S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

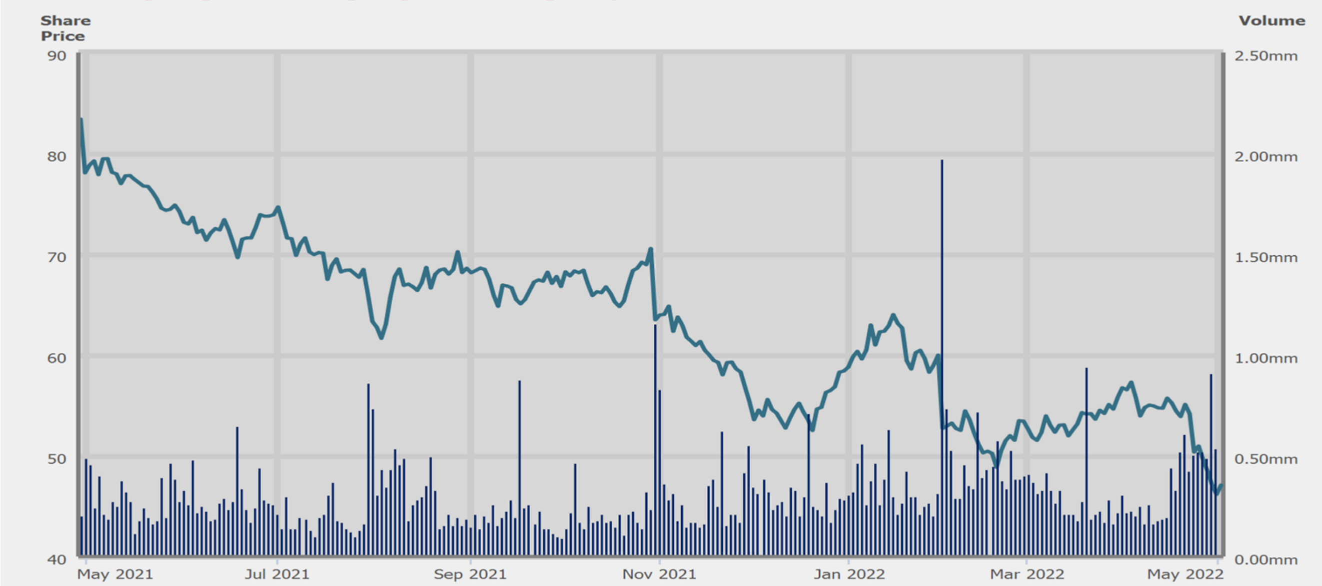
FQ1 2022 Earnings Call Transcripts

Monday, May 02, 2022 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.29)	(0.94)	NM	(0.90)	(2.38)	NA
Revenue (mm)	1435.07	1441.00	▲0.41	1442.08	5758.42	NA

Currency: USD
Consensus as of May-03-2022 8:35 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	1.37	(1.54)	NM
FQ3 2021	(0.21)	(1.19)	NM
FQ4 2021	(0.28)	(2.05)	NM
FQ1 2022	(1.29)	(0.94)	NM

Table of Contents

Call Participants

EXECUTIVES

Duane Allen Sanders
Executive VP and President of Property & Casualty Division

James J. McKinney
Executive VP & CFO

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Karen Guerra

ANALYSTS

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Matthew John Carletti
JMP Securities LLC, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's First Quarter 2022 Earnings Conference Call. My name is Sam, 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, Karen Guerra, Kemper's Vice President of Investor Relations. Ms. Guerra, you may begin.

Karen Guerra

Thank you, operator. Good afternoon, everyone, and welcome to Kemper's discussion of our first quarter 2022 results. This afternoon, you'll hear from Joe Lacher, Kemper's President, Chief Executive Officer and Chairman; Jim McKinney, Kemper's Executive Vice President and Chief Financial Officer; and Duane Sanders, Kemper's Executive Vice President and Property & Casualty Division President. We'll make a few opening remarks to provide context around our first quarter results and then open the call for a Q&A session. During the interactive portion of our call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Investment Officer.

After the markets closed today, we issued our earnings release and published our earnings presentation and financial supplements and Form 10-Q. You can find these documents on the Investors section of our website at 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 operations and financial condition. Our actual future results and financial condition may differ materially from these statements. These statements may also be impacted by the COVID-19 pandemic. For information on additional risks that may impact our forward-looking statements, please refer to our 2021 Form 10-K as well as our first quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures, and we believe they're meaningful to investors. In our financial supplement, earnings presentation and earnings release, we have defined and reconciled all the non-GAAP financial measures to GAAP, where required, in accordance with the SEC rules. You can find each of these documents on the Investors section of our website, kemper.com. All comparative references will be to the corresponding 2021 period unless otherwise stated.

