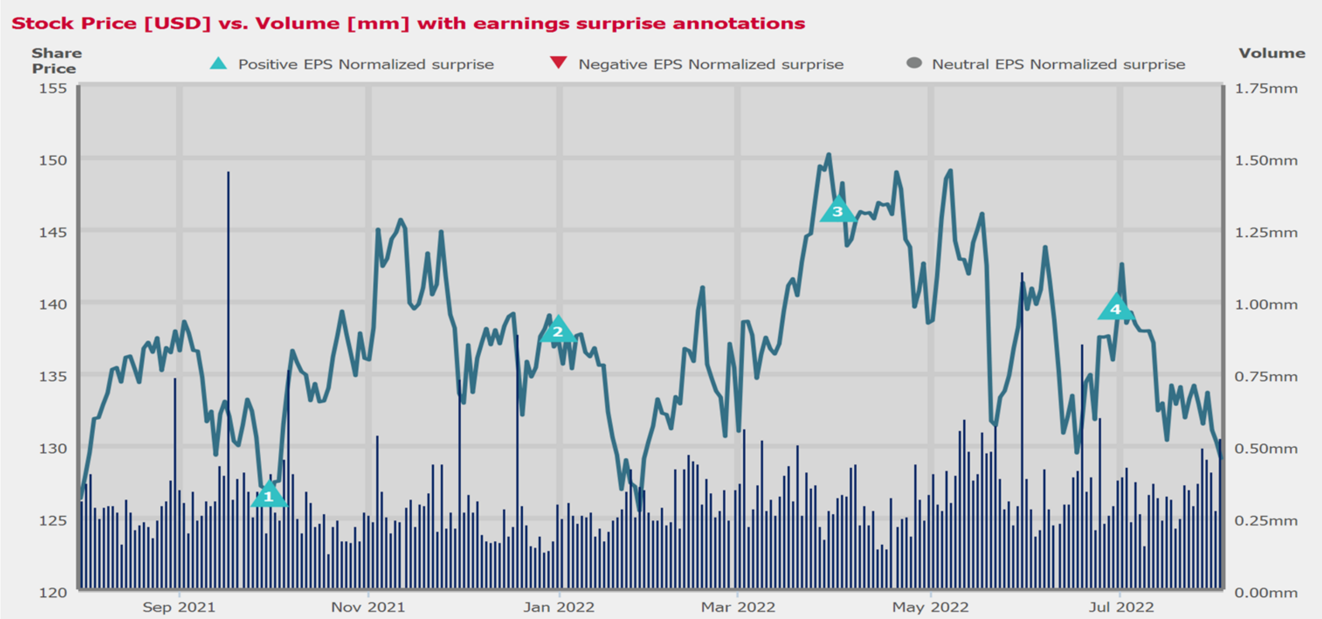
S&P Global
Market Intelligence

American Financial Group, Inc. NYSE:AFG
FQ2 2022 Earnings Call Transcripts
Thursday, August 04, 2022 3:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.21	2.85	▲28.96	2.18	11.01	NA
Revenue (mm)	1462.00	1393.00	▼(4.72 %)	1513.00	5833.50	NA

Currency: USD
Consensus as of Aug-03-2022 11:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	1.95	2.71	▲1 38.97 %
FQ4 2021	2.98	4.12	▲2 38.26 %
FQ1 2022	2.71	3.56	▲3 31.37 %
FQ2 2022	2.21	2.85	▲4 28.96 %

Table of Contents

Call Participants

EXECUTIVES

Brian S. Hertzman
Senior VP & CFO

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

Diane P. Weidner
Vice President of Investor Relations

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

ANALYSTS

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

Charles William Lederer
Wolfe Research, LLC

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

SHAREHOLDERS

Rudy R. Miller
The Miller Group

Presentation

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to American Financial Group Second Quarter 2022 Results Conference Call. [Operator Instructions] Please be advised that today's conference may be recorded.

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

Diane P. Weidner
Vice President of Investor Relations

Good morning, and welcome to American Financial Group's Second Quarter 2022 Earnings Results Conference Call. We released our 2022 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 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. We're pleased to share highlights of AFG's 2022 second quarter results. After which, Craig, Brian and I will be glad to respond to your questions.

