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Earnings Call

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Call Participants

EXECUTIVES

Bradley Thomas Camden
Executive VP & CFO

Joseph Patrick Lacher
President, CEO & Director

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Michael Anthony Marinaccio
Vice President of Corporate Development

ANALYSTS

Andrew Scott Kligerman
TD Cowen, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Third Quarter 2024 Earnings Conference Call. My name is Ina, and I will be your coordinator 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 call, Michael Marinaccio, Kemper's Vice President of Corporate Development and Investor Relations. Mr. Marinaccio, you may begin.

Michael Anthony Marinaccio
Vice President of Corporate Development

Thank you. Good afternoon, everyone, and welcome to Kemper's discussion of our third quarter 2024 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer; Brad Camden, Kemper's Executive Vice President and Chief Financial Officer; and Matt Hunton, Kemper's Executive Vice President and President of Kemper Auto.

We'll make a few opening remarks to provide context around our third quarter results, followed by a Q&A session. During the interactive portion of the call, our presenters will be joined by Chris Flint, Kemper's Executive Vice President and President of Kemper Life; Duane Sanders, Kemper's Executive Vice President and Chief Claims Officer for P&C; and John Boschelli, Kemper's Executive Vice President and Chief Investment Officer.

After the market closed, we issued our earnings release, filed our Form 10-Q with the SEC and published our earnings presentation and financial supplement. You can find these documents in the Investors section of our website, kemper.com. Our discussion today may contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These statements include, but are not limited to, the company's outlook and its future results of operation and financial condition. Our actual future results and financial condition may differ materially from these statements. For information on additional risks that may impact these forward-looking statements, please refer to our 2023 Form 10-K and our third quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures we believe are meaningful to investors. In our financial supplement, earnings presentation and earnings release, we've defined and reconciled all non-GAAP financial measures to GAAP where required in accordance with SEC rules. You can find each of these documents in the Investors section of our website, kemper.com. All comparative references will be to the corresponding 2023 period unless otherwise stated.

I will now turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Michael. Good afternoon, everyone, and thank you for joining us today. I'm pleased to report that we delivered another quarter of strong financial results. This was led by our Specialty Auto business, which again generated sequential quarter PIF growth and an underlying combined ratio in the low 90s.

We continue to observe both a hard market and increased consumer shopping behavior. Given this backdrop, we anticipate continued significant profitable growth in our Auto business for the foreseeable future. Additionally, our Life business continued to deliver stable underlying operating results. Overall, we generated a strong return on equity, return on adjusted equity and growth in book value per share.

Now let's move to Page 4 and jump into some specifics on this quarter's results. We delivered $74 million of net income, an ROE of approximately 11% and an adjusted ROE of about 17%. Specialty P&C generated a healthy underlying combined ratio of 91.3%. This is a significant year-over-year improvement and gives us a great foundation for continued profitable growth.

On our last call, we said we expected PIF to grow at a more modest rate in the second half of this year due to seasonal shopping behavior in our Auto business. Encouragingly, we saw shopping behavior higher than that historical level. This resulted in sequential quarter PIF growth in the mid-single digits. We continue to see robust demand for our products and expect PIF growth to persist. Matt will discuss this in more detail later.

The underlying business fundamentals of our Life segment remained stable, and the business continued to produce strong return on capital and distributable cash flows. Next, our capital and liquidity position enabled us to repurchase $25 million in shares this quarter. Furthermore, we plan to fully retire the $450 million of debt, which is coming due next February.

Brad will have more on this later. Lastly, I'd like to take a moment to address recent catastrophes. First, we extend our concern and support to all those affected by these events. We hope for everyone's safety and resilience through the recovery process. Relative to our results, these events did not have a particularly large impact on our financials.

Total catastrophe losses for the third quarter were approximately $16 million, of which about $11 million was within our preferred P&C business, which is in wind down. This includes the impact of Hurricane Helene. Additionally, our preliminary estimates related to Hurricane Milton, a fourth quarter event, are only about $1 million.

