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Market Intelligence

American Financial Group, Inc. NYSE:AFG

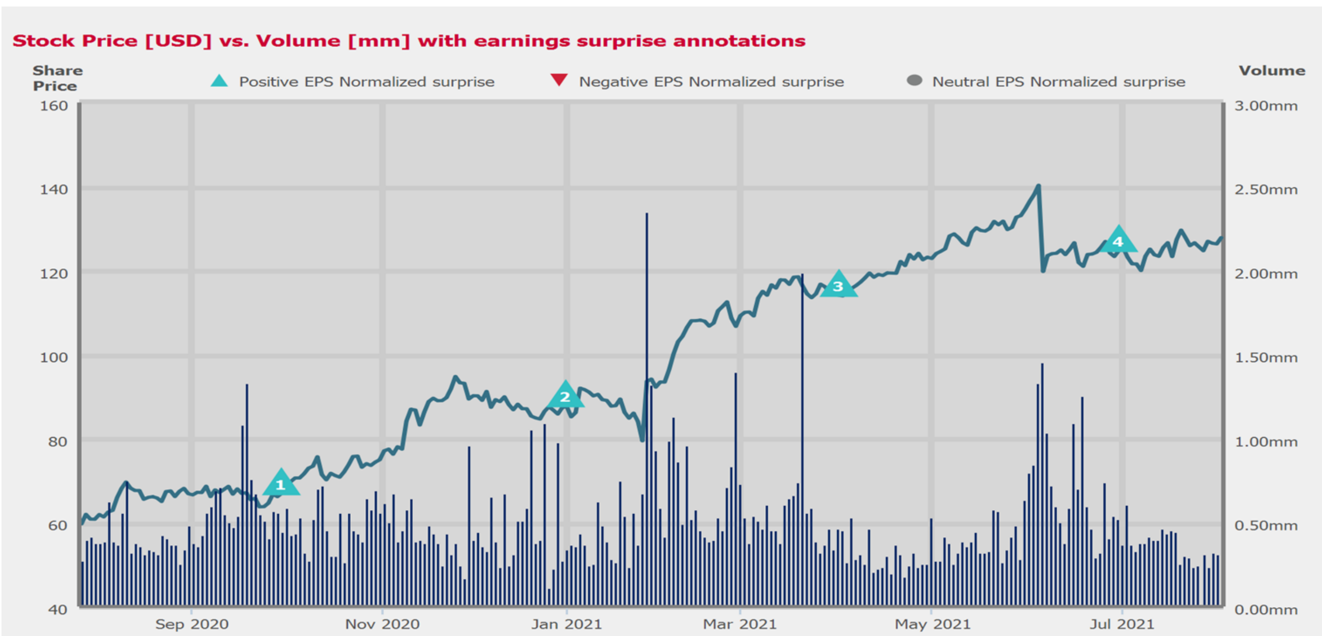
FQ2 2021 Earnings Call Transcripts

Wednesday, August 04, 2021 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.65	2.39	▲44.85	1.88	9.10	NA
Revenue (mm)	1278.50	1250.00	▼(2.23 %)	1335.00	5131.00	NA

Currency: USD
Consensus as of Aug-04-2021 6:55 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	1.70	2.45	▲1 43.27 %
FQ4 2020	2.08	3.09	▲2 48.56 %
FQ1 2021	1.67	2.38	▲3 42.52 %
FQ2 2021	1.65	2.39	▲4 44.85 %

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Call Participants

EXECUTIVES

Brian S. Hertzman
Senior VP & CFO

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

Diane P. Weidner
Vice President of Investor & Media Relations

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

ANALYSTS

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

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Paul Newsome
Piper Sandler & Co., Research Division

SHAREHOLDERS

Rudy R. Miller
The Miller Group

Presentation

Operator

Good day, and thank you for standing by. Welcome to the American Financial Group 2021 Second Quarter Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

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

Diane P. Weidner
Vice President of Investor & Media Relations

Good morning, and welcome to American Financial Group's Second Quarter 2021 Earnings Results Conference Call. We released our 2021 second quarter results yesterday afternoon. Our press release, investor supplement and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause 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 in 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're reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. And as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

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

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

Good morning, and we're pleased to share highlights of AFG's 2021 second quarter results and respond to your questions. I'd like to turn to an overview of our second quarter results on Slide 3 of the webcast.