I will now turn the call over to Joe.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you, Karen. Good afternoon, everyone, and thank you for joining us. Earlier today, we reported results that showed a marked improvement in our performance from the prior quarter. The profit restoration actions we had implemented are beginning to offset the pandemic-related reopening challenges the industry has faced over the past year. While we are encouraged by the impact our actions are having on our results, we still have work to do to return us to our long-term financial targets. We remain focused and committed to addressing the ongoing environmental pressures and return the business to target profitability.

Looking to Page 4, the insurance industry continues to face environmental headwinds. For example, the Consumer Price Index is running at 40-year high due to supply and demand imbalances. Many of the subcomponents of this index have had a disproportionate impact on auto insurers. While we've seen some moderation in used car and truck price increases, we've witnessed an acceleration in other areas, such as medical care expenses and auto body repair prices. In aggregate, we believe there will be a prolonged inflationary environment. Our reserve positions, loss [ticks] and current and prospective profit improvement actions correspond with this assessment.

Our profit restoration initiatives encompass both rate and non-rate actions. Rate activity included filing for over 12 points of rate on 97% of our auto book over the past 3 quarters. Our rate filing activities have surpassed the projections we provided last quarter. These actions, along with our other profit improvement initiatives, contributed to an 11-point improvement in our underlying combined ratio quarter-over-quarter, overcoming the incremental market-related headwinds. When you combine the inflationary environment and our responses, we anticipate continued sequential quarter combined ratio improvements.

In the Life and Health segment, we continue to see strong demand for our products and persistency above pre-pandemic levels. The segment's financial results continue to be negatively impacted by the pandemic and excess benefit cost. We expect profitability to materially improve as mortality normalizes.

Despite the ongoing challenges, our balance sheet remains strong. We have over $1.2 billion of liquidity. We successfully raised additional capital this quarter at attractive rates to refinance the Infinity notes and support ongoing activities.

In summary, I'm encouraged by the progress we've made on our profit restoration initiatives and the improvement in our results this quarter. We continue to remain a source of strength for our stakeholders and are well positioned for long-term profitable growth.

I'll now turn the call over to Jim to discuss our operating results in more detail.

James J. McKinney
Executive VP & CFO

Thank you, Joe. Let's turn to Page 5. Here, we provide a few highlights to offer insight into our performance. For the quarter, we generated a net loss of $1.49 per diluted share and an adjusted consolidated net operating loss of $0.94 per diluted share. The most significant item impacting our results is the previously mentioned environmental challenges facing the auto and life insurance industries. Until we return to target profitability, our focus will be on profit restoration actions at home improvement projects. We made good progress this quarter.

Turning to Page 6. We outlined the debt offerings executed during the quarter. The goal of these transactions was to diversify our capital structure at historically attractive rate, raise additional working capital to support our business initiatives and refinance the Infinity senior notes due September 2022. We successfully achieved these objectives even with heightened market volatility driven by geopolitical risk and inflation concerns.

On Page 7, we highlight the strength of our balance sheet. We maintain a healthy liquidity balance of $1.2 billion, and our insurance entities continue to be well capitalized.

Turning to Page 8. Net investment income for the quarter was $100 million. In the quarter, we took several actions to increase liquidity and reduce risk in our portfolio. These actions provide us with additional flexibility to combat the effects of heightened market volatility. Despite these changes, we remain steadfast in our portfolio construction philosophy. We continue to match our assets with liabilities and allocate capital to sectors where we believe we will be compensated for the risk we take.

In closing, although the company's quarterly financial performance continues to be pressured by various environmental factors, we remain confident that the corrective actions we have and are taking will over time return us to our financial targets.

I now turn the call over to Duane to provide details on our P&C segments.

Duane Allen Sanders
Executive VP and President of Property & Casualty Division

Thank you, Jim, and good afternoon, everyone. Overall, the P&C businesses continue to be impacted by miles driven trends exceeding 2019 levels. Additionally, significant incremental loss severity pressure was driven by inflation. Despite these headwinds, our pricing sophistication capabilities and profit restoration activities more than offset these challenges. Our mix-adjusted frequency is approximately 5% below 2019 levels. Rate and non-rate activities more than offset a roughly 15% year-over-year severity trend.