AFG's financial performance during the second quarter was outstanding. We're pleased to report an annualized core operating return of nearly 21% in the quarter, including record second quarter underwriting profit alongside double-digit premium growth. Strategic positioning of our investment portfolio enabled us to invest opportunistically, and the returns in our alternative investment portfolio continued to exceed our expectations.

Our entrepreneurial, opportunistic culture and disciplined operating philosophy have positioned us well in this increasing interest rate environment and favorable Property and Casualty market.

Craig and I thank God, our talented management team and all of our employees for helping us to achieve these exceptionally strong results.

I now turn the discussion over to Craig to walk us through AFG's second quarter results, investment performance and our overall financial position at June 30.

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

Thank you, Carl. Please turn to Slides 3 and 4 for summary earnings information for the quarter. AFG reported core net operating earnings of $2.85 per share compared to $2.39 per share in the second quarter of 2021. The increase was primarily the result of significantly higher underwriting profit in our Specialty P&C insurance operations. As Carl mentioned, annualized core operating return on equity in the second quarter was a very strong 20.7%.

On Slide 4, you'll see that net earnings included after-tax non-core realized losses on securities of $73 million or $0.86 per share in the quarter. Included in this number is $65 million or $0.76 per share and after-tax losses from the mark-to-market of equity securities that we continued to own at June 30.

Now I'd like to discuss the performance of AFG's investment portfolio, financial position and share a few comments about AFG's capital and liquidity. During the second quarter, we continued to act on the opportunities presented by the increasing interest rate environment and increase the duration of our P&C fixed maturity portfolio, including cash and cash equivalents from approximately 2 years at December 31, 2021, to approximately 2.7 years at June 30, 2022.

Our fixed maturity reinvestment rate is approximately 4.5% and compares favorably to the fixed maturity portfolio book yield of approximately 3.3% at the end of the second quarter. In addition, our portfolio of floating rate securities, most of which are tied to 1-month or 3-month indices continue to benefit from rising interest rates.

For the 3 months ended June 30, 2022, net investment income was slightly higher than the comparable 2021 period as both periods included very strong results from alternative investments. The annualized return on alternative investments in the second quarter of 2022 was approximately 12.4% compared to 21.1% for the 2021 quarter.

The $62 million in pretax earnings from our portfolio of alternative assets in the 2022 quarter included $38 million in earnings from the sale of certain multifamily housing investments at a very favorable market. We held these investments for 4 to 5 years and achieved an average annual return in excess of 25% over that period.

Excluding the impact of alternative investments, net investment income in our Property and Casualty insurance operations for the 3 months ended June 30, 2022, increased 18% year-over-year as a result of the impact of rising interest rates and higher balances of invested assets.

Carl will come back to drivers of our overall increased guidance for 2022, but I'm going to take a few minutes now to talk about the investment income assumptions embedded in our updated guidance.

First of all, we'll continue to benefit from the higher interest rate environment, both from our floating rate fixed maturities and reinvestment opportunities. With regards to alternative investments, our guidance assumes an overall annual yield of 10% to 12% on alternative investments for the full year based on the strong performance of this portfolio in the first half of 2022. Our guidance reflects minimal income from alternative investments in the second half of 2022 as we assume that the continued strong performance of multifamily housing investments will offset weaker performance of traditional private equity investments, which may be under pressure from macroeconomic environment.

As a reminder, investments tied to multifamily housing represents approximately 55% of our alternative investment portfolio.

As you can see on Slide 6, our investment portfolio continues to be high quality with 91% of our fixed maturity portfolio rated investment grade and 98% of our P&C Group fixed maturity portfolio with an NAIC designation of 1 or 2, its highest 2 categories.

Please turn to Slide 7, where you'll find a summary of AFG's financial position at June 30, 2022. Our excess capital was approximately $1.1 billion at June 30, 2022. This number included parent company cash and investments of approximately $750 million.

During the quarter, we returned $728 million to our shareholders through the payment of our regular $0.56 per share quarterly dividend and $8 per share in a special dividend paid in May. Book value per share plus dividends declined 0.9 point in the second quarter.

