American Financial Group, Inc. NYSE:AFG

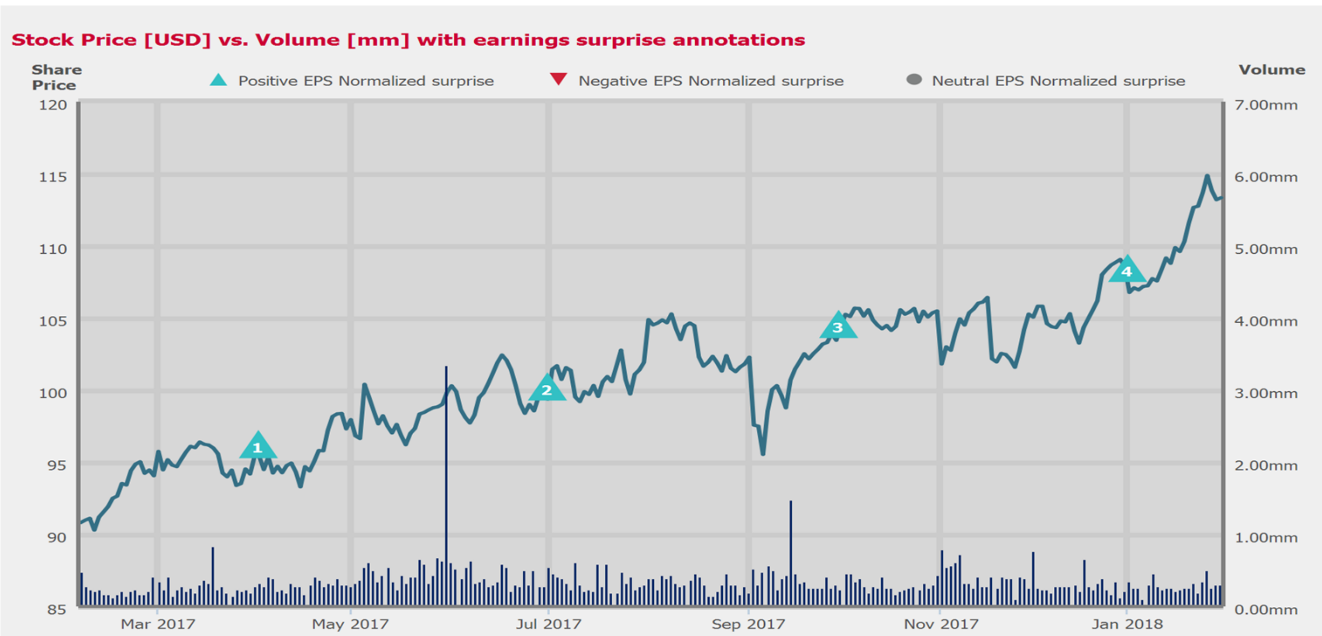
FQ1 2018 Earnings Call Transcripts

Thursday, May 03, 2018 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.92	2.42	▲26.04	1.86	8.26	8.49
Revenue	-	-	▼(3.13 %)	-	-	-
Revenue (mm)	1142.75	1107.00	-	1079.45	4616.55	4787.10

Currency: USD
Consensus as of May-03-2018 7:58 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	1.34	1.69	▲26.12 %
FQ2 2017	1.30	1.61	▲23.85 %
FQ3 2017	0.84	1.06	▲24.71 %
FQ4 2017	1.64	2.20	▲34.15 %

Call Participants

EXECUTIVES

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

Diane P. Weidner
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Joseph E. Consolino
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Stephen Craig Lindner
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ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Marcos Holanda

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the American Financial Group First Quarter 2018 Results Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Ms. Diane Weidner, Assistant Vice President, Investor Relations. Ma'am, you may begin.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you. Good morning, and welcome to American Financial Group's First Quarter 2018 Earnings Results Conference Call. I am joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Jeff Consolino, AFG's CFO.

