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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 2025 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 first speaker today, Diane Weidner, Vice President of Investor Relations. Please go ahead.

Diane Weidner - *American Financial Group Incline - President, Investor & Media Relations*

Good morning, and welcome to American Financial Group's second quarter 2025 earnings results conference call. We released our 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 our 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 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 Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Good morning. I'll begin by sharing a few highlights of AFG's 2025 second quarter results, after which Craig and I will walk through more details. We'll then open it up for Q&A, where Craig and Brian and I will be happy to respond to your questions. We're pleased to report an annualized core operating return on equity of 15.5% despite quarterly returns from alternative investments that tempered overall results.

Underwriting margins in our Specialty Property and Casualty Insurance businesses were strong and higher interest rates increased net investment income, excluding alternatives, by 10% year-over-year. In addition, we returned over \$100 million to our shareholders during the second quarter of 2025 through a combination of regular dividends and share repurchases.

Our compelling mix of specialty insurance businesses, entrepreneurial culture, disciplined operating philosophy and an astute team of in-house investment professionals continue to serve us well in environments such as these and position us for long-term success.

Craig and I thank God, our talented management team and our great employees for helping us to achieve these results. I'll now turn the discussion over to Craig to walk us through some of these details.

Craig Lindner - American Financial Group Inc - Co-Chief Executive Officer & Director

Thanks, Carl. Please turn to slides 3 and 4 for second quarter highlights. AFG reported core net operating earnings of \$2.14 per share compared to \$2.56 per share in the prior year-end period. Our 2025 results reflect a year-over-year decrease in underwriting profit and lower returns on alternative investments.

I'll begin with an overview of AFG's investment performance and share a few comments about AFG's financial position, capital and liquidity. The details surrounding our \$16 billion portfolio were presented on slides 5 and 6. Excluding the impact of alternative investments, net investment income at our property and casualty insurance operations for the three months ended June 30, 2025, increased 10% year-over-year as a result of higher interest rates and higher balances of invested assets.

As you'll see on slide 6, approximately two-thirds of our portfolio is invested in fixed maturities. In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 5.75%, which compare favorably to the 5.2% yield earned on fixed maturities at our P&C portfolio during the second quarter of 2025.

The duration of our P&C fixed maturity portfolio, including cash and cash equivalents, was 2.8 years at June 30, 2025. The annualized return on alternative investments in our P&C portfolio was approximately 1.2% for the 2025 second quarter compared to 5.1% for the prior year quarter.

As a result, overall P&C net investment income was approximately 5% lower than the comparable 2024 period. The impact on rental rates and occupancy from a surge in new apartment supply in certain otherwise strong markets reduced the fair value of some multifamily investments.

This tempered the performance of our alternative investment portfolio in the second quarter of 2025 by nearly \$30 million. Although substantial supply persists, new construction starts have plummeted. We expect current inventory to be absorbed over the next 12 months.

Notably, multifamily starts were down approximately 20% year-over-year and down nearly 50% from their 2022 peaks. The combination of tightening supply and a significantly reduced development pipeline is forecast to drive higher rental and occupancy rates over the next several years and should result in stronger returns on our multifamily investments. Longer term, we continue to remain optimistic regarding the prospects of attractive returns from our overall alternative investment portfolio with an expectation of annual returns averaging 10% or better.

Please turn to slide 7, where you'll find a summary of AFG's financial position at June 30, 2025. During the quarter, we returned over \$100 million to our shareholders, including \$39 million in share repurchases and our \$0.80 per share regular quarterly dividend. We expect our operations to continue to generate significant excess capital throughout the remainder of 2025, which provides ample opportunity for acquisitions, special dividends or share repurchases.

We evaluate the best alternatives for capital deployment on a regular basis. We continue to view total value creation as measured by growth in book value plus dividends as an important measure of performance over the long term.

For the six months ended June 30, 2025, AFG's growth in book value per share, excluding AOCI plus dividends, was 6%. Our strong operating results, coupled with effective capital management at our entrepreneurial opportunistic culture and disciplined operating philosophy enable us to continue to create value for our shareholders.