Excluding unrealized losses related to fixed maturities, we achieved growth at adjusted book value per share plus dividends of 3.6% during the second quarter. The short duration of our fixed maturity portfolio and somewhat limited exposure to publicly traded common stocks when compared to some peer companies helped our performance in this period.

Year-to-date, AFG paid $10 per share in special dividends and paid a total of $36 per share in special dividends since the sale of its annuity operations in May of 2021. Through a combination of these special dividends, share repurchases, the redemption of debt and the purchase of Verikai, we have deployed the $3.57 billion in cash proceeds from the sale of our annuity business while continuing to be in a strong excess capital position. While all of AFG's excess capital is available for internal growth and acquisitions, based on assumptions underlying AFG's current guidance, we still expect to have $400 million to $500 million of excess capital available for potential share repurchases or additional special dividends through the end of 2022 while staying within our most restrictive debt to capital guideline. I will now turn the call back to Carl to discuss the results of our P&C operations and to discuss our expectations for 2022.

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

Thanks, Craig. Please turn to Slides 8 and 9 of the webcast, which include an overview of the second quarter results. Operating earnings in our Property and Casualty segment established a new second quarter record for AFG. And I'm pleased that virtually, all of our businesses are meeting or exceeding return on equity targets.

As you'll see on Slide 8, the Specialty P&C insurance operations generated an underwriting profit of $197 million compared to $153 million in the second quarter of 2021, a 29% increase year-over-year. Also setting a new record for the second quarter underwriting profit.

Higher year-over-year underwriting profit in our Specialty Casualty and Specialty Financial Groups was partially offset by lower underwriting profit in our Property and Transportation Group. The second quarter 2022 combined ratio was a very strong 85.8%, improving 2.1 points from the prior year period. Results in this quarter included 1.6 points in catastrophe losses and 6.3 points of favorable prior year reserve development.

And gross and net written premiums increased 10%, 11%, respectively, in the 2022 second quarter compared to the prior year quarter. Year-over-year growth that was reported within each of the Specialty Property and Casualty Groups as a result of a combination of new business opportunities, increased exposures and a good renewal rate environment.

The drivers of growth vary considerably across our portfolio of Specialty Property and Casualty businesses.

In the aggregate, year-over-year growth in gross written premium for the second quarter of 2022, excluding crop, is about 65% attributable to new business opportunities and change in exposures and about 35% attributable to rate increases.

Average renewal pricing across our P&C Group, excluding workers' comp, was up about 6% for the quarter and up about 4% overall. Even though the pace of rate increases has slowed in some lines, renewal rate increases in the majority of our businesses continue to be at or in excess of estimated prospective loss ratio trends, which have been approximately 5% for our Specialty P&C businesses, excluding workers' comp and approximately 3% overall throughout 2022.

As a reminder, when we talk about prospective loss ratio trend, it's our view on loss costs going forward in light of the current economic and legal environment, adjusted for the automatic increases in premium on exposures that move with inflation.

Now when we remove the benefit of inflation sensitive exposure growth from our prospective loss ratio trend, such as payrolls and property values among other considerations, we arrive at an underlying perspective loss cost trend estimate that's closer to 5% overall and 6.5% excluding workers' compensation. With these things in mind, we feel very good about the level of rate increases that we continue to achieve and that we've achieved over the last few years, which were meaningfully in excess of loss ratio trends.

Now I'd like to turn to Slide 9 to review a few highlights from each of our Specialty Property and Casualty business groups. Property and Transportation Group reported an underwriting profit of $39 million in the second quarter of 2022 compared to $62 million in the second quarter of 2021, reflecting a couple of larger losses and higher catastrophe losses in our property and inland marine business and lower levels of favorable prior year reserve development when compared to an elevated level of favorable development in the first half of 2021.

Several of the businesses benefited from COVID-19-related lower claims frequency in the first half of 2021. Catastrophe losses in this group, net of reinsurance and inclusive of reinstatement premiums, were $19 million in the second quarter of 2022 compared to $7 million in the comparable '21 period.

