S&P Capital IQ

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American Financial Group, Inc. NYSE:AFG

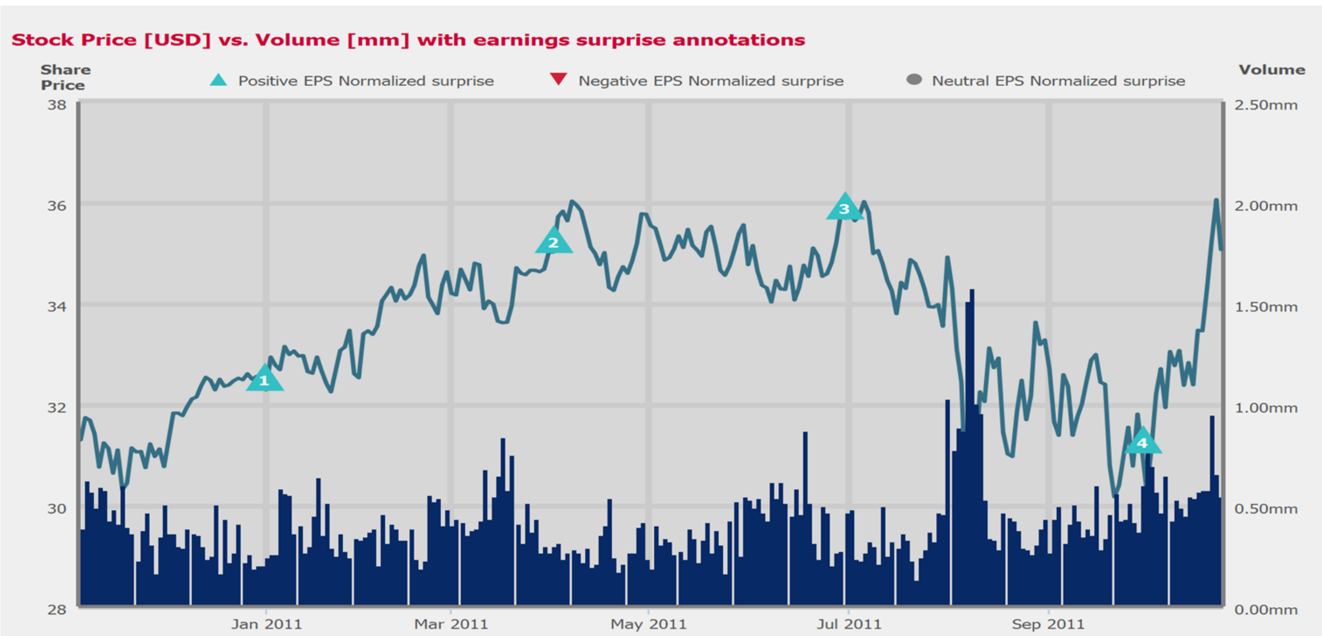
FQ4 2011 Earnings Call Transcripts

Thursday, February 02, 2012 4:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.94	1.06	▲12.77	0.75	3.33	3.53
Revenue (mm)	851.41	602.00	▼(29.29 %)	750.34	3000.81	2770.00

Currency: USD
Consensus as of Feb-02-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	0.97	1.03	▲1 6.19 %
FQ1 2011	0.79	0.81	▲2 2.53 %
FQ2 2011	0.56	0.78	▲3 39.29 %
FQ3 2011	0.82	0.90	▲4 9.76 %

Call Participants

EXECUTIVES

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

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

ANALYSTS

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Ron Bobman

Ryan J. Byrnes
Macquarie Research

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 2011 Fourth Quarter and full-year 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. Keith Jensen, you may begin.

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

Thank you. Good morning, and welcome to American Financial Group's 2011 year-end earnings conference call. I'm joined this morning by Carl Lindner III, and Craig Lindner, Co-CEOs of American Financial Group. If you're viewing the webcast from our website, you can follow along with the slide presentation if you'd like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements and are based on estimates, assumptions, and projections, which Management believes are reasonable, by their nature subject to risks and uncertainties, which could cause actual results and/or financial condition to differ materially from those suggested by such forward-looking statements include, but are not limited to, those discussed or identified from time to time in AFG's filings with the Securities and Exchange Commission; including the annual report on Form 10-K and quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure, which sets aside significant items that are generally not considered part of ongoing operations. These include net realized gains or losses on investments, the effect 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 analyzing the ongoing operating trends, and will be discussed for various periods during this call. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

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

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

Good morning, and thank you, for joining us. We released our 2011 fourth quarter and full-year results yesterday afternoon. Despite a challenging year for the entire insurance industry, Craig and I are pleased to finish the year with solid profitability.