Moving to Page 9. We'll begin with Specialty P&C. We delivered an underlying combined ratio decrease of 11 points compared to the fourth quarter. The business benefited from our focus and commitment to restoration activities. We have taken meaningful profit improvement actions across our entire book. We believe we are near rate adequacy in nearly every state outside of California. Throughout the balance of the year, we expect to benefit from rate earning into the book. In addition, continued non-rate actions will further offset environmental pressures. Key activities include filing for an additional 8% of rate on roughly 59% of the book. We're planning to file for an additional 5% on 9% of our book in the second quarter.

Finally, our commercial vehicle business continues to exceed our financial and operational targets. Notably, we achieved strong top line growth aligned with our financial objectives. Further, policies in-force were up 17% year-over-year due to the continued successful deployment of our key competitive advantages, some of those being: our intimate knowledge of our customers, our pricing and underwriting sophistication and our distribution and claim execution.

Now let's turn to Page 10. Shifting to the preferred segment, preferred auto also experienced a sequential underlying combined ratio decrease of 11 points. Looking at the chart on the upper right, during the first quarter, we filed for an additional 12% of rate on roughly 69% of our preferred auto book. We will continue this acceleration with an additional 11% of rate on 6% of our book in the second quarter. We are continuing to reposition this book to focus on our core states with the intention of delivering long-term profitable growth.

I'll now turn the call back to Joe.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you, Duane. As we turn to our Life and Health segment on Page 11, we highlight that both earned premium and the face value of in-force policies increased due to higher persistency and new business sales. We're encouraged by strong consumer demand for our products.

As the mortality impacts of COVID subside, life mortality and benefit costs should revert to normalized levels. On a separate note, through our community efforts in February, we announced that in partnership with The Kemper Foundation, we're supporting the next generation of Kemper Scholars program. The program will award 650 need-based scholarships to high-achieving, diverse college students over the next 5 years. We're optimistic about the impact of this initiative.

As noted, the closing and reopening related to the pandemic created exceptional challenges. I'd like to take a moment to thank all of our employees for their continued contributions and support.

In conclusion, our actions resulted in significant improvement to our results this quarter. We are not done yet. We will continue our diligent approach to address environmental pressures and returning the business to target profitability as quickly as possible. While progress is unlikely to be linear, we believe we are on a path to steady, continuing sequential quarter improvement.
I'll now turn the call over to the operator for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Greg Peters of Raymond James.

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

So I was listening to your prepared comments and I wanted to, for the moment, focusing on a comment that Duane made, which is that outside of California, you are nearing rate adequacy. So what does that look like in terms of the underlying combined ratio ex California in the first quarter? Does that mean it's running at your targeted ROE levels? Or just give us some perspective of what you meant by that.

James J. McKinney
Executive VP & CFO

Yes. So Greg, this is Jim McKinney. As you know, we don't generally provide kind of combined ratio guidance. But the way to, kind of from a macro perspective, to think about that is if we take a step back, we highlight that through the life of the cycle, we expect to earn kind of a 10% to 12% ROE. So when we think about those policies where we're pricing today, we think both the renewal books of business and then the new books that would come in relative to that would achieve those objectives. And one might -- if you're looking at it from the outside, kind of -- you can kind of back in, you might think about that somewhere between, say, 96 to 98, understanding there's a little -- sometimes you could have a quarter with seasonality, you might be more like 95, 94; and other periods, you could be 98, 99, that kind of averages to those totals that we have. Hopefully, that helps.

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

Yes. I guess a little bit. I understand there's only so much data you're going to provide us. I guess an update -- with California being your largest market, can you give us an update on your progress in that market as it relates to rate and where you are with rate adequacy?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes. Greg, this is Joe. And we'll all tag team this a little bit. We're making progress on all fronts. We've taken -- we're taking rate and non-rate actions, and we have 4 different programs in California where we have different abilities within those 4 programs in different latitude to make adjustments because they're structurally a little bit different. We've made significant progress on all of those non-rate activities, and they are starting to show the results we anticipated in those environments. We filed for rate in all 4 of those programs, the 6.9% that typically is the sort of the top end of where folks file in one opportunity, with the department right now and is progressing there. And we have no further updates in sort of where that is in the process. There continues to be Q&A back and forth but don't have an estimated date on that.

What I would tell you is that the -- in most of the programs, there's been a meaningful improvement relative to the non-rate activities. And I think adding on to maybe the comment Jim was making when we were talking about Duane's -- when we say nearing rate adequacy, part of what we're trying to communicate is, let's say, we've taken X amount of rate in, say, a Florida or a Texas or something. When we get to a point where we say, gosh, it's at rate adequacy, that might mean from that point forward, we feel good about where the new business is. The renewal book actually has to come up for renewal for the full in-force to reach that or get it. So we're trying to communicate a view of the blend of those rather than the combined earned impact of what's going on in a particular given month. If that helps a little bit.

