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AFG.N - Q2 2023 American Financial Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the American Financial Group 2023 Second Quarter Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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 - *American Financial Group, Inc. - VP of Investor & Media Relations*

Good morning and welcome to American Financial Group's Second Quarter 2023 Earnings Results Conference Call. We released our 2023 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 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 responses to questions. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

If you are 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 - *American Financial Group, Inc. - Co-CEO & Director*

Good morning. We're pleased to share highlights of AFG's 2023 second quarter, after which, Craig, Brian and I will be happy to respond to your questions.

We reported an annualized second quarter core operating return on equity of 18%, which excludes accumulated other comprehensive income, alongside double-digit premium growth, a strong result in the quarter with elevated industry catastrophe activity. The higher interest rate environment contributed to meaningfully higher year-over-year investment income, and we continue to be pleased with the performance of our alternative investment portfolio where returns exceeded our expectations during the quarter.

Our entrepreneurial, opportunistic culture and disciplined operating philosophy continue to serve us well in a favorable property and casualty market and a dynamic economic environment. Craig and I thank God, our talented management team, and our employees for helping us to achieve these results.

I'll 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 - American Financial Group, Inc. - Co-CEO & Director

Thanks, Carl. As I begin my remarks, I'd like to recognize and congratulate John Berding, who was elected President of AFG in late June. John has been a trusted business adviser for over 35 years. His talents have been particularly valuable through his exceptional vision and management of the company's investment portfolio, which has significantly outperformed over time.

Please turn to Slides 3 and 4 for a summary of earnings information for the quarter. AFG reported core net operating earnings of \$2.38 per share in the 2023 second quarter. The year-over-year decrease was due primarily to the impact of elevated catastrophe losses and lower favorable prior year reserve development on underwriting profit in our Specialty Property and Casualty insurance operations, when compared to the record P&C results reported in the second quarter of 2022. These items were partially offset by higher net investment income in the 2023 second quarter.

Now I'd like to turn to an overview of AFG's investment performance, financial position and share a few comments about AFG's capital and liquidity. The details surrounding our \$14.5 billion investment portfolio are presented on Slides 5 and 6. Pretax unrealized losses on AFG's fixed maturity portfolio were \$587 million at the end of the second quarter compared to pretax unrealized losses of \$630 million at the end of 2022. In the current interest rate environment, we're able to invest in high-quality, medium duration fixed maturity securities at yields of approximately 5.5%, which compares favorably to the 4.62% yield earned on fixed maturities at our P&C portfolio during the second quarter of 2023.

We expect the yield earned on our P&C fixed maturity portfolio to increase by about 10 to 20 basis points by the fourth quarter of 2023 compared to the 4.62% earned in the second quarter of 2023. This yield compares very favorably to the 3.63% earned for the full year in 2022.

Looking at results for the quarter. Property & casualty net investment income was 22% higher than the comparable 2022 period. These results included an annualized return on alternative investments in the second quarter of 2023 of 9.6% compared to a 12.4% return for the 2022 second quarter. The return on alternative investments in the second quarter of 2023 was the result of solid performance in both the multifamily housing and the private equity portfolios. The average annual yield on AFG's alternative investments over the past 5 years ended December 31, 2022, was approximately 14%.

Our guidance for 2023 reflects a return of approximately 9% on our \$2.3 billion portfolio of alternative investments. Excluding the impact of alternative investments, net investment income at our P&C insurance operations for the 3 months ended June 30, 2023, increased 45% year-over-year as a result of the impact of rising interest rates and higher balances of invested assets.

Please turn to Slide 7, where you'll find a summary of AFG's financial position at June 30, 2023. Our excess capital was approximately \$700 million at June 30, 2023, which is net of the \$235 million in cash deployed to fund the CRS acquisition, which closed on July 3rd and includes parent company cash and investments of approximately \$550 million. Our acquisition of CRS provide an attractive opportunity to deploy our excess capital to expand our specialty niche businesses.

During the quarter, we returned \$97 million to our shareholders through the payment of our regular \$0.63 per share quarterly dividend and \$43 million in share repurchases. Importantly, AFG has paid \$42 per share in special dividends since the end of 2020, representing \$3.6 billion returned to shareholders over this period. Carl and I consider these special dividends an important component of total shareholder return.

