pleased with another quarter of strong operating earnings in our Specialty, Property and Casualty and annuity and supplemental businesses. I am assuming that the participants on today's call reviewed our earnings release and supplemental materials posted on the website. I'm going to review a few highlights and focus today's discussion on key issues. I will also briefly discuss our outlook for the remainder of 2012.

Let's start by looking at our second quarter results summarized on slides 3 and 4 of the webcast. Net earnings were $1.01 per share for the quarter including realized gains of $0.10 per share. Core net operating earnings for the quarter were $90 million or $0.91 per shares compared to the prior year's result of $74 million or $0.72 per share.

Record profit in our annuity and supplemental group and approved underwriting results in our Specialty, Property and Casualty operations were offset somewhat by lower Property and Casualty investment income. While both periods reflect the effect of share repurchases. Annualize core operating return on equity was approximately 9%. Our capital adequacy, financial condition and liquidity remain strong in our key areas of focus for us.

We maintain sufficient capital in our insurance businesses to meet our commitments to the rating agencies in support of our current rating roles. Our excess capital was approximately $590 million at June 30, 2012, which included cash at the parent company of approximately $484 million.

As you know, in June, we issued $230 million of 6.375 debentures due 2042. The proceeds from this offering are included in our parent company cash balance at June 30. In July, AFG use these proceeds to regain approximately $200 million of 7.5 and 7.25 senior notes due in 2033 and 2034. The remainder of the proceeds are used for general corporate purposes.

We've continued to deploy our excess capital in ways that enhance shareholder value. We repurchased 2.5 million shares of our common stock during the second quarter in average price of $38.55 per share for approximately 95% of June 30, 2012 book value per share. As of July 30, 2012 there are approximately 3.4 million shares remaining under our repurchase authorization.

Based on the company's operating performance and its strong capital and liquidity position, AFG's Board of Directors approved an increase in the annual dividend from $0.70 to $0.78 per share per year effective for dividend payments made on or after October 1, 2012.

This increase reflects our confidence in the company's financial condition and its prospects for long-term growth. The 5-year annual compounded growth rate of our dividend is 12.5%.

In addition to share repurchases and dividends, we continue to seek other alternatives for deployment of our excess capital. We've invested excess capital when we see potential for healthy profitable organic growth, and we're always looking for opportunities to expand our specialty niche businesses through startups or acquisitions, so that makes sense.

An example is we recently announced the launch of our public sector division within our Specialty Property and Casualty group. This business unit will offer comprehensive coverages in the reinsurance and excess insurance markets for the public entity space, which includes municipalities, schools, counties, housing authorities, and other special service districts.

As you will see on slide 4, AFG's book value per share excluding appropriate retained earnings and unrealized gains and losses on fixed maturities increased 5% from year end, $40.74. Tangible book value on a comparable basis was $38.34 at June 30, 2012.

Now, on slide 5, you'll see summary results for our Specialty Property and Casualty operations. We turned in another strong period, recording an underwriting profit of $52 million for the second quarter of 2012 and generating a combined operating ratio of 92%, a 3-point improvement from the comparable period in 2011.

Catastrophe losses represented only 2 points on a combined ratio for the quarter. A good results in a quarter that was kind of mixed for the industry.

Gross to net written premiums were up 8% and 9%, respectively, in the 2012 second-quarter compared to the same quarter a year earlier. Due primarily to higher premiums in our specialty casualty group and the impact of earlier planning costs which impacted the timing of profit insurance recorded in our property and transportation group. We continue to see broad-based price increases in our property and casualty businesses with pricing increases in back-to-back quarters. Nearly 3 4ths of our business units achieved increases in the first half of 2012.

Now I'd like to discuss a few highlights from each of our specialty business groups, if you turn to slide 6 and 7. Property and transportation group, our largest segment, reported an underwriting profit of $6 million in the second quarter 2012 compared to an underwriting loss of $3 million in the second quarter of '11. This increase is attributable to lower catastrophe losses, primarily in our property and inland marine operations. The $10 million in cap losses reported by this group in the second quarter of 2012 was $8 million lower than losses this group experienced in the comparable 2011 period.