With that, I'll turn the call over to Brad.

Bradley Thomas Camden
Executive VP & CFO

Thank you, Joe. I'll begin on Page 5 with our consolidated financials. This quarter, we generated solid operating profit. Net income was $73.7 million or $1.14 per diluted share, and adjusted consolidated net operating income was $105 million or $1.62 per diluted share. These earnings translate to a 10.8% return on equity and a 16.7% adjusted return on equity.

Our strong performance was driven by Specialty Auto's underwriting results. Specialty delivered a 91.3% underlying combined ratio and grew PIF by 4.5% sequentially. Catastrophe losses within this segment were $3.6 million, and there was no significant prior year reserve development.

Given the strength of our Auto franchise, we expect continued PIF and earned premium growth while maintaining solid underwriting margins. There will be some modest increases in the combined ratio over the next 3 to 5 quarters as we grow, but as we shared with you last quarter, we expect the combined ratio to remain below our 96% ceiling. Matt will provide further details about Specialty P&C.

Turning to Page 6. Our insurance companies are well capitalized and have significant sources of liquidity. At the end of the quarter, parent company liquidity was approximately $1.3 billion, consisting of revolver, intercompany lending capacity and holding company cash and investments. Our healthy liquidity balance allows us to pay shareholder dividends, interest payments and support our operating subsidiaries.

It also provides us with significant flexibility to delever our balance sheet and return capital to our shareholders. Previously, we indicated we have paid down at least $150 million of our February 2025 debt maturity. However, given our strong performance, we've increased this amount and now intend to retire the full $450 million at maturity. This will further strengthen our balance sheet and increase financial flexibility by lowering our debt-to-capital ratio to approximately 25% by the end of the first quarter of '25 from 31.5% at the end of the third quarter.

Our capital and liquidity position has also given us the ability to repurchase shares. During the third quarter, we repurchased $25 million of common stock, and we bought back another 10 million of shares so far in the fourth quarter. We now have approximately $136 million of authorized share repurchases remaining. We continue to believe our stock is trading below its intrinsic value, and we'll opportunistically buy back shares.

Moving to Page 7. Net investment income for the quarter was $111 million, and our pretax equivalent annualized book yield was 4.8%. Net investment income results were driven by higher new money yields and strong alternative investment performance. While last quarter experienced a negative valuation adjustment within the alternative investment portfolio, this quarter's results outperformed. In general, we expect our overall net investment income to be around $105 million per quarter. We continue to maintain a high-quality, well-diversified $9 billion investment portfolio and have had no changes to our long-term philosophy or execution.

I'll now turn the call over to Matt to discuss the Specialty P&C business.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Thank you, Brad, and good afternoon, everyone. Turning to Page 8 and our Specialty P&C business. Overall, we are pleased with our financial performance this quarter, with combined ratios continuing to outperform long-term expectations. Our private passenger auto business produced an underlying combined ratio of 91.2% and commercial auto produced 91.8%.

We continue to see hard market conditions in the specialty marketplace. We have also seen a modest increase in shopping activity as customers react to the abnormally large increases in auto insurance premiums working their way through the system. This environmental backdrop presents an opportunity to capitalize on our competitive advantages and profitably expand our business.

As we have previously discussed, we are deploying a methodical yet appropriately aggressive approach to expanding new business. Sequential quarter PIF growth for both private passenger auto and commercial auto increased by 4.4% and 5.5%, respectively, resulting in an overall growth rate of 4.5%. In the top right corner of Page 8, we show a more traditional pre-pandemic production table.

As we work through our production rebalancing phase, our growth is intentionally textured by geography. Given the unique market and regulatory dynamics of each state, the pacing of growth will vary in the short term. Over time, we expect to see growth patterns move back to more historical levels. We anticipate ongoing growth in California, our largest market. We see both Florida and Texas as growing marketplaces with significant headroom.