Our press release, investor supplement and webcast presentation are posted on AFG's website. These materials will be referenced during portions of today's call.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Certain statements made during this call may be considered forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance. Investors should consider the risks and uncertainties that could cause 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 attributable to shareholders 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. Thus, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I am pleased to turn the call over to Carl Lindner III to discuss our results.

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

Good morning. We released our 2018 first quarter results yesterday afternoon. Please turn with me to Slide 3 of the webcast slides for an overview.

AFG's first quarter results established a new all-time high for core operating earnings of $2.42 per share, up 43% from last year's first quarter. These results include excellent profitability in our Property and Casualty operations and outstanding results in our Annuity segment. First quarter annualized core operating return on equity was 18.6%. Craig and I thank God, our talented management team and our great employees for helping us to achieve these results.

Net earnings per diluted share were $1.60 and included $0.82 per share in realized losses on securities after adopting the new accounting standard related to available-for-sale equity securities. Jeff will discuss noncore items and the impact of the new accounting standard on our first quarter results as he recaps the components of our GAAP earnings.

Returning capital to our shareholders is an important component of our capital management strategy and reflects our strong financial position and our confidence in AFG's financial future. We did announce $1.50 per share special dividend payable on May 25, 2018, to shareholders of record on May 15, 2018, which is in addition to the company's regular cash dividend of $0.35 per share, most recently paid on April 25, 2018.

We're maintaining the 2018 core operating earnings guidance for AFG in the range of $7.90 to $8.40 per share. Craig and I will discuss our guidance for each segment of our business later in the call.

Now I'd like to turn our focus to our Property and Casualty operations. Please turn to Slides 4 and 5 for the webcast, which include an overview of first quarter results.

As you'll see on Slide 4, our Specialty Property and Casualty insurance operations produced very strong core operating earnings and healthy growth during the first quarter. Gross and net written premiums increased 10% and 7%, respectively, in the 2018 first quarter compared to the same quarter a year earlier. Property and Casualty operating earnings were 11% higher year-over-year. Higher property and casualty underwriting profit and higher net investment income were the drivers of the improved results. Specialty Property and Casualty combined ratio of 91.7% improved 0.5 point from the 2017 first quarter and included 5.1 points in favorable prior year reserve development. Catastrophe losses added 1.2 points, primarily due to winter storms in the Eastern portion of the United States and mudslide activity in California. Overall, renewal pricing in our Specialty Property and Casualty group was up less than 1% during the first quarter, though if you exclude our Workers' Comp business, overall renewal pricing was up approximately 3% during the quarter. Most of our pricing increases are coming from commercial auto and a few other businesses where we need to get more rate to achieve our targeted returns. In contrast, the industry's strong Workers' Comp results have led to recommended rate declines in our Workers' Compensation businesses. Even with these rate decreases, we believe we're making appropriate returns in our Workers' Compensation businesses in the current policy year. Our overall loss ratio trend is approximately 1.7% and appears stable. We're keeping our eye on inflation and interest rates though.

Now I'd like to turn to Slide 5 to review a few highlights from each of our Specialty Property and Casualty business groups. Our Property and Transportation Group reported a first quarter underwriting profit of $33 million compared to $43 million in the prior year period. The combined ratio for this segment was 90.4%, which, while very strong, was not quite as strong as the year ago 87.3%. Higher underwriting profits in our agricultural businesses were more than offset by lower underwriting profit in our transportation and property and inland marine businesses. Catastrophe losses in this group were $5 million in both the first quarters of 2018 and '17.

First quarter 2018 gross written premiums in this group were 2% higher than the comparable prior year period while net written premiums were flat year-over-year. The growth in gross written premiums is primarily attributable to new business opportunities in our property and inland marine and transportation businesses, primarily driven by growth in the economy. Higher cessions of crop insurance impacted net written premiums.

Spring discovery prices for corn and soybeans were virtually unchanged from 2017 levels, with corn coming in at $3.96 and soybeans at $10.16. We estimate that the year-over-year change in base rates, volatility factors and commodity prices, however, will reduce industry premiums by about 3.5%. So far this year, commodity pricing is holding up nicely, although it's very early in the season. And planting estimates for corn and soybeans are down slightly from the 2017 acres planted. The wet and cold weather has delayed corn planting, resulting in all states, except Texas and Missouri, being behind their 5-year averages at this point in the year, though very early to -- on the crop year to really prescribe anything.

