S&P Capital IQ

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Kemper Corporation NYSE:KMPR

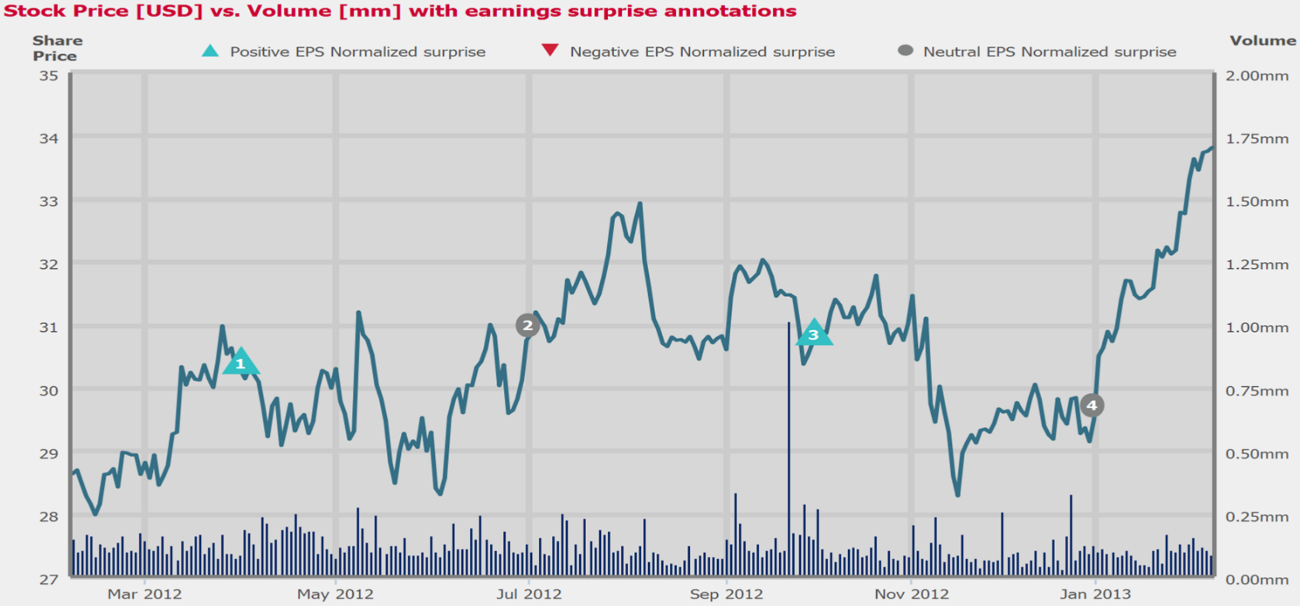
FQ1 2013 Earnings Call Transcripts

Friday, May 03, 2013 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.52	1.00	▲92.31	0.33	2.04	2.12
Revenue (mm)	589.94	590.70	▲0.13	590.79	2355.11	2337.07

Currency: USD
Consensus as of May-03-2013 1:29 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	0.53	0.60	▲13.21 %
FQ2 2012	0.10	(0.01)	NM
FQ3 2012	0.33	0.42	▲27.27 %
FQ4 2012	0.06	(0.06)	NM

Call Participants

EXECUTIVES

Denise Idell Lynch
Former Property & Casualty Group Executive

Diana J. Hickert-Hill
Vice President of Investor Relations & Corporate Identity

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Edward J. Konar
Former Vice President and Life & Health Group Executive

Frank Joseph Sodaro
Former Senior Advisor

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Miranda Davidson

Paul Newsome

Raymond Iardella
Macquarie Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Kemper's First Quarter 2013 Earnings Conference Call. My name is Sean, and I will be your coordinator for today. [Operator Instructions] As a reminder, this conference call is being recorded for replay purposes. I would now like to introduce your host for today's conference, Ms. Diana Hickert-Hill, Vice President, Investor Relations and Corporate Identity. Ms. Hickert-Hill, you may begin.

