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EDITED TRANSCRIPT

AFG.N - Q3 2022 American Financial Group Inc Earnings Call

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OVERVIEW:

AFG reported 3Q22 core net operating EPS of $2.24. Expects 2022 core net operating EPS to be $11.00-11.75.

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PRESENTATION

Operator

Thank you for standing by, and welcome to the American Financial Group 2022 Third Quarter Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded. I would now like to turn the conference to your host, Ms. Diane Weidner, Vice President of Investor Relations. Please go ahead.

Diane P. Weidner - *American Financial Group, Inc. - VP of IR*

Good morning, and welcome to American Financial Group's Third Quarter 2022 Earnings Results Conference Call. We released our 2022 third 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 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-President, Co-CEO & Director*

Good morning. We're pleased to share highlights of AFG's 2022 third quarter results, after which Craig and Brian and I'll be glad to respond to any questions. We're very pleased with AFG's performance during the third quarter. We achieved an annualized core operating return of over 17% in the quarter, with strong underwriting results despite elevated industry catastrophe losses.

Strategic positioning of our investment portfolio has continued to enable us to invest opportunistically, and the returns in our alternative investment portfolio again exceeded our expectations. Craig and I thank God, our talented management team, and all of our employees for helping us to achieve these exceptionally strong results. Returning capital to our shareholders is an important component of our capital management strategy and reflects our strong financial position and our confidence in AFG's financial future.

With our third quarter earnings release, we announced a special cash dividend of $2.00 per share payable on November 22, 2022 to shareholders of record on November 15, 2022. This special dividend is in addition to the Company's regular quarterly cash dividend of $0.63 per share most recently paid on October 25 of this year. With this special dividend, the Company has declared $12.00 per share in special dividends in 2022.

In the aftermath of Hurricane Ian, we're reminded of the critical role that insurance plays in the wake of catastrophes such as this. Our claims teams continue to work with our agents and policyholders to identify and process covered claims quickly and efficiently to help our customers restore their businesses and rebuild their communities. Our thoughts and prayers remain with those who have been affected by the devastation caused by Hurricane Ian.

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

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Thanks, Carl. Please turn to Slides 3 and 4 for summary earnings information for the quarter. AFG reported core net operating earnings of $2.24 per share, compared to $2.71 per share in the third quarter of 2021. The year-over-year decrease was primarily the result of lower year-over-year returns in AFG's alternative investment portfolio, as compared to the very strong performance of this portfolio in the prior year period.

On Slide 4, you'll see that net earnings included after tax non-core net realized losses on securities of $28 million, or $0.32 per share in the quarter. Included in this number is $21 million, or $0.24 per share in after tax net losses from the mark-to-market of equity securities that we continued to own at September 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. The details surrounding our $14.3 billion investment portfolio are presented on Slides 5 and 6. Pretax unrealized losses on AFG's fixed maturity portfolio were $701 million at the end of the third quarter, reflecting the increase in market interest rates and widened credit spreads compared to year-end 2021.

During the first nine months of 2022, we acted on opportunities presented by the increasing interest rate environment and lengthened 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 September 30, 2022.

In the current interest rate environment, we're able to invest in high quality, medium-duration fixed maturity securities at yields of around 6%, which compare favorably to the 3.73% yield earned on fixed maturities in the third quarter of 2022 and 3.11% earned in the third quarter of 2021. In addition to the favorable impact of higher reinvestment rates, as we look forward, we expect our portfolio of floating rate securities, most of which are tied to 1-month or 3-month indices, to benefit from additional increases in short-term interest rates.

Altogether, assuming that future interest rates follow current market expectations, we expect the yield earned on our fixed maturity portfolio to increase by as much as 70 basis points by the fourth quarter of 2023 compared to 3.73% earned in the third quarter of 2022. Looking at results for the quarter, for the three months ended September 30, 2022, property & casualty net investment income was 12% lower than the comparable 2021 period.

The annualized return on alternative investments in the third quarter of 2022 was approximately 7.1% compared to 20.3% for the 2021 quarter. Excluding the impact of alternative investments, net investment income in our property and casualty insurance operations for the three months ended September 30, 2022 increased by 35% year-over-year as a result of the impact of rising interest rates and higher balances of invested assets.

Our 2022 earnings guidance assumes an overall annual yield of 12% on alternative investments for the full year, based on the strong performance of these investments in the first nine months of the year, including $79 million in earnings related to the opportunistic sales of multi-family properties during the first six months of 2022.