We expect our operations to continue to generate significant excess capital throughout the remainder of 2023 to the point that we could deploy more than \$500 million of excess capital for share repurchases or additional special dividends through the end of 2023, which is in addition to the capital returned to shareholders in the first half of 2023. As you may recall, the portion of our excess capital that we view as available for special dividends and share repurchases is limited by our internal debt-to-cap target of 30%, and that capital number is impacted by unrealized gains and losses on fixed maturities. However, it's important to note that each dollar of debt repurchased frees up approximately \$2 of excess capital for distribution to shareholders.

For the 3 months ended June 30, 2023, AFG's growth in book value per share plus dividends was 3.1% and year-to-date, growth in book value per share plus dividends was 10%. Excluding unrealized losses related to fixed maturities, we achieved growth in adjusted book value per share plus dividends of 4.2% during the second quarter and 8.3% year-to-date.

I'll now turn the call back over to Carl to discuss the results of our P&C operations and our expectations for 2023.

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Before turning to our Specialty Property and Casualty results, I'd like to officially welcome Brian Young and the Crop Risk Services team to AFG and the Great American Insurance Group family. This team's expertise and contributions will strengthen our ability to serve the unique needs of our crop policyholders. CRS is clearly a strategic fit within our Crop Division and solidifies Great American as the fifth largest provider of multi-peril crop insurance in the United States and the largest U.S.-owned participant in the United States multi-peril crop insurance program, and serves as an example of our nimbleness and efficiency in executing a transaction of this nature.

Now if you'd please turn to Slides 8 and 9 of the webcast, which include an overview of our second quarter results. As you'll see on Slide 8, gross and net written premiums were up 12% and 10%, respectively, in the 2023 second quarter compared to the prior year quarter. Year-over-year premium growth 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. Second quarter 2023 combined ratio was 91.9%, 6.1 points higher than the exceptionally strong underwriting results reported in the prior year period.

Catastrophe losses added 3.5 points to the 2023 second quarter combined ratio, an increase of 2 points from the prior year period. Favorable prior year reserve development in the second quarter of 2023 was 4 points, a decrease of about 2.2 points from the favorable impact of 6.2 points reported in the prior year quarter. Our catastrophe loss experience was consistent with overall industry experience, but losses arising from an increased frequency of storms during the quarter.

Average renewal pricing across our Property and Casualty Group, excluding workers' comp, was up approximately 5% for the quarter and up approximately 4% overall, consistent with pricing increases achieved in the first quarter. This is our 28th consecutive quarter to report overall renewal rate increases, and we continue to meet or exceed target returns in nearly all of our Specialty Property and Casualty businesses in the second quarter of 2023.

Now I'd like to turn to Slide 9 to review a few highlights from each of our Specialty Property and Casualty business groups. The Property and Transportation Group reported an underwriting profit of \$32 million in the second quarter of 2023 compared to \$39 million in the second quarter of 2022. Higher year-over-year profitability in our Property & Inland Marine and Ocean Marine businesses was more than offset by lower favorable prior year development in our transportation businesses.

Catastrophe losses in this group were a manageable \$15 million in the second quarter of 2023 compared to \$19 million in the comparable 2022 period. Second quarter 2023 gross and net written premiums in this group were 10% and 6% higher, respectively, than the comparable prior year period. Factors contributing to the year-over-year growth included the impact of increased rates and exposures in our transportation businesses

and earlier planting of corn and soybeans in our crop insurance business. Nearly all the businesses in this group reported growth in gross and net written premium during the quarter.

We continue to stay focused on rate adequacy, particularly in our Property business as we consider higher reinsurance costs and higher property catastrophe loss attachment points. Overall renewal rates in this group increased 6% on average in the second quarter, consistent with pricing achieved in this group for the first quarter of 2023.

So we are well into the growing season in our crop insurance operations. Corn and soybean crop development is ahead of last year, with crop conditions slightly worse than last year at this time, but still tracking close to trend line yields overall. Commodity pricing is in acceptable ranges with corn and soybeans down around 15% and 4%, respectively, when compared to spring discovery pricing.