Diana J. Hickert-Hill
Vice President of Investor Relations & Corporate Identity

Thank you, operator. Good morning, everyone, and thank you for joining us.

This morning, you will hear from 3 of our business executives, starting with Don Southwell, Kemper's Chairman, President and Chief Executive Officer; followed by Denise Lynch, Kemper's Property & Casualty Group Executive; and lastly, Frank Sodaro, Kemper's Senior Vice President and Chief Financial Officer.

We will make a few opening remarks to provide context around our first quarter results. We will then open up the call for a question-and-answer session. During this interactive portion of the call, our 3 presenters will be joined by John Boschelli, Kemper's Vice President and Chief Investment Officer; and Ed Konar, Kemper's Life and Health Group Executive.

After the market's close yesterday, we filed our form 10-Q with the SEC and issued our press release and financial supplement. You can find these documents on the Investors section of our website, kemper.com.

Please note that our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. For information on potential risk associated with relying on forward-looking statements, please refer to our Form 10-K filed with the SEC on February 15, 2013, as well as our first quarters 2013 Form 10-Q and earnings release.

This mornings discussion includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement and earnings release, we have reconciled non-GAAP financial measures the GAAP where, as required, in accordance with SEC rules.

Now I will turn the call over to Don Southwell.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Thank you, Diana. Good morning, everyone, and thanks for your interest in Kemper. Today, I'll discuss our overall results in the quarter. I will also cover specifics on our Life and Health group and on our investment performance. Denise will provide more color on the Property & Casualty group's results, and Frank will review details on our financial results, capital and liquidity, then I'll wrap up with comments on our capital priorities.

So starting with our results. In total I'd characterize our first quarter results as good progress on our profit improvement goal. We generated $58 million net income in the quarter, up 34% over the prior year. On a net operating income base, we earned $42 million, up 27%. Our Property & Casualty group deliver improved results, both sequentially and versus prior year. Some of this improvement resulted from favorable development, but we also improved our underlying performance. I'm pleased with the focus our team has on executing our operating plans, and we remain committed to taking further actions to improve fundamentals. Denise will cover our performance and plans in more detail.

On the Life and Health side, results were lower compared to the prior year. For the life insurance line the decrease in earnings was related to primarily due increased expenses, lower investment income and higher benefits. On benefits paid, we saw some higher mortality on the Life business and higher storm activity, which affected our contents in growing [ph] lines. On Health Insurance, we are pleased with the progress in Reserve National, as the team continues to shift away from hospitalization products to supplemental and specialty products that are less affected by national health care changes. We are increasing our efforts and our expenses modestly to expand products in distribution channels as part of the shift. While the Life group's -- Life and Health group's total results were lower than the first quarter last year, they are within our expectation for the quarter. In fact, at this point, we continue to expect the overall 2013 Life and Health earnings to be right around the 2012 earnings of about $90 million.

Turning to investments. The portfolio delivered another quarter of solid performance. Despite the prolonged low interest rate environment, our yields are holding up well. We also realized $27 million of pretax gains in the quarter, most of these resulted from selling some bonds that we felt was attractively priced.

Now I'll turn the call over to Denise to provide color on the quarter's P&C results and her team's actions to improve profitability.

Denise Idell Lynch
Former Property & Casualty Group Executive

Thank you, Don. I'll start my remarks with a few comments on the Property & Casualty group, overall, then dive into specifics on each of our 3 segments. I'm pleased to report Property & Casualty businesses experienced a better quarter, year-over-year and sequentially. The headline here is that we have done a very thorough job in identifying and understanding our misses. We are aggressively correcting them through rate actions, improved underwriting discipline and other actions designed to improve the overall quality of our book and, therefore, our results. So what's working? First, the Property & Casualty combined ratio improved almost 6 points, to 95.8% in the quarter, as compared to the same period last year. And the underlying combined ratio improved almost 3 points from prior year, at 97.1%; second, at both Kemper Preferred and Kemper Specialty, we invested in pricing, product and analytics capabilities this past year, and are making the changes necessary to improve our long-term results; third, we recently named Andrea James, our new President at Kemper Preferred. She is implementing the profit improvement plans with her executive staff, and we have every confidence in her leadership of this business. And finally, the Direct runoff is going very well, meeting or exceeding expectations in all measures.