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

That's exactly what I thought was going on, and I appreciate the clarification on that. And just on the non-rate actions, can you talk a little bit about that and -- because clearly, that's helping. So -- and I guess given that the policies -- a big chunk of your policies have 1-year renewals, on the renewals, are you switching to a 6-month policy form? Are you sticking with the traditional 1-year policy form for your existing customers?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

So I'm going to try to answer the question broadly for you because I think that's where you were going, and I think the [6 12] was an example. From a non-rate perspective, we're doing a variety of things. We've -- some of it is underwriting. We might change, as an example -- and all of these are examples. They're not precise and done in every single state. They're all examples. We might adjust the underwriting criteria. In some cases, that means it's a yes/no decision and we'll take something where we might have, at a different rate adequacy level or a rate level, have taken something and now we say it's a no.

In other cases, there are pricing tiers within a program, and something that might have qualified for our best or most -- lowest price tier now drops a tier or 2 and is in a less competitive tier, which is effectively putting it at a higher rate level. Something that was in our highest rate level might now be ineligible. So that's the case where the underwriting moves things through the tiers. In other cases, we're adjusting billing plans where we might take something that, in the most liberal sense, we might have just taken a 1-month down payment. We might go to the most -- the least liberal or most conservative stance and saying now we want 100% down payment. The result of that is fewer customers are likely to take that because of the cash flow dynamic. It effectively reduces the business that's going on.

In other cases, we are -- where we have the ability to do it in certain states, we're non-renewing certain exposures. Sometimes we're taking individual agents and we might terminate that agency relationship, or we might restrict the writings of that individual agent. In other cases, we're modifying agent compensation. That might be either reducing -- well, you should assume that we've reduced all override programs. We're not driving that. But in some cases, we've lowered base commissions and done that. We've also made changes where we've restricted full coverage and moved to liability only. As I think most of you are aware, liability only coverages include bodily injury coverage and physical damage coverage where we're liable to a third party after an accident, and full coverage has all of those plus first-party damage.

Since a lot of the inflation that's driving through our losses right now are related to metal coverages, by shifting towards liability only, we reduce a lot of the lines of coverage that are metal related. So that changes the mix underneath. And in some cases, we've shifted from 12 months to 6-month policies. But we're doing that not always across the board but sporadically, where we think for the right cells, it's providing the right answer. So it's -- again, to highlight, I know I said it, but we're doing a mix of all of those types of activities. In some geographies, it might get all of them. In others, it might get parts of them depending on how much medicine is needed and depending on what the regulatory environment is in that spot. Is that scratching the itch, Greg, you were looking for?

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

Well, that's one way to put it. I thought it was excellent detail. That was exactly what I was looking for. I have a number of other questions. I realize there's others in the queue. I just wanted to point out that in last quarter's presentation, you had that illustrative chart that I think was on like Slide 11. I was looking forward to seeing that chart and the progress -- the visual progress that you would have registered for the first quarter, but maybe we can slip that in, in the second quarter results.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

We're happy to bring it back if it's helpful. It's -- we're getting closer in that chart. If you go back to last quarter, Slide 11, we believe that the -- that chart just showed earned rate and loss trend. Part of what we wrestled with is there's earned rate and there's non-rate activity. The combination of earned rate and earned non-rate has clearly surpassed the loss trend, which is why you saw the 11-point sequential improvement in combined. I'm not 100% sure whether the rate on a stand-alone basis has, and we were getting ourselves tied up in the specifics of it to try not confuse the process. But if it's helpful, we can bring it back. What I'd tell you the important part is that clearly, the benefits are exceeding the inflation, and we're forecasting and we expect that to move forward in the foreseeable future albeit in a nonlinear fashion.

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

Got it. Well, your comment about rate versus non-rate both having an impact, the non-rate is not reflected in that chart.

Operator

The next question comes from the line of Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Joe, I just wanted to follow up on one of Greg's questions, and I'm probably misinterpreting this. But in very high-level broad strokes when you talk about the non-California part of the book being kind of rate adequate on a written basis today, so that implies new business kind of meet your hurdles and has earned through the book. Said another way, knowing what you know today or expect over the next 12 months, would it be reasonable to assume then as we get through the year, a year from now, and so it all earns in, that you'd expect at least that non-California part of the book to be rate adequate on an earned basis or earning those kind of target ROE levels at that point?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Great question, Matt. And again, we may tag team this. Let me clarify a little bit. In normal periods of time, you would typically expect that new business would perform a bit worse than renewals, and you would think about a vintage. If you wrote a series of business in 2015, you'd expect that the new business might be, in aggregate, less than your hurdle rate. But over the lifetime of that cohort, the renewals would get better and you would feel good about that entire book that you put on as new. And if you just took the new, in the first period you wrote it, it might be off, but it actually improves and seasons over time. So that's almost looking at it on a vintage basis.