Our guidance continues to reflect minimal income from alternative investments in the fourth quarter of 2022 as we assume that continued strong performance of our multi-family housing investments will offset weaker performance of traditional private equity investments. Valuations of our traditional private equity investments are generally reported on a quarter lag and the poor performance of public equity markets in the third quarter is expected to impact the fourth quarter performance of our private equity investments. Our disciplined, yet opportunistic investment approach has served us well, we believe we're well positioned in this current market environment.

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 97% of our P&C Group fixed maturities portfolio with an NAIC designation of 1 or 2, its highest two categories.

Please turn to Slide 7, where you'll find a summary of AFG's financial position at September 30, 2022. Our excess capital was approximately $1.3 billion at September 30, 2022. This number included parent company cash and investments of approximately $760 million. During the quarter, we returned $48 million to our shareholders through the payment of our regular $0.56 per share quarterly dividend.

Following the $2.00 special dividend declared yesterday, we project that less than $100 million of our remaining excess capital is available for share repurchases or additional special dividends through the end of the year 2022. 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 total 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 $2.00 of excess capital for distribution to shareholders, and in today's market, we can repurchase our debt below par value.

AFG's book value per share plus dividends declined by approximately 2.0% in both the third quarter and nine-month periods ended September 30, 2022, reflecting unrealized losses on fixed maturities due to rising interest rates and widening credit spreads. Excluding unrealized losses related to fixed maturities, we achieved growth in adjusted book value per share plus dividends of 3.7% during the third quarter, and 12.7% year-to-date. The short duration of our fixed maturity portfolio and somewhat limited exposure to publicly traded common stocks when compared to some peers helped our performance in 2022.

With the $2.00 per share special dividend declared yesterday, AFG has declared $12.00 per share in special dividends in 2022 while continuing to be in a strong excess capital position. I'll now turn the call back over to Carl to discuss the results of our P&C operations and our expectations for 2022.

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

Thank you, Craig. Now if you'd please turn to Slides 8 and 9 of the webcast, which include an overview of third quarter results. Operating earnings in our Property & Casualty business continue to be excellent, and I'm pleased to report exceptionally strong growth in gross and net written premiums during the quarter. Catastrophe losses were manageable, and we're continuing to achieve renewal pricing in excess of prospective loss ratio trends in the vast majority of our businesses, so that nearly 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 $158 million, compared to $169 million in the third quarter of 2021, a 7% decrease. Higher year-over-year underwriting profit in our Specialty Casualty Group was more than offset by lower underwriting profit in our Property and Transportation and Specialty Financial Groups.

The third quarter 2022 combined ratio was a strong 91.1%, 2.1 points higher than the 89.0% reported in the comparable prior year period. Results for the '22 third quarter include 2.5 points in catastrophe losses and 3.1 points of favorable prior year reserve development. Catastrophes, primarily due to Hurricane Ian, impacted AFG's underwriting results for the third quarter of 2022 by $39 million, including the impact of reinstatement premiums and the favorable impact of the reduction in certain profitability-based commissions due to agents, which related to the catastrophe losses.

Gross and net written premiums increased 19% and 15%, respectively, in the 2022 third quarter compared to the prior year quarter. Year-over-year growth was reported within each of the Specialty P&C 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 P&C businesses. In the aggregate, year-over-year growth in gross written premium for the first nine months of '22 excluding crop is about 60% attributable to new business opportunities and change in exposures and about 40% attributable to rate increases.

Average renewal pricing across our P&C Group, excluding workers' comp, was up about 6% for the quarter, and up approximately 5% overall, in line with and slightly higher, respectively, compared to renewal increases reported in the prior quarter. 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 Property and Casualty businesses excluding workers' comp and approximately 3% overall throughout this year.

We've been focused on achieving adequate pricing for some time and have achieved overall rate increases across our entire specialty book for 25 straight quarters. We feel very good about the level of rate increases that we continue to achieve and the impact of cumulative rate increases over time, which has enabled us to stay ahead of prospective loss ratio trends and help us to feel even more confident in the adequacy of our reserves.

Now I'd like to turn to Slide 9 to review a few highlights from each of our Specialty Property and Casualty Groups. The Property and Transportation Group reported an underwriting profit of $39 million in the third quarter of 2022 compared to $45 million in the third quarter of '21, primarily as a result of lower year-over-year crop profitability when compared to a very strong 2021 crop year.