We like the direction on improvement in the P&C group overall. And we'll continue to take the appropriate actions to improve the profitability of each line and each business. Let's start by looking at our largest business, Kemper Preferred.

We continue to work with agents who market auto and home package products to their customers. Our Package Plus is widely regarded as best-in-class for our target consumer. As a result of this focus, our target market total written premium is up 9% year-over-year. Looking at new business, the percentage of target market increased 10 points versus last year and now represents more than 2/3 of all new business.

In the homeowners line, net written premium grew by 3% over the same period last year, to $73 million, while earned premium grew 5%. The combined ratio of 90.8% for the quarter is a more than 10 point improvement from the same period last year, and is due to an improvement in the loss in LAE ratio to 61.3% for quarter. This was primarily driven by lower catastrophe and non-catastrophe weather losses. The homeowners line also benefited from favorable catastrophe and non-catastrophe reserve development, which is not expected to continue throughout 2013. The underlying loss in LAE ratio improved 2.4 points. Our focus on rate adequacy in the homeowners line of business yielded good traction, as our average rate change is now ahead of loss trends. Average written premium for homeowners policies during the first quarter was 11% above the same period last year. Nonetheless, we have more work to do. To help keep the rate increases moderate, we are sharing risk with policyholders in the form of higher deductibles, especially in wind, hail or tornado prone areas. We are also adjusting risk selection in storm-prone areas as appropriate, and making some changes in our contract terms and conditions.

In the auto line, net written premium was $121 million in the quarter or 2% lower compared to a year ago. The decline is largely attributed to lower new business volume. The combined ratio in the auto line was 100.7%, a 1% increase over last year. This was driven by higher loss in LAE, which was 73.8% for the quarter, a 1 point increase over the same period last year. The underlying loss in LAE ratio for the quarter deteriorated 3.2 points over the same period last year. The 3 key drivers are as follows: One, with a majority of auto policies in 12-month policy terms, the substantial rate actions from 2012 and 2013 are slower to earn in. However, we do expect earn rate to increase as the year progresses; two, pure premium trend rose in the quarter, driven by bodily injury and collision pure premium trends; and three, current accident year catastrophe losses were almost double the same period last year. We remain focused on rate adequacy and expect to file about 9% in auto rate increases throughout 2013.

Now turning to Kemper Specialty. Kemper Specialty targets personal and commercial auto insurance consumers who have difficulty obtaining automobile insurance through the standard and preferred markets, for a variety of reasons. Specialty combines sophisticated price segmentation, streamlined point-of-sale technology, and expert claims handling and customer service to meet the demands of its agents and target customers.

Let's look at first quarter personal auto results in Kemper Specialty. Net written premium decreased 11% to $94 million as new business declined in response to the rate increases taken across the country. Earned premium declined 10%. The combined ratio improved 5 points, to 101.6%, as development was negligible in 2013 compared -- negligible in 2013 compared to 5.4 points of unfavorable reserve development in 2012. Underlying loss in LAE improved 1 point.

With regard to rate increases, in the trailing 12 months, we have taken 12 points of rate and completed significant segmentation enhancements to our personal auto products. This has resulted in an average earned rate increase, in the current quarter, of 6 points. In total, in 2013, we expect to file 8 points of rate increases. While rising bodily injury severity remains a concern, the average earned rate increase of 6% outpaces overall pure premium trends.

Briefly turning to Kemper Specialty's commercial auto results in the first quarter, net written premium increased 24% to $14 million, led by strong new business. The combined ratio increased 65 points to 106.6% from an adverse change in reserve development compared to the prior year. The underlying combined ratio remains flat year-to-year at just over 100%. We took rate increases of 5.5% commercial order auto in the quarter. And in total, in 2013, we will have filed 7%. Additionally, we are tightening underwriting guidelines related to certain classes of vehicles in order to improve the quality of the book and expect improved results as 2013 progresses. We remain confident in our profit improvement objective of 4 to 5 percentage points in our underlying combined ratio in 2013.