On a calendar year basis, you have a mix of vintages: the new business we put on today, the new business we put on last year, the new business we put on the year before that and you've got all the renewals. What we're trying to communicate is that we believe that the vintages that we're putting on this month will be near rate adequacy or near our target combined over the life of that book. And the calendar year impact of the renewals are simultaneously getting the rate increases and the non-rate impacts. So -- and I'm not trying to be difficult, but when we think -- we think of it on a vintage basis or a policy year basis or a calendar year. You guys are looking at our results and you're seeing the calendar quarter earned impact. That's the result of these things laying on top of each other.

And so we were making the comment that it's a little more vintage related, and that's why it doesn't exactly translate to the calendar year model, I think, you're trying to get after. It's important because what it says to us from an underlying intrinsic value perspective, we're at a point where we're feeling good about those states and the business we're adding and how it will perform over the next several years. There's still a little catch-up on the calendar piece for the earned impact of the things that are still renewing. As an example, hindsight would tell us the new business we put on last, whatever it was, last November might not have been where we wanted it to be. And so it needs a couple of rate changes to get exactly where it needs to be.

Did I confuse it more? Did I help?

Matthew John Carletti
JMP Securities LLC, Research Division

No, that helps. That's -- I was very high level and then that's down in the weeds. Very helpful, though, like very helpful. And I'm going to shift away from underwriting for a second, just my other question relates to investment portfolio, so maybe for Jim. I see the slide on investment portfolio with some of the numbers there. Can you help me with -- I mean I see that new investment yields are up 100 bps year-over-year. How does the kind of new money rate today compare to the -- it looks like a 4.2% kind of annualized book yield, kind of what's the gap there? And then how should we think about kind of what's kind of rolling over in the next year or so for reinvestment?

James J. McKinney
Executive VP & CFO

Yes. No. Great question. So I think there's actually a couple of ways to look at this, and it's a little bit nuanced. But they're both important. The first thing is to make -- is to remember, inside our Life business, that's really about a spread business, right? So if you just look at yields, while generally higher yields for us are better, it really is about how much that yield is over the crediting rate that essentially highlights whether income is going to increase, right, through a period or decrease.

What I would tell you is that we're at a constant or expanding component where we're building inside of that and it's the vintages and the things that we're looking at today are a little bit enhanced for it was. Now that will play out over an extremely long period of time. So you won't see -- you might see $5 million, and I'm just quoting, that was like coming up over the next year, you're not going to see something like that even though it's going to jump like $15 million or $20 million or $30 million. So just keep things kind of in perspective, even though the value created over that period of time might be that amount.

And then inside our P&C businesses, I think what you're seeing there, where the duration is a little shorter, is that you're kind of seeing things come off kind of roughly equal to a little bit better. That's a long way of saying you're going to have some increases here just incrementally as you go forward, kind of slow and steady from a yield perspective from here until whenever the interest rate environment kind of changes, which hopefully is not in the near future. But that's where we're at.

Operator

Next question is from Paul Newsome of Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

I wanted to ask about your views on prospective claims inflation. And obviously, you've had hopefully a little bit of a bump that moderates. But what's your view on the topic? And I guess corollary to that would be, is it fair to say that we should expect further rate increases that sort of match whatever you think is inflation prospectively on your book outside of California?

James J. McKinney
Executive VP & CFO

Great question. This is Jim again. I think we'll tag-team it, Paul. So generally speaking, if I were to think about severity trend, some of the things we've seen kind of year-over-year anywhere between, say, 15 and 17 points depending on kind of the line of business that has come through. While that is -- essentially, that seems like a really big number. And it is a big number, to avoid confusion. It's within a couple of points of where it was actually on a sequential quarter-over-quarter.

I think that's important because you've started to see a little bit of moderation. Now that said, we saw kind of a little moderation last year in the third quarter, and then you saw a further spike in the fourth quarter. So these things kind of in the environment can change quickly. But at this point in time, it does feel like there's a little bit of moderation, not that it's decreasing, but some of the gains, the incremental gains on inflation where we were going from, say, 5 to 7 to 10 up to, say, 15 here, that sequential-over-sequential quarter has come down. And it feels like the backdrop, while still there and while there's going to be more inflation, I don't think it's going to be quite at the same pace that it was for the last year, if you will.