Our growth in those states will continue to accelerate over the next few quarters, and over the course of 2025, we expect our smaller markets to produce meaningfully higher growth levels as our re-expansion efforts take hold. Lastly, our commercial auto business delivered another period of solid growth. We fully anticipate this trend to continue.

In closing, we are very confident with the position of both our personal and commercial businesses. Additionally, we expect the hard market conditions to carry well into next year. Consequently, we look forward to the continued re-expansion efforts and to sustainable profitable growth. I'll now turn the call over to Joe to cover the Life business and closing comments.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Matt. Turning to our Life business on Page 9. As noted earlier, the underlying business continued to generate stable operating results. Mortality and persistency trends remained in line with expectations and net investment income returned to more normal levels, driving the sequential quarter improvement. The Life business continues to generate strong return on capital and distributable cash flows.

Turning to Page 10. In closing, I'd like to reiterate our highlights for the quarter. Once again, we delivered excellent financial results, led by Specialty P&C's underwriting performance. Specialty P&C's PIF growth exceeded expectations due to our ability to capitalize on increased consumer shopping behavior. The underlying fundamentals of our Life business remained stable, and the continued strengthening of our capital and liquidity position enabled the repurchase of $25 million of stock in the quarter and positions us to fully retire the $450 million of debt coming due in February.

We remain laser-focused on execution and are extremely well positioned to deliver sustainable long-term profitable growth. This quarter's results wouldn't have been possible without the unwavering dedication and excellence of our team, and I want to thank them for their continued efforts.
With that, operator, we may now take questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Gregory Peters from Raymond James.

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

So I want to focus on Slide 8, and Joe and Matt, you were making comments about growth. So Joe, you said this is a hard market. You expect significant growth in the near term. Matt, you're talking about these California, Florida, Texas, other markets.

I'm wondering if you can give us some texture on what you mean by hard market, because it feels like some of maybe Florida or maybe Texas might be not as hard as California, or give us some texture on how the market conditions are in each of those states and what you mean by significant growth in the near term?

Joseph Patrick Lacher
President, CEO & Director

Sure. Matt and I, as you expect, Greg, will tag team this. I'm going to start with a comment or 2 overall and then maybe let Matt dig into the individual nuances of the state dynamics. First, I would not read the -- on Page 8, the far right quarter-on-quarter PIF growth as totally telling you that this is as hard a hard market as it can get.

We're still in the process of what I call our rebalancing phase. You're seeing some of this here. California is growing faster than the population. Florida and Texas are growing both faster than the population and faster than California. The other states are not. They're behind. If you remember the last time we had this slide up, probably it was back in late 2000, early 2001. You would have seen those proportions, but you would have seen the other states or those expansion states growing even faster than Florida and Texas. So I think you're going to see that continue to move going forward.

Second overall comment is, remember, this is quarter-on-quarter, not year-over-year. It's not that you can completely multiply these by 4. But if you started to think of 4 quarters in a row, these are fairly significant year-over-year growth rates when you move them to a more annualized number, albeit that the other states aren't back where we expect them. So we do expect, as we move into next year, these to move up as we get into the buying season in the first half of the year.

We expect the other states to, what I would say, more normalize to where we were prior to the pandemic and to have growth rates higher than Florida and Texas. Again, recognize they're a smaller base, so you can have a higher growth rate. It doesn't necessarily move the overall number. But we would expect to see these numbers tick up on a quarter-over-quarter basis in the first half of the year. And obviously, on an annualized basis, that's just math that they're bigger.

And Matt, I'll let you sort of dig into the nuances of each of the states just with the overall comment, Greg, that to do this on an annualized basis is still a reasonably hard market.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes. Just to double-click a little bit on what Joe said, as we looked at the early part of this year in re-expanding production, we focused opportunistically at acquiring new business really based on 3 dimensions. One is where it had the greatest impact to our overall business portfolio; two, where we had the greatest level of pricing confidence; and three, where the hard market was supporting.