Our integration of the Crop Risk Services business is going well. As a reminder, the majority of the CRS crop business written for the 2023 calendar year was recorded on AIG's books. The small amount of premiums generated for AFG in the second half of 2023 are included in our premium guidance. With what we know at this time, our guidance continues to reflect the expectation of an average crop year. Although adequate moisture over the next 6 weeks will be very important.

Specialty Casualty Group reported an underwriting profit of \$95 million in the 2023 second quarter compared to \$130 million in the comparable 2022 period. Lower levels of favorable prior year reserve development in our workers' compensation businesses and adverse development in our public entity business were partially offset by higher levels of favorable prior year reserve development in our executive liability business. Underwriting profitability in our workers' comp businesses overall continues to be excellent.

The businesses in the Specialty Casualty Group achieved a very strong 86.6% calendar year combined ratio overall in the second quarter, an increase of 6.5 points over the exceptionally strong 80.1% achieved in the comparable prior year period. Second quarter 2023 gross and net written premiums both increased 7% when compared to the same prior year period. Three-fourths of the businesses in this group reported year-over-year growth.

The primary factors contributing to the higher premiums included increased exposures and higher renewal rates in our excess and surplus lines business, new business opportunities, strong policy retention and rate increases in several of our targeted market businesses, and payroll growth in our workers' comp businesses. This growth was partially offset by lower year-over-year premiums in our executive liability business as we maintain underwriting discipline in a challenging competitive environment, particularly in public D&O. Renewal pricing for this group, excluding our workers' comp businesses, was up about 6% in the second quarter and was up 3% overall.

Specialty Financial Group reported an underwriting profit of \$10 million in the second quarter of 2023 compared to an underwriting profit of \$37 million in the second quarter of 2022. The decrease was primarily due to higher year-over-year catastrophe losses in our financial institutions business and lower profitability in our Surety & Fidelity businesses. Catastrophe losses for this group were \$19 million in the second quarter of 2023 compared to \$3 million in the prior year quarter, contributing to a combined ratio of 95% for the second quarter of 2023, 16.6 points higher than the very strong 78.4% reported in the comparable period in 2022.

Second quarter 2023 gross and net written premiums were up an impressive 40% and 36%, respectively, when compared to the prior year period. All the businesses in this group reported growth during the quarter. We acted on opportunities to grow our financial institutions business as a result of general economic factors - including rising foreclosure rates - and the addition of new accounts, both of which helped fuel the year-over-year growth in the quarter. Overall renewal rates in this group were up approximately 2% for the second quarter. And while we believe rates are adequate, we continue to monitor insured values to ensure appropriate premium levels for increased exposures.

Now please turn to Slide 10, where you'll see a full page summary of our 2023 outlook. Overall, we continue to expect an ongoing favorable property and casualty market with opportunities from growth arising from new business opportunities, continued rate increases and exposure growth. Based on results reported in the first half of the year and expectations for the remainder of the year, we now expect AFG's core net operating earnings in 2023 to be in the range of \$10.15 to \$11.15 per share, a decrease of \$0.85 per share at the midpoint of our previous range of \$11 to \$12 per share.

Our revised guidance would produce a full year 2023 core return on equity of approximately 20%. This revised guidance reflects our updated full year expectations for underwriting profit, partially offset by an increase in expected net investment income. Our guidance continues to reflect an average crop year.

As Craig noted, we've increased our expected return on alternative investments for the full year 2023 to approximately 9% compared to 13.2% earned on these investments in 2022. Our underwriting results for the first 6 months of 2023 included elevated catastrophe losses and lower profitability in our -- in the Specialty Casualty Group, primarily due to lower favorable prior year reserve development in workers' compensation and the impact of social inflation on selected businesses.

Based on these results and our view that these trends will continue for the second half of the year, we now expect the 2023 combined ratio for the Specialty Property and Casualty Group overall to be between 89% and 91%, revised upward 2 points at the midpoint from our previous guidance of 87% to 89%. About half of the change in guidance is due directly to the second quarter results with the other half driven by our view that the same factors impacting second quarter results would continue for the rest of the year.