AFG reported core net operating earnings of $2.39 per share, an impressive 257% increase year-over-year. The increase was due to substantially higher underwriting profit in our Specialty Property and Casualty insurance operations and higher Property and Casualty net investment income. Improved results from the company's $1.6 billion of alternative investments were partially offset by lower other property and casualty net investment income, primarily due to lower short-term interest rates. Annualized core operating return on equity in the second quarter was a strong 14.7%.

Turning to Slide 4. You'll see that the second quarter 2021 net earnings per share of $11.70 included after-tax noncore items totaling $9.31 per share. These noncore items included earnings from our discontinued Annuity operations, inclusive of an after-tax gain on the sale of $8.14 per share. Second quarter 2021 noncore items also included $0.40 per share in after-tax noncore net realized gains on securities. Craig and I thank God, our talented management team and our great employees for helping us to achieve these exceptionally strong results and position our business for continued success.

Based on results through the first half of the year, we now expect AFG's core net operating earnings in 2021 to be in the range of $8.40 to $9.20, up from our previous range of $7 to $8 per share, an increase of $1.30 per share at the midpoint of our guidance. As you'll see on Slide 5, this guidance range continues to assume 0 earnings on AFG's $2.2 billion in parent company cash as we continue to consider alternatives for deployment of the remaining proceeds from the sale of the Annuity business.

We're pleased to increase our 2021 core earnings per share guidance in such a meaningful way. This guidance also excludes other noncore items such as realized gains and losses and other significant items that are not able to be estimated with reasonable precision or that may not be indicative of ongoing operations. Furthermore, the above guidance reflects a normal crop year and an annualized return of approximately 8% on alternative investments over the remaining 2 quarters of 2021. Craig and I will discuss our guidance for each segment of our business in more detail later in the call.

Now I'd like to turn our focus to our property and casualty operations. Please go to Slide 6 of the webcast for an overview. Results during the quarter were excellent. Pretax core operating earnings in AFG's Property & Casualty Insurance segment were a record $288 million in the second quarter of 2021, an increase of $172 million from the comparable prior year period. I'm very pleased that all 3 of our property and casualty groups reported strong double-digit growth in net written premiums, which was primarily the result of the economic recovery, new business opportunities and healthy renewal pricing. Underwriting margins across our portfolio of businesses were excellent with each property and casualty group reporting a combined ratio in the 80s.

The Specialty Property and Casualty insurance operations generated an underwriting profit of $153 million in the second quarter compared to $54 million in the second quarter of 2020, an increase of 183%. Each of our Specialty Property and Casualty groups produced higher year-over-year underwriting profit. The second quarter 2021 combined ratio was a very strong 87.9%, improving 7.3 points from the 95.2% reported in the comparable prior year period. Second quarter 2021 results included 0.9 points in catastrophe losses and 5.4 points of favorable prior year reserve development. Catastrophe losses, net of reinsurance and including reinstatement premiums, were $11 million in the second quarter of 2021 compared to $26 million in the prior year period.

Results for the 2021 second quarter include 0.2 points in COVID-19-related losses compared to 7.6 points in the 2020 second quarter. We continue to carefully monitor claims and loss trends related to the COVID-19 pandemic. Numerous legislative and regulatory actions as well the specifics of each claim contribute to a highly fluid evolving situation. AFG recorded $2 million in losses related to COVID-19 in the second quarter of 2021, primarily related to the economic slowdown impacting our trade credit business. And we recorded favorable reserve development of approximately $4 million related to accident year 2020 COVID-19 reserves based on loss experience.

Given the uncertainty surrounding the ultimate number and scope of claims relating to the pandemic, approximately 66% of the $96 million in AFG's cumulative COVID-19-related losses are held as incurred but not reported reserves at June 30, 2021. Our claims professionals and those who support them are working tirelessly to review claims with the care and attention each deserves.