Now I'll update you on Kemper Direct. The runoff of the direct-to-consumer business is going well. In particular, I am pleased with how well our team is serving our affinity and direct-to-consumer policyholders during the runoff. Serving the policyholder well, and earned rate increases, are driving premium retention above prior year and in line with expectations. We completed the previously announced decision to withdraw the direct-to-consumer auto programs in Michigan. The process started about a year ago and was completed in early April of this year. We continue to take rate actions in line with indications, as well as other underwriting actions to manage the profit through the runoff. Renters in our affinity and worksite programs, marketed as Kemper Select, also continue to perform well and as expected.

Finally, we are actively managing our expense structure, consistent with business needs and declining premium levels, through the rationalization of programs, system platforms and other infrastructure costs.

So to summarize the Property & Casualty group, we are addressing the challenges and are making progress. We have a sharp focus on executing to improve profitability, and expect to deliver a 3- to 5-point improvement in the underlying combined ratio in 2013. Now I'll turn the call over to Frank.

Frank Joseph Sodaro
Former Senior Advisor

Thanks, Denise, and good morning, everyone. Today, I'll cover 2 topics. Kemper's first quarter 2013 performance, and parent company capital and liquidity. As Don mentioned, overall, the first quarter was good on several fronts, net income was $58 million or $1 per share compared to 48 -- $44 million or $0.73 per share for the first quarter last year. For the current quarter, Kemper had net operating income of $42 million, an increase of $9 million from the first quarter of 2012. Total revenues were fairly flat at $660 million for the quarter while earned premiums were $510 million, down $20 million from last year. This decline in earned premiums was primarily the result of actions taken by Kemper Direct and Kemper Specialty, and was is in line with our expectations, given the plans we put in place to improve profitability. Consolidated net investment income across the portfolio was $81 million in the first quarter, which was up $3 million from last year. Equity method investments are $9 million for the quarter, an increase of $2 million from 2012. As for the rest of the portfolio, the remaining increase was due to higher investment base. Total invested assets grew about $55 million in the first quarter, to $6.5 billion. The first quarter annualized pretax equivalent book yield on average invested assets was 5.8%, flat with the prior year. Net realized investment gains in the quarter were $27 million pretax, largely driven by the sale of corporate bonds that Don mentioned earlier. In general, we invested these proceeds, along with our new money, in investment-grade corporate bonds with yields around 3%.

I'll now discuss the details of each of our businesses, starting with P&C.

Kemper Preferred reported net operating income of $19 million for the quarter, compared to $10 million for the same period last year. Overall, Preferred's combined ratio was 94.8% for the quarter, an improvement of more than 4-points compared to last year, largely due to lower catastrophe losses and higher favorable reserve development. The underlying combined ratio, which excludes catastrophes and prior year development, was 95.3%, about flat with last year as improvement in the homeowners line and other lines were offset by deterioration in the auto line. Preferred's net written premium were $206 million in the current period, about flat with last year. Net earned premiums were $219 million in the quarter, up from $215 million last year, a 2.6% drop in policies in force is offset by the higher premium rates Denise mentioned earlier. Overall, premium retention was 86%.

Now turning to Kemper Specialty. Specialty reported net operating income of $3.5 million for the first quarter, compared to just over $4 million for the same period last year. The combined ratio increased nearly 2 points, to 102.2%. This was primarily due to an adverse change in development in the commercial auto, compared to last year, as well as catastrophe losses from the February 2013 hail event in New Orleans. However, the overall underlying loss in LAE ratio improved 1.4 points for the first quarter of 2012. Specialty's net written premiums were $108 million in the quarter, compared to $118 million last year, and net earned premiums were $99 million compared to $107 million last year. These results are in line with our expectations and are driven by lower personal auto, new business volumes, with total policies enforced down 16.5% versus prior year. This was partially offset by higher personal auto average earned premiums and higher commercial auto volume.