I'll now turn the call over to Carl to discuss the results of our P&C operations.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Thank you, Craig. Please turn to slides 8 and 9 of the webcast, which include an overview of our second quarter results. Overall, underwriting profitability was strong in our Specialty P&C businesses in the second quarter of 2025, and we remain confident about the strength of our reserves. A continued favorable pricing environment, increased exposures and new business opportunities enabled us to grow our Specialty Property and Casualty businesses, and we continue to expect premium growth for the full year in 2025.

Looking at a few details, you'll see on slide 8 that our Specialty Property and Casualty Insurance businesses generated a 93.1% combined ratio in the second quarter of 2025, 2.6 points higher than the 90.5% reported in the second quarter of last year. Results for the 2025 second quarter include 2.3 points related to catastrophe losses consistent with results in the 2024 second quarter. Second quarter 2025 results benefited from seven tenths of a point of favorable prior year reserve development, compared to 2.3 points in the second quarter of 2024.

Second quarter 2025 gross and net written premiums were up 10% and 7%, respectively, when compared to the second quarter of 2024. Earlier reporting of crop acreage by insureds impacted the timing of the recording of crop premiums and contributed to the year-over-year increase, particularly when compared to later reporting of acreage the previous year. So if you exclude the crop business, our gross and net written premiums grew 6% and 5%, respectively.

Average renewal pricing across our Property & Casualty Group, excluding our workers' comp businesses, was up approximately 7% in the second quarter, consistent with pricing increases achieved in the first quarter. Including workers' compensation, renewal rates were up approximately 6% overall, about 1 point higher than in the previous quarter. We reported overall renewal rate increases for 36 consecutive quarters, and we believe we're achieving overall renewal rate increases in excess of prospective loss ratio trends to meet or exceed our targeted returns.

Now I'd like to turn to slide 9 to review a few highlights from each of our Specialty Property and Casualty business groups. Details are included in our earnings release, so I'll focus on summary results here. The businesses in the Property and Transportation group achieved a 95.2% calendar year combined ratio overall in the second quarter of 2025, 2.5 points higher than the 92.7% reported in the comparable 2024 period.

The second quarter 2025 combined ratio benefited from 2.2 points of favorable prior year reserve development compared to 6.3 points in the 2024 second quarter, particularly reflecting especially strong results for our crop business in the prior year period.

Second quarter 2020 gross and net written premiums in this group were up 15% and 10% higher, respectively, than the comparable prior year. As mentioned before, earlier reporting of crop acreage compared to 2024, which impacts the timing of crop premiums contributed to higher second quarter premiums in this group.

Again, when you exclude the crop business, gross and net written premiums in this group grew by 6% and 5%, respectively. Increased exposures, new business opportunities and a favorable rate environment contributed to our growth in our transportation businesses.

Overall renewal rates in this group increased approximately 8% in the second quarter of 2025, a point higher than the pricing achieved in this group for the first quarter 2025. We continue to remain focused on rate adequacy, particularly in our commercial auto liability line of business where rates were up approximately 15% in second quarter.

In terms of our crop business, commodity futures pricing remains in acceptable ranges relative to spring discovery prices. And based on the most recent crop progress reports, overall corn and soybean conditions are slightly better than last year at this time. We believe that there's been adequate moisture to date in those areas so that the excessive heat in recent weeks shouldn't be problematic. However, moisture levels through August and early September remain important.

Now the businesses in our Specialty Casualty Group achieved a solid 93.9% calendar year combined ratio overall in the second quarter, 4.8 points higher than the very strong 89.1% reported in the comparable period in 2024. Second quarter 2025 gross and net written premiums increased 4% and 2%, respectively when compared to the same prior year period.

Higher year-over-year premiums in our mergers and acquisitions business and growth across a variety of other businesses in the group, resulting from new business opportunities, higher rates and strong policy retention were partially offset by lower premiums due to a challenging market in our Directors and Officers Liability business.

In addition, we continued to non-renew certain housing and daycare accounts in our social services businesses. Excluding our workers' comp businesses, renewal rates for this group were up 8% in the second quarter. Pricing in this group, including workers' comp was up about 6%. I'm pleased that we achieved renewal rate increases in the mid-teens in our most social inflation exposed businesses, including our social services and excess liability businesses.

The Specialty Financial group continued to achieve excellent underwriting margins and reported a combined ratio of 86.1% for the second quarter of 2025, 3.6 points better than the 89.7% reported in the comparable period in 2024. These results reflect higher year-over-year underwriting profitability in our financial institutions and surety businesses. Second quarter 2025 gross and net written premiums in this group were up 15% and 12%, respectively, when compared to the prior year period, due primarily to growth in our financial institutions business. Renewal pricing in this group was flat in the second quarter.