Now turning to pricing. We continue to see strong renewal rate momentum and achieved broad-based pricing increases in the quarter with exceptionally strong renewal pricing in our longer-tailed liability businesses outside of workers' comp. Average renewal pricing across our entire Property and Casualty Group, including comp, was up approximately 9% for the quarter. Excluding our workers' comp business, renewal pricing was up approximately 12% in the second quarter. With the exception of workers' comp, we're continuing to achieve strong renewal rate increases in the vast majority of our businesses. In fact, this quarter marked our 20th consecutive quarter of overall Specialty Property and Casualty rate increases, which continue to be meaningfully in excess of prospective estimated loss ratio trends.

Gross and net written premiums for the second quarter of 2021 were up 26% and 22%, respectively, when compared to the second quarter of 2020. Excluding workers' comp, gross and net written premiums grew by 30% and 26%, respectively, year-over-year. The drivers of growth vary considerably across the portfolio of our Specialty Property and Casualty businesses.

In the aggregate, year-over-year growth in gross written premium during the first 6 months of '21, excluding crop, was fairly evenly split with just over half of the overall growth attributable to rate and about half attributable to net growth and change in exposures. Market conditions continue to be very favorable and are among the best I recall in my 40-plus years in the business.

Now I'd like to turn to Slide 7 to review a few highlights from each of our Specialty Property and Casualty business groups. Property and Transportation Group reported an underwriting profit of $62 million in the second quarter compared to $33 million in the second quarter of last year. Higher underwriting profit in our crop, property and inland marine, transportation businesses were the drivers of the year-over-year increase. The businesses in the Property and Transportation Group achieved a very strong 86.6% calendar year combined ratio overall in the second quarter, an improvement of 5.1 points from the comparable period in 2020. Catastrophe losses in this group, net of reinsurance and inclusive of reinstatement premiums, were $7 million in the second quarter of 2021 compared to $15 million in the comparable '20 period.

Second quarter 2021 gross and net written premiums in this group were 39% and 32% higher, respectively, than the comparable prior year period, with growth reported in all the businesses in this group. The growth came primarily from our transportation businesses, primarily the result of new accounts, combined with strong renewals and increased exposures in our alternative risk transfer business and our crop insurance business, primarily the result of higher commodity futures pricing and timing differences in the writing of premiums. Overall renewal rates in this group increased 7% on average for the second quarter, consistent with the results in the first quarter this year. I'm pleased to see this continued rate momentum.

As far as crop, we expect a normal crop year. Commodity futures for corn and soybeans are approximately 20% and 12% higher, respectively, than spring discovery prices, as I was looking at my monitor today. Crop conditions vary by geography with industry reports of 62% of corn and 60% of soybean crops in good to excellent condition.

Generally, crops in the eastern Corn Belt are generally in good shape and crop conditions in the Central and Southern Plains and Southeast are above average. It's the crop conditions in the Pacific Northwest through the Dakotas that are below average right now due to extreme drought conditions. And corn and soybean national yield estimates are currently at or near their respective trend yields. So the year seems to be shaping up fine.

Specialty Casualty Group reported an underwriting profit of $71 million in the 2021 second quarter compared to $27 million in the comparable 2020 period. Higher profitability in our excess and surplus lines, excess liability, targeted markets and executive liability businesses were the key drivers. Catastrophe losses for this group were approximately $2 million in the second quarter of 2021 compared to $6 million in the comparable prior year period. Results in the second quarter of last year included $52 million of COVID-19-related losses, primarily in workers' comp and executive liability businesses.

This group reported a very strong 87.9% combined ratio for the second quarter, an improvement of 7 points from the comparable period in 2020. Underwriting profitability in our workers' comp businesses overall continues to be excellent. Gross and net written premiums increased 19% and 16%, respectively, when compared to the same prior year period. And excluding comp, gross and net written premiums grew by 26% and 25%, respectively, year-over-year.

Nearly all the businesses in this group achieved strong renewal pricing and strong premium growth during the second quarter. Significant renewal rate increases and new business opportunities contributed to higher premiums in our excess liability businesses, which have higher cessions than other businesses in the group. Higher renewal rates and increased exposures contributed to the premium growth in our excess and surplus lines business. And our executive liability and mergers and acquisition liability businesses also contributed meaningfully to the year-over-year growth. Renewal pricing in this group was up 11% for the second quarter. And excluding workers' comp, renewal rates in this group were up a very strong 17%.