Now I'll turn to Kemper Direct. In the first quarter, Direct reported net operating earnings of $7 million, compared to net operating loss of $1 million last year with an 83% combined ratio this year, compared to 114% last year. Kemper Direct's improvement came on several fronts: First, Direct experienced favorable reserve development of $6 million pretax this quarter compared to $4 million favorable development for the first quarter last year; second, catastrophe losses were $1.5 million lower this year; and finally, the underlying combined ratio improved to 99%, as compared with 118% in the first quarter of last year. Losses improved with both lower frequency and severity. The expense ratio was particularly favorable in the first quarter, coming in at 26% versus 33% in the same period last year, due to reduced marketing and other underwriting cost, as well as the timing of some expenses. As a result, we expect the expense ratio to increase throughout the remainder of 2013 but come in lower than 2012. Direct's net earned premiums were $34 million for the current period, down from $47 million last year, and in line with our expectations. Auto and home averaged earned premiums increased in the first quarter, by 4% and 10% respectively, as compared to the same period last year, but were more than offset by lower volume. With a reduction in premiums and the runoff of reserves, we currently allocate about $150 million of capital to support this business.

Shifting to the Life and Health segment. Net operating income, overall, was $21 million in the quarter, down from $28 million for the first quarter last year. However, this quarter's results were within expectations. Total revenues for the segment were $211 million, down $5 million from the prior year. This quarter, net investment income was down $2 million aftertax. Life benefits were up $2 million aftertax but within the normal range. Additionally, insurance expenses were up $2 million after tax primarily from higher legal cost in the life companies and distribution channel expansion at Reserve National. Reserve National's earned premiums were $33 million in the quarter compared to $34 million last year. Supplemental products now make up 59% of the premium, compared to 50% for the first quarter last year.

Finally, I'll discuss book value, capital and parent company liquidity. Book value per share was $37.25 at the end of the quarter, up 4% year-over-year and 1% from year-end. Statutory surplus levels in the insurance companies remains strong with risk-based capital ratios of approximately 480% for the Life and Health group and 330% for the Property & Casualty group. On a combined basis, we ended 2012 with maximum ordinary dividend capacity of about $180 million from our insurance companies, and we still are targeting $95 million for dividends to the holding company in 2013.

And finally, from a liquidity perspective, the holding company ended the quarter with cash and investments of about $190 million, and our $325 million revolving credit line remains undrawn. And now I'll turn the call back over to Don.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Thank you, Frank and Denise. I'll wrap up our prepared remarks with a few comments on our capital deployment plans. As Frank mentioned, we finished the quarter in a strong capital position. Our long-term capital deployment priorities remain consistent with our earlier communications: First, funding profitable organic growth; second, strategic acquisitions; and third, returning capital to shareholders.

With that as a context, I'll comment on our short-term plans.

In 2013, we do not plan to fund organic growth, instead we are repositioning for profitability. Regarding acquisitions, we want to see further operational improvement first, but we are keeping some powder dry for future opportunities.

And finally, on returning capital to shareholders. We have maintained our competitive dividend and continue to buy back shares opportunistically. In the first quarter, we repurchased $6.5 million worth of shares, and in April we repurchased another $9 million. So we have repurchased about 0.5 million shares for about $16 million, year-to-date, through April.

It is our goal to achieve a double-digit ROE, by the end of 2015, on a run-rate basis. The path to that goal is clear. Its main elements are continued improvement in our P&C combined ratio; full deployment of available capital; increases in interest rates consistent with the Federal Reserve baseline scenario published last November; and finally, normalized catastrophe losses.

We are prepared for some bumps in the road and some debris falling in our path, but our path and our focus are clear. So in closing, we are making significant progress in key areas across our businesses, and have plans in place to continue improvements. We must, and we are, improving our underlying operating performance.
At this time, I'll turn the call back over to the operator, so we may take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Miranda Davidson with Raymond James.

Miranda Davidson

I had a question on the mortality and morbidity in the quarter. What made you think the adverse results are not indicative of more of a trend?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Miranda, I'm going to ask Ed Konar to take that one.