And you're absolutely right, Greg, that California has a different dynamic than Florida and Texas and all the other states. California has significantly less supply in that market today relative to Florida and Texas.

I would categorize Florida and Texas more as returning to more of a normal competitive dynamic there. That said, the pricing environment still remains favorable relative to where costs are trending.

And so as such, California, Florida out of the gate came out faster, and you saw that return to growth levels more in line with historical patterns. And as the re-expansion efforts in Texas and the smaller states take hold as our prioritization focus is there, we'll see those accelerate, to Joe's point, back to where we would like them to be. So hopefully, that helps provide a little bit of context by state. You're absolutely right. Each state has its own dynamic and are at different phases of hard market trending.

Joseph Patrick Lacher
President, CEO & Director

The other overall comment, Greg, I'll make, adding on to what Matt said. Hard markets are usually characterized by a couple of things. It might be a reduction in supply or it might be in an increased capacity to see rates move up, which often generates more shopping behavior from consumers, which more churn in the market.

What we've experienced over time is that part of our competitive advantages leave us in a position to have an attractive underlying cost model, and we find ourselves regularly to be among the more competitive carriers in the market at appropriate returns. So we can benefit when there's fewer -- there's a reduction in supply, there's fewer carriers offering policies. We also have tended to benefit when there's just more shopping activity because our competitive position is strong.

So as Matt said, California and Florida are -- we were moving faster. We're a little behind in getting Texas ramped up. So we would expect, as Texas comes up to speed -- even if you saw a little bit of mitigation on Florida and California, as Texas comes up to speed and the other states, there'll still be some juice in this orange.

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

That's good detail. I guess my follow-up question would be, I'm surprised that you're retiring the $450 million of debt. I would figure that you'd need the capital to support the growth. So maybe you could sort of walk us through the balancing act of retiring that debt.

I assume you're going to use part of the revolver for that? Or maybe walk us through the mechanism of how you're planning out capital and how, by the way, that's balanced out with your expectations for our growth.

Bradley Thomas Camden
Executive VP & CFO

Yes, Greg, this is Brad. Our intention is obviously to fully retire that debt using holdco cash and investments. If you look at Slide 6, in the upper left-hand side, you can see roughly $500 million of cash available. Additionally, if you look at the upper right-hand side, you see the capitalization from an RBC perspective of the insurance entities, which are well capitalized, with the P&C group north of 300% RBC, which is right where we want to be from a long-term perspective.

So we have plenty of capital for that future growth that Matt and Joe were articulating. Additionally, when you think about our binding constraint, that being S&P, with our debt-to-cap ratio above 20%, that's very expensive capital. We're in a double leverage penalty scenario, and so it's costly. Effectively, we are retiring about $450 million of debt and only costing us about $90 million of S&P capital as our binding constraint.

Additionally, as you think about next year, we made money this quarter. We expect to make money ongoing and expect a strong year next year, and those earnings will also fund growth. And so I think what you've heard from the team so far is we're very optimistic on the future and confident in our ability to grow profitably.

Operator

And your next question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

So I guess, first, you talked of moving -- remaining at less than a 96% combined. I think recently, you've also talked about kind of moving into that 93%, 95% zone and staying away from 96%. So I'm just kind of curious, you had a fabulous quarter, 91.7% with the cats, 91.2% underlying. How does -- what's the cadence of that moving into the 93%, 95% zone? How do you see that playing out?

Joseph Patrick Lacher
President, CEO & Director

Sure, Andrew. And again, thank you for, again, reminding people. When we described a 96% or better combined ratio, some people heard us saying we were trying to achieve a 96%. That's not, in fact, the goal. That's sort of an upward bound where the electric fence starts to zap in the place. We're trying to stay well below that.

There's a strong belief inside of our modeling that if the choice were to run at a 91% combined ratio and grow at X percent or run at a 93% or 94% and grow at X plus 3% or 4%, that the faster growth would be a better long-term shareholder value creation. Grow the tangible book value per share, grow the earnings base, grow the tangible book value share at a faster rate. That would be a better answer.