Specialty Financial Group reported an underwriting profit of $21 million in the second quarter of 2021 compared to an underwriting loss of less than $1 million in last year's second quarter. Improved results in our trade credit business contributed to the higher year-over-year underwriting profitability. And results last year included COVID-19-related losses of $30 million primarily related to trade credit insurance. This group continued to achieve excellent underwriting margins and reported an 86.4% combined ratio for the second quarter of 2021. And gross and net written premiums increased by 7% and 14%, respectively, in the 2021 second quarter when compared to the prior year period. New business opportunities within our lender services, surety and fidelity and crime businesses contributed to the increase in the quarter. Renewal pricing in this group was up 8% for the quarter, consistent with results in the first quarter of 2021.

Now please turn to Slide 8 for a summary view of our 2021 outlook for the Specialty Property and Casualty operations. Based on the results through the first 6 months, we have strengthened our guidance across the board, indicating higher expected 2021 net written premiums and stronger underwriting profit. We now expect the 2021 combined ratio for the Specialty Property and Casualty Group overall between 88% and 90%. Net written premiums are now expected to be 10% to 13% higher than the $5 billion reported in 2020, which is an increase of 3 percentage points from the midpoint of our previous estimate. Growth in net written premiums, excluding workers' comp, is now expected to be in the range of 12% to 16%, an increase from the range of 9% to 12% estimated previously.

And looking at each segment, we now expect the Property and Transportation Group combined ratio to be in the range of 87% to 90%. Our guidance assumes a normal level of crop earnings for the year. We now expect growth in net written premiums for this group to be in the range of 15% to 19%. Our net written premium guidance is based on projected strong growth in our crop operations as a result of higher spring commodity futures pricing and assumes double-digit growth in our transportation businesses during the year.

Our Specialty Casualty Group is now expected to produce a combined ratio in the range of 87% to 90%. Our guidance assumes continued strong renewal pricing in our E&S, excess liability and several of our other longer-tail liability businesses. We've raised our projection for growth in net written premiums to a range of 5% to 9% higher than 2020 results, a change from the previous estimate of 2% to 5%. Premium growth will be tempered by rate decreases in our workers' comp book, which are a result of favorable experience in this line. Excluding workers' comp, we now expect 2021 premiums in this group to grow in the range of 10% to 14%, an increase of 5% from the midpoint of our previous guidance.

And we now expect the Specialty Financial Group combined ratio to be 84% to 87%. We now expect growth in net written premiums for this group to be between 10% and 14%, reflecting stronger underwriting results for the first half of the year and projected premium growth in our fidelity and crime and surety businesses.

Based on the results through the end of June, we expect overall property and casualty renewal pricing in 2021 to be up 9% to 11%, an improvement from the range of 8% to 10% estimated previously. And excluding comp, we expect renewal rate increases to be in the range of 11% to 13% as indicated by the continued pricing momentum we saw through the first half of 2021.

I now turn the discussion over to Craig to review AFG's investment performance and the successful completion of the sale of our Annuity business. Thank you.

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

Thank you, Carl.

The details surrounding our $16.1 billion investment portfolio are presented on Slides 9 and 10. AFG recorded second quarter 2021 net realized gains on securities of $34 million after tax. Approximately $29 million of the after-tax realized gains pertained to equity securities that AFG continued to own at June 30, 2021. Pretax unrealized gains on AFG's fixed maturity portfolio were $260 million at the end of the second quarter.

We're especially pleased with the performance of our alternative investments during the quarter. Earnings from alternative investments may vary from quarter-to-quarter based on the reported results and valuation of the underlying investments and generally are reported on a quarter lag. The annualized return on alternative investments reported in core operating earnings in the second quarter of 2021 was 21.1%. The average annual return on these investments over the past 5 calendar years was approximately 10%.

We view our investments in real estate and real estate-related entities as a core competency. In addition to our portfolio of directly owned properties and mortgage loans, our real estate-related investments include real estate funds and real estate partnerships accounted for by the equity method. We found great success in investing in multifamily properties in desirable communities where we continue to achieve very strong occupancy and collection rates. These properties represented approximately 55% of our alternative investment portfolio at June 30, 2021.

As you can see on Slide 10, our investment portfolio continues to be high quality with 88% of our fixed maturity portfolio rated investment grade and 98% of our P&C group fixed maturities portfolio with an NAIC designation of 1 or 2, its 2 highest categories.