Core net operating earnings for the fourth quarter were up $0.03 a share from the comparable 2010 period. Full-year Core net operating earnings per share were $3.53 per share in line with our guidance. With estimated insured catastrophe losses for the industry, toping $100 billion, we're pleased that our catastrophe losses were only 2 points in our combined ratio for the year, and actually were lower than CAT losses recorded in 2010.

In addition, we acknowledge the impact, that the continued low interest rate environment has had across all of our businesses. At the very least, these economic conditions, plus the continued global economy uncertainty, require that our underwriting and product pricing continue to be highly focused.

We thank God and our talented management team and employees for a successful year and for the financial strength that positions us to take advantage of opportunities going forward.

I am assuming that all participants on today's call have reviewed our earnings release and supplemental materials posted on the website. I'll review a few highlights and focus today's discussion on key issues. I'll also briefly discuss our outlook for 2012.

Let's start by looking at our 2011 results, summarized on slides 3 through 5 of the webcast. Net earnings per share were $1.10 for the quarter, including realized gains of $0.32 and a non-core charge of $0.28, representing a valuation allowance on deferred tax assets associated with losses in our Lloyd Syndicate.

Full-year earnings per share were $3.33, realized gains were $0.45 per share, included gains from sales of a portion of a remaining interest in the risk analytics during the year.

Core net operating earnings for the fourth quarter were $106 million or $1.06 per share compared to the prior year's results of $111 million or $1.03 per share. Core net operating earnings per share for the year were 10% less than our 2010 results.

Lower underwriting profit, lower investment income, in our specialty property, casualty operations, were critically offset by increased earnings in our Annuity and Supplemental operations, and the effect of our share repurchases.

Core operating return on equity for 2011 was approximately 9%. Annualized average return on equity, on a comparable basis over a 5-year period was approximately 13%.

Now one of our important strategic objectives is to deploy our access capital in a way that enhances shareholder value. We repurchased 9.3 million shares of our common stock during 2011, at an average price of $33.93 per share, or approximately 90% of year-end 2011 tangible book value per share.

During the year, we've returned capital to shareholders through $316 million in share repurchases and $68 million in dividends. We feel this remains an effective means of increasing shareholder values.

As of February 1, 2012, there are approximately 3 million shares remaining under our repurchase authorization. Management intends to recommend an increase in this authorization at the next board meeting. In addition to share repurchases and dividends, we continue to seek other alternatives for the deployment of our capital. We'll invest excess capital and healthy profitable organic growth, by introducing new products and services. We're also always looking for opportunities to expand our specialty niche businesses through startups or acquisitions where it makes sense.

Our Speciality Property and Casualty business, we recently acquired Employers Comp Associates, a leading provider of employer's primary indemnity coverage for employers that opt out of the Texas workers' comp system, an occupational accident coverage for independent owner-operator, truckers.

Growth from National Interstate 2010 acquisition of [indiscernible], another example of the opportunistic approach that's contributed to our success over time.

Now as you see on slide four, AFGs book value per share excluding appropriated retained earnings and unrealized gains and losses on fixed maturities, increased 7% during 2011 to $40.23. Tangible book value on a comparable basis was $37.84 at year end, also up 7% from a year ago.

Our capital adequacy, financial condition and liquidity remain strong and are key areas of focus for us. We've maintained capital on our insurance businesses at levels that support our operations, and are in excess of amounts required for rating levels. We are pleased that during the fourth quarter, Moody's changed the outlook on great American Insurance Group companies from stable to positive.

At the end of the year, our excess capital was approximately $785 million, which included cash at the parent company of $415 million.

Additional details about our core operating results can be found on slide 5. On slide 6, you'll see our summary results for our Specialty Property and Casualty operations. Our Specialty Property and Casualty operations turned in another strong period, recording a underwriting profit of $231 million during 2011, generating a combined operating ratio of 92%, 4 points higher though than the prior year.

Lower favorable reserve development, poor results in some of our program business, and lower profitability in our crop operations, were offset somewhat by improved results in our excess and surplus lines businesses.