With higher catastrophe losses and lower favorable development, the businesses in the Property and Transportation Group achieved a 92.4% calendar year combined ratio overall in the second quarter, 5.8 points higher than the comparable period in 2021.

Second quarter 2022 gross and net written premiums in this group were 13% and 12% higher, respectively, when compared to the 2021 second quarter. The year-over-year growth was primarily attributed to increased exposures and higher rates in our transportation businesses and growth in our crop insurance business. All the businesses in this group reported growth in gross written premiums during the quarter.

Overall renewal rates in this group increased 5% on average for the second quarter of 2022.

Now as far as our crop insurance business, with the exception of some isolated dry areas, much of the nation's corn and soybean crop is in decent shape. Industry reports indicate 61% of corn and 60% of soybean crops are in good to excellent condition and in line with results last year at this time.

Current commodity pricing is really in great shape. Corn is up approximately 1% and soybeans are currently down approximately 4% from spring discovery prices. Assuming that there's adequate rainfall throughout August, we would point to an average or better crop year.

The Specialty Casualty Group reported an underwriting profit of $130 million in the 2022 second quarter compared to $71 million in the comparable '21 period, primarily the result of higher profitability in our workers' compensation, excess and surplus lines and executive liability businesses.

The businesses in the Specialty Casualty Group achieved an exceptionally strong 80.1% calendar year combined ratio overall in the second quarter, an improvement of 7.8 points from the comparable period in '21. Second quarter 2022 gross and net written premiums increased 6% and 9%, respectively, when compared to the same prior year period. Now when you exclude workers' compensation, gross and net written premiums grew 6% and 11%, respectively.

Factors contributing to year-over-year premium growth included increased exposures in our excess and surplus lines business, rate increases and new business opportunities in several of our targeted market businesses and payroll growth in our workers' compensation business. This growth was partially offset by lower year-over-year premiums in our mergers and acquisitions liability business.

The majority of this -- of the businesses in this group achieved good renewal pricing and reported premium growth during the second quarter. Renewal pricing for this group, excluding our workers' compensation businesses, was up 7% in the second quarter. And overall -- renewal rates for this group overall were up 4%.

Moving on to the Specialty Financial Group. They reported an underwriting profit of $37 million in the second quarter of 2022 compared to an underwriting profit of $21 million in the second quarter of '21. Improved results in our trade credit and fidelity / crime businesses were the primary contributors to the higher year-over-year underwriting profitability.

This group continued to achieve excellent underwriting margins and reported an exceptionally strong 78.4% combined ratio for the second quarter of 2022, which is an improvement of 8 points from the comparable period.

Second quarter 2022 gross and net written premiums were up 13% and 11%, respectively, when compared to the prior year period. New business opportunities within our lender services business and exposure growth and new business opportunities in our trade credit and surety businesses contributed to the increase in the quarter. Renewal pricing in this group was up approximately 2% for the quarter.

Now if you turn to Slide 10, you'll see a full-page summary of our 2022 outlook. Overall, we continue to expect an ongoing favorable property and casualty market with opportunities for growth, arising from both continued rate increases and exposure growth.

Based on the strong results reported through the second quarter, we now expect AFG's core net operating earnings in 2022 to be in the range of $10.75 to $11.75 per share, an increase of $0.25 per share at the midpoint of our previous guidance of $10.50 to $11.50 per share.

Our revised guidance reflects higher expected underwriting profit in our Specialty Casualty and Specialty Financial Groups and an average crop year. Earlier in the call, Craig shared our expectations and assumptions regarding full year investment income.

We continue to expect a 2022 combined ratio for the Specialty Property and Casualty Group overall between 85% and 87%. Net written premiums are now expected to be 9% to 13% higher than the $5.6 billion reported in 2021, which is an increase of 1 percentage point from the midpoint of our previous estimate.

Looking at each subsegment, based on our results for the first half of the year, we now estimate a combined ratio in the range of 88% to 91% in our Property and Transportation Group. This guidance continues to assume average crop earnings for the year. We now expect growth in net written premiums for this group to be in the range of 13% to 17%, an improvement from the range of 11% to 15% estimated previously.