On May 28, 2021, AFG completed the sale of our Annuity businesses to MassMutual, the highlights of which are included on Slide 11. Initial cash proceeds from the sale based on the preliminary closing balance sheet were $3.5 billion. AFG recognized an after-tax noncore gain on the sale of $697 million or $8.14 per AFG share upon closing. Both the proceeds and the gain are subject to post-closing adjustments. Prior to the completion of the transaction, AFG's Property and Casualty Group acquired approximately $480 million in real estate-related partnerships, and AFG parent acquired approximately $100 million in directly owned real estate from Great American Life Insurance Company.

Carl and I are extremely proud of the contributions the Annuity segment made to AFG over the years. Over the last 10 years, this business generated an internal rate of return of approximately 16%, as shown on Slide 12. In an industry where reported net earnings often are significantly less than reported core operating earnings, we're proud of the fact that our Annuity business has produced strong net earnings that demonstrate the discipline with which we operated this business and helped to generate strong overall returns for AFG.

As you will see on Slide 13, for the 10-year period ended December 31, 2020, AFG's Annuity segment net earnings were 108% of Annuity core operating earnings compared to only 74% for the life insurance industry overall. When we include the 5 months of Annuity earnings during 2021, Annuity net earnings as a percent of Annuity core operating earnings improved to 110%, demonstrating the quality of our earnings relative to the industry.

I'm very grateful to our Annuity segment management team and associates for their efforts to bring this transaction to a successful close and wish them the best as they continue their careers with MassMutual. The disposition of our Annuity business sharpens our focus exclusively on the specialty P&C market and generated substantial cash and excess capital for AFG.

In connection with the closing of this transaction, the company declared a special onetime cash dividend of $14 per share totaling $1.2 billion, which was paid in mid-June. Earlier this week, we paid an additional $170 million in connection with an additional $2 per share special dividend declared in July.

Our excess capital remains at a significant level, which affords us the financial flexibility to make opportunistic repurchases, pay additional special dividends, grow our Specialty P&C niche businesses organically and through acquisitions and start-ups that meet our target return thresholds.

I now turn the discussion over to Brian, who will discuss AFG's financial position and share a few comments about AFG's capital and liquidity.

Brian S. Hertzman
Senior VP & CFO

Thank you, Craig. Please turn to Slide 14, where you will find a summary of AFG's financial position at June 30, 2021.

We repurchased $114 million of AFG common stock during the quarter at an average price per share of $116.13 when you adjust it for the special dividend. Share repurchases, especially when executed at attractive valuations, are an important and effective component of our capital management strategy. During the quarter, in addition to the share repurchases and the special dividend that Craig mentioned earlier, we returned $42 million to our shareholders through the payment of our regular $0.50 per share quarterly dividend. Returning excess capital to shareholders in the form of dividends is a key component of AFG's capital management strategy and reflects our strong financial position and our confidence in the company's financial future. With the gain on the Annuity sale, annualized growth in adjusted book value per share plus dividends was a strong 47% in the first 6 months of 2021.

Our excess capital is approximately $3.2 billion at the end of June. This number included parent company cash and investments of approximately $3 billion. As of June 30, AFG parent had invested approximately $500 million of the proceeds from the Annuity sale in high-quality fixed maturity investments with an average life of less than 0.5 year and a yield of approximately 1.2%. As a reminder, we define excess capital as the sum of holding company cash and investments, excess capital within our insurance subsidiaries and borrowing capacity up to a debt to total adjusted capital ratio that ensures we maintain our commitments to rating agencies.

While all of AFG's excess capital is available for internal growth or acquisitions, over $700 million of that excess capital can be used for share repurchases and special dividends above and beyond the nearly $1.5 billion distributed to shareholders through the $14 per share special dividend paid in June, the $2 special dividend paid Monday of this week and the $114 million in second quarter share repurchases while still staying within our most restrictive debt to capital guideline. We expect to continue to have significant excess capital and liquidity throughout 2021 and beyond. Specifically, our P&C insurance subsidiaries are projected to have capital in excess of the levels expected by rating agencies in order to maintain their high current ratings, and we have no debt maturities before 2026.
We will now open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Derek Han from KBW.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

I had a question about the Property and Transportation segment. It looks like the core loss ratio of 65.6% was up year-over-year and sequentially. Should we expect that to continue just given the normalizing frequency environment or were there some one-off items in there?