Gross and net written premiums increased in line with our guidance. Gross written premiums were up 14% for the year, net written premiums were up 15%. Gross written premiums in 2011 included higher premiums in our property and transportation segment, particularly our Crop and Transportation businesses.

Gross and net written premiums also reflects the impact of a third quarter 2010 reinsurance transaction in our Speciality Financial Group. I'm really pleased that more than half of our specialty property and casualty businesses achieved rate increases during the fourth quarter of 2011. And for the first time in almost 2 years, we can say that overall renewal rate momentum was positive for the quarter. Although the overall market remains competitive, we're pleased with these trends.

The decline in gross investment income related to our Property and Casualty operations was consistent with our expectations. Again, due to decreased holdings and higher yielding investments, and generally lower reinvestment rates as we've discussed in our prior calls.

Now if you'd turn to slides 7 and 8, I'd like to talk about a few highlights from each of our specialty business groups. Property and Transportation group, our largest segment, recorded an underwriting profit of $113 million during 2011, about 19% lower than the previous year. Most of the businesses in this group produced solid underwriting margins for the year. We're pleased that catastrophe losses in this group were lower than in 2010, and served to offset the client's crop profitability somewhat.

Results in our transportation and property crop and the marine businesses were down slightly for the full year.

Weather conditions, as everyone knows, for American farmers were problematic throughout the 2011 growing season. Heavy spring rain delayed planting and resulted in preventive planning claims. Excess heat at the critical pollination period for Midwest corn raised yield concerns for that crop.

Filing late season dryness was feared to have impaired soybean pod fill. Despite these circumstances, our agriculture operations performed well. Crop profitability in 2011 was lower than in the prior year, but it was better than our most recent expectations.

Average renewal rates for the Property and Transportation group during 2011 in the fourth quarter were up 1%. That's the first positive pricing quarter in 5 years that we've seen. Our Specialty Casualty group reported an underwriting profit of $39 million in 2011, about $8 million less than in 2010. Core results in our program and international businesses were substantially offset by higher profitability in our excess and surplus businesses.

Many of the businesses in this group produced solid, excellent underwriting profit margins during 2011. We are pleased to see more business opportunities in this segment, especially in the latter part of 2011, as there is some indication of markets hardening, as well as growth in lines of business read through our international operations.

Average renewal rates for this group during 2011 were up about 2% in the fourth quarter. That's the highest quarterly increase that we've achieved since early 2006. Most businesses in this group achieved some rate increase during the fourth quarter.

Specialty financial group reported underwriting profit of $61 million for 2011 compared to $112 million in 2010. Lower prior year favorable RBI Reserve Development and higher catastrophe losses in our financial institutions business impacted 2011.

Almost all the businesses in this group produced strong underwriting margins during 2011. Average renewal rates for this group for the year were flat compared to the prior year period.

Now I'd like to move on to a review of our Annuity and Supplemental Insurance group on slides 9 and 10. Annuity and supplemental insurance group reported core operating earnings before income taxes of $65 million for the 2011 fourth quarter, compared to $52 million in the 2010 period.

Full-year 2011 core operating earnings were $224 million, up from $202 million for 2010. Higher core operating earnings in 2011 due to growth and our fixed annuity operations, higher medical, medicare supplement earnings, were offset by higher mortality in the company's run-off life operations. The impact that the decrease in the stock market had in our variable annuity line of business, and the impact of lower interest rates on our fixed index annuity block.

AFG conducts loss recognition testing and a review of major actuarial assumptions to determine the need for any changes or other adjustments. These reviews take place at least annually, generally in the fourth quarter. Assumptions include management's expectations of future lapses, claims, morbidity, rate increases, annuitization and reinvestment rates.

The adjustments related to these reviews were immaterial in 2011. Results for the fourth quarter of 2010 included a net pretax charge of $25 million related primarily to the fixed annuity business.

If you exclude this charge, full-year 2011 results were comparable 2010. Statutory of premiums of $723 million in the fourth quarter of 2011 were comparable to the 2010 fourth quarter, as increases in sales of single premium, fixed index annuities were offset by lower sales through our bank channel.

Full-year 2011 premiums were a record $3.5 billion, a 29% over the prior year. This increase is largely attributable to increase sales of fixed index annuities and single premium annuities sold through banks. Both increases are primarily a result of adding new products and agents.