Catastrophe losses in this group, net of reinsurance and inclusive of reinstatement premiums, were $13 million in the third quarter of this year, compared to $14 million in the comparable 2021 period. The businesses in the Property and Transportation Group achieved a 95.4% calendar year combined ratio overall in the third quarter, 1.9 points higher than the comparable period in 2021.

When you look at our underwriting results from quarter-to-quarter, it's important to remember that we earn the largest portion of our crop premiums in the third quarter each year, and generally book that business at a combined ratio in the high 90s until the fourth quarter when the harvest process is substantially complete and the level of underwriting profit can be better estimated. Accordingly, the combined ratio for the Property Transportation Group is elevated in the third quarter because crop has been booked in the high 90s. Said another way, earned premiums in the crop business were 40% higher year-on-year in the 2022 third quarter, so the crop business had a larger impact on third quarter results than in the prior period. Excluding crop from both periods, the calendar year combined ratio for the Property and Transportation Group is generally consistent with the 2021 period, which was a strong quarter for this group.

The month of October serves as the discovery period for the majority of our corn and our soybean business. Harvest pricing for corn settled 16% higher than spring discovery prices, while soybean pricing was 4% lower, both within desired ranges of volatility. The corn and soybean harvest is running well ahead of averages, with approximately 76% and 88% of these crops harvested, respectively. Despite the USDA's reduced yield estimates and widespread Florida citrus losses due to Hurricane Ian, we continue to expect to have an average crop year from a profitability standpoint.

Third quarter 2022 gross and net written premiums in this group were 30% and 24% higher, respectively, when compared to the 2021 third quarter. While nearly all businesses in this group reported higher year-over-year premiums in the quarter, the growth was driven by higher commodity futures pricing in our crop insurance business. Excluding the impact of crop insurance, third quarter 2022 gross and net written premiums increased 14% and 10%, respectively, when compared to the 2021 third quarter. Overall renewal rates in this group increased 5% on average for the third quarter of this year, consistent with renewal rates achieved in the second quarter of this year.

Now the Specialty Casualty Group reported an underwriting profit of $118 million in the 2022 third quarter compared to $110 million in the comparable 2021 period, primarily the result of higher year-over-year profitability in our executive liability, social services and mergers and acquisitions liability business, which was partially offset by an overall decrease in favorable prior year reserve development. Underwriting profitability in our workers' comp businesses overall continues to be excellent.

Catastrophe losses in this group, net of reinsurance and inclusive of reinstatement premiums, were $3 million in both the third quarters of this year and last year. The businesses in the Specialty Casualty Group achieved an exceptionally strong 82.6% calendar year combined ratio overall in the third quarter, 0.6 points higher than the excellent results achieved in the comparable prior year period.

Third quarter 2022 gross and net written premiums both increased 6%, when compared to the same prior year period, with nearly all the businesses in this group reporting growth during the quarter. Factors contributing to year-over-year premium growth included increased exposures resulting from payroll growth in our workers' compensation businesses and the impact of economic recovery on our social services business. This growth was partially offset by lower premiums in our mergers and acquisition liability business. The majority of the businesses in this group achieved strong renewal pricing during the third quarter. Renewal pricing for this group, excluding workers' comp businesses, was up 7% in the third quarter, consistent with the prior quarter. Renewal rates in this group overall were up 6%, an improvement over the renewal pricing increases of 4% in the previous quarter.

Specialty Financial Group reported an underwriting profit of $15 million in the third quarter of this year, compared to an underwriting profit of $26 million in the third quarter of 2021. The year-over-year decrease was primarily the result of catastrophe losses from Hurricane Ian that affected our financial institutions business. Catastrophe losses for this group, net of reinsurance and inclusive of reinstatement premiums, were $34 million in the third quarter of 2022, compared to $14 million in the prior year quarter. This group reported a 91.3% combined ratio for the third quarter of 2022, an increase of 7.1 points over the prior year period.

Third quarter 2022 gross and net written premiums were up 15% and 7%, respectively, when compared to the prior year period. Higher premiums in our financial institutions business related to lender-placed mortgage protection insurance contributed to the increase in the quarter. Renewal pricing in Specialty Financial Group was up approximately 4% for the quarter, a point higher than the renewal pricing achieved in the previous quarter.