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

I think there are some aberrations between the second quarter of last year, where you probably had abnormally lower frequency in that and back to a more normal year from an economic standpoint this year. I think our guidance, we try to bake in all of our knowledge in that from actuarial reviews to prospective loss cost trends and that. And so I think our guidance reflects our feelings. Again, we're probably one of the few companies that gives detailed guidance like this, and we try to be very thoughtful. So I would suggest you look to our guidance. I think that answers your question.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. That's helpful. And then shifting gears a little bit. I had a question about the strong expense ratio improvement that you had of 190 bps, another strong quarter. Can you just talk about whether and how much of that is structural versus temporary? I know last quarter, you talked about kind of the benefits from ceding commissions in there, if you had any this quarter, too.

Brian S. Hertzman
Senior VP & CFO

Yes. We do. This is Brian. A couple of things are going on there. One is, with the strong growth in our written premiums, some of that's coming through earned premium and of course, a portion of our underwriting expenses are fixed. So we're benefiting from growth there. And then in some of the businesses that are growing, we also do receive ceding commissions, some of which are volume-based and some of which are profitability-based, but we're seeing that across the business as well, higher ceding commissions this year versus last year. So it's a combination of growth on the fixed expenses and the ceding commissions.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And if I could just squeeze in one more question. So you lowered the combined ratio guide by 1%. How much of that is driven by the expense ratio improvement?

Brian S. Hertzman
Senior VP & CFO

Overall, when we're looking at it, we're seeing growth being a big part of that. So that is contributing. We also are very pleased with our loss ratios.

Operator

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

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

So the first question I have, and I know you won't comment on specific competitors, but Progressive just hosted an investor call just a little bit ago today. And one of the strategic points they were making, they highlighted their acquisition of Protective and growing in the trucking business and their outlook for further growth. And so I wonder if you could just step back and not comment on what Progressive is doing, but just give us a sense given the strong profitability how you see the various competitive forces working through that business. Obviously, you reported strong growth. So you're doing fine. But maybe you can give us some perspective there.

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

Yes. I mean, I can't be happier about how our commercial auto business is performing. I would just start with that. That's 11% of our direct written premium last year. And we're achieving our combined ratio and return on equity targets, already been achieving them for years. And we're continuing to get rate there.

And I still feel, as far as the overall market, the market is still in correction mode, particularly on the larger accounts in commercial auto in that. And I think that, that's continuing to offer opportunities for both price increases as there continues to be disruption in the market as well as strong growth. We had a very strong second quarter growth in commercial auto after a slow start in the first quarter. And as I mentioned earlier, we're projecting double-digit growth in commercial auto in that.

As far as Progressive, years ago, we used to be the second largest shareholder in Progressive. So we think very highly of Progressive as a competitor. I probably would be more, I think Progressive probably will do better than the insurtechs. That's what my perspective is in the whole market.

And I think as far as the Protective transaction, I don't believe that, that transaction is going to have an adverse impact on our ability to grow in the commercial auto marketplace, the marketplaces we serve. And I see it as kind of a neutral or as they're trying to correct some of the problems that Protective had, maybe even possibly in the short term, it could be positive to the marketplace and to us. So that would be my perspective.

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

I agree with your perspective on Progressive versus insurtechs. Much better to be a domain expert than just a technology play. With the substantial capital, excess capital on your balance sheet and cash, can you spend a minute and just talk to us about the M&A market, specifically what you're seeing in property and casualty? Is it a fairly robust pipeline that you're looking at? Would you characterize it as less robust? Would you characterize it, you haven't done anything, so maybe the terms out in the market are just well in excess of what you guys are willing to consider, but just give us some flavor there.

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

Yes, sure. I think it's pretty normal at this point in that. We see a steady stream of opportunities to acquire things. As you know, we're pretty picky and we like to buy things that not only can be accretive, but can have double-digit returns long term in that. And we get a steady look at starting businesses. So I think that's a normal state right now. We're enthusiastic about our opportunities to both start businesses and make some acquisitions over the next 12 to 24 months so.