Edward J. Konar
Former Vice President and Life & Health Group Executive

I'd be happy to give you a little more insight into that. The bulk of our mortality and morbidity variance, in the quarter, was some adverse mortality within our Life company in the month of January. We've seen minor spikes like this in previous Januaries and we don't see it really as a trend but rather as just kind of normal fluctuation within expected range of mortality.

Miranda Davidson

Okay. And one other, if I could. The turnaround in prior year development at Preferred. Could you provide some color on what was going on there?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Sure. Denise, do you want to take that one?

Denise Idell Lynch
Former Property & Casualty Group Executive

Sure. Sure I'd be happy to take that one. For Preferred, we've seen a turnaround in our development, as you noted, primarily in liability lines. Last year, we saw some adverse development in liability in auto, and this year we're seeing some favorable development in our liability lines, partially offset by some unfavorable development in our collision. So overall, we've seen favorable development in our auto lines. We've also seen increased favorable development in our home line this year.

Operator

Our next question comes from Adam Klauber from William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

A couple of different questions, starting with preferred auto. It sounds like you're beginning or continuing to make some major improvements there. I think you mentioned a 9% rate increase. Is that on top of rate increases from last year or is that 9% just as the business renews?

Denise Idell Lynch
Former Property & Casualty Group Executive

This is on top of. So we filed, last year, about 8% -- just under 8% in our auto book of business last year, and on top of that, we are filing that additional 9% on the auto book this year.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay, okay. So that gets put in throughout this year.

Denise Idell Lynch
Former Property & Casualty Group Executive

That's right.

Adam Klauber
William Blair & Company L.L.C., Research Division

In the first quarter, what was BI severity trend compared to what it'd been for last year?

Denise Idell Lynch
Former Property & Casualty Group Executive

In the auto line of business, we are seeing some increased severity, especially in the bodily injury line coverage part, and we were also seeing some increased severities in collision for Preferred. We're seeing the same trend, also, in our Specialty book of business with BI and collision.

Adam Klauber
William Blair & Company L.L.C., Research Division

So sort of BI is actually trending up in 2013 versus 2012, BI severity?

Denise Idell Lynch
Former Property & Casualty Group Executive

What I'd say is that the first quarter is up. I hesitate to say it's a trend, because it is a quarter, but we are observing that the quarter is up in BI severities, yes.

Adam Klauber
William Blair & Company L.L.C., Research Division

So, what do you think is driving that?

Denise Idell Lynch
Former Property & Casualty Group Executive

I think there's probably a lot of things going on there. But, certainly, the inflationary pressures are contributing to what we're observing in the BI lines. We're not seeing anything specific from a geographic perspective that's contributing to it, so we believe it's environmental.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay, that make sense. And so as far as -- you look for improvement in -- and which, again, you've been hitting that in the line pretty hard with rate. So you think we'll see that more in the second half of this year?

Denise Idell Lynch
Former Property & Casualty Group Executive

We are hitting that line of business for Preferred quite hard. As you said, we're hitting it with rates. We're hitting it with additional underwriting actions. We continue to improve our price segmentation. So there is a lot going on to improve that book of business and we certainly do expect to observe improvement as the year continues.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

And Denise said earlier that bulk of that businesses is annual premium business, so it does take a little longer to roll in on Preferred than it does on Specialty.

Adam Klauber
William Blair & Company L.L.C., Research Division

Sure. That makes a lot of sense. So switching to Specialty. How is the competitive environment in the nonstandard? In particular, sometime -- at times, MGAs can be more aggressive or less aggressive depending on the capacity they're getting. So I guess, overall, how would you say the competitiveness in that environment is right now?

Denise Idell Lynch
Former Property & Casualty Group Executive

I think we would say that, in the nonstandard market, we're observing firming market trends across the country. We certainly are addressing the book of business that we had to improve profitability with a variety of actions. But, as we look across the country and in a lot of the states that we do business, we are seeing general firming market conditions with raising rates.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And I apologize if you said this. So as you increase rates in your Specialty or nonstandard book, how were your retentions done?