Our guidance for growth in net written premiums is now expected to be in the range of 5% to 8%, an increase of 2 points at the midpoint of our previous range of 3% to 6%. Growth in this range will establish a record for net written premiums for the year. Excluding crop, we expect 2023 year-over-year growth in the range of 6% to 9%.

Now looking at each subsegment. Based on our results through the second quarter, we continue to expect a combined ratio in the range of 90% to 93% in our Property and Transportation Group. This guidance continues to assume an average crop earnings for the year. We continue to expect net written premiums for this group to be in a range of flat to up 2%. Our premium growth guidance factors in the impact of spring commodity futures pricing and related volatility on crop rates. This will negatively impact premiums and related exposure year-over-year in our crop business, most notably in the third quarter of 2023 when the majority of our annual premiums are recorded. As a result of these factors, which are offset slightly by additional premium from CRS, we now expect net written premiums in our crop insurance business to be down 4% for the full year 2023.

Excluding crop, growth in net written premiums in this group is expected to be in the range of 2% to 3%, slightly lower than our original expectations. Growth for the year will be tempered by the non-renewal of about \$50 million in premiums related to underperforming transportation accounts and growth in our alternative risk transfer business, which has higher premium cessions.

Now we now expect our Specialty Casualty Group to produce a combined ratio in the range of 85% to 88%, an increase of 2.5 points at the midpoint of our previous guidance, reflecting lower levels of favorable prior year development, primarily related to workers' compensation in the first half of the year, and more conservative loss picks with regard to our social inflation exposed businesses.

Our guidance continues to assume strong profitability in our workers' compensation businesses overall but at a higher calendar year combined ratio when compared to the exceptional results reported in the prior year. We continue to expect net written premiums to be 5% to 9% higher than 2022 results. Excluding workers' comp, we now expect premiums in this group to grow in the range of 5% to 9%, a decrease of 2 points at the midpoint of our previous guidance, reflecting a continued challenging competitive environment in our executive liability business.

We now estimate the Specialty Financial Group's combined ratio to be in the range of 89% to 93%, up 4 points from our previous range of 85% to 89%, reflecting elevated catastrophe losses in the second quarter and the expectation of higher catastrophe losses in the second half of 2023 as a result of the strong growth in our financial institutions business through the first half of the year. Growth in net written premiums for this group is expected to be in the range of 23% to 27%, up significantly from our previous range of 6% to 10% as a result of the opportunistic growth in our financial institutions business.

Based on results through the first 6 months of the year, we continue to expect renewal rates overall to increase between 3% and 5% in our Specialty Property and Casualty operations overall. Excluding workers' compensation, we continue to expect renewal rate increases to be in the range of 4% to 6%.

Craig and I are proud of our proven long-term track record of value creation, and we believe that our entrepreneurial opportunistic culture, combined with our strong balance sheet and financial flexibility, position us well for the remainder of 2023.

We now open the lines for the Q&A portion of today's call, and we'd be happy to respond to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Paul Newsome with Piper Sandler.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Good morning. I was hoping for a little bit more details on the Specialty Financial/financial institutions group growth? And maybe why -- well, first of all, I think that's force-placement insurance, right? That's what everyone else calls it. Please correct me if I'm wrong. And can you tell me why...

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Yes. Lender-placed property.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Yes. So why is that an opportunity in today's market. Home insurance in general is pretty tough business right now. What makes that so attractive today?

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Well, historically, our business has had great returns over a long period of time. And I think what's changed is rising foreclosure rates. And as you said, some of the opportunity to -- because of market disruption to write new accounts. So it's been a great business, high returning -- high return on equity business for us for forever. And note, we just had a lot of -- it was heavy -- had a heavy cat quarter. In the 6 months, the catastrophes were \$17 million to \$18 million higher than last year, for instance.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Do you have any thoughts on keeping up with claim cost inflation in that business, given that property in general has been a tough place to be to keep up with the underlying inflation issues? Are you doing things in there that might kind of offset those issues?