Overall renewal rates in this group increased 4% in the first quarter of 2018. We're achieving increases on our commercial auto liability lines of approximately 10%. However, these increases were tempered by low single-digit increases in the profitable auto physical damage line of business.

Specialty Casualty Group reported first quarter underwriting profit of $41 million compared to $15 million in the first quarter of last year. Higher profitability in our Workers' Compensation and executive liability businesses primarily attributed to higher prior year favorable reserve development as well as higher year-over-year underwriting profit in our excess and surplus lines were the drivers of improved results. I'm pleased that we have continued to produce strong underwriting margins in our Workers' Comp businesses, as noted earlier that we are seeing rate declines in this line. We believe we're managing our D&O exposures prudently and believe that our risk selection and mix of business has enabled us to perform well over time in this market.

Similarly, I'm pleased with the year-over-year accident year combined ratio improvement in our excess and surplus lines businesses, following the combination of our American Empire and specialty E&S businesses into Great American Risk Solutions last August.

Catastrophe losses for this group were $5 million in the first quarter of 2018 and $1 million in the comparable 2017 period. The 2018 losses were primarily the result of mudslide activity in California.

Gross and net written premiums for the first quarter of 2018 were up 15% and 10%, respectively, compared to the same period in 2017, primarily as a result of growth within Neon. Higher premiums in our executive liability and targeted markets businesses also contributed to growth during the quarter. Neon continues to purchase a significant reinsurance program, which affected year-over-year growth in net written premium.

Renewal pricing for this group was down 1% during the first quarter. But excluding rate decreases in our Workers' Comp businesses, renewal rates in this group were up 2%.

Our Specialty Financial group reported an underwriting profit of $15 million in the first quarter compared to an underwriting profit of $22 million in the first quarter last year. The combined ratio for this group was a very good 90.2% in the first quarter, an increase from 85% in the first quarter of 2017. Lower year-over-year favorable reserve development added 4.6 points while higher catastrophe losses added another point.

First quarter 2018 gross and net written premiums were up 9% and 5%, respectively, when compared to the prior year period, primarily as a result of higher premiums in our lender services and leasing businesses, which were largely ceded. Renewal pricing in this group was up approximately 2% for the quarter.

Now please turn with me to Slide 6 for a summary review of our 2018 outlook for the Specialty Property and Casualty operations. Overall, our guidance remains broadly consistent with the guidance we offered with our fourth quarter 2017 earnings release. We continue to expect a combined ratio between 92% and 94% and growth in net written premiums in the range of 3% to 7% for the specialty -- Property and Casualty Specialty group overall.

Taking a look at each subsegment. We continue to estimate a combined ratio in the range of 92% to 96% in our Property and Transportation Group. A decision to cede a greater portion of our crop insurance business leads us to expect net written premiums to be flat to up 4% during 2018, a decrease from our initial estimate of growth in the range of 2% to 6%. We continue to expect our Specialty Casualty Group to produce a combined ratio in the range of 92% to 96%, with growth in net written premiums in the range of 3% to 7%. Our expectations for the Specialty's financial group are unchanged, with the combined ratio estimated to be in the range of 85% to 89% and net written premiums growth between 2% and 6%. And we continue to expect overall Property and Casualty renewal pricing in 2018 to be up 1% to 2%. We've narrowed this a bit from our original estimate of 1% to 3% with consideration to rate decreases we're seeing in our Workers' Comp book where we continue to achieve really strong returns.

Property and Casualty net investment income is expected to grow between 4% and 6% year-over-year, which is unchanged from our previous estimate.

Now I'll turn the discussion over to Craig to review the results in our Annuity segment and discuss AFG's investment performance. Thank you.

Stephen Craig Lindner
Co-President, Co-CEO & Director

Thank you, Carl. I'll start with a review of our Annuity results for the first quarter, beginning on Slide 7.