Our Specialty Casualty Group is now expected to produce an outstanding combined ratio in the range of 79% to 83%. Our guidance assumes continued strong results across all the businesses in this group, including continued calendar year profitability for our workers' comp businesses overall. We expect net written premiums to be 6% to 10% higher than the 2021 results, consistent with our initial guidance.

Premium growth will be tempered by rate decreases in our workers' comp book, which are the result of favorable loss experience in this line of business. Excluding workers' compensation, we now expect 2022 premiums in this group to be in the range of 9% to 13%, an improvement from the range of 7% to 11%.

We now expect the Specialty Financial Group combined ratio to be in the range of 81% to 85%, and we continue to expect net written premiums for this group to be between 4% and 8% higher.

Based on results through the first 6 months, we now expect renewal rates to increase between 4% and 6% in our Specialty P&C operations overall. And excluding comp, we now expect renewal rates increases to be in the range of 5% to 7%. Both ranges are down 1.1% at the midpoint from our previous guidance.

So Craig and I are very pleased to report these exceptionally strong results for the second quarter, and we're proud of our proven record of long-term value creation. We believe that our entrepreneurial, opportunistic culture, combined with our strong balance sheet and financial flexibility position us very well for the remainder of 2022.
We'll now open the lines for the Q&A portion of today's call. And Craig and Brian and I would be happy to respond to your questions. Thank you.

Question and Answer

Operator

[Operator Instructions] And our first question coming from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I was hoping you could kind of run through whatever detail you [would] like. I guess what segments of your business are kind of most exposed to recessionary environments? And as you highlight those, kind of what impacts you think it might have on those businesses?

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

I'm not sure if there's any one -- any part of our business that would be more exposed than others in that. In fact, I think something like lender, some of the businesses that don't correlate to the cycle like lender-placed property could be the opposite if things slow down and there are more foreclosures within the business.

We're not huge commercial [indiscernible], for instance, which probably since we're not a big main street commercial package writer, I would think within the industry that, that would be an area of particularly small- to medium-sized commercial package type business that might get impacted maybe more than others.

But we're in the nonprofit package space pretty well and have some targeted package business. But overall, we're really pretty small in comparison in that area to others. So those would be my thoughts.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Then you gave -- what it sounds like pretty enthusiastic or positive comments on average or better crop year, but I think you said assuming rainfall in August. So I mean maybe if that doesn't happen, how much downside do you think there could be if [the drought] kind of continues for the next few weeks or months?

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

Well, like I said, commodity prices are in good shape. When you look at the crop conditions right now, I'm very optimistic at this point. And when you take a look at this week, it seems like starting in August, we're getting some rainfall across the country. So I'm very optimistic at this point, but we can tell you a whole lot more at the third quarter conference call.

Operator

And our next question coming from the line of Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Apologies, I got myself a little confused about -- with your rate versus inflation commentary. And it sounds like you are essentially excluding from claims inflation as well as rate inflation numbers, the effect of the exposure increases within your book of business. Is that a fair way of characterizing it? Or am I just getting myself confused?

Brian S. Hertzman
Senior VP & CFO

So what we were trying to clarify -- this is Brian, what we're trying to clarify in Carl's comments. When we look at the loss ratio trends, that loss ratio trend would be our loss cost offset by the favorable impact of exposure changes sort of the automatic things where premiums go up because payroll goes up or property values go up. So when we were giving and have been giving sort of 5% as a loss ratio trend, built into that number is about 1.5% favorable from exposure changes.

So Carl commented that when you take our overall loss ratio trend, excluding workers' comp of 5% and change it to just loss costs without the exposure change, it goes to 6.5%. So I guess, when we talk about loss ratio trend, that's where we adjust for exposure. When we talk about rate increases, we're talking about strictly renewal rate increases without an exposure.

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

Yes. There is some commentary out there from [Evan] and others. And I just want to make sure that our investors, we could kind of have a comparable number that we -- or a comparable number that we could put out there.

I think one significant thing is we haven't changed that. We've kind of been -- those have been the prospective loss ratio or loss cost trends or loss ratio trends that we've been using since the beginning of the year. Tweaked a little bit from first to second quarter in the liability side. But we've been pretty much at that level of prospective loss cost trend or loss ratio trends since the beginning of the year.