AFG sales of annuities through banks have grown substantially since entering this market in 2007. The bank annuities have recently comprised nearly 1/4 of annuity and ENS premiums.

AFGs fourth quarter 2011 bank sales float considerably. As the recent exceptionally low interest rate environment, made fixed products less attractive, and also AFG adhered to it's pricing discipline. Bank sales are expected to increase when the interest rate environment improves, with the introduction of new bank fixed index annuities, and as more banks offer AFGs annuities.

Now, if you'd please turn to slide 11 for a few highlights regarding our investment portfolio. During 2011, AFG recorded net realized gains of $45 million, comparable to the amounts recorded in the prior year period. During the year, we recorded pretax realized gains of $76 million on sales of a portion of our remaining interest in risk analytics.

We continue to hold 3.2 million shares with an unrealized gain of approximately $120 million. Net unrealized gains on fixed maturities were $436 million, an increase of $110 million since December 31, 2010. A vast majority of our investment portfolio is held in fixed maturities with approximately 89% rated investment grade, and 96% with a designation of NAIC 1 or 2.

Investment income in our Property and Casualty operations was down approximately 13% in line with expectations for the year. As we discussed last quarter, we continued to run-off and disposition higher yielding securities in our non-agency RMBS portfolio, as well as generate lower reinvestment rates, resulted in continued pressure on investment income at our Property and Casualty businesses. We have provided additional detailed information on the various segments of our investment portfolio and the investment supplement on our website.

Now I'd like to cover our outlook for 2012 on slide 12. Our 2012 Core net operating earnings guidance is a range of $3.30 to $3.70 per-share. Our goals and our expectation is to maintain adequate rates in our specialty, Property and Casualty operations, because of our strong underwriting culture. And we expect to achieve a combined ratio between 91 and 94.

We expect net written premiums in our specialty, Property and Casualty operations to be 1% lower to 3% higher. If you exclude crop, that would be about 1% to 5% growth. The Property and Transportation group is expected to produce a combined ratio in a 91 to 95% range. Guidance assumes normalized crop earnings for the year, and the impact of the RMA premium rate methodology changes, which I'll discuss shortly.

Guidance also assumes, that current corn and soybean prices hold through the February discovery period. We expect this group's net written premiums to be in the range of down 5 to down 1%, mostly the result of lower spring commodity prices and the impact of the RMAs premium rate methodology changes.

In December, 2011 the risk management agency of the USDA announced changes to its existing rating methodology for corn and soybeans. These changes were made in recognition of a positive loss experience generated by these crops in recent years. Positive loss experience is primarily the result of improved farming practices and hybrid seed genetics that increase their crops tolerance to drought, pest, and certain herbicides. It's estimated that these rate reductions will reduce the industries gross written premium by approximately 6%. Our impact will be slightly greater because of our business specks.

The impact of these changes -- impact that these changes will have on the potential profitability to each company writing crop insurance will vary, based on the geographic location and a crop mix within their book of business. We believe these changes will negatively affect the industries' potential profitability by approximately 7%. We expect the specialty and casualty group to produce a combined ratio in the 93 to 97% range. We anticipate net written premiums will be up 4 to 8% based on indications of market hardening and continued growth in our targeted markets, and international operations.

We expect Specialty Financial group's combined ratio to be between 85% and 89%. We project net written premiums to be in the range of down 2 to up 2 in this group. And we expect Property and Casualty2012 investment income to be approximately 5% lower than 2011 results, due primarily to the continued run-off of higher yielding securities, and generating lower reinvestment rates.

Based on recent market conditions and trends, we expect 2012 full-year cor pretax operating earnings in our annuity and supplemental insurance group to be 10 to 15% higher than in 2011. These 2012 expected results exclude the potential for significant catastrophe and crop losses, significant adjustments to asbestos and environmental reserves, large gains or losses from asset sales or impairments, and significant unlocking adjustments in the annuity and supplemental group.
Now, we'd like to open the lines for any questions, thank you.

Question and Answer

Operator

[Operator instructions]. Your first question comes from Ryan Byrnes, Macquarie.

Ryan J. Byrnes
Macquarie Research

Hi. Good morning, everyone. Just my first question is with the specialty causality, I guess loss ratio. You mentioned in the press release that it was due to -- I guess lower results on some program business. Can you just talk about, I guess which types of programs are -- I guess saw the increase loss ratio?