Operator

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

Paul Newsome
Piper Sandler & Co., Research Division

So one of the big themes of the quarter has been investors looking at the CPI inflation and then struggling to interpret that with respect to how it impacts insurance companies, particularly companies like yours that have a large casualty component to it. Could you weigh in as to what you think and how you think we should think about the inflationary trends and maybe what do you think we should do, how we should view the sort of the outside data as it applies to the inside data that you see?

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

Yes. I think, clearly, each company addresses social inflation or the prospect of it in different effectiveness, if you understand what I mean. In our case, we have business leaders whose compensation is directly, their rewards and bonuses and long-term incentives are tied to underwriting profit. And we have regular quarterly reviews where our actuaries, our centrally located actuaries meet with each of the business leaders and go through the most current trends in that and make adjustments on our loss picks and projections based off of not only what the current loss trend is, but what a prospective loss trend is.

For instance, in our case, our actual overall loss ratio trend is 1.6% and 3.8% if you exclude comp in that. But as we approach, when we look at our prospective loss trend as a company, instead of 1.6%, that would be more like 2.5%. And instead of almost 4% excluding comp, that would look like 6% excluding comp in how we prospectively look at things and how we manage the business in that.

Now against those numbers, the prospective loss trends of 2.5% year-to-date, we're getting a 10% price increase. So obviously, we're getting price that exceeds our loss costs in that. And then when you look at excluding workers' comp on a prospective basis, I use that 6% number, and we're achieving 13% price increase year-to-date excluding comp.

So I think that each company needs to manage intelligently and effectively through that. I think in our case, other ways we mitigate our exposures are looking at the potentially policy limits and terms of the policies as things change, excluding some exposures that potentially you would have included at different times.

Having a reinsurance purchasing strategy helps insulate us from the impacts of social inflation. Recognizing kind of as we did in commercial auto years ago, I think we, because we're specialists in the passenger transportation and in commercial auto, I think we recognized some of the severity trends quicker than others. And as we talked about before, we're at about our eighth or ninth year of rate increase in that. So I think that's how we address it as a company. I think so far, so good. I think we're addressing it effectively.

Paul Newsome
Piper Sandler & Co., Research Division

Maybe for a second question, a little bit color on the competitive environment for workers' comp. I think we've talked about some of the other bigger lines for American Financial Group. And are we close to a turn there finally? What do you see from a competitive perspective in workers' comp?

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

I think in most states it's a reasonable competitive environment today. I think California is the one that kind of confuses me. When you look at the size of the rate declines there in that market over time and the loss result, accident year combined ratios that are creeping up for everybody, that's probably the only place that I kind of question competitively what's going on.

We like our workers' comp business. Our overall results for the second quarter and 6 months continue to be excellent, although our combined ratio is higher than last year, as I've kind of been talking for the last year or 2. But we expect good overall calendar year underwriting profit for 2021 and though higher than 2020 and probably even a small accident year underwriting profit in '21.

I think I continue to be very enthusiastic. I do think, yes, our overall comp premiums will probably be down low single digit, which might be a little bit better than the previous year. And pricing for the 6 months is down about 4%, probably expect the same for 2021. I have to think going forward into '22 that you will see a different scenario than that, pricing flattening out and potentially increasing.

Operator

Our next question comes from the line of Rudy Miller from Miller Capital.

Rudy R. Miller
The Miller Group

Yes. I'd like to comment on the outstanding quarter. As a shareholder, we appreciate special dividends, and I think happy shareholders as well as your consumer clients. On the insurance side, I do have a couple of questions. One other comment, I have, over the years, appreciated the smart money approach and the selective process that you've had excess of cash or you've made acquisitions. And I appreciate you hitting on that today from one of the other commentary to people that you've got the dollars here. You don't need to spend it in the next 24 hours or 2 months. You have to find the right process. And you have guys, both Carl, you and Craig, of having the track record of making sophisticated, intelligent and common sense acquisitions or investments. And kudos to that.

Going to a little bit of the farming and some questions I have for you with climate change, being a former fireman and a helicopter pilot in the military, a medic before I was ever in business. I'd like to get your comments a little bit about the changing weather patterns from the fires to the floods and how the farmers can be affected over the near term and long term, if you could give any color to that?