Most of the businesses in this group achieved solid underwriting margins through the first 6 months of 2012. Gross to net written premiums for the first 6 months were 6% and 3% higher than the comparable ‘11 periods, respectively, primarily as a result of higher premiums in our crop businesses.

Increases primarily due to higher winter wheat commodity prices and timing differences resulting from earlier planning of corn and soybeans. Pricing was up approximately 4% for the quarter. I’m very pleased with that. It’s with a sequential improvement from a 2% increase that this group achieved during the first quarter of 2012.

Specialty casualty group reported an underwriting profit of $33 million in the second quarter of 2012 compared to $17 million in the second quarter of 2011. Year-to-date 2012 underwriting profits were $19 million higher than the comparable ‘11 period. Unfavorable reserve development in our home builders general liability book and improved profitability in our workers comp operations were offset somewhat by higher underwriting losses and a runoff book of program business and lower favorable reserve development in our excess and surplus lines and executive liability operations.

Again, those businesses in this group produced strong underwriting profit margins through the first 6 months of 2012. Net written premiums for the 2012 second-quarter and first 6 months were up 16% from comparable periods in 2011. While nearly all businesses in this group reported growth, worker’s compensation, excess and surplus and international operations were the primary drivers of the higher premiums. Increased business opportunities, arising from larger exposures and general market hardening have contributed to the increased premiums to this group. Pricing in this group was up about 4% for the second quarter and the first 6 months of 2012.

Moving off of specialty financial group, reported underwriting profit of 11 million and 27 million in the second quarter and first 6 months of 2012. These amounts were virtually unchanged from comparable prior year periods. Most of the businesses in this group achieved excellent underwriting margins during the first half of 2012.

Net written premiums were virtually flat for the first half of 2012 when compared to the prior year. Higher gross written premiums resulted primarily from a service contract business initiated in the second quarter of ‘11. All these premiums receded under a reinsurance agreement. Pricing in this group was flat for the second quarter and the first half of 2012.

Now let’s move on to review our annuity and supplemental insurance group on slide 8. The annuity and supplemental insurance group reported record core net operating earnings before income taxes of $76 million for the 2012 second quarter, 36% higher than the same period a year ago. The increase reflects higher earnings from our fixed annuity and Medicare supplement operations. The higher profitability on our fixed annuity operations reflect an increasing base of invested assets and our ability to maintain spreads.

Our Medicare supplement results were significantly higher than last year, due primarily to improve loss experience and persistency. Similarly for the first half of 2012, this group reported record core operating earnings before income taxes of $143 million, a 30% increase from the first half of 2011.

In the annuity business, profitability is largely dependent on earning a spread between invested assets and annuity liabilities. In a period of declining interest rates, we had some protection from spread compression through our ability to lower crediting rates subject to contractually guaranteed minimum interest rate for GMIRs.

Almost all new business since late 2010 has been issued with a 1% GMIR. At June 30, 2012, the spread between the average crediting rate on AFG’s annuities and its average GMIR was approximately 60 basis points. This equates to about $90 million in additional spread income if our crediting rates were to be lower to GMIRs. Not all of our crediting rates can be changed immediately, but the bulk of them can be changed within the next 12 months.

Although we may contractually have the ability to lower rates, we may choose to delay or limit rate decreases for business reasons. We're pleased with our strong operating results for the first half of the year, especially in light of the challenging interest-rate economic environments. Investment results continue to be excellent and annuity sales remain strong even as we maintained our strict pricing discipline.

Statutory premiums of $1 billion in the 2012 second quarter were virtually unchanged from the second quarter 2011. Statutory premiums of $1.9 billion for the first 6 months were 7% higher than the comparable 2011 period, primarily due to increase sales of fixed indexed annuities.

Sales of traditional single premium annuities and annuities sold in the 4, 3B market were lower when compared to comparable periods in 2011.

As we previously announced, we reached a definitive agreement to sell our Medicare supplement critical illness businesses to CIGNA Corp. for approximately $295 million in cash. We anticipate that this sale will close in the third quarter and we expect to realize an after-tax gain of approximately $95 million to $105 million. This game won't be included in core earnings. These businesses generated pre-tax operating earnings of $18 million in the first 6 months of 2012 and $34 million in the full-year 2011.