Statutory annuity premiums were $1.15 billion in the first quarter of 2018 compared to $1.29 billion in the first quarter of 2017. Higher premiums in the retail channel were more than offset by lower premiums in the financial institutions channel. When looking sequentially, however, premiums in the first quarter of 2018 represent a 26% increase from sales reported in the fourth quarter of 2017, with growth in all product lines and channels. Annuity earnings before income taxes were $125 million in the first quarter of 2018 compared to $96 million in the first quarter of 2017, an increase of 30%. Under GAAP rules, a portion of the reserves for fixed indexed annuities is considered to be an embedded derivative and is recorded at fair value based on the estimated present value of certain expected future cash flows. Assumptions used in calculating this fair value include: projected interest rates, option costs, surrenders, withdrawals and mortality. Variances from these assumptions as well as changes in the stock market will generally result in a change in fair value. Some of these adjustments such as unanticipated changes in market interest rates are not economic in nature for the current reporting period, but rather impact the timing of reported results.

The impact of fair value accounting for fixed indexed annuities includes an expense for annuity interest accreted on the embedded derivative reserve. The amount of interest accreted in any period is generally based on the size of the embedded derivative and current short-term interest rates. The interest accreted on this embedded derivative was $7 million in the first quarter of 2018 compared to $3 million in the prior year period. In addition to this accreted interest, we experienced higher-than-expected renewal option costs in the first quarter of 2018. This resulted in a $4 million negative impact to annuity earnings.

Lastly, in the first quarter of 2018, the benefit of significantly higher-than-expected market interest rates was partially offset by the impact of a decrease in the stock market, resulting in a net $24 million favorable impact to annuity earnings. By comparison, during the first quarter of 2017, the negative impact of lower-than-expected interest rates was more than offset by the benefit of a higher stock market and certain other items, resulting in a net $1 million favorable impact to Annuity earnings. For an analysis of fair value accounting, see our quarterly investor supplement, which is posted on AFG's website.

Annuity earnings before the impact of fair value accounting on fixed indexed annuities were $112 million in the first quarter of 2018, up 14% from the prior year period, establishing a new all-time quarterly high for the Annuity segment.

Turning to Slide 8. You'll see that quarterly average annuity investments and reserves both grew by 10% year-over-year. These results also include unusually high returns on certain private equity and limited partnership investments, which is not necessarily expected to be recurring. The benefit of these items was partially offset by the runoff of higher-yielding investments. Additional information can also be found at AFG's quarterly investor supplement posted on our website.

Please turn to Slide 9 for a summary of the 2018 outlook for the Annuity segment. Our guidance assumes that Corporate A2 interest rates rise moderately by about 10 to 25 basis points, depending on duration, between now and the end of the year. It also assumes the S&P 500 increases by 1% each quarter.

For 2018, we now expect earnings before the impact of fair value accounting on fixed-indexed annuities to be in the range of $410 million to $435 million, up from our original estimate of $400 million to $430 million.

Our original estimate for 2018 pretax annuity earnings remains unchanged is -- and is in the range of $285 million to $425 million. While our 2018 first quarter earnings were outstanding, we do not anticipate a recurrence of certain items that favorably impacted the quarter, including the exceptionally high returns on certain investments. Furthermore, we expect to continue to see the negative impact of higher indexed annuity option costs, which affects fair value accounting.

Since the end of 2017, these costs have exceeded our assumptions and expectations by a range of about 5 basis points to 20 basis points. We will continue to monitor these costs, which have been elevated over the last 2 quarters. If this trend continues, we will need to adjust renewal rates on our $19 billion of in-force indexed annuities to help mitigate the higher costs. We've already made appropriate adjustments on pricing of new products to address this situation.

Finally, due to stronger-than-expected first quarter sales in our retail channel, we now expect that 2018 full year annuity premiums will be up 6% to 12% when compared to the $4.3 billion sold in 2017, an increase from our original guidance of up 2% to 6%. Please note that fluctuations in returns on investments, large changes in interest rates and/or the stock market, or higher or lower FIA option costs as compared to our expectations, could lead to significant positive or negative impacts on the Annuity segment's results.