The secondary component that I would highlight is, yes, we're going to continue to price and work rate for future inflation and our trend expectations from that perspective. The comments that we made are very much about the point in time and they will continue to change quarter after quarter here because inflation is not stopping or at least it doesn't appear to be stopping at this point. It just seems to be slowing a little bit in terms of what are some of the underlying elements that are driving the sequential quarter-over-quarter changes.

Duane Allen Sanders
Executive VP and President of Property & Casualty Division

This is Duane. And in terms of the rate activity, I mean we're going to -- we'll continue to shoot for -- towards our target profitability. And depending on what the inflation is, we'll respond accordingly. If we need more, we'll take more rate and we'll take more the non-rate component, ultimately trying to get the combination of those getting us to where we feel like we need to be.

Paul Newsome
Piper Sandler & Co., Research Division

Makes sense. And then my second question, I was wondering what we might think or what could happen with customer retention perspective. Obviously, you're taking a lot of rate. Other folks are taking a lot of rate. A lot of change in the market in general. Usually, we think of higher rate environments as lower retention, higher shopping, but there's an awful lot going else in the market. So what's your thoughts on what we might see from a retention perspective respectively for the Property and Casualty business?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes, Paul, I'll take maybe a broad comment generally. And it's a little of ours, but it's, I think, a forward-looking question you're asking about the market, so I'll make it broadly. In this kind of environment where you have what I would describe as broadly a hard market and most carriers are tightening underwriting, increasing rates, moving towards profit improvement actions.

A lot of times, what you see is retention goes up and shopping may be increasing, but people aren't necessarily moving because they're finding that somebody might have as an example, 100% down payment or their underwriting criteria might have changed in a different way or they've restricted their new business quoting so certain agents can't quote those policies. What it winds up is -- because in some cases, it's harder to move in that process and people aren't necessarily trying to move mid-term the way they did before.

So frequently, as the market's hardening, you see a little bit of uptick in retention and reduction in new business. I would expect that to occur for a little while not because customers aren't willing to move, but because there's an availability dynamic that makes it hard. That will eventually change when you get more carriers where they believe they're at rate adequacy and are available again, then you'll see the retention drop and the new business starts switching. But it's got to get to folks moving on the other side where they feel rate adequate and they feel good about where they are. I think that's a little while away for the market.

Operator

Next question is from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them for you here. I'm just curious, did you decrease kind of your loss trend assumption in the first quarter versus the fourth quarter? Just your inflationary kind of outlook, did that improve?

James J. McKinney
Executive VP & CFO

No. I think -- Brian, sorry, this is Jim. Relatively constant in terms of kind of what we're looking at, we've just obviously continued to make progress on our non-rate actions. And then obviously, we have rate kind of flowing through the books where we were able to appropriately get it to kind of bring these things aligned. And I would tell you it's that versus really any change in inflationary trend or other that's come through.

I think if anything, what you saw is some real modest favorable development in the quarter, kind of representing really the holistic view that we've tried to take all the way back. If you think about Q2 of '21, where we really highlighted, hey, this large change in environment and the additional reserves that we put up kind of with this forward future forecast for where we thought these things would settle out, I think what you're seeing at this stage, at least from where I'm sitting, is that coming to fruition and playing out. And neither really a substantial increase in trend or a real decrease, just kind of right a little bit in line with kind of how we thought it was going to play out.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then I guess my second question is if I think about -- you're talking about, call it, half the states "rate adequate". Are you at a point now where you may start considering or you're taking off some of those, call it, non-underwriting actions to start to try to grow the book?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes. We're not really at a spot where, Brian, we're at that point. We want to see at least another 1/4 of these things working their way through and get a certainty around it. I think we've seen an uncertain inflationary time. We're certain about our loss picks, we're certain about the numbers where we are, it's a question of what is the inflationary environment going to be on a forward basis.

We're highly confident in the actions we've taken. I don't want to leave you with anything other than that, and we're highly confident in our loss pick and our balance sheet. You can see that. We favorable development, Jim described, a consistent view of that loss trend. But the environment is moving a little bit. So we're not at a point where we're stepping on a new business growth gas at all. But we'll watch that for a bit.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then also just curious on the Specialty commercial book, is this kind of -- are you in kind of a similar position where you're thinking your rate adequacy and it's time to grow the book a little bit more here?

James J. McKinney
Executive VP & CFO

So thanks, Brian. We remain at a really exceptionally strong position as it relates to our commercial auto book. Again, this kind of represents some of the differences in terms of what you can bring for your underwriting and other in -- for market and regulatory approvals and just how those dynamics kind of play through. In the commercial auto book market, we've been able to very clearly match right rate with kind of the underlying trend and been able to maintain that availability and those solutions into the market for people, giving additional kind of financial flexibility folks. A little different environment, different steps, obviously, in -- from a retail perspective.