Given our recent unsuccessful efforts to sell the company's runoff long-term care business, and the difficulty in predicting future claims for this relatively immature block, but we've initiated an external actuarial study of this business. This study will supplement our regular internal analysis over experience and is expected to be completed no later than the 4th quarter this year.

Furthermore, even though AFG has to date been able to maintain excellent annuity spreads and adequate yields in its long-term care business, a further continuation of low interest rate environment is likely to lead to loss recognition in the long-term care business and unlocking of the company's interest rate assumptions for annuities as well. These charges would be excluded from core earnings, if material.

Now, please turn to slide 9 for a few highlights regarding our investment portfolio. AFG recorded second quarter 2012 net realized gains of $9 million after-tax and after DAC compared to $12 million in the prior year period. After-tax after DAC realized gains for the first 6 months were $37 million compared to $9 million in the first half of last year.

Unrealized gains on fixed maturities were $626 million after-tax after DAC at June 30, 2012. Our portfolio continues to be high quality with 87% of our fixed maturity portfolio rated investment grade and 96% with an NAIC designation of NAIC 1 or 2, its highest 2 categories.

During the first half of 2011, property and casualty investment income was approximately - for first half of 2012, property and casualty investment income was approximately 6% lower than the comparable 2011 period in line with our expectations. We have provided additional detailed information on the various segments of our investment portfolio and the investment supplement on our website.

Now in finishing let me cover our outlook for the remainder of 2012 on slide 10. Based on the results of operations for the first 6 months of the year and our assumptions regarding the effect of the Midwest drought conditions with well over 2012 core operating earnings guidance to a range of $3 to $3.40 per share down from the range of $3.40 to $3.80 per share that was estimated previously.

Our full-year net written premium guidance remains unchanged with growth expected in the range of 1% to 5%. We now expect to achieve a combined ratio between 93% and 96%, an increase from our previous estimate of 91% to 94%. Again, this change is due primarily to the re-forecast of our crop insurance results, which are included in our property and transportation group.

Details on guidance for our P&C segments are as follows. In property and transportation group, we now expect a combined ratio between 96 and 100, an increase from the range of 91% to 95% previously estimated.

We've reduced our 2012 earnings guidance by approximately $0.50 per share for the effects of the drought, although the precise impact on AFG's core operating earnings is uncertain. With consideration to our strategic use of quota share and stop loss reinsurance, this estimate encompasses the potential for further deterioration in crop conditions, including worst case estimates for losses in key premium states that are most impacted by drought conditions

Our thoughts and prayers are with the farming community as they face the challenges arising from the Midwest drought, although it is times like these that remind us of the importance of the multi-peril crop insurance program, which is designed to be a significant risk management tool for our nation's farmers.

We continue to expect that net written premiums in this group will be 3% to 7% lower in 2011. In our Specialty Casualty Group, we expect a combined ratio in the range of 91 to 95, an improvement from our previous estimate of 93 to 97%. Net written premiums for 2012 are expected to increase 12% to 16% as was our previous estimate.

In our Specialty Financial Group, our 2012 combined operating ratio guidance remains 85% to 89%, consistent with previous estimates. 2012 net written premiums for this group are expected to be in the range of down 2% to up 2% when compared to 2011 results.

Turning to Annuity and Supplemental Group, we expect to see some slowdown in annuity sales during the second half of this year. However, even with the pending sale of our Medicare supplement business, we continue to expect that the Annuity and Supplemental Group's full-year 2012 pre-tax core operating earnings will be 15% to 20% higher than the 2011 results.

Additionally, we were informally advised early this month that the IRS will not appeal the tax case decision related to annuity reserving that we've disclosed previously. As a result, during the third quarter, we expect to recognize approximately $28 million in non-core income related to this decision.

We also expect to recognize additional income as matters related to the tax case and other open years are resolved. As has been our practice, our earnings guidance excludes, realized gains and losses including the expected gain on our pending sale of the Medicare supplement critical illness businesses as well as the results of loss risk recognition testing in our run-off long-term care business or any annuity unlocking as well as other significant items including a result of a tax case that may not be indicative of ongoing operations.
Thank you. And now we'd like to open things up for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Amit Kumar, Macquarie.