Craig and I are proud of our history of long-term value creation. We have years of experience navigating economic and insurance cycles. Our insurance professionals continue to exercise their Specialty Property and Casualty knowledge and expertise to successfully compete in a dynamic marketplace. Our in-house investment team has been both strategic and opportunistic in the management of our \$16 billion investment portfolio. One of our greatest strengths is finding opportunities in times of uncertainty.

We feel we are well positioned to continue to build long-term value for our shareholders for the remainder of 2025 and beyond. I will now 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)

Michael Zaremski, BMO Capital Markets.

Michael Zaremski - Bank of Montreal - Analyst

My first question is on the lender place business within Specialty Financial. I think that might be driving some of the continued healthy growth this quarter again. Maybe just zooming out, is there a way you could help us frame how to think about how that market grows in terms of -- does it follow mortgage delinquencies or a hard market for soft market dynamics? And then also just more color on kind of how it appears; you all have also gained maybe market share too, if you agree, within that business?

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Thank you. The lender-placed property business is a business that has a smaller number of competitors, I believe. It's a business today -- last year was about \$700 million in gross written premium. So a significant business for us. I think this business creates greater opportunities when you have a weak economy actually. And when people fall behind on their payments and don't pay their insurance, that's the primary -- from a cycle standpoint, that's primarily the case.

It's a business that is made up of large accounts -- large client relationships with financial institutions that are significant. So if there's disruption in the market like there has been in the last year or two, where some competitors faltered and gave us opportunities, that also added to the momentum that we've had in growing this business over the past couple years.

I think one other thing up until this year, we, as others in the property side, took some pretty significant rate on price. I think one other thing that's been wind behind our backs on this business has been the movement in our book of business going from unpaid mortgage -- insuring on the value of unpaid mortgage balance to move to replacement cost value, which a good part of the industry is moving towards.

So I think as more and more of our clients and large accounts move to that, that definitely is helpful when you're getting more proper values for the business. Anything else? I tried to frame business --

Michael Zaremski - Bank of Montreal - Analyst

Carl, would the lender place also be excellent margins in the segment? Is that also what's driving the pricing power kind of to [decelerate]?

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Yes. I think this business is very profitable for us, again, made up of large accounts. I think pricing in this business through six months is -- prices are up about 1%. The loss ratio trends are very low single digit in this business. And I think, again, the last thing I mentioned as far as a move from unpaid mortgage balance as a basis for premiums to move to replacement cost values, I think that helps offset the difference between the price increase and the loss ratio trend, if that makes sense.

Michael Zaremski - Bank of Montreal - Analyst

Yes. That's helpful. My follow-up is pivoting to what I believe is some of the more social inflationary lines of business. You continue to kind of reference some non-renewals in certain lines. I'm assuming there's always obviously non-renewals going on, but you're calling it out because I think it's -- if I'm understanding correctly, it's still at a kind of higher than quote-unquote, normal level of what you'd -- what AFG would expect.

I guess the goalpost is always moving a bit on loss cost inflation. But just kind of maybe broad brush, or if you want to talk about commercial auto versus some of these other housing and day care accounts, kind of where do you feel AFG is in terms of the remediation actions and kind of -- I think you did say pricing versus loss trend do you feel comfortable or good about. And that's my final question.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Yes, that's a complex question when you're in 36 businesses. But I'll take a crack at it. In our non-profit Specialty Human Services businesses, which we've referenced, it's kind of referenced two different kind of things, both housing and daycare accounts.

I think we pretty much have completed the non-renewal of the housing account effort, which if you think back to the \$50 million comment quarters ago and all that, that was roughly probably \$20 million of the \$50 million or so. But I think we're pretty much through that. We no longer provide property or liability insurance for any low income or affordable housing accounts at this point.

On the daycare side, I think we probably have maybe \$9 million or \$10 million left of business that we think will be finished non-renewing by year-end on the day care. We started that effort early this year and we feel that, that will be completed by year-end.

We still are a big writer of YMCAs, which provide day care. So there are a certain number of agents that have great books of business in that area, and we kind of have specialized and focused on YMCA. And so we continue to write day care and with specific risks, but our -- a significant portion of our day care business that wasn't profitable, has been -- will be finished on the renewal -- non-renewal that by year-end.