Now during the third quarter of 2022, we completed our annual ground-up review of our asbestos and environmental exposures relating to the run-off operations within the P&C Group. This review was undertaken internally and examined all open accounts and considered any trends observed. No new trends were identified, and claims activity was generally consistent with the expectations resulting from our 2021 in-depth review and our 2020 external study. As a result, the review resulted in no net change to the P&C Group's A&E reserves. We continue to enjoy robust survival ratios, which are well above the industry averages, and which are one measure of the strength of our A&E reserves.

We've also assessed the adequacy of our asbestos and environmental reserves for our historic railroad and manufacturing operations. Asbestos liabilities continue to be adequate, and we made a small adjustment to our environmental liabilities based on slightly revised projections at three environmental sites. This minor adjustment is included in AFG's core operating earnings for the third quarter.

Although we most recently engaged specialty outside actuarial and engineering firms and outside counsel to help assess our reserves for both insurance and legacy railroad and manufacturing liabilities in 2020 and 2017, based on the moderation of claim emergence and payments, we're continuing to assess the merit and frequency of such engagements.

Now if you'd please turn to Slide 10, where 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. We now expect AFG's core net operating earnings in 2022 to be in the range of $11.00 to $11.75 per share, narrowed favorably from our previous guidance range of $10.75 to $11.75 per share.

Our guidance reflects an average crop year and the expectations and assumptions regarding full year investment income that Craig shared earlier. We're pleased that our very strong results through the first nine months of '22 have allowed us to increase the midpoint of our guidance by more than $1.00 per share from our initial guidance provided back in February, notwithstanding the payment of more than $1 billion of special dividends.

We now expect the 2022 combined ratio for the Specialty Property and Casualty Group overall between 86% and 87%, narrowed slightly from the range of 85% to 87% shared previously. Net written premiums are now expected to be 10% to 12% higher than the $5.6 billion reported in 2021, with the 11% midpoint consistent with our previous guidance range.

Now looking at each sub-segment, based on our results through the first nine months of the year, we now estimate a combined ratio in the range of 90% to 92% in our Property and Transportation Group. This guidance continues to assume average crop earnings for the year and reflects the impact of Hurricane Ian. We now expect growth in net written premiums for this group to be in the range of 15% to 17%, an increase from the range of 13% to 17% provided previously.

We now expect our Specialty Casualty Group to produce a combined ratio in the range of 80% to 82%, narrowed from our previous range of 79% to 83%. Our guidance assumes continued strong results across all businesses in the group, including continued calendar year profitability in our workers' comp businesses overall. We expect net written premiums to be 7% to 9% higher than 2021 results, with the range narrowed from our initial guidance. Premium growth will be tempered by rate decreases in our workers' comp book, which are the result of favorable loss experienced in this line. Excluding workers' comp, we now expect 2022 premiums in this group to be 8% to 10% higher than 2021.

We now estimate the Specialty Financial Group's combined ratio to be in the range of 83% to 85%, up one point at the midpoint from our previous range of 81% to 85% and reflecting the expected losses from Hurricane Ian. Growth in net written premiums for this group is expected to be in a range of 4% to 6%, down one point from our midpoint of our previous range of 4% to 8%.

Based upon the results of the first nine months, we continue to expect renewal rates to increase approximately 5% in our Specialty Property and Casualty operations overall, and excluding comp, we expect renewal rate increases to be in the range of 6% to 7%.

Craig and I are very pleased to report these exceptionally strong results for the 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 in the remaining months of 2022, and we're very excited about 2023.

Now we'll open the lines for the Q&A portion of today's call. Craig and Brian and I would be happy to respond to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Thanks. Good morning, everybody. Curious your thoughts kind of high-level question, either your own book of business or the industry, you guys are pretty unique book of business, obviously. But we're hearing kind of a mixed bag in P&C pricing so far this quarter. Obviously, lots of moving parts here because of reinsurance and inflation and property. But I guess, where do you see pricing headed, again, either for yourself or the industry next year? And actually more concerned on the casualty, where you see casualty headed for next year?

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

I think when you look at the macro environment that we're operating in today with a higher level of catastrophes than expected, and the impact is having increased reinsurance pricing on both the property and the casualty side, social inflation kind of bumps that every company is having in some of the casualty exposed lines. And the other thing that's kind of interesting is, I think, which folks haven't picked up is the size of the unrealized losses in the fixed income portfolios that do have some impact on rating agencies' calculations of debt to capital or capital required. So a very interesting environment.