Paul Newsome
Piper Sandler & Co., Research Division

Okay. So I mean because I think that -- I think it's very [indiscernible]. My guess is that we're going to have prospective conversation about [indiscernible] everyone about the impact of exposure on loss trend versus the piece that [indiscernible].

Do you have any particular opinions upon how much that would affect your books or what effectively an increase in exposure [means] from an effective amount of rate or...?

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

I think Brian just kind of gave that to you.

Brian S. Hertzman
Senior VP & CFO

So we will look at the exposure part on the loss ratio. So if you want -- without exposure changes, our prospective loss cost trend is 6.5%, that goes to 5% when you take into exposure. So it's sort of 1.5 points on the loss ratio is the way I would say that the change in exposure is favorable on the loss ratio by about 1.5%.

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

Yes, excluding cost...

Paul Newsome
Piper Sandler & Co., Research Division

Is that -- so effectively that's assuming it's -- every point is all -- is equivalent to rate [indiscernible] should be thinking about?

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

I think, again, the way we run the business, we're trying to match rate or look at what rate is necessary to continue to exceed the loss ratio trends in that.

So excluding comp, we got about 6% in rate in the second quarter, and the loss ratio trend -- versus a loss ratio trend of about 5%.

So there are lines of business within our portfolio where it's, for instance, public D&O, which might be 22% of our D&O book, but the public D&O part of that, as has been reported in the industry, some of the industry, media, kind of was down a couple percent or something. That was the first time we've seen a price decline in public D&O. Again, we're more of an opportunistic player in public D&O. It's only about 22% of our D&O book.

But -- so there are parts of our business where we're seeing rates that are below loss cost trends in that, but not many.

And I think the other area that we -- when the D&O, when you add 10 to 15 competitors over a 2-year period of time, and they're all focused on public D&O, you know what's going to happen.

I think the other area in our whole book that I've seen that we see a lot more competition and major deceleration in rate is on kind of the Fortune 1000 excess liability, Fortune 500, Fortune 1000 excess liability.

Those are the public D&O and that -- those would probably be the areas that we would see the biggest disconnect. Now I mean in our case, you saw what our Specialty Casualty combined ratio was. So if you're reporting Specialty Casualty overall combined ratio in the 80 or in the low 80s or whatever, you certainly have some room in that if you're -- if the trends change a little bit.

So I continue to be very pleased. Again, the majority of our businesses continue to be at or exceeding our loss ratio trends. So I'm very happy with how we're positioned.

Operator

Our next question coming from the line of C. Gregory Peters with Raymond James.

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

One guess just as a follow-up, Carl, you said -- you talked about the 10 to 15 new competitors in D&O, and you talked about the competition and excess liability. I just -- when you look at the combined ratio results in Specialty Casualty and Specialty Financial, it just begs the question why there isn't more competition? I mean if your guidance for Specialty Casualty is 79. That's got to be like a record low in the company's history or a record result, right?

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

So it's a strong result. There's no doubt about it. Yes.

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

So outside of those 2 lines that you mentioned, you're not seeing any change in the really competitive landscape on the other businesses?

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

Greg, I think you have to look business by business. Those would be the 2 that kind of stick out where I think things have kind of gotten more competitive than I would have thought, particularly with social inflation with -- I think there's probably a backlog of SPAC type of claims in the D&O side. We're blessed in that not only are we [indiscernible] public D&O, we just haven't written SPACs. We kind of -- one reason why our growth in D&O is a little less than others is because we didn't get into the SPAC market. So I think it's those 2 areas competitively that I've seen the biggest difference.

And in FIS, there's -- it takes knowledge and specialization in things like lender-placed property or fidelity / crime, if you don't know what you're doing on things like casinos and armored cars and things that we specialize in, you can get your head handed to you real easy.

So I feel very comfortable about the -- about our Specialty Financial businesses and our ability to differentiate ourselves and continue to have great results.

We've had results in the 80s for as long as I can remember in the Specialty Financial segment in that.