I think one other thing in which we have talked about in this business [social services] (added by company after the call) and other businesses, we have been reducing umbrella capacity from \$15 million to \$5 million. We currently have about \$20 million remaining in-force umbrellas over \$5 million. I think by year-end, that will probably be zero. So those are the primary efforts in our non-profit business, which clearly has had a stronger social inflation exposure than a lot of our businesses. So those are the things going on there.

I think I've mentioned public sector. We write over pools. We're pretty much -- we've been through the process of increasing our retentions, and we're continuing to take rate there. But I think we're going to see some more opportunities in that area now that we're through that cycle.

In the excess liability business, we're still -- in a couple of our business units, we're still taking mid-double-digit increases in price there. One thing I'd mention in the past is adjusting limits downward, moving limits up non-renewal of some accounts that have had higher commercial auto liability exposure and the underlying insured.

I think in our Fortune 1000 business, my understanding is we're pretty much through that readjusting the book in our great American custom book, which is more focused on Fortune 1000. So I would expect us to see some opportunities, you know, now that, the adjustments and the limits profile that we want is done to see some growth opportunities there.

Commercial auto, not really in our Specialty Casualty business, you mentioned it, though. I think in the second quarter, we had healthy growth. And I think we're -- as we're continuing to outperform the industry by probably 8 points, we're still trying to get our commercial auto liability portion of that business to an underwriting profit. But that said, with the 15% price increase we're getting in commercial auto liability, we feel that we're beginning to see more opportunities.

And I think everybody has mentioned MGAs probably on the calls. We're aware of one MGA that may be dropping out of a particular part or segment of the commercial auto business, which we would see as an opportunity over the next six months or so. So, I hope that covered a few different subjects for you.

Operator

Gregory Peters, Raymond James.

Gregory Peters - *Raymond James & Associates, Inc. - Analyst*

I think for the first question, I'd like to focus on the Inland Marine, Ocean Marine business and maybe the trade credit business too. And first of all, in Inland Marine and Ocean Marine, it feels like I'm hearing from some of the other specialty players that they see opportunities for growth in that business. And I guess what -- my question for you is how you're positioned for growth there?

But there's marine cargo involved with the trade credit business. There's export and domestic trade involved. And as I'm thinking about your businesses, I'm just curious what the volatility and the tariffs might mean for that business in the interim until things settle out.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Yes, Greg. We have a very nice Ocean Marine book of business, both here in the US and through our Singapore office. We write -- we have a very strong focus on Ocean Marine also. And our property and inland marine book is a nice business, not so much -- we're trying to focus more on more Inland Marine builders written -- marine coverages versus as some do, just large property placements.

So -- but they've both been good businesses for us. Ocean Marine has provided some growth opportunities for us over the past couple of years. So I think we're pleased with that.

As we've -- I think on the Property and Inland Marine side, the builder's risk, there hasn't been as many opportunities on the builders' risk side, I think, because of just where we are in the economy, whether it's tariff activity or not, I'm not sure. But that's probably acted as a little bit of a regulator on our Property & Inland Marine business as that builders risk and traditional Inland Marine products are kind of our focus. Those businesses have been, over a long period of time, been very profitable businesses for us also.

Clearly, it's kind of hard to see exactly what the tariff impact is going to be. But clearly, Ocean and Inland Marine, as I've mentioned, I think, at the S&P conference, could be impacted due to lower shipping and cargo transport volumes. I'm not so sure we're really seeing anything right now. I think the bigger question is, as these tariff percents are completed country by country, then what happens. So that's my take at this point.

Gregory Peters - Raymond James & Associates, Inc. - Analyst

Would you say the same thing about the trade credit business to as it relates to tariffs?

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Actually, our trade credit business is growing. I think there's been a little bit of hardening in that market. It's a very, very small specialty business for us. But yes, I do think, depending on who gets what tariff and what country, it could have some impact, probably more on the premium side at some point. But right now, if anything, we're seeing some growth there.

Gregory Peters - Raymond James & Associates, Inc. - Analyst

Perfect. I guess I want to go back to some of the comments you made in your opening remarks. And specifically, you talked about M&A. And it just -- I don't know if there's been a shift in market conditions, if you're seeing a bigger pipeline today than you were a year or two ago. But I feel like you're always in the market.