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

For sure. Not -- pricing is just one component. I think on that business, like we're focused on getting proper insured values. As inflation has taken values up, that's definitely part of our strategy.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Great. Maybe turning to the workers' comp business, obviously, historically a really good business. Can you talk about sort of what maybe happened from the trend change there that might have reduced the favorable reserve development? Are we just not getting as much frequency improvement as we've had in the last many years?

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Yes. I mean the reality is, with rates -- I mean, to start with, our overall calendar year underwriting results through 6 months and last year, outstanding. And we expect 2023 to continue to be. It's just not going to -- we're not going to have combined ratios at the same exceptional levels as in the past. On an accident year basis, we're still projecting a good overall accident year underwriting profit. We had that last year.

We're still projecting a healthy accident year underwriting profit through 6 months and for 2023. Again, just not -- the underwriting margins just won't be at the same outstanding levels as what they've been in the past when -- even though our loss costs continue to be pretty benign and loss ratio trends are in check with rates declining over time for us and the industry, there's just not going to be the same levels of underwriting margin there.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Right. I'm just wondering if there was a -- obviously, the guidance changed, so there must have been sort of some trend change, I guess, that was different than what you saw at the beginning of the year. That's what I was asking about.

Brian Scott Hertzman - American Financial Group, Inc. - Senior VP & CFO

Hi Paul, this is Brian. So in recent years, we've just continued to see claims being settled at lower than our initial expectation and having lots of favorable development coming out of workers' comp. This year -- in the first half of this year, as we reacted to claims settlements, we're seeing things still come in better than our initial expectations, just not as much better as before. So it's still a very good result. It's just not -- it's not developing as favorably as it had in some of the more recent years. So still really good results. Just when we see that in the first half of the year knowing that we'd take a prudent approach to things, we have -- are reacting to that, settling closer to our established reserves and not releasing as much.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

I'll let other folks ask questions. Appreciate the help as always.

Operator

Our next question comes from Michael Zaremski with BMO.

Michael David Zaremski - BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst

Hi, great, good afternoon. Just as a -- firstly, as a follow-up to Paul's question and Brian's -- your answer, so is it -- on the work comp, is it just a small change in medical trend line, not on the indemnity side? Is that -- just to kind of put a period in that conversation.

Brian Scott Hertzman - American Financial Group, Inc. - Senior VP & CFO

This is Brian. On the medical cost side, we are watching for that. We haven't experienced a big uptick in expense, but we are mindful of that, and we are considering that as we look at setting our current accident year and looking at reserve releases. So while we haven't experienced a big uptick in medical costs, we know that, that may be coming.

Michael David Zaremski - BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst

Okay. Got it. And maybe just keeping on just loss cost inflation levels. And appreciate you guys have already given us a lot of good detail on the -- in the prepared remarks and in the earnings release, but maybe we can kind of further unpack the social inflation aspect that you've brought up. Is it touching more so commercial auto? Or -- it sounds like a number of lines were cited. And is it just kind of a small inching up versus expectations? Or is it -- I don't know if it's certain vintages you'd like to call out? Or just maybe we can unpack that conversation a bit more.

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Sure. Commercial auto, the social inflation impacts, nothing new. We've been raising rates, particularly in the commercial auto liability side of commercial auto for 10 years or so. So clearly, social inflation continues to impact commercial auto. We haven't really changed the guidance for our Property and Transportation. We're happy. We're pleased with the underwriting performance of our overall commercial auto through 6 months in 2022. And with continued price increases that we're getting, we're trying to stay that way.

That said, commercial auto liability is a focus where -- probably where a lot of the social inflation hits. It's not where we want it to be. We're probably still at [101%, 102%] accident year combined ratio as we look at this year. So I mean we're continuing to take strong rate. Commercial auto year-to-date, I think we've taken another 10% in rate, just to give you a perspective because of the ongoing social inflation in that.

So -- and commercial auto, I don't think there's been any change. We're just continuing to be aggressive in how we take rate there. I think the adjustment in our guidance really kind of came in the Specialty Casualty part of our business. And in the quarter, we talked about public sector. And we saw from -- in the 2015 to, Brian, I think, 2019?