What you've got right now is that 91.5% roughly combined ratio, it is benefiting from a fair amount of rate in excess of inflation that's still earning in, and it's benefiting from the reduction in new business we had last year, that reduction in new business penalty. If you start with the premise that there is a new business penalty and you stop writing new business for some period of time, you're going to get a short-term boost from that. If you start writing new business, you're going to get a short-term pain from that, just the change in those. It's not 10 points on the total combined ratio. It may be a couple of points as it works its way through here.

So what will happen over the next 4, 5 quarters, there'll be a slower migration into that more traditional 93% to 95% range. And I'd encourage you to go back and look at what the company did through 2016, '17, '18, '19, '20, there was a sort of consistent hovering inside of that range, and there was a little bit of bouncing around inside of it, depending on what went on. But we'll migrate back there as the new business gets back to more normalized levels and we find the normal balance between ongoing inflation and ongoing rate changes.

Andrew Scott Kligerman
TD Cowen, Research Division

That's very helpful. And then maybe shifting over to commercial auto, which is 1/5 of your book in specialty, and you saw that 5.5% growth at sub-92% underlying. And the interesting thing to me about commercial auto is that, that's a line that's been consistently profitable even as you were going through the pains in private passenger.

So the question for you is, one, how is the pricing in that area looking right now? And two, in terms of being able to accelerate that growth, I mean, 5.5% sequential PIF is nothing to [indiscernible] that, but how do you keep it at that level or keep your -- on the gas with that?

Joseph Patrick Lacher
President, CEO & Director

Yes, Matt, why don't you go ahead and take us?

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes. The commercial auto business is -- it's a unique business for us. It's highly specialized. When we think about the go-to-market strategy with that business, it's very much so as a draft our PPA business in terms of the target customer segment and so forth. We underwrite it and price it as if it was a private passenger-type model.

So every exposure is getting underwritten and priced. And we're not sort of pricing it across a portfolio of product offerings maybe like another commercial provider would. Each one is individually underwritten and priced to a target return.

We're very focused in terms of what our target appetite is. We stay away from the heavy liability business, transportation. We stay away from the dirt, sand, gravel, and that allows us to reduce volatility in that book of business. In terms of growth, we believe our competitive advantages in that market do enable a high growth rate.

As we are reemerging out of sort of where we were and our re-expansion efforts take hold, we fully expect continued growth here and somewhat elevated versus the levels that you're seeing here on a quarter-over-quarter basis. But we're very optimistic on this line, and we think we have differentiating capability in that market.

Joseph Patrick Lacher
President, CEO & Director

If you look back, Andrew, over the last -- again, I go pre-pandemic, go '16 through '21, you're going to see fairly sizable PIF growth percentages there and fairly consistent underlying combined ratios. Every 8 quarters, we get a wonky one quarter where there might have been a handful of large losses and the great distress comes, is the bloom off the rose, and it reverts back to that normal range and normal growth.

At some point, it will get big enough that maybe we struggle with those growth rates. But -- and I'm not telling you just annualize this one, but they've been very healthy double-digit unit growth with attractive margins, and we believe that there's, as Matt said, opportunity to draft off the rest of our PPA expansion, and they work together.

Operator

And your next question comes from the line of Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Maybe a little bit of a shift. Could you talk about your updated thoughts on the trajectory for investment income? You've got a lot of cash flow things going in different directions with the improved earnings, but the potential for reducing -- the paying off the debt and other items as well. Just any thoughts to kind of give us sort of directionally what you think could happen there?