So when you mentioned it on the call, maybe there's something percolating or obviously -- I'm just curious for your perspectives on the M&A side of the equation because you called it out in the comments.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Sure. M&A is, it's a \$100 million-type of business for us. It gets a little bit volatile based off of what the M&A environment is in this country in particular. This year is -- there seems to be quite a bit of activity. Last year was probably a lower amount of activity. And so the business was a smaller business this year. Though we've seen quite a bit of activity, and we have a very capable group of underwriters in this area. And we've done -- it's been a very profitable business for us.

I think others have kind of strayed into some of the fringe higher risk parts of this business, which we haven't as much. And we're really kind of stuck pretty much on the representations and warranties and the tax indemnity and credit insurance aspects. And we have a good reputation. We're known for knowing the business well and being strong specialists in the area.

Operator

Andrew Andersen, Jefferies.

Sid Schultz - Jefferies - Equity Associate

Hi, Yes. This is Sid on for Andrew. A crop peer gave an early indication that 2025 could be good to very good for crop profitability. And it sounded like in your prepared remarks, there are some positive indicators. So just curious if we should still be thinking about this year as an average year? Or is it still too early?

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

You know, I think it's still too early for us to put our usual average below, average, above average kind of caption on it. But I think as you see what's on the commodity futures pricing, they remain in acceptable ranges relative to the spring discovery prices. I didn't see the final yesterday, but I believe corn is down about 14%, soybeans down a little under 6% on prices. The average deductible with farmers in our book of business that's chosen up excluding the rainfall products, it will be about 20.5% we would project this year.

So you need losses or a combination of commodity price decrease and loss to exceed that first line of defense, which is the deductible that the farmers choose up. And then when you look at the most recent crop progress reports, the overall corn and soybean conditions are slightly better than last year at this time. There is some concern people have had about the excessive heat, but there's been so much moisture and adequate moisture to date that we don't think it's problematic to date.

But I think it's important that good moisture levels remain in August and through early September. So I might mention as part of the Big Beautiful Bill, there was actually an increased loss adjustment expense payment within states that have over 120% loss ratio. So actually, there was a nice adjustment improvement in the program due to the Big Beautiful Bill where in the LAE payment now is 6% versus an existing 1.5%.

So it's always nice. There's always some tweaks in a program down or that are slightly negative. But over time, it seems like, generally, there are more positive things that happen, and that's one of the most recent things. The Farm Bill, I think, has been extended until September of -- I think, through September of this year.

Sid Schultz - Jefferies - Equity Associate

Okay. And then just pivoting, I think your workers' comp book is slightly skewed to specialty workers' comp. So just curious how the pricing environment is in that end of the market. And if you expect any positive momentum on the workers' comp front? And also I think California is the largest state for workers' comp for you. So just curious if you're seeing any different loss experience there.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Well, first of all, California is only about 15% of our of our workers' comp business. I would think Florida probably would be the largest state. Workers' comp is about 13.5% of our overall gross written premium. Overall results continue to be -- for second quarter and six months continue to be excellent. Though the six months calendar year combined ratio is slightly higher than last year. Our National Interstate, the transportation-related workers' comp our Summit, which is Southeastern mainly, strategic comp, which is large deductible.

Those parts of our business have had a good calendar year and accident year underwriting results again this year. Republic, our California workers' comp is the one entity that has an underwriting loss in the second quarter.

We feel we have a strong reserve position. As it relates to pricing, I think that was kind of what seemed to be your question. One thing I really like is, we're seeing a moderating price trend with workers' comp. Our pricing -- overall pricing in comp was down only about 1% in the second quarter of this year and six months. And in Florida, our largest state, I think the 1% decrease that was put into place in January of this year, that was the lowest decrease in seven years in the state of Florida.

And in California, actually, we're achieving -- we achieved about 5% price increase in the second quarter that brings our pricing to 1% year-to-date. More importantly, California approved an 8.7% increase effective 9/1/25. That's the first hike in a decade.

Now it's needed. In an industry, California comp, the whole industry, I think the combined ratio is in the 120s. We have a more moderate underwriting loss. We've always generally performed better than the industry. But I really like what I'm seeing as far as the comp pricing environment. So it's still very competitive. But sure feels like a firming market is coming in California, in particular.