Amit Kumar
Macquarie Research

Maybe we can just start with the crop book and I know it's been all about crop. Can you refresh us as to what the distribution is amongst various crops as well as the group one and group 2 and 3 states?

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

To start with, corn roughly is about half of last year's premium and soybeans is roughly 26%. So corn and soybeans represent the biggest part of things. Revenue coverage today, is up towards 80%. As far as -- I don't think we've really disclosed our breakout with the group one and 2 states.

Amit Kumar
Macquarie Research

Okay. And I guess the follow-up on your discussion on the quarter share and the stop-loss, can you sort of expand on that -- where what sort of layers it attaches to what point so that we can lengthen the number ourselves?

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

Yes. For competitive reasons, we don't disclose all the details. I can tell you that our attachment point for stop-loss coverage is 100% loss ratio.

Amit Kumar
Macquarie Research

Got it.

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

And our stop-loss coverage program, you can think of it this way, covers us out to one and 250-year events. So taking a look at the conditions today and foreseeing in our major -- and also looking at further deterioration potentially in crop conditions including worst-case estimates for losses and our key premium states, we're kind of taking that into account in our $0.50 guidance estimate, Amit.

And if you were to ask me where we'd stress test worst-case scenarios, the most would be states like Illinois, Indiana, Kansas, Iowa, Missouri. Those would be states where there are size for us and the hardest hit areas. I would say though also there are favorable conditions in some other fairly large states like North and South Dakota that we write business in too. So our $0.50 really in our change in guidance, it takes into account current conditions and further deterioration even to the point of worst-case stress testing in some of our big premium states.

Amit Kumar
Macquarie Research

I agree with that comment that it's too early and it's still a mixed picture based on actual ground testing of the yields, if you head to the crop fields, it's a very mixed scenario. The only other question I had and I would reach you after this is the $0.50 is the absolute worst-case scenario. As of today, what would be the number?

Craig Lindner
Former Co-President and Director

Well, I think, Amit, we really tried to reflect current conditions. And then also stress test considering our core share, our quota share agreement and our stop loss coverage. So, $0.50 is our best estimate in both situations today.

Amit Kumar
Macquarie Research

Okay. That's helpful. I'll stop here and I will re-queue.

Operator

Your next question comes from Ron Bobman, Capital Returns Management

Ronald David Bobman
Capital Returns Management, LLC

Craig and Carl, Keith is the most senior big company executive to be reading the disclaimer at the beginning of a call. Don't you have anyone else on the staff at a lower pay grade that can do that?

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

I think it's a good question, Ron.

Ronald David Bobman
Capital Returns Management, LLC

And I guess it's because Carl and Craig answer all the questions and so it's your chance to get a word in. In any event, the other thing it's been amazing to hear these investors and research analysts talk about crop like they spend their weekdays in the fields. I wonder if Amit's ever been in the field.

In any event, following upon Amit's question, Carl, it sounds like candidly that given where crops are now and the degree of the drought, it sounds like you're sort of indicating as it relates to your book that we're at a worst-case in effect, that conditions are so poorly, we're close to, again as it relates to your exposures net of reinsurance, at a worst-case. Am I sort of hearing that right?

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

Well, I think what you're hearing is, we have again, we have court share reinsurance and we also have stop loss coverage. Think of it as buying cap cover on your -- similar to buying cap cover on your property exposures as (inaudible). I think what we're saying is when you look at our programs that we're projecting $0.50 under current conditions, which would reflect the latest milliment report I think which came out yesterday or I think it was either yesterday, or day before, also Monday's USDA, so we've looked at that. Those are what we consider to be current conditions. And now we've also tried to stress test some of our big states to see where that would take us. And because of our quota share and our stop loss reinsurance, the answer is the same.

Ronald David Bobman
Capital Returns Management, LLC

You're basically there, you're attached, I guess?

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

Again, I think we are covered through our reinsurance programs often to one and 250-year events. A lot of Bermuda insurers might be real comparable if they're covered on normal CAD exposures up to one and 100 and one and 200 net. They're kind of similar, I guess, what we're saying is based off our reinsurance coverage, we're comfortable that up to a one and 25-year event that our estimate -- again, it's early, there's -- until you really get the crops in, you really don't know, but just your best estimate.