Bradley Thomas Camden
Executive VP & CFO

Paul, this is Brad. I don't expect a meaningfully different path from what we've had historically over the last 4 or 5 quarters, absent some of the volatility in the alternative investments. So think of a run rate in the 105%, maybe a little bit higher, 107% area on a quarterly basis. We'll continue to look at ways to optimize the portfolio and take on additional risk when warranted, but that's the base case for now.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. And maybe shifting a little bit back to the competitive environment for the big states in particular. Has the residual markets become a significant competitor? Or is it sort of the usual suspects that we would see in the press, the main folks causing the increased shopping, but also shifting competition?

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes. This is Matt. We haven't seen a meaningful sort of shift there in terms of the amount of capacity going to residual markets. That said, as price increases are taking hold, especially as we march forward in California with some increases in minimum limits there and the commensurate sort of price increases, uninsured and underinsured rates will likely go up. Those are elements that we're keeping close tabs on. And so potentially, that could be an outcome, but we're not currently seeing that pattern arise.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And just squeeze in one little one, sorry. I just want to make sure. The talk of this quarter has been commercial auto severity. It doesn't look like you've had much of an issue there, probably business mix, I would imagine. But just to double check that in commercial auto, you seem to be sort of not having the issues that others have suffered in the last several quarters.

Bradley Thomas Camden
Executive VP & CFO

Yes. Paul, this is Brad. No significant change in pattern from a severity trend in commercial auto. We continue to watch BI coverages, but no significant trend changes. Happy to dive deeper, if you'd like.

Operator

Your next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple for you. Joe, I think last quarter, you talked about growth probably slowing in the second half of the year, just less business goes on. It doesn't seem like it slowed all that much. Are you still expecting it to slow in the fourth quarter?

Joseph Patrick Lacher
President, CEO & Director

Yes. A couple of things, Brian. Great observation, and I'm going to answer part of your question and not answer the other part. We saw -- we recognize and acknowledge that historical buying patterns in this market, and if you go back 5, 8, 10 years, you see generally less shopping in the second half of the year. What we've seen is we've got a hard market.

There's capacity challenges. There's a lot of rates that have pushed through. There's a broad inflationary pressure that's moving on consumers. It's our belief that, that environmental pressure is offsetting what might be a historical buying pattern. Customers are behaving differently than they've historically behaved. We saw that in the third quarter. And I would take those 2 statements, and I'd let you do your own forecast. We really don't -- we don't typically do a top line or a revenue forecast, and I hate doing a quarterly one.

So I'm going to avoid giving you the precise answer on what we think is going to happen in the next -- I mean we're obviously basically a month into the quarter, what's going to happen in the next 60 days. We haven't seen a material change in that shopping behavior in the last 30 days, but I'm not going to give you a 60-day projection on that. What I will tell you is we have a high degree of confidence that the buying season that normally experiences in the first half of the year will be every bit as robust as it historically has.

So I think the more appropriate thing to be doing and thinking about is what's the next 18 months look like. And I expect that -- very confident the first half of the year will be robust. The next 60 days will be what they will be. I'd be surprised if it's way off what we've seen, but a couple of points here or there doesn't change that trend line.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then my second question, several companies have noted that frequency trends have been very favorable. Are you seeing the same? And is that contributing at all to the lower underlying combined ratios that you're seeing?

Bradley Thomas Camden
Executive VP & CFO

Brian, this is Brad. Yes, we're seeing the same. What I would tell you is that frequency, kind of on a year-over-year basis, troughed probably in the second quarter, and it's come up a little bit. But overall, on a year-over-year basis, it looks very attractive, and we expect it to remain attractive.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And can I squeeze one more in? Any chance we can get an update on kind of the rollout of the exchanges?

Joseph Patrick Lacher
President, CEO & Director

Yes, happy to. And it will be a very brief one. It's continuing to work. We're continuing to put modest amounts of new business in there and work the plumbing out. As we mentioned, I think it was 2 calls ago, I'd expect the premium volumes to be modest in there, probably for at least a year or 2. They'll continue to modestly increase.

You start with new business and there's some new business penalty in there, so that puts an earnings pressure on that. And you need to let that book season a little bit to where it starts to build up a renewal book that's generating retained earnings to help build up the equity capital in the exchange.