Operator

Meyer Shields, Keefe, Bruyette, & Woods.

Meyer Shields - Keefe Bruyette & Woods Inc - Analyst

Carl could you give a little bit deeper into what you're seeing in terms of pricing and rate adequacy in professional lines. I'm asking because you sounded somewhat cautious, and we've heard a couple of other carriers talk about maybe green shoots are bottoming. And I just want to get your perspective on that, please.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Sure. Let me just -- from an overall macro perspective, we have good results in the second quarter and six months for our D&O business and our banking-related D&O product business, ABIS. It's a significant business for us, \$400 million in D&O and ABIS. And if you include the other professional liability business we write, it's \$0.5 billion-plus. Net written premiums are down in the second quarter and six months. We continue to see the public company business -- continues to be competitive. Although I would say I am enthusiastic about seeing -- I think the price on that business was only down 1.6% in the second quarter.

When you look at our overall D&O executive liability businesses, overall, our rates were actually flat in the second quarter and year-to-date 2025, and that's kind of what we expect for the whole year. But I'm very pleased to see the public company pricing level out some.

Now in our case, public D&O is only 15% of our D&O premium. So it's -- we're more opportunistic players in that part of the business. Our ABIS actually in our financial or related D&O and products, pricing was up about 4% through six months of this year. So yes, still competitive on public D&O, but certainly signs that it's stabilizing, particularly on primary policies. I hope that's helpful.

Meyer Shields - Keefe Bruyette & Woods Inc - Analyst

It is very much so. And I just want to confirm because I'm trying to get my head around the impact of the earlier crop reporting. Should we think of some portion of the premium losses and related expenses that showed up last year in the third quarter as moving to the second quarter this year? Is that how that plays out?

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

Hi Meyer, this is Brian. So the -- we'll start with the premium side. So on the premiums, for the full year, we would expect crop premiums to be slightly lower than last year just because commodity prices during the discovery period were lower this year than last year. But what's offsetting

that in the second quarter is just the earlier planting and early reporting of acreage. So we would estimate that, that shift in premiums is about \$100 million gross and \$40 million net from -- when you're noting quarter-over-quarter.

So that's the amount of premium that would have otherwise been reported in the third quarter, instead of in the second quarter because of the advanced reporting. So if you want to think about a flip between quarters on the top line, \$40 million in net written premium is about that flip.

Now on the profitability side, in our crop business, we tend to book close to zero profits in the second quarter. The only profit that would come through the second quarter would be kind of development from prior periods as the vast majority of our crops are still in the ground. So we tend to report most of the profitability in our crop business actually in the fourth quarter, a little bit in the third and then some in the fourth, and it may develop favorably into the next year.

So all else being equal, when you look at our numbers, you can think of our combined ratio and crop being kind of closer to 100% in the second quarter. And then if it's profitable, that tends to help our combined ratio look better in the fourth quarter, all things being equal. So there's no real impact on profits, but there is on the written premiums.

Meyer Shields - Keefe Bruyette & Woods Inc - Analyst

Okay. That's helpful. But just take it one step further. That means that whatever the earned premium component of that \$40 million that's producing a higher combined ratio than the rest of Property and Transportation, that's moved from the third quarter to the second quarter. So there's a little bit less of that 100% combined ratio earned premium in the third quarter. That's what I'm trying to get at for that segment.

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

And that's a little tricky just because we did in some of our earlier season products, the ones that were actually more earning in the first half of the year, we did have some growth there and some changes in how much we've ceded. So the earned premium is higher still -- is higher for other reasons also in the second quarter.

So I would say, really the driver of profit recognition is going to be how the weather goes in the next couple of months and whether that pushes us to above average or average there or where that sits right now. As Carl said, the conditions look good, but we don't want to call that before too soon.

Operator

Bob Farnam, Janney Montgomery Scott.

Robert Farnam - Janney Montgomery Scott LLC - Analyst

Just a follow-up question on workers' comp. I've gotten some questions about undocumented workers. And I'm not sure if that really impacts the types of classes that you write. But the question was, do you -- have you seen or do you expect the industry to see any change in claim patterns as undocumented workers are swapped out for citizens or documented workers? And the thought being that undocumented workers don't really -- aren't thought to file workers' comp claims because they're worried about their immigration issues.