Specialty Casualty, as a company, we've been -- I think we have great expertise and particularly in the excess liability and in the D&O areas that we write. I think, different than others, we've made great returns and great underwriting results, particularly in the excess liability, an umbrella area for many, many years. And had a few bumps here and there, but overall, have always done well. So I think our culture and the way we approach those businesses, I feel very comfortable, long term, we'll continue to have great results regardless of social inflation.

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

Okay. I don't want to make too much of this, but you did comment in Property and Transportation that there's a couple of losses. Is it just the anomalies of the business? Or is there anything underlying there that we should be thinking about?

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

Yes, I think there were 2 things I mentioned. The level of catastrophe losses in the second quarter were higher than last year. And there was some large loss activity.

In the property business, as everybody knows, you can have some bumps quarter-by-quarter. Now Property and Transportation segment is still through 6 months is reporting a combined ratio in the high 80s. So -- and I think our guidance speaks for itself on the combined ratio there. We're very optimistic and positive about that business.

And to boot, if we -- as the crop year kind of take shape, most of our crop earnings are really booked in the fourth quarter in that. So that has an impact on the last half of the year when you look at the Property and Transportation combined ratio also.

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

Makes sense.

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

To boot, if we -- as the crop year kind of take shape, most of our crop earnings are really booked in the fourth quarter in that. So that has an impact on the last half of the year when you look at the Property and Transportation combined ratio also.

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

[indiscernible] side for all of the insurance companies have come under some overview just because of what's going on in the market. And you talked about the 55% in multifamily that's done well. Can you speak to the 45% that's not multifamily, give us a sense of what the composition of that looks like?

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

Sure. And that is the piece that we kind of don't have great visibility on, Greg. We've got very good visibility on multifamily. And year-over-year, have very, very strong increases in the rental rates.

The guidance that we gave, I believe, has some conservatism in it because we just don't have visibility on the 45% of the alternative portfolio that is in more traditional private equity. We are not big investors in tech, venture -- venture capital or those types of things. So my hope is that if the market stabilizes here for the balance of the year, we could do somewhat better. But it's a very diversified portfolio with very little investment in tech or venture capital.

Operator

[Operator Instructions] Our next question coming from the line of Meyer Shields with KBW.

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

Two quick questions, if I can. First, when you look at your current geographic exposure for crop, any major changes from last year?

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

Not anything. Yes, not anything significant.

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

Okay. Fair enough. Second question, just I was hoping you could update us on, I guess, pricing trends of the intensity of competition in transportation, specifically.

Diane P. Weidner
Vice President of Investor Relations

Meyer, could you repeat your question, please?

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

Yes. I'm just trying to get a sense of the rate competition in the transportation market. I know people are broadly nervous about commercial auto, but I don't know how that translates to the transportation market in National Interstate?

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

Yes. I think the business has gotten marginally more competitive. I think the competition landscape is transitioning a little bit. I think as some markets have shown better results in commercial auto, but there's a lot of pockets in the overall commercial auto market also that are pretty hard in that.

The bottom line, the commercial auto liability markets combined ratio improved in ['20 and all] that, but it's still -- even in our case, we're making, on the commercial auto liability side of our business, we're making a couple of points of underwriting profit. But the severity has just -- frequency is probably a little bit less than pre-pandemic levels, but the severity and the social inflation aspect of things still has us in a mode to be defensive and take rate.

I think in the quarter, we still took 9% in commercial auto liability rate in that. So, yes, I hope the market doesn't get too enthusiastic because I think we're a company in National Interstate that probably had 9 or 10 years of rate increase. We've taken early underwriting actions in different areas. But I think the commercial auto liability is something that we and the market continue -- will continue to be hard in need of rate. So I hope that gives you some perspective.

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

Absolutely does. And then one last question, if I can. When we talk about excess capital, is that influenced more by GAAP or statutory accounting, specifically for the fixed maturity portfolio?

Brian S. Hertzman
Senior VP & CFO

The question was about how excess capital -- what influences the excess capital or...

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

Yes. In other words, when interest rates rise, but nothing else changes, and you've got a [healthy maturity] portfolio, [does that change that]?