So it takes a little while to prime the pump, which is why it has a long time horizon on doing it. The business is moving in. Operationally, we're seeing what we expect to see. We've added a couple of states from a licensing and product approval perspective.

So things are moving generally as expected, maybe a little slower than we had initially projected when we were talking about this. And I think some of that's a reflection of where the combined ratios are right now overall and the opportunities we have on a direct writer carrier basis. So it's moving as expected, a little bit slower than maybe the first time we talked to you about it.

Operator

And your next question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

I got back quickly. I wanted to ask you about rate. I know you previously had a slide that showed how much rate was left to earn in. Could you talk about that in the private passenger line? And then it looks like in commercial auto, with net premium earned at 13% and PIF at 5.5%, I know that's not a year-over-year number, but how is rate doing in commercial auto as well?

Joseph Patrick Lacher
President, CEO & Director

Yes. As a general overall comment, Andrew, we stopped displaying that particular chart. It was incredibly relevant over the last couple of years because we had taken so much rate. We had a surge of inflation and we were behind, then we had the surge of rate to catch up. When you file it, then there's a delay in it getting approved, then it has to get written, then it has to earn in.

We thought it was very relevant to help sort of mechanically walk people through the process of when the antibiotics, if you will, were taken and when it was going to reduce the temperature of the combined ratio.

That chart, if you pull out last quarter's chart, still works, and there's no meaningful change in it other than advancing the ball one quarter.

And what we described to folks in general is that a reasonable expectation for us in the foreseeable future was we would be taking rate roughly equivalent to what we saw with aggregate loss inflation and a recognition that as we were adjusting our new business mix, that would put a modest pressure up on the combined ratio that would move us back into that normal range.

But you could take a reasonable assumption that rate was going to roughly offset inflation, so it wasn't going to have a meaningful earnings impact one way or another. There's an FYI in that. The financial responsibility limits in California, FR limits, they pushed up the minimum limits in California for policies written effective 1/1/25.

We have a rate change for that, which we believe reflects the increased loss content that comes with that. So it will show up as a rate filing. It will come through as a larger rate for exposure, but we believe we've priced it to match the increased underlying loss exposure.

So it effectively goes with the same disclosure I just gave you. The increased loss inflation will get matched by an increased rate underneath that, but that's the result of not overall loss inflation, but a limits change in the state that has the same bottom line effect, and we believe we priced it to have no bottom line effect.

Andrew Scott Kligerman
TD Cowen, Research Division

And that applies to commercial as well?

Joseph Patrick Lacher
President, CEO & Director

Commercial, largely the same. We deal with rate filings there. There's some ability sometimes to adjust at individual risk levels on some of the larger exposures. And yes, it's very similar. You can see that there's very attractive underlying combined ratios in commercial vehicle.

We give you guidance on our long-term targets and long-term expectations for the Specialty P&C combined because they have similar long-term expectations from those combined ratio perspectives, and we'll operate them similarly. We'll try to keep them in that 93%, 94%, 95% range and optimize the growth trade.

There's no particular reason to become more competitive. It's not going to drive growth. there's no benefit to long-term shareholder value to forego growth just for a short-term improvement of margin.

Bradley Thomas Camden
Executive VP & CFO

Andrew, just as a courtesy to round out the year for you in your modeling, the expectation around rates in the fourth quarter is about 2 to 3 points.

Operator

Thank you. There are no further questions at this time. I will now hand the call back to Mr. Joe Lacher for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator, and thank you to everybody for joining the call today. Very much appreciate it. We're pleased to again spend the overwhelming majority of time talking about profitable growth in the organization, return of capital, either through paying down debt or buying back shares and an overall financial strength that we feel will let us capitalize on the competitive advantages of the franchise.

So thanks for your time and look forward to talking to you next quarter. Everybody, have a happy Halloween.

Operator

Thank you. And this concludes today's call. Thank you for participating. You may all disconnect.