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

We had numerous programs that came from a number of our operations, that we really discontinued pretty much, a lot of them stopped writing and we've had some unfavorable development on those various programs. That's kind of a good news/bad news. The good news is, we're not writing much program business at this point. The bad news is, what we did write, didn't produce the kind of profitability that we wanted.

Ryan J. Byrnes
Macquarie Research

And it wasn't focused on any certain line? I'm just trying to think of workers' comp or anything like that, those programs weren't focused on…

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

The program business would be a mixture of package comp, general liability, you know, …

Ryan J. Byrnes
Macquarie Research

Okay, great. And then just quickly, just shifting to workers' comp, I just want to see what kind of trends you guys are seeing in the fourth quarter in terms of rate increases, what kind of rate increases are needed to get adequate returns and how lost-cost trends are going over there? That's a bunch of questions there.

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

Yes, most of our -- well, let me start with -- to put in perspective, we're less -- we have less workers' comp business generating, you know, as a percent of our total premium than most at this point. And the biggest part is related to our California business. Our California business, you know, we achieved between new business pricing and renewal pricing, you know, roughly 80% last year in price. As far as what I think we need -- I think we need another 10% in price in order to get to 104 combined ratio or a 12 to 14% return on equity or range. So we have - there continues to be more of a competitive market than I would have thought with industry results at 130 in 2010. And probably I would think the industry might still be 125, if I were to put a guess on 2011 accident year.

Republic always runs better. We're probably running at 114 would be my guess in 2011. But yes, we're still good. On top of that 8% overall net rate we got last, we probably could get another 10% plus in order to get back to that kind of returns.

On our business outside, for the last quarter or so, we've been seeing rates move up also and our strategic -- one of our key businesses, you know, outside of California Comp, strategic comp business in the quarter, prices were up 6%.

Again, less than 10% of our business mix is comp. So I think sometimes when you compare, you know, the size of our price increase to others, others have a much higher percent of comp and comp seems to be leading the way in the industry pricing increases.

Did that answer your question about workers' comp?

Ryan J. Byrnes
Macquarie Research

Yes, that did. That did.

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

And the other part of that question about…

Ryan J. Byrnes
Macquarie Research

Yes, lost-cost trends. I just want to see medical inflation or really that…

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

Again, you know, California probably would be the biggest indicator for us. Industry's been up really, frequency -- if you look out over the last -- on average over the last 4 years, frequency might be up 3 to 4%. Severity is really pretty benign or pretty flat over the last 3 years. So there's nothing there that really concerns us. We feel our reserves are adequate on our California workers' comp business.

I think the encouraging thing is, when you take a look at -- and we're pretty tough pricers and you know, we're about making an underwriting profit. Republic, in the last 2 quarters, our premium has increased in, you know, kind of a high single-digits. It's increased for the first time in 6 years. So that's a good indicator. I think also in our -- the other part of our business outside of Republic in California, we seem to be seeing more market opportunities particularly on some of the more difficult loss rate types of workers' comp, larger workers' comp accounts that our strategic comp, you know, unit excels at. So I think we're seeing some more opportunities there.

Did I get all the …

Ryan J. Byrnes
Macquarie Research

Yes. That was very helpful. Thank you. And then I guess I'll ask one more and then I'll let others. Just going to the crop book, I just wanted to clarify that you said that the new Farm Aid changes will lower the crop profitability 7%. I was just wondering to see if that was for AFG or that as for the industry as a whole? And then also I just wanted to see, if you guys could break out what kind of combined ratio you actually wrote in 2011 crop returns or I guess, ballpark.

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

We don't really break that out. I think 7% probably is a pretty good number for us as well as the industry.

It could be -- and again, you know, the guidance we're giving you, we're really kind of basing what our -- those changes in our estimate for crop in the -- you know, if you look at our combined ratio range and crop range transportation, our crop estimate you know, is also baked into that range.

Operator

Your next question comes from J. Cohen, Bank of America/Merrill Lynch.

Jay Adam Cohen

BofA Merrill Lynch, Research Division

A couple question as well. Maybe I'll first follow up on something Ryan had asked about and that's the Specialty casualty business. And you mentioned some of the profitability issues here and some discontinued programs, but if I look at your results for the fourth quarter, it looks like the accident year loss ratio, excluding development, was about at least 10 points higher than it was in the first 3 quarters of the year and I'm wondering what explains that because that's not -- that's not X the reserve development.