Denise Idell Lynch
Former Property & Casualty Group Executive

Our retentions have held pretty well actually. Our new business has slowed and that's very deliberate on our part.

Operator

Our next question comes from Paul Newsome with Sandler O'Neill.

Paul Newsome

I just want to make sure I heard this right, did you say that you expect 3% to 5% improvement in the underlying combined ratio in 2013?

Denise Idell Lynch
Former Property & Casualty Group Executive

I said 3% to 5% in the underlying combined ratio in 2013.

Paul Newsome

Okay. So, I heard that right. Does that include the Direct business or you're just looking at the ongoing business when you talk about that?

Denise Idell Lynch
Former Property & Casualty Group Executive

No, that does include the Direct business, so it's all the property casualty.

Paul Newsome

So, should we expect improvement in the underlying combined ratio in the core businesses, in 2013?

Denise Idell Lynch
Former Property & Casualty Group Executive

It is our expectation that we have the right actions in place to improve the profitability of Preferred and Specialty, and Direct, and that is work that we are doing and continue to do. So we would expect continued improvement across the businesses.

Paul Newsome

In this year?

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes.

Paul Newsome

Okay. Because it looked like -- maybe I'm wrong. There's a million companies reporting here. That there wasn't any improvement in the underlying combined ratio in the core businesses this quarter?

Denise Idell Lynch
Former Property & Casualty Group Executive

So are you talking about Preferred?

Paul Newsome

Preferred and Specialty.

Denise Idell Lynch
Former Property & Casualty Group Executive

So we do actually expect -- so we have all the actions in place in terms of our auto and home, in each line of business to get the desired improvement in our book of business. In the Preferred book of business, we are flat on an underlying basis in the quarter. But in our Specialty book of business, we actually did note a bit of improvement.

Operator

Our next question comes from Ray Iardella from acquiring. [Operator Instructions]

Raymond Iardella
Macquarie Research

Maybe just wanted to touch -- Denise, I appreciate all the color you've given on the underwriting actions you guys are working through. But, maybe, can you can talk about the investments you guys are making into the platform. I know in Specialty in particular, you called out some technology investments you guys are making. Maybe you can elaborate on that?

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes, we're investing in some of our systems. We are investing in our claim systems. And we are investing in policy and billing. We expect that the new system that we've put in for building -- all of our systems create positive return. But the billing system, in particular, will help us with a variety of bad debt and other items that we expect to take care of with our book.

Raymond Iardella
Macquarie Research

Okay. So those investments should sort of lead to better results in 2013 or is that something that you guys expect to get more out of sort of next year?

Denise Idell Lynch
Former Property & Casualty Group Executive

The investments are really twofold: One, our legacy systems are quite old and they're expensive to maintain long-term. So part of it is, frankly, to replace our legacy systems, and then beyond that, they will improve our capabilities in the marketplace.

Raymond Iardella
Macquarie Research

Okay. And then maybe turning to the Direct. I know is pretty early on -- complete the strategic review in December. But it seems like retention's holding up pretty well, and I know you guys said it was in line with your expectations. But any sort of thought process or any -- approaching from anyone outside that might be interested still in that business, as well, even though you guys have an end run off and that seems to be going as planned?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Ray, we do hear, off and on, from parties who might be interested. But our current plan is to run that off, and the affinity business, to keep that moving. So we've not had any substantive discussion with anyone. We just had an occasional inquiry here or there.

Operator

I'm not showing any other questions in the queue. I'd like to turn it back over to Don Southwell for closing comments.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Take you, operator. I do have a few closing comments. We remained focus on improving profitability in each one of our businesses. This morning we outlined a number of milestones for 2013. We're executing well on our plans and will address any challenges that arise. We fully intend to fulfill the promises that we made to our customers and to deliver the shareholder returns that we all seek. Thank you for your time this morning, and we will update you on our progress, again, next quarter.

Operator
Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the conference. You may now disconnect. Good day.