My bet is, is that there's going to be continued opportunities and to take price increases going into 2023. The few areas that we see more competition than there should be and pricing that's too soft, probably the Fortune 1000 excess liability arena in that. I think that's because there's been quite a few new entrants, new competitors in that space.

And I think everybody thinks that playing in the higher excess layers protects them, but I think that there will be -- things will come home to roost for those -- for some new competitors that have been too aggressive. I think the other side is in the D&O, the public D&O marketplace, we saw our rates decline in that. Public D&O is only 22% of our business, and we think we're making an underwriting profit there. But I noticed a few competitors had fairly large reserve adjustments in the quarter in the public D&O professional lines area, doesn't surprise me.

So I think even there, I think that there may be some adjustment in what's going on in an overly competitive market there going forward. Those are kind of the areas. California workers' comp also, I think, seems to be more competitive than what it should be when you look at the rate decreases over time in that.

But bottom line, as you can tell, I'm very bullish for the reasons that I've mentioned about the ability to get continued price going forward or, frankly, in commercial auto liability and the casualty lines in that, there's going to be a need to continue to stay up with higher inflation and loss costs.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. No, great. Thank you. That's really appreciate it. You mentioned excess layers, kind of caught my ear and more competitive there, you do a good bit of that as well. I mean there's some leverage effect obviously of inflation in those layers. So I guess on your own book, any concerns that you have on how inflation will impact the Specialty Casualty business in the excess layers there?

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

Well, sure. And I think that we're using on more of the Fortune 500,1000- that part of our business, we're using higher prospective loss ratio trends as we price our business. And we're trying to continue to get double-digit increases on that. So I think we're trying to adjust in how we project loss costs and in the prices that we're getting. And the primary D&O seems to be not as impacted because I think everybody recognizes the first dollar being lower down the first dollar exposures that are there.

I feel really blessed with our excess and our umbrella and excess liability business in that we're working off of a substantial or excellent underwriting profitability base on that book of business. So outside of a bump that we had in the habitational umbrella and excess business a number of years ago, a program that we're out of, I think we're blessed with a good foundational profitability to begin with. So I think we're trying to adjust for the higher prospective loss ratio trends and that. So continue to feel real good about our umbrella and excess liability businesses and the opportunities there.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Thank you. I guess just finally, because you also mentioned social inflation, and that comes up all the time, of course, attorney involvement and social inflation kind of go hand and hand. I think any things you're seeing in your long-haul trucking business that might give yellow flags over the next year?

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

I think we've been seeing lots of things that concern us in the commercial auto liability part of our business over the past 8 years. And I think that's one reason why we've been taking rate in commercial auto liability and commercial auto for 11 - almost 10, 11 years now. So when we take a look at our commercial auto liability prospective loss ratio trend, we're using about 7% today. And we're continuing to try to get that close to that in rate. Our overall commercial auto -- our overall commercial auto business is meeting our targeted returns and combined ratio targets, but the commercial auto liability part of our commercial auto business is, I think, is more having a small underwriting profit or even breakeven results, as generally, we try to be conservative in our projections with the rate and the inflation that we're seeing. So as I've mentioned before, I think we're going to - I think we need to continue to take rate, particularly in the commercial auto liability part of our business in that.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Thank you for your thoughts. Appreciate it.

Operator

Thank you. One moment, please. Our next question comes from the line of Paul Newsome of PSC.

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

Sorry about that, I didn't hear my name called. I was hoping you could talk a little bit about the outlook for the workers' comp business. And we've had this amazing general downtrend in frequency for years and years, and the industry has had huge reserve releases out of that business. Are you thinking that, the hope is the margins sort of hold in if that frequency trend continues? Or do you expect essentially some level of margin expansion obviously, it's in a good range of profitability today. But just maybe some thoughts on sort of what you think is going to happen big picture from a profit perspective change.

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

We're just working on our 2023 budget and projections in that, and we try to -- generally, we give more detail and try to do a good job on that. So we're early on in that process. My perspective about the comp part of our business today is it makes up about 15% of our gross written premium last year.

Our overall calendar year results in the third quarter and nine months are excellent and expected to be for this year, good overall, even on an accident year underwriting profit basis, a good overall accident year underwriting profit in the third quarter and nine months and expected for all of this year. Our Summit or Southeastern business and Strategic Comp, National Interstate's business, all are performing well on both a calendar year and an accident year of underwriting profitability basis.