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

Well, you know, our international business didn't have a good quarter also. I think, you know, those 2 things -- the program business development, the international business didn't have a good quarter. Keith, do you have any perspective on a quarterly accident here?

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

You're exactly right, where we took the largest loss year over year in specialty casualty was in the market from the international business that quarter and that delta was, you know, it was north of $20 million. I wouldn't overreact, you know, to any quarterly change here or there.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

It certainly seems as if your guidance contemplates a number closer to what you were doing the first part of the year and certainly does not suggest that the fourth quarter number is kind of the run rate? That's fair?

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

That's -- again, our guidance really gives you our best expectations, you know, for how we think we're going to do this year.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. Second question, it looks like the excess capital as you defined it increased during 2011 despite the buybacks and the dividends, obviously you made some money as well. At the end of the year, were you surprised by that? Would you have expected at the beginning of the year to eat into some of this excess capital given where your stock had been trading?

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

We did expect it, but not the end of December. If you think about the excess capital and just share buybacks, company cash plus official borrowings that we can take on and stay with a leverage commitment in the major market. So if you look over the last 2 or 3 years, we've been generating a lot of capital and each year, at the beginning of the year, we make an estimate that will come out of excess capital by means of dividends, by means of share buybacks, by means of deployment. We have talked consistently about keeping pattern [indiscernible]. We talked about that in the 200 million to 300 million type of range. So the extent that we don't make business acquisitions, that are in line with what we made at the beginning of the year, that's going to affect where excess capital is. But this number, in terms of what we expected back when we bought it for the calendar year 2011, that's very close to the ballpark where we thought it was at that point.

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

We probably ended up repurchasing a bit under kind of what our -- repurchasing shares maybe a little bit less than what we thought we were going to do. Probably one positive thing, that would risk stock prices intended to partner really well and we -- for instance, we probably wouldn't have had that in our financial model. All those things kind of impact things in that. And as Keith mentioned, we would have hoped to maybe have done at least another, 1 more transaction than what we did, or found a few more opportunities.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. But it sounds as if going into 2012, you clearly have as much financial flexibility as you had a year ago?

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

Yes. That's fair. That's for sure. And again, you know, there's still the -- the economy is still kind of slowly coming on. And I think the industry went through a tough time this year. Craig and I like where we're positioned. We like having a little extra capacity both for opportunities and as you think -- if you think rates continue -- rate traction, pricing traction continues to move up, you want to have capital -- you want to have the capital necessary to take advantage of opportunities to make your premiums.

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

One of the ways to think of it, Jay, if we've got 750 in excess capital in the beginning with 200 of it as a minimum we want to have in terms of [indiscernible], we've got 550, if we did a share a little last year, which is what we indicated we're looking at, that would be 300. If that 300 could be turned into share buybacks or business acquisition investment opportunity. We look at it as it was going to be an issue, in excess of 500 million cap available for deployment.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

It seems special dividend doesn't really come up as an option.

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

We're always looking at and considering anything that we think is a good decision for shareholders long term. At this point, we feel that share repurchases are a better value in creating value, particularly where our stock is traded. You know, which has been under book value and even at a discount in a lot of cases at tangible book value. We're always looking at all the options.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. And then one last question, more of a number's question. The other line, other pre-tax have been running 15 to 18 million a quarter. This quarter was 26 million. Is there anything unusual there?

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

Not really. Nothing significant. There's 2 or 3 relatively minor items that hit that quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. Can you offer any sort of guidance as far as that line item because it does jump around a bit, what a normalized number might be for us?

Keith A. Jensen

Former Chief Financial Officer and Senior Vice President

I would think, you know, you talked about 15 compared to -- I think 15 to 20 is a reasonable rate.

Operator

Your next question comes from Rob Bobman, Capital Returns.

Ron Bobman

I had a couple of questions. The -- I think specialty casualty, I assume your professional liability business is in there and I was wondering if you could talk, Carl or whoever, about rate actions there of late as compared to maybe the last year or so.

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

Sure. I'd be happy to. Our book of business, again, in our D&O and professional liability is a little bit different than just, you know, small private business, non-profit, Canadian and smaller accounts make up a much bigger part of the business and Fortune 500 risks. That said, we're pleased that we're getting some rate increase, you know, on our business and it's mainly, I think in the fourth quarter we probably got around 3% price change, and we did achieve an increase for the year there. We're pleased with the trends.