And so where we're able to match those things, we continue to maintain that availability. You'll see us continue to do that on the commercial side, where we think we have a really strong position. We'll continue to grow there, provide that access. And then we'll do the same, at some point here, once we're able to again match our policy pricing up with rate adequacy and that will come in time. And we're a lot closer and largely there in states outside California. And we'll see how that -- how things develop with California.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

But just to add to that, Jim, the CV question, Brian, I mean we're running roughly a 93% combined and it's growing PIF at 17%. So it's like we're already in pretty good shape there. That's on the gas pretty good.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Got you. And then just one last just quick one. Maybe talk a little bit about the competitive landscape right now. You kind of briefly alluded to it, but do you think you all are ahead of your competition by 3 months, 6 months, 9 months?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

It's hard to say in different spots, Brian. I think what we can watch -- when we look at a lot of different competitive environments, we see different things, and this is what, I think, in the last couple of quarters we described. We're seeing tightening in most markets. And on most of the metrics we see, we watch comparative raters, who returns a rate and who doesn't, what relative competitive positions are. We're seeing the market broadly tighten.

We're starting to see carriers, that perhaps 2 or 3 quarters ago we're saying things are great starting to say their loss ratios are running up high, and in some cases, they're having big prior year reserve development because they didn't recognize what was going on last year. They're recognizing it now. They've got to be behind in terms of that, that's the only way to read it.

So we're seeing -- and it depends on how you describe competitor. Some of the bigger nonstandard players usually are spotting pieces. Some of the smaller nonstandard companies are slower and are just now catching it. Our speculation was that when they went through maybe their annual actuarial review, when they were doing stat filings, they'd see a different temperature than maybe they were seeing before, and I think we're starting to see some of that in their market responses. So I think we've been ahead of this.

I think we saw the issue earlier. I think the 11-point improvement in sequential quarter results suggest it. My sense is -- your first question was you were just trying to digest what caused that and see if it was a different point of view of trend versus it was a result of medicine applied. And I think that's what we answered, is it wasn't a change of view and trend, it was the medicine impact. And I think as folks are watching their loss results tick up and seeing they needed a forward look at trend, they're playing catch-up.

Operator

Next question is from Andrew Kligerman of CrÃ©dit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

A lot of good detail on the prior Q&A. So I'll just ask some follow-ups on those. Could you give a sense of how much of the book this quarter benefited from non-rate action? And how much over time do you expect the book to benefit from non-rate actions and these improved combined ratios?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

So we'll try to answer that, Andrew, and I'm going to -- I'm not going to answer it exactly the way you asked it, and I'm trying to help. All of the book is benefiting from some level of non-rate action. That doesn't mean every policy, but every state and every vintage has had some non-rate activity going through it. Again, some policies might not be impacted because they might have been one that we thought was highly profitable and didn't move. But also, the whole book has experienced it.

It varies by geography, the extent to which we've used it. Because in a state where we might have gotten 25 or 30 points of rate, it didn't need as much. In a state where the rate was slower, it needed more. What we've described, and I believe we described it last quarter, is we said somewhere between 1/3 or 1/2 of the "rate need" or "profit improvement need" was likely to come from non-rate activities. So that's now a comment on, in total, for the entire book and to solve the entire problem, 1/3 or 1/2 will come from non-rate.

At given time period, that number will be different. The earned impact is probably a little higher right now and it will wane a little bit as some of the rate actions take place. So I'm not trying to be elusive, but I'm trying to help you, in total, with all we can do. But I can't really get you a quarterly measure of the different components to do a quarterly model roll forward, which my sense is what you might be looking for.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

No, no. That helped me triangulate. That was good. I'm sorry, you were following on.

James J. McKinney
Executive VP & CFO

Yes, Andrew, this is Jim. When I was going to just add on to what Joe said because I think what you're trying to get a little bit at is how can we maybe model out a little bit of the improvement, what might be a reasonable way to think about it. When I -- if I were to just take a step back, I might think about like the underwriting actions in that, that we take, we can probably match or align largely with some of the continued trend that you might see from a severity perspective. And then you might think about the earned rate as a proxy for improvement above that.

Now there'll be differences a little bit here or there, in between or if something materially changes in the environment or something, you could get a little bit of a different answer. But that might be a reasonable kind of starting place if you were trying to think about how you might walk some of this forward to get an understanding of what does our path look like to returning to more appropriate levels of profitability?