Brian S. Hertzman
Senior VP & CFO

So yes. So when we look at the debt-to-capital ratios that we mentioned having -- I think previously, we mentioned that our internal guideline is debt to total capital ratio of around 30%. And in those numbers, particularly with S&P, that capital number does include the unrealized gains or losses on fixed maturities. So when the unrealized loss increases, it does put pressure on that debt-to-capital ratio. All of the numbers that we've talked about as far as our expectations of excess capital that's available for distribution to shareholders, that piece is reflective of sort of where we think interest rates might be by the end of the year.

If you think about our excess capital, just as an example of what can happen. If you think about our excess capital at the end of March, so that was a number that was over $2 billion. But when you pro forma that for the debt retirement and special dividend, then our pro forma number that we shared last quarter was a little over $1 billion, and now we're at $1.1 billion.

And then during the quarter, sort of after the special dividend, you have [$167] million of earnings, you have about $50 million in just our normal dividend and then kind of the rest of the change in the capital is from the unrealized. So you can see the biggest -- the bulk of the change is going from $1 billion to $1.1 billion is really just the earnings in excess of the dividend.

Operator

Now the next question coming from the line of Charles Lederer with Wolfe Research.

Charles William Lederer
Wolfe Research, LLC

Just wondering if you could provide any color on the reserve releases in the quarter, whether by businesses or accident year, particularly within Specialty Casualty and how that compares to recent quarters?

Brian S. Hertzman
Senior VP & CFO

Thanks, Charlie. This is Brian. In Specialty Casualty, as a big driver of development continues to be out of our workers' comp business units in the quarter, and that's been fairly consistent in recent years. And that development ranges in accident years from -- mainly 2020 back to 2016. We still are seeing significant favorable development in other areas like our executive liability business that Carl talked about earlier as being a strong performer as well. And that's really the drivers in the quarter.

That's pretty consistent with the past. I think if you look at that segment, the majority of our developments coming out of workers' comp. And then more recently, we're seeing good development coming out of the executive liability and some other areas as well.

Operator

And our next question coming from the line Rudy Miller with The Miller Group.

Rudy R. Miller
The Miller Group

Gentlemen, just a couple of quick questions. As usual, I think management does a great job with the company. But I would like to ask 2 questions. One is more of a macro question is, what do you feel is your biggest challenge at this point of the year for American Financial Group going forward? What's your biggest challenge?

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

This is Carl. I think our biggest challenge is taking advantage of the market opportunities that are being offered to continue to grow our business double digit. And as almost all of our businesses are hitting the right returns on that, I just want to make, I think, with our 34 different business heads in that for them to really recognize that this is -- there's an unusual opportunity right now to grow double digit, take advantage of it.

Rudy R. Miller
The Miller Group

Thank you. Follow-up question. How are you being affected by the increase in employee salaries, et cetera? And are you having -- are you still having the ability to maintain a good quality workforce or in today's environment as are happening in many clients that [we're invested in and] companies we're involved in, we're seeing hard to maintain employees, employees increases and turnover. How is AFG's historical turnover employee challenges of maintaining good employees. And if you could give me any color on that, I'd be appreciative.

Stephen Craig Lindner

Co-President, Co-CEO & Director

This is Craig, Rudy. First of all, say that we made a decision as a company that we should give increases in salaries this year that were somewhat above what we've done historically, given the environment, the inflation that existed and the importance of not seeing turnover pick up significantly.

We've been extremely pleased with turnover rates. They're up a very small amount from historical levels but compared to other companies that we know about or other industries, we're extremely pleased that the turnover rates have stayed really very stable, and as I said, slightly above historical levels, but pretty comparable.

Rudy R. Miller
The Miller Group

Well, that's an excellent point. I really appreciate you making that. And I'll just make one final comment. Once again, I think, under the current environment and what the company has accomplished for the shareholders and certainly, the dividend program, special dividends are much appreciated, and I think you guys are one of the best management teams in the insurance industry. Thank you, sir.

Operator

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

Diane P. Weidner
Vice President of Investor Relations

Thank you, and thank you all for joining us this morning as we discussed our second quarter results. We look forward to talking with you all again as we report out on third quarter. Hope you all have a great day.

Operator
Ladies and gentlemen, that does conclude the conference for today. Thank you for your participation. You may now disconnect.