Ronald David Bobman
Capital Returns Management, LLC

Okay.

Craig Lindner
Former Co-President and Director

And Ron just, at the risk of speaking when I'm not supposed to, I think the way our reinsurance programs are structured, there is a range within which we don't have up or down because the nature of the program has stabilized during that range, so that's what we're saying.

Ronald David Bobman
Capital Returns Management, LLC

Understood. Would you -- Carl or Keith or Craig, would you hazard a guess, presumably the take-up rate for crop insurance for farmers to purchase next year will be greater, because of the developments this year, would you hazard a guess as to some metric as to the increase in what I'm calling take-up rates, the purchase of coverage?

Craig Lindner
Former Co-President and Director

Boy, I'd have to be honest with you. I guess I probably couldn't do that at this point. When you look at futures prices, yes, we have kind of tried to brainstorm out what premiums might look like in the 2013 year. There were some changes to the program that probably are a little bit negative 2 premiums, but future prices for corn, when you look into next year up a teeny bit. All in all we probably thinjk -- there's not some big huge updraft on premiums. That's an interesting thing to think about. If your take-up rate improves, that may be the driving factor for if there is some updraft in premiums.

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

May have higher interest -- hit hard this year.

Ronald David Bobman
Capital Returns Management, LLC

Say that again, Keith? Sorry?

Keith Alan Jensen
Former Senior VP & CFO

I just said that farmers may have a higher interest -- get hit harder this year.

Ronald David Bobman
Capital Returns Management, LLC

Exactly.

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

At the point, there is a farm bill, if there is less direct type of relief to farmers and the crop insurance program continues to be the core risk management tool for farmers, I suppose, that could be a positive too. That could have an impact on the take-up rate.

Operator

(Operator Instructions). Your next question comes from Ryan Byrnes with Langen McAlenney.

Ryan J. Byrnes
Langen McAlenney

I'm going to unfortunately ask some more crop questions here. I guess quickly, with the stop loss attaching at 100% loss ratio, and it ultimately maxes out for group one state, say, at 194% because that's when the government kind of takes, puts the entire bill, does your stop loss cover you the entire distance there between that 100 loss ratios and the 194 or is the stop loss stayed away a certain number?

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

If the stop loss is not tied to what the Federal Government's maximum is for coverage, so it does not run all the way to the top as Carl said. It starts in the 100.

Ryan J. Byrnes
Langen McAlenney

Okay. Great. And then quickly, just for clarification, is the stop loss on a state-by-state basis or is it a national program?

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

National program.

Ryan J. Byrnes
Langen McAlenney

Okay. Great.

Operator

Your next question comes from Jay Cohen, Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, couple questions. First, on the guidance, in the property and transportation segment, the premium guidance was for I guess down 3% to 7%, but you were up in the first half modestly. So it sounds like there was obviously a drop off on the second half. Did that relate to some of the timing issues of winter wheat or the plantings, when things were being planted? Why the drop off in the second half?

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

Primarily, Jay, as you speculated, it's a timing issue in the crop, because we recognized more premiums in the first couple of quarters than we normally would.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Okay. Second question, can you give us an update on the workers comp line? You seemed to have some positive things to say about it. First time we've heard much positive out of that line in a while, so just give us an update on what you're seeing from a pricing standpoint and a claims standpoint as well?

Craig Lindner
Former Co-President and Director

Sure. The California outlook, the market clearly is firming. We got 8% price increase last year; we're getting 5% price increase this year, though we did get 8% in second quarter. So we're seeing gradual improvement this year in renewal retention, which is a positive sign for us.

We feel our reserves are adequate in that business. The industry, I think, last year was 130. We're public; we'd estimate it was around 114 on an accident year basis. This year, we're still working on our -- on things. So we think probably in the 108 to 110 action at year.

Clearly need to get 10% plus. We need to get double-digit rate increase in order to get us to a 100 combined ratio, which at 3.5% investment return is about a 12.5% return. That kind of gives you an idea of the dynamics. So we've got -- the good news is our California comp business is improving nicely, but we still got a little bit farther to go.