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

This is Brian. So when we insure our companies, we're insuring for any of the workers, whether they're undocumented or not and would pay any claims that come through. So if you're asking as undocumented workers maybe are reduced and more are replaced by documented workers,

whether that will have an impact or not. We're not seeing anything yet. We will continue to pay all the claims that we owe and collect the right premiums for the payrolls that are in place regardless of whether they're documented or undocumented.

Robert Farnam - *Janney Montgomery Scott LLC - Analyst*

Yes. No, the question was the thought is -- the undocumented workers don't even file claims because they're worried about it. So is that -- are you expecting maybe an increase in reported claims as those workers are replaced with documented workers? That was the question.

Brian Hertzman - *American Financial Group Inc - Chief Financial Officer, Senior Vice President*

Yes. At the moment, we're not expecting that, but it's obviously something we'll keep an eye on as we price our business and set reserves going forward.

Robert Farnam - *Janney Montgomery Scott LLC - Analyst*

Okay. And so I have some questions on the excess liability business. You've had modest adverse development over the last several quarters. Is that related to any particular accident years or particular lines of business or classes of business. I'm just kind of curious if what you saw this quarter? Is it similar to what you saw in for most of last year and in the first quarter this year?

Brian Hertzman - *American Financial Group Inc - Chief Financial Officer, Senior Vice President*

This is Brian. So I think first, it's important to remember that overall, our reserves continue to develop favorably, and we had \$11 million in net favorable development in the quarter. So when you look at the Casualty Group, there is \$10 million of adverse development there. And that is driven by adverse severity in parts of our social inflation exposed businesses, particularly the excess and surplus that you mentioned and also in our non-profit social services businesses.

In those businesses where we saw an uptick in settlements, we adjusted our case reserves for known claims, and we did increase IBNR for similar potential liabilities out there. So the claims in the social inflation exposed business can be lumpy. So when you look at the adverse development by accident year, it really is spread over a lot of different years.

So it's no one big thing or one big year. It's just little amounts over several years. You may also see in our current accident year picks, we prudently increased some of those for the same reasons. So we're constantly trying to learn from what we see and testing both our loss picks and pricing, in relatively real time so that we can maintain or improve our good results.

Robert Farnam - *Janney Montgomery Scott LLC - Analyst*

Right. Okay. Do you write the primary layers on that excess liability book? Or is that third parties that write the primary layers?

Brian Hertzman - *American Financial Group Inc - Chief Financial Officer, Senior Vice President*

Where we're seeing the adverse development is mostly coming out of the ones where we are writing the excess layers.

Robert Farnam - *Janney Montgomery Scott LLC - Analyst*

Were you writing the primary layers as well?

Brian Hertzman - *American Financial Group Inc - Chief Financial Officer, Senior Vice President*

No.

Operator

Michael Zaremski, BMO Capital Markets.

Michael Zaremski - *Bank of Montreal - Analyst*

My question is on the previous \$10.50 '25 guide. Obviously, the Street is lower due partially to the first quarter investment returns. I guess my question is focused on the maybe the year-to-date reserve releases of about 1 point -- down 65% approximately year-over-year. Still obviously a very good guide releases, great to see. Would you be able to share whether that reserve release ratio is better or worse in line with what you had contemplated when putting a guide together, the \$10.50 guide?

Brian Hertzman - *American Financial Group Inc - Chief Financial Officer, Senior Vice President*

With so many different lines of business and products, it's really hard to say. I think if you remember, we talked about when we gave our business plan assumptions at the beginning of the year, we did talk about an expectation of lower levels of favorable development. Now all the reasons behind that are not necessarily being exactly what we thought in the beginning.

But we did anticipate, and I think, hopefully did share that we thought that some of the favorable development we would have been seeing would diminish a bit, and that we're optimistic about improvements in the accident year ex-cats loss ratio, which we did see improvements other than where we were more prudent on some of the social inflation expense businesses.

So I think overall, it's pretty much in line with what we were expecting but not necessarily business unit by business unit, but within a range, I'd say, yes.

Operator

This concludes the question-and-answer session. I would now like to turn it back to Diane for closing remarks.

Diane Weidner - *American Financial Group Incline - President, Investor & Media Relations*

Thank you all for joining us this morning and for the great discussion and good questions. We look forward to talking with you all next quarter when we share results for the third quarter. I hope you have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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