Please turn to Slide 10 for a few highlights regarding our $46 million investment portfolio. AFG reported first quarter 2018 net realized losses on securities of $74 million after tax and after deferred acquisition costs, which includes $71 million in realized losses on securities after adopting the new accounting standard related to equity securities previously classified as available-for-sale. This compares to a net realized gain on securities of $2 million in the first quarter of 2017. As of March 31, 2018, unrealized gains on fixed maturities were $342 million after tax, after DAC.

As you'll see on Slide 11, our portfolio continues to be high quality, with 89% of our fixed maturity portfolio rated investment grade and 98% with an NAIC designation of 1 or 2, its 2 highest categories. We provided additional detailed information on the various segments of our investment portfolio in the quarterly investor supplement on our website.

I will now turn the discussion over to Jeff, who will wrap up our comments with an overview of our consolidated first quarter 2018 results and share a few comments about capital and liquidity.

Joseph E. Consolino
Executive VP, CFO, Principal Accounting Officer & Director

Thank you, Craig, and good morning, everyone. I'm on Slide 12, which summarizes AFG's operating earnings results on a consolidated basis. The $2.42 in core EPS we reported in the quarter is based on core net operating earnings of $219 million. The increase in core earnings in the first quarter was primarily the result of very strong operating earnings in our insurance businesses, bolstered by a lower effective tax rate, which was 19% in the quarter. Several factors contributed to higher property and casualty pretax operating earnings. In addition to a $13 million or 16% increase in specialty P&C underwriting profit, P&C net investment income grew $14 million or 16% year-over-year, primarily the result of unusually high returns on certain private equity and limited partnership investments.

The sale of real estate in the 2017 first quarter offset other expenses in that period, making the first quarter 2018 P&C other expenses line higher by comparison.

Pretax earnings for Annuity segment increased 30% year-over-year. Parent company interest expense decreased by $6 million year-over-year as a result of our 2017 debt refinancings. Other expenses increased by $1 million, and that will include income and expenses related to AFG's previously-recorded runoff lines of businesses.

Slide 13 provides a reconciliation of core net operating earnings to net earnings. ASU 2016-01, effective January 1, 2018, now requires holding gains or losses on equity securities be recognized through earnings. This drove noncore results this quarter. As a result of adopting these new rules, AFG recognized $71 million or $0.78 per share in that after-tax realized losses related to equity securities still held. Other net after-tax realized losses on securities were $3 million or $0.04 per share.

As indicated on Slide 14, AFG's adjusted book value per share was $54.74 at March 31, 2018. Annualized growth in book value per share plus dividends was a strong 11.8%. We returned $31 million to our shareholders with our regular quarterly dividend, and we will return an additional $133 million to shareholders with the payment of the special dividend later this month.

Parent cash was $280 million at the end of the first quarter. We maintained sufficient capital in our insurance businesses to meet our commitments to the ratings agencies. Our excess capital stood at approximately $845 million in March 31, 2018. Please remember, we plan to hold approximately $200 million to $300 million of dry powder to maintain flexibility for opportunities as they arise. Our management team reviews all opportunities for deployment of capital on a regular basis.

In closing, Page 15 shows a single page presentation of our 2018 core earnings guidance. Our range is unchanged from our initial guidance issued in January. It assumes an effective tax rate of approximately

20% on core pretax operating earnings. AFG's expected 2018 core operating results exclude non-core items such as realized gains and losses and other significant items that may not be indicative of ongoing operations.

Now we'd like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Amit Kumar of Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Just maybe going back to the discussion on guidance. If you look at the underlying AOI LR ex cat, it's flat this quarter versus 2017. Do you -- how do you think that number sort of trends for the remainder of the year? And is it conservatism in terms of keeping the guidance unchanged? Or you do expect conditions to tighten a bit for the remainder of the year?

