S&P Capital IQ

CONTENTS

Kemper Corporation NYSE:KMPR

FQ4 2014 Earnings Call Transcripts

Friday, February 06, 2015 4:00 PM GMT

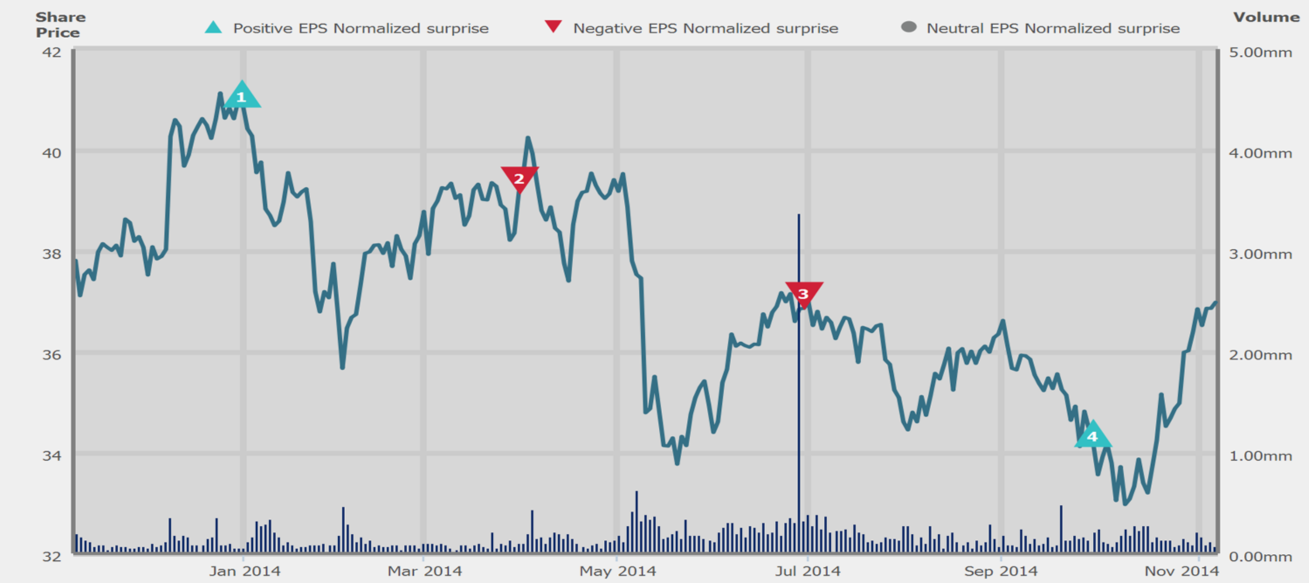
S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.73	1.02	▲39.73	0.64	1.67	1.79
Revenue (mm)	535.19	559.70	▲4.58	528.77	2159.13	2196.60

Currency: USD

Consensus as of Feb-06-2015 7:10 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.60	0.83	▲1 38.33 %
FQ1 2014	0.65	0.56	▼2 (13.85 %)
FQ2 2014	0.26	0.18	▼3 (30.77 %)
FQ3 2014	0.55	0.71	▲4 29.09 %

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

Frank Joseph Sodaro
Former Senior Advisor

John M. Boschelli
Chief Investment Officer and Senior Vice President

ANALYSTS

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

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Presentation

Operator

Good morning, ladies and gentleman, and welcome to Kemper's Fourth Quarter 2014 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, 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 4 of our business executives, starting with Don Southwell, Kemper's Chairman, President and Chief Executive Officer; followed by John Boschelli, Kemper's Vice President and Chief Investment Officer; Denise Lynch, Kemper's Property & Casualty Group Executive; and Frank Sodaro, Kemper's Senior Vice President and Chief Financial Officer.

We will make a few opening remarks to provide context around our fourth quarter and full year results. We will then open the call for a question-and-answer session.

After the markets closed yesterday, we 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 risks associated with relying on forward-looking statements, please refer to our Form 10-K and 10-Q reports filed with the SEC as well as our fourth quarter 2014 earnings release. We plan to file our 2014 Form 10-K on or about February 12, 2015.