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Yes, definitely helped me triangulate. And then I think I asked -- to ask a question in a different way, I think maybe Brian was asking a little bit about rate adequacy and then using that to write new business. I guess asked a little differently, you mentioned on the -- I guess in the first quarter, you saw 10% rate on 21% of the book. And then the slide shows a 7% rate on another 10%. And then you commented on the call about getting additional rate for the balance of the quarter. Aside from California, are you at a point where you won't be needing much rate increase other than if loss cost continues to increase?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

So a couple of things. I'll point you back to -- I think you're looking at Page 9. And there's -- on that chart in the top right corner, you've got both filed and effective. So many of the comments, I think, we've made at times were talking about filed. There's also effective. So again, depending on which comments you're quoting, make sure we're both talking about the same piece. What we will do is, in each case and in each state, look to get ourselves to that long-term rate adequacy.

And perhaps a Florida or Texas, and I'm not -- I'm intentionally not giving you a specific of one of them because I'm trying to make it a general statement. If we thought we were now priced at rate adequacy on a new business vintage, if we thought we were seeing more inflation, we either need to increase rates to cover that inflation or we need to adjust underwriting. If the results warranted and the state is receptive to it, we would be economically better off in the long term by raising the rates and matching those, then we would be tightening the underwriting and restricting what we could write. So we'll look to execute that from a rate perspective.

If we thought we couldn't get that rate as quickly as we could, and to Jim's point earlier, and inflation was moving at a higher rate than we could get the prices set, we would tighten the underwriting. So we're going to try to adjust the valve and the pricing to get those matched. Part of my comment to Brian was it continues to be a bit of a volatile time and more volatile than we're collectively used to. So we're going to have a bit more bias on making sure we've got long-term rate adequacy and a bit less biased on growth until we're certain we've got that covered.

And again, it's a very nuanced answer, but it's trying to emphasize I think the point Duane made when we were talking about rate, we're committed to achieving our long-term target profitability before we're growing. And we feel like we're at or near that rate adequacy, but this is a higher period of inflation, and we've got to get it to stabilize a little bit before we shift.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Makes sense. And then just one last one. The risk-based capital ratio improved quarter-over-quarter from 220% to 240% despite the underwriting loss. Could you give a little color on the mechanics of how you bolstered that, how much capital was -- if there was, capital downstream to the insurance entity?

James J. McKinney
Executive VP & CFO

Yes. So this is Jim. Good question. I think when you think about capital and us -- and again, I'm going to orient this to something that I said last quarter. You really got to think about like the holding company as a source of strength and then how the whole plumbing system works together as opposed to just focusing on kind of one metric or another because we have great flexibility of the -- we've got over $300 million of additional assets at the holdco, we have great flexibility from a line perspective, we have dividend capacity within our subsidiaries. And then we also have the ability to change investment allocations, other risk components that we would see in there that would fundamentally both change capital levels and risk-weighted asset levels that you can see.

So from that perspective, we did put some capital down through the quarter. But we also took a bunch of different actions where we changed a little bit of the investment portfolio risk or other elements that are inside of there. And those are activities that we're very well positioned to continue to do and aren't going to be something like -- if I were to think about it, you should walk away assuming that we're going to remain really strong and each of our subsidiaries is going to have the appropriate financial flexibility to it.

And there are no near-term or even medium-term capital raise expectations that are in the future, both to navigate this environment and then to thrive thereafter, which I really think is -- and I'm not anticipating any type of credit rating pressure or other, which I think is the point that you're trying to drive at.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Perfect.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

So to add to that, Jim. And Jim, it's a safe statement. If you just looked at that P&C RBC number, you'd be grossly misunderstanding sort of the sophistication of the plumbing inside the place and how we're using it. That's just one point marker, and you've got to take that into account or you're going to get the wrong answer.

James J. McKinney
Executive VP & CFO

Yes, that's well said. I think probably we've answered your question in terms of what the plans are and where we're at. So...

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Definitely.

Operator

There are no further questions waiting at this time. [Operator Instructions] And there are no additional questions waiting at this time. So I'd like to hand the call back over to the management team for any closing remarks.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you, operator. Thanks, everybody, for joining us. I think I'll just reiterate my comments that I closed with before. We're encouraged by the very strong progress and improvement in the underlying combined ratios. We anticipate that's going to continue on a going-forward basis and are committed to hitting our target profitability and getting us positioned again for that long-term profitable growth. So thank you for your time and your interest, and look forward to talking again next quarter.

Operator
That concludes the Kemper First Quarter 2022 Earnings Conference Call. Thank you all for your participation. You may now disconnect.