Our California subsidiary, Republic has a small underwriting -- calendar year underwriting profit, but we're projecting an accident year underwriting loss for that business and that -- I think that we've seen significant payroll increases which have turned the premium picture around. We're actually -- we actually had mid-single-digit growth in the third quarter and nine months and expected for this year pretty much in all of our businesses, and that's despite a price -- approximate price decline through nine months of about 3%.

We feel our reserve position is still very strong. Our loss -- or prospective loss ratio trends are down 2% to 3% across all of our workers' comp business. So I think that bodes well. Medical seems to be better than what a lot of the indices would present. So I continue to be excited by and confident in the ability of our workers' comp business to be profitable and grow some going forward. Will it be at the same accident year margins as what it has been historically, that's a harder thing to call in that. I think part of that may have to do with what goes on with the economy going forward in the next year. So I hope that gives you some color. Again, we're kind of early on in our '23 planning and perspectives.

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

That's great. I guess the reason I'm asking is because you and other companies have been talking about how on your book sort of excluding workers' comp rates is more or less kind of matching what the underlying claims inflation appears to be. And obviously, it's up to analysts to have a view as to whether or not that gets better or worse, respectively. But if we're sort of in a steady state profitability on the book ex workers' comp, would it be the workers' comp business that ends up being the swing factor that drives an improvement in underwriting prospectively in the next year or so.

So I guess my question is, is there something wrong with that thought pattern? Or am I missing something when I think about prospectively what the moving pieces are?

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

I'm not quite clear on the question. Are you asking me, again, if I think will workers' comp results improve? Is that what you're asking?

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

Well, I'm not really asking you to make a projection. What I'm asking is whether or not it's appropriate to think about sort of how the book is changing prospectively to think about the sort of non-workers' comp book is fairly stable from a profitability perspective, and that would mean that what changes prospectively would be driven by the workers' comp book?

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

I think it's too early for me to give you an answer on that until we've kind of worked through our own planning and when we get the guidance, I can -- for next year, I can probably talk a little bit more about that. As I mentioned earlier, I'm very bullish about how we're situated, how we're postured with our house in order with almost all of our businesses and with the macro trends going on out there with social inflation, reinsurance costs going up for everybody, capital charge and rating agency hits for unrealized and all those -- and the high level of catastrophes and tightening in the property -- very excited about the opportunities for next year.

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

I agree the results have been really quite wonderful. Thank you for your help. It's always much appreciated.

Operator

(Operator Instructions) Our next question comes from the line of Meyer Shields with KBW.

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

Great, thank you. I just have a couple of small questions. Carl, thank you very much for the detail on the impact of crop on the underwriting ratios in Property and Transportation. Did that have an impact on the rate increases in the quarter?

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

No, no, not really. We don't really -- we don't include crop really in the pricing index for that segment just because of the uniqueness of it.

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

Okay. No, that makes sense. That's helpful. Also, with regards to the debt, you mentioned that you can buyback below par, that makes sense. Are there any penalties associated with current debt repurchases?

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

So in our debt, we could buyback that in the open market at a discount. And most of our debt has like what would be a make-whole call provision. But then that make-whole calls were with where interest rates are today, that sort of capped at par. So we could buyback to that even in a larger transaction at par or better.

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

Okay. Fantastic. And then with regard to the investment portfolio, I was hoping you could talk about how you're thinking about the next phase of, I guess, the interest rate trajectory.

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yes. This is Craig, Meyer, so we think that inflation has probably peaked. Clearly, the Fed is going to continue to put increases through and in our opinion, probably leave rates up longer than some others might be expecting. We are comfortable buying intermediate term 5- to 7-year type high-grade paper, investing a small amount of money. I think year-to-date, we have invested of our new investments, I think, a little less than 4% was invested in non-investment grade fixed maturity investments. Typically BB type, we're not really reaching for yield. We're in the small amount of high-yield paper that we've purchased, sticking with some of the better names and as I said, BB type ratings.

I think you should expect us to continue to extend duration of the portfolio. We were extremely pleased with the -- we are extremely pleased with the positioning, the short duration of the portfolio, very pleased with the large amount of floating rate securities, which we're benefiting on in a major way today. But we are comfortable now investing money at a little longer duration than we have been in the last couple of years.

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

Alright, that's perfect. That's exactly what I was looking for. Thank you very much.

Operator

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

Diane P. Weidner - *American Financial Group, Inc. - VP of IR*

Thank you all for joining us this morning as we discussed our third quarter results, and we look forward to talking with you all again as we share fourth quarter and full year results later on and -- thank you for your time.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.