Frequency and severity seem to be stable last couple years in that -- on our higher deductible business; the other part of our business, which is written under the Great American brand, we're seeing very nice growth as there's been turmoil in the workers comp market. We're getting nice price increases in that business, and we're seeing some good opportunities there.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's great.

Craig Lindner
Former Co-President and Director

That business is profitable.

Operator

Your next question comes from Amit Kumar, Macquarie.

Amit Kumar
Macquarie Research

Now, the armchair farmer is back. Just -- I guess just a comment around clientele, we do have a commodity team here and they just concluded an actual tour of the group I states and some of these pictures are very interesting, how much they vary from one farm to another. So that was the comment.

I guess just going back to the broader discussion on pricing as it relates to the previous question. There is this debate that pricing acceleration might be slowing for the industry and it's not sustainable going forward. I'm just curious, maybe responding to what you are seeing for, maybe for July in terms of pricing sustainability, and how do you even think about pricing for the remainder of 2012? Do you think you'll be able to maintain? Or I guess, we'll soon start hitting plateaus?

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

Yes, I'd say this. I'm pleased with our trends. We did see some sequential improvement in our specialty casualty – I'm sorry, specialty property and transportation, from the first quarter to the second quarter. Earlier from the 4th quarter to the first quarter to the second quarter. First-quarter up from 2% to 4%. Specialty casualty, both quarters were about a 4% increase.

I think that we're going to continue to see pricing traction for the rest of this year. And possibly -- and probably into the next year. With interest rates continuing to be as low as they are, it just puts pressure on everyone in the business again, if you're going to make a decent underwriting profit in order to get any type of return on equity, business-by-business. So I think that's the big driver is the low interest rates. And if anybody's going to earn any decent return, we're going to have to continue to move pricing.

I think -- whether pricing is flattening out or whether it's sequentially improving, that's not the big deal to make. The big deal to me is whether you have a continuation moving forward the rest of the year and into next year. And I think that with low interest rates where they are, that you're going to continue to see that.

Amit Kumar

Macquarie Research

Got it. That's helpful. And the only other question I had is, you mentioned in the opening remarks and in the press release regarding the long-term care book, can you just refresh us on what sort of numbers are we talking about, I guess that range, what we could possibly see going forward? Once you -- I guess do the studies and look at the numbers? And I know it's probably a book value impact, it's not an earnings impact, but just refresh us as to what those numbers might have ended up being?

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

Craig, do you want to...

Craig Lindner
Former Co-President and Director

Sure. Amit, this is Craig. First of all, it's too early for us to know to have any real clarity as to what the number is, but let me give you guidance on a piece that I think will be probably the biggest piece of the charge. And that is related to investments yields, the reinvestment rates. This block is a very long duration block, so it is sensitive to reinvestment rates. The last time we did our analysis and put assumptions in place, the 10-year treasury was at 2%. So the 10-year treasury has declined. The yield has declined by about 50 basis points or so since we did the last analysis. What I can tell you is every 10 basis point change in investment yields in all future periods has about a $10 million impact.

Amit Kumar
Macquarie Research

Okay. $10 million.

Craig Lindner
Former Co-President and Director

Yes. Now, EMNR is doing a study related to other things that could affect any ultimate charge related to claims. It's a very immature block. And we wanted to tap into EMNR's experience to give us some advice as to what they've seen on claim side and collapsation and so forth.

Amit Kumar
Macquarie Research

Got it. Okay.

Operator

Your next comes from Gabe Schwab, Maxim Group.

Gabe Schwab

Any thoughts on -- you mentioned on the underwriting of the new debentures that there is a chance you might retire some of the AFE, any further thoughts on that?

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

What we have retired so far are the retail notes held in American Annuity Group name which became Great American Financial Resources. We continue to look to ones that are held in AFG, but they have not made any tentative [indiscernible] at this point.

Operator

And there are no further questions at this time. Are there any closing remarks?

Keith Alan Jensen
Former Senior VP & CFO

No. We'd just like to express our appreciation to you for joining us once again and we look forward to reporting to you after the end of the third quarter. Thank you and have a good day.

Operator
This concludes today's American Financial Group's 2012 second quarter earnings conference call. You may now disconnect your line.