And then one other follow-up question I'll give you is, what's the percent of your employees have been back from CV19? You have investments in a lot of companies throughout the country and their policy with their employees. And how are you looking at the dollars you've saved previously last year with not having to travel compared to this year? That's about 3 buckets. But I usually wait about 3 or 4 calls before I comment. I usually just listen and I'm really very pleased with the results of the stock and the dividends and that the Street appears to see, starting to recognize what you've been doing for a long time.

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

This is Carl. I wish I was an expert in climate change, but I would admit I'm not. So I may not be the best person to ask with regards to that whole arena. I think with regards to the Western drought, in particular, I think from a crop insurance standpoint, we have the ability within the government multiple peril program to choose up how much risk we want to take state by state each year. So inherent in the program, we have the ability, as there are changes with respect to climate or drought and what our anticipation is, is we can take more or less risk within the choices we can make within the program. I think within, generally, we're lighter in our Western exposure in crop hail, for instance, than we are in the eastern Corn Belt and in some of the Central states in that.

As far as the wildfire goes, those, I think that in our case, we kind of think that wildfires are going to be more of a continual type of an event versus like a sporadic event maybe in the past. And I think we've been adjusting in the other parts of our business, whether it be things like nonprofit business or property and inland marine. We've adjusted our appetite or our pricing or terms to reflect an increased exposure there.

As far as related to flood, as it relates to major storms, hurricanes and that, as a company right or wrong or otherwise, we've chosen up over 20 years to have a lower catastrophe volatility than our peers in that. We just don't think you can adequately price a coastal property from a hurricane exposure standpoint over time. As Christians, we believe that God can do whatever he wants, wherever he wants, however much he wants, and that's a hard thing to estimate a price on over time. So just as a company, we have a lower catastrophe volatility than most. We do write coastal exposures, but we do that carefully in that. So I hope that gives you some insight on how we look at things.

Rudy R. Miller
The Miller Group

Very helpful. I appreciate that very much so. And how about your staff returning from coronavirus? I mean, are you guys fully back and loaded at the office? Do you still have more people out that you're going to bring in? And how is your cost ratio going forward with events? And what have you learned through the pandemic guys? I mean, what have you learned about your operations that you didn't know? I know you've done a hell of a job but...

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

I think one thing, yes, I mean, one thing that we've learned is as a technology-driven business with people as our most important assets, we did a lot of good planning over the last 5 years, disaster recovery planning to allow our people to seamlessly and really effectively manage our business with very few people in the office over the past 18 months. So I have to give the leadership and HR and our information technology folks, I have to laud them a lot. I think we did a good job preparing for such an event, and our people have had the technology and the resources that they've needed to effectively run the business.

Brian S. Hertzman
Senior VP & CFO

From an expense perspective, we've learned that Zoom meetings and conference calls can be an effective way to communicate with stakeholders. There's a lot of things that you can't replace face-to-face with. But I think going forward, we'll take a pause in looking at travel and make sure that it's something that has to occur versus something that could occur over a Zoom meeting or something like that. So we'll be mindful of our travel expenses knowing that we've been so successful over the past 18 months with remote.

As far as return to work goes, we've started a staged return to work back in mid-May. And the current plan is to welcome all of our employees back to the office after Labor Day. So while it's a staged return now, we'd look to being more normally staffed after Labor Day. But with that, we're also going to offer most of our employees the opportunity to work a hybrid work schedule, including in-office and at-home schedules when they come back.

So while we want to put up our employees to reconnect and collaborate in-person, we also see the importance of offering flexible working arrangements that empower employees to succeed. Ultimately, the safety and well-being of our employees remain our top priority. So some things could change with our return-to-work schedule and really since we've been so successful so far, it's not a must-have, but really something we just think will be good for us going forward, especially from a training perspective and working with our employees and then maintaining our very strong corporate culture. At the moment, about half the people could be in the office on any day, but it will be after Labor Day before we have really the full staff back in.

Rudy R. Miller
The Miller Group

Brian, as the CFO of this company, I want to thank you for doing a great job since you've been installed in that position, duly noted by the detail you have given in the financial metrics.

Operator

Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Diane Weidner for closing remarks.

Diane P. Weidner
Vice President of Investor & Media Relations

Thank you, and thanks to all of you for joining us this morning as we share a recap of our second quarter results. We look forward to speaking with you again next quarter. Hope everyone has a great day.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.