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

Amit, this is Carl. We -- in our guidance, we don't just look at loss ratio. We kind of really are trying to look at the whole picture. So I think you're best off looking at our overall guidance and for our overall group in that. Generally, if you look back historically, we really don't -- we've not changed guidance after the first quarter. Part of that has to do with the crop business being farther along to kind of get some feel on that. Also, when you look at the -- in our industry, you look at hurricane season and that type of thing, and you like to be a little bit farther along on that. And then I think, Craig, do you have a perspective on the annuity business, probably a little early.

Stephen Craig Lindner
Co-President, Co-CEO & Director

Amit, what I would say is we're extremely pleased with our start to the year, but it's early in the year and there are a couple of things that can have a significant impact on fair value accounting, the biggest one being interest rates and secondarily, option costs. So we just thought it was a bit early in the year to change the guidance even though we're very pleased with the start to the year.

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

Yes. Amit, on the pricing side, I'm very pleased. Maybe addressing -- a little bit addressing potential impact on loss ratio going forward. I'm actually very pleased. Overall, pricing is about the same in the first quarter, but you really got to look at the pieces. If you take comp aside and our Workers' Comp business has just been performing in an outstanding way the past -- really, over the past 3 years. And even with the rate declines that we project and -- at Summit in Florida and the rate declines that we project in California, we still think those businesses will be able to make a small underwriting profits and good returns in that. But if you put the Workers' Comp business aside and you look at the trends in specialty, property and transportation, the first quarter -- the 4% increase is up from the fourth quarter of last year and up from 2017's pricing level. You look at Specialty Casualty, if you look at Specialty Casualty, excluding comp, the same thing. The first quarter, excluding comp, it's up about 2%. It's up a little bit from the fourth quarter levels and from last year's levels. And in Specialty Financial, the 2% is up in a healthy way from the fourth quarter of last year and from 2017. And overall, if you look at our -- the overall specialty group, excluding comp, it's up 3%. And again, it's a good trend from the fourth quarter of 2017 and from the whole year. So I'm very pleased with the trends that we're seeing. Workers' Comp, it's kind of good news, bad news. And the results for the prior accident years keep improving, and that means good things on the reserve side, but it also means that you're going to see some rate decreases to adjust to what the actual results have been. So anyhow, that's a little more color. Hopefully that's helpful for you.

Amit Kumar
The Buckingham Research Group Incorporated

Yes, that's very helpful. But just, I guess, staying on the comp discussion. There has been, obviously, a lot of discussion on NCCI and the rate decreases they're recommending and plus you have an active commissioner in California. Maybe just talk about that a bit more. And when you see NCCI pushing for rate decreases linked to the Tax Cuts Act, how does that play out? And is that already factored in your outlook? Or is that a more a wait-and-see attitude?

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

Well, in Florida, I believe there's a change of about 1.8% decrease in that. We've already factored that into our outlook. There's a lot of talk in California and when you look at our other larger states in that. But I think if it's in the same range as Florida, I don't think it would change our outlook a whole lot.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. Okay. That's helpful. And I guess, the only other question was on consolidation, and I know you give the excess capital number, including the holdco. Any updated talks on what we are seeing out there? There is definitely a pickup in the consolidation trends in the Bermuda space. And I know that -- I'm sure, like, there are several franchises, a pitchbook switch might be circulating at AFG. Maybe just talk about your sort of broader outlook and what might or might not be attractive at this stage of the cycle?

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

Well, Amit, as I think as I've -- we've been prolific starters of business over -- during my career, and we've also made some nice acquisitions, Summit being probably the largest here. But we're -- when we buy things, we not only want them to be accretive, we want them to have the opportunity to have double-digit plus returns, either by fixing them up or by the unique franchise that those are. I think our sweet spot obviously has been in the $0.5 billion or under in that and -- or businesses that have specialty focus or some unique franchise or capability within their space, that's our focus. I don't think -- you're not going to see us expand in the catastrophe, the property cat side of things or -- we're not a buyer for Aspen. So that's generally what our philosophy is. We don't like to put lots of goodwill on the balance sheet, so we're just -- I think we're careful prudent acquirers.