This morning's discussion includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement and earnings release, we have defined and reconciled non-GAAP financial measures to GAAP where required in accordance with SEC rules. And finally, all comparative references will be to the fourth quarter of 2013, unless we state otherwise.

Now I will turn the call over to Don.

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

Thank you, Diana. Good morning, everyone, and thanks for joining us on our call this morning. I'll provide opening comments, including a few thoughts on our recent acquisition announcement as well as an update on our Life & Health segment. I've asked John to provide an overview of our investment performance. Denise will update you on the Property & Casualty segment. Frank will cover financials, capital and liquidity. I'll then close with an update on our capital deployment status and actions.

Looking back at the fourth quarter and the year in total. We ended the year on a strong note as we made progress on several fronts. We earned $65 million of net income in the quarter and $115 million of net income for the full year. We have a number of actions in place to grow our earnings and resume our top line growth. We are particularly encouraged with the progress we are making to improve our underlying performance as well as other actions to position us for the future.

A big event in the quarter was the announcement of our planned acquisition of Alliance United Group, a top provider of non-standard auto insurance in California. Pending regulatory approval and other standard closing conditions, we expect to close the deal in the first half of this year. While we have not completed an acquisition since the global financial crisis, acquisitions have always been a part of our growth and ROE improvement strategy. Alliance United is a great example of this strategy. It fits nicely within our framework, giving us geographic depth in the fast-growing California non-standard auto market, a market that we already know and serve well. Like us, Alliance United distributes its products through independent brokers, and its extensive presence in Southern California complements our more Northern California base. Additionally, Alliance United brings valuable expertise in serving the important and growing Hispanic market.

Financially, we like the acquisition for several reasons: We expect it to be accretive in 2015, and it supports our double-digit ROE objectives. Allocating capital well is critical to achieving our double-digit ROE target. This acquisition is even better than share repurchases. As we indicated in our December announcement, we are paying about $70 million for the business and plan to contribute another $75 million of capital to support the book.

One thing to point out is that the Alliance United Group's income comes from 2 sources: Its insurance company operations, which are reported publicly and its agency operation, which is not reported publicly. Both components are key to our financial justification in pursuing this acquisition. Denise will discuss more about how Alliance United will fit operationally within the P&C segment.

I'll turn now to our Life & Health segment, which delivered $34 million in earnings in the quarter and $92 million for the full year. These results are up $9 million and $3 million, respectively, benefiting from the performance of one of our alternative investments that paid off handsomely in October. John will go into more detail on that good news.

In our Kemper Home Service Companies, we've been targeting expense reductions as we streamline the field office structure. By doing some consolidations in key areas, we were able to lower our costs while also increasing the size of many of our agents' books of business. This gives these agents a bigger opportunity to earn more money and is expected to improve agent retention for the benefit of both our customers and the company.

In Reserve National, the traditional business is adapting well to the changes required by the Affordable Care Act. Premiums increased through our key expansion initiatives, serving the senior and worksite markets. It is still early in the life of these new initiatives, and it will take time to recover the investments we're making. We remain encouraged and are optimistic about our prospects.

Now I'll turn the call over to John to discuss our investment portfolio.

John M. Boschelli
Chief Investment Officer and Senior Vice President

Thanks, Don. In total, we are pleased with the portfolios' performance. Our total return was positive for the quarter and year-to-date, coming in at 2.0% and 9.5%, respectively. This was driven by both net investment income and asset appreciation. Net investment income was $93 million in the quarter, up $16 million, and $309 million for the year, down $6 million. Results in the quarter benefited from our alternative investment portfolio of limited partnerships and limited liability corporations. These assets include equity method and fair value option investments, where all results flow through our income statement and other equity interests, where market value changes are generally reflected through the balance sheet and distributed in earnings are recognized in the income statement.

Alternative investment income was $27 million in the quarter, up $16 million, and $49 million for the year, up $3 million. While results can be lumpy, over time, they have provided healthy returns.

As Don mentioned earlier, the Life & Health segment results benefited from investment income from one particular alternative investment. During the financial crisis, this investment was written down. After working with the company and our business partners, we were able to help restructure the company and return it to profitability.

In October of this year, it paid off, generating approximately $25 million in pretax income, $22 million of which flowed through operating earnings. So in the end, our total return was uneven, but a solid 1.5x our money invested, producing an internal rate of return of 7.5% over its life.