Brian Scott Hertzman - American Financial Group, Inc. - Senior VP & CFO

Yes, 2015 to 2019. So the public sector business, we started to see the impact of social inflation there about 5 years ago through higher valued awards, higher jury verdicts and other large settlements. That business is coming out of coverage -- of casualty coverages in excess of self-insured retentions for municipalities and school districts, other business -- other entities that serve the public. So we took rate action beginning a number of years ago. So we're really seeing the issues are in those 2015 to 2019 accident years, as Carl mentioned.

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Yes. Some of the actions that we're taking is that we've cut capacity. We've tightened aggregates. We've been increasing rates, increasing attachment points. A lot of this business is excess of higher retentions or annual aggregate deductibles that are retained by our pool clients. Reinsurance policies soften our risk here and our layered approach to structuring the business has helped us achieve better pricing, particularly in California. So I mean those are some of the things that we're trying to, in our approach in the business, to get it to the kind of returns that we're most -- that we like.

Michael David Zaremski - BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst

That's helpful. And maybe just lastly, on the broader competitive environment and also just being cognizant that AFG's ROEs are at very high [absolute] levels and probably peer leading. But just -- we've seen pricing power for certain insurers and some of the indices to the broader indices kind of accelerate a bit quarter-over-quarter, whereas I believe the total company's -- or AFG's pricing has been a little bit more flattish despite

some of the inflationary trends you've been educating us about. So is it -- any -- on the competitive environment, is it -- are there -- is it certain areas that are just still kind of maybe a bit hypercompetitive? Or maybe you're just not looking to -- you don't need to take as much rate in certain areas like kind of where profitability is still excellent?

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Yes. The only area that we see has gotten a lot more competitive is the whole public D&O arena. That's where we see rates where there's been a big change in rates, with rates going down 15% to 20%. I mean that said, on the rest of our D&O book or small accounts, the pricing has been pretty stable in that. In the past, I thought there was more competition on the higher excess liability layers. Through 6 months, that seems to have tightened up a little bit. We're getting rate and one of the businesses is growing a little bit. So if anything, I think I've seen maybe a tightening in that area. So we like that.

Michael David Zaremski - BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst

So would you -- just as a last follow-up, would you say the industry is trying to push through the higher reinsurance costs to the insured ultimately? And is that taking place in as far as that kind of a multi-year process? Or maybe it just doesn't need to happen because of higher interest rates?

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Are you talking about the increase in the property reinsurance -- catastrophe reinsurance?

Michael David Zaremski - BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst

Yes.

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

Sure. No. I think definitely, when you look at overall industry pricing, particularly on large national account, property accounts and coastal exposed there's large rate increases being taken and terms and conditions changes and business moving -- more business moving into the E&S side. Our -- we're seeing opportunities on the property side also, but we have less of an appetite for coastal property and earthquake exposed property than our peers. So we're just -- we're not making the same bets as what others are in the coastal areas and -- or the highly exposed conductive areas in them.

Michael David Zaremski - BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst

Thank you.

Operator

(Operator Instructions) Our next question comes from Meyer Shields from Keefe, Bruyette, & Woods.

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

Great, thanks so much. Two, I think, fairly quick questions. First, you mentioned some losses within Surety & Fidelity in the quarter, and I'm wondering whether you're viewing that as sort of a trend in line with economic weakness or just these line's inherent randomness?

Brian Scott Hertzman - American Financial Group, Inc. - Senior VP & CFO

I don't think we're seeing it as a trend. It's just sort of the nature of the business. There can be bumps in the claims from time to time.

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

Okay. Perfect. And then just for understanding, given your expertise in transportation, what would lead you to decide to nonrenew a block of premium rather than remediate it?

Carl Henry Lindner - American Financial Group, Inc. - Co-CEO & Director

I think there are some programs and some things that you do that you just don't think can be remediated with price and terms.

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

OK, no -- understood, thanks.

Operator

I'm not showing any further questions at this time. I'd like to now turn the conference back to Diane Weidner for closing remarks.

Diane P. Weidner - American Financial Group, Inc. - VP of Investor & Media Relations

Thank you for joining us this morning. And of course, if there's any follow-up items, feel free to reach out to the IR department. We hope you all have a great rest of your day.

Operator

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

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