Operator

[Operator Instructions] Our next question comes from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I was hoping you could touch on kind of what I think of as 2 potential businesses that could be inflecting from a profitability perspective, commercial auto, and the Lloyd's business. And just give us an update as to what's happening at those 2 businesses.

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

Paul, this is Carl again. I'll let Jeff address Neon, and I can talk about the commercial auto side of things. In the quarter, we had a good quarter at National Interstate with an accident and calendar year a little bit under 95 combined ratio again. Workers' Comp was very profitable. Commercial auto's making an underwriting profit there, but still need more rate in the commercial auto liability part of that book in order to get the combined ratio to a level that meets at least our company's return objectives. Overall rates were up 5% for National Interstate in the quarter, so we're continuing to take rate after 3 years or 4 years of rate. So I'm very pleased with where that business is. Our Great American trucking business, which is -- had great underwriting results the last couple of years, they had a little bit of a rough quarter, a little bit over 100 combined ratio. They're getting price increase also on their business in that. There's a little noise in the quarter from the -- a couple of aviation losses related to a number of helicopter losses in that. And I think that's probably what is more noise in the quarter than I think commercial auto maybe. Jeff, you want to talk Neon?

Joseph E. Consolino
Executive VP, CFO, Principal Accounting Officer & Director

Thanks, Paul, and always good to hear from you. When you introduced the topic by indicating you want to talk about businesses that were inflecting, I think that's a good characterization for where we hope Neon is. Last year, we did complete the reinsurance to closed transaction to eliminate all of the legacy liabilities before our new management team. And so management's free to concentrate on growing the business. You would have seen some references in our earnings release to Neon being a source of growth in the Specialty Casualty segment. I think on a gross basis, Neon will be probably 30% bigger at the end of this year than they were last year. But then we went on to say that Neon is purchasing a comprehensive reinsurance program, so we took great care in our 10-K and in our last call to talk about our aversion to an outsized catastrophe risk. And so that's something we're still managing very carefully for Neon even as the business expands. In terms of the overall business there, I think a lot of people have remarked who follow the London market that there isn't any kind of a broad turn in rate in the market as a result of last year's record catastrophe activity worldwide. As we measure it, probably the syndicate is up maybe 3% in rate overall. Since much of the property business we underwrite is not renewal business, property doesn't contribute more than, say, 20% to the statistics on renewal rate change. But thus far, we feel like on a like-for-like basis, before model loadings, we'd probably have achieved about a 10% increase in [property-treated] business where we're deploying our capital and maybe a little bit more than 5% in the property D&F business. Those are decent rate increases, but they're not sending us the signal that we need to expand our business dramatically there. So our focus with Neon is to grow the business and prudently deploy our catastrophe aggregate and let the new management team do what they need to do to create franchise value in the company. So hopefully, it will be another modest step forward this year as compared to legacy years, and then we'll keep going from there.

Operator

[Operator Instructions] Our next question comes from Marcos Holanda from Raymond James.

Marcos Holanda

Can you guys just please walk me through your thought process on ceding more premiums on the property transportation side? Don't you guys feel like that the premium you're getting is more than offsetting the -- I think, it's 1.7% loss cost trend you mentioned for that segment?

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

The 1.7% was overall for the whole group in that. And we've been in the crop business for a long time, probably long -- as long or longer than anyone else. Part of our skill set is year-by-year, choosing which bucket in the government multi-peril program, how much business we want to cede to which bucket there and how much business we want to retain. In this quarter, I think we chose to retain a little bit less in that -- I think, that's one thing that impacted on the net premiums.

Marcos Holanda

So it's more of a crop thing than a commercial auto?

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

Yes.

Operator

Thank you, and I'm showing no further questions in queue at this time. I would like to turn the conference back over to Diane Weidner for closing remarks.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you, Tequia, and thank you all for your time and attention this morning. We look forward to speaking with you again at the end of next quarter.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This concludes today's program, you may now disconnect. Everyone, have a great day.