Ron Bobman

Plus three in the fourth quarter, I'm sorry, when you said an increase for the year, do you mean a volume increase or how did the 3% compare to the third or the second quarter?

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

It's, you know, -- we kind of started the year kind of soft where, rates where down a little bit and moving into the last half of the year, our rates went positive in that area. So we've -- we like the trend.

Ron Bobman

Okay. I want to follow up on the first -- I forgot who it was, the first questioner and you were talking about workers' comp and you said -- I think you were only talking about California, you know, you think you need another 10 points of rate to get down to like a 104 combined. And then I think you provided sort of an ROE pair in effect that I think you were sort of saying in a 104 combined, the ROE would be a certain level. But I'm surprised that the ROE you cited was so high given where new money rates are. So if I heard you right, it didn't make sense to me.

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

Rob, you've got a longer tail on that business. You still have the capital portion of what you're riding at your existing portfolio rates, it's, you know, the new cash, cash from the new premium gets invested at lower new indicated money rates and that's -- that's why I gave you a range, you know, a range, 12% to 14%.

Ron Bobman

And I've not done the math, but I mean, writing at a 104 combined and putting new money to work at, I don't know, 3%, you can get a double digit -- albeit 10, you can get a double digit ROE?

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

Yes.

Ron Bobman

In workers' comp with that combination?

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

That's what our financial guys tell me.

Ron Bobman

Okay. I trust Keith.

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

It's pretty much of it as an issue around the tail and you know, when we look at new money rate when you're investing, you're not going to invest your long tail money rate at a short term return.

Ron Bobman

I'm sorry, Keith, I didn't under -- I had trouble hearing you. Could you say it again slower?

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

All I'm saying is that the return is somewhat of a function of what the duration is on the reserves, either long duration reserves, which means you're going to invest in a longer-term rate than a money market rate, and our average across the P&C assets, so we've been in new money in the 3.5 range. But it is very much an issue around tail.

Operator

Your next question comes from Matt Rohrmann, KBW.

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Carl, Keith, good morning. Just one quick question going back to crop real quick. Your friends at HT at the other day said you know, pricing was up nicely in wheat, you know, relative to where corn and soybean were at and expect it to go. Is there any opportunity there? I know you guys are more corn/soybean heavy.

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

Well, yes, we write -- we don't, we write -- we have wheat exposures too and you know, if it looks like, compared to 2011 base prices they're right, it looks like it's up about 9%. Yes, we have to see where the corn and soybean discovery prices kind of go to to really kind of see where we're going to end up. Right now, corn is down 4%, soybeans down 10%, so you know, we're heavier corn and soybeans mix than maybe some others in that. So maybe it doesn't quite impact us as much.

Matthew Jay Rohrmann
Keefe, Bruyette, & Woods, Inc., Research Division

Is it possible to say if you thought that wheat was a better opportunity to switch a material amount of your business to that crop as opposed to corn and soybean?

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

Well, I think it would be more a matter of whether we retained, you know, whether we put it in the bucket, where we retained more of the wheat business in a given year versus seed more to the government.

Yes, I think that's -- it's really more of our decision around that, how much we have flexibility in how much we retain year to year.

Operator

You have a follow up question from Ryan Brynes, Macquarie.

Ryan J. Byrnes
Macquarie Research

Hi, guys. Just one quick one. Last week a large private DNO underwriter noted that they had started seeing I guess increases in employment practices in crime claims and kind of adjusted their lostics. I just wanted to see if personally, you guys write that type of business as well and if you are seeing any kind of increase claim activity on those two lines?

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

We do write some Fidelity and Crime. We are seeing some increase, not dramatic but there's definitely directionally an increase in the claims level.

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

You're talking about private equity?

Ryan J. Byrnes
Macquarie Research

No, no, they were noting -- well, I thought they were noting just in their private and non-profit book that they were seeing increased employment practices and crime claims.

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

The answer is, yes, we're experiencing some but not dramatic.

Operator

There are no further questions at this time.

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

All right. Thank you very much. We appreciate you joining us and we'll look forward to visiting with you again when we report the first quarter.

Operator
This concludes today's American Financial Group 2011 Fourth Quarter and Full earnings conference call. You may now disconnect.