Our core portfolio is a well-diversified mix of fixed maturity investments that on average are rated A. For the year, we purchased more than $550 million of fixed maturities. This included purchasing more than $350 million of investment grade bonds with a pretax equivalent yield of 4.6% and more than $200 million of non-investment-grade bonds, which essentially replaced the non-investment-grade redemptions in the year.

Looking ahead, we strive to balance our return and risk considerations in what we expect to be a somewhat more volatile investment environment than in the recent past.

Now I'll turn the call over to Denise.

Denise Idell Lynch
Former Property & Casualty Group Executive

Thanks, John. In previous calls, we communicated our commitment to improve the Property & Casualty segment profitability and to grow organically as profit improves. I would like to update you on our performance for the year in these 2 areas.

Starting with profitability. Our first objective was to improve the underlying combined ratio by 2 to 4 points in the year. We did not achieve this objective as progress and underlying loss in LAE ratio of 2.7 points was partially offset by the earned premium decline, which pressured the expense ratio. Nonetheless, we'd like to highlight that the underlying loss in LAE ratio improved 7 of the last 8 quarters. We've had almost 7 points of improvement since 2012.

Our second profitability objective was to reduce volatility from catastrophe. To achieve this, we successfully reduced our 1- and 250-year gross probable maximum loss to about $320 million. Reducing our exposures, coupled with favorable reinsurance market conditions, allowed us to: one, reduce the reinsurance limit purchased by $50 million; two, secure more favorable reinsurance terms; and three, reduce the cost of our catastrophe reinsurance program by more than $3 million. Since 2012, we have reduced our catastrophe reinsurance cost by roughly $10 million.

And finally, our third profitability objective was expense management. Excluding the technology write-off in the third quarter, expenses were down $22 million in the year. And we reduced our run rate expenses by $8 million, following the organization realignment. Despite this focus, the expense ratio rose by 1.3 points primarily due to the earned premium decline.

Turning now to our strategy to grow organically as profit improves. Net written premium declined 11%, driven by lower retention and new premium. Premium retention was 2 points lower for the year. We are pleased to observe that the business that terminated has tended to be less profitable. We expect retention to stay suppressed until latter 2015, when most of the significant re-underwriting efforts will have worked their way through the book. And we began growing new business since the third quarter of 2014 and look forward to building additional new business momentum.

We are pleased with the prospects for the Alliance United acquisition Don mentioned. The business has more than $300 million in direct written premium. Once we complete the acquisition, we will gradually integrate some of the back-office functions into Kemper, while operating the Alliance United business separately from our existing businesses.

In total, excluding our planned acquisition, here is what we expect in 2015. One, we expect new business to continue to strengthen throughout the year as we make progress in optimizing our existing preferred and non-standard distribution channels, engaging more agents and seizing cross-appointment opportunities following the realignment implemented in early 2014. We also expect retention to improve gradually in the latter part of 2015 and into '16.

Two, we expect a 2- to 4-point improvement in the underlying loss and LAE ratio and a normal level of catastrophe. I'll note that we plan for a 15% catastrophe loss and LAE ratio for Home and about a 5% catastrophe loss and LAE ratio for the Property & Casualty segment in total.

And three, even with ongoing expense decline -- discipline, we expect continued pressure on the expense ratio.

Turning now to the financial results for the quarter. The Property & Casualty Insurance segment reported net operating income of $25 million, down $4 million. We continue to make solid improvement in the underlying book of business. Our underlying loss and LAE ratio improved 4 points. We feel good about the profitability momentum and look forward to continued progress. Overall, catastrophe losses were below our expectations, but not as low as last year, which was an unusually light catastrophe quarter.

Net written premium was down 11%, primarily as a result of our deliberate actions to improve the overall quality and price adequacy of our book of business and to reduce catastrophe exposure. We are encouraged by agent engagement trends on new business and anticipate further progress.

Now I will provide some color on each of our lines of business. I'll start with auto. Private passenger auto experienced the biggest revenue pressure, with net written premium declining 12%. New business levels are starting to improve, but retention is down. Rented [ph] premium retention, which includes both standard preferred and non-standard books, was down about 2.5 points to 75%, although flat sequentially. The loss in LAE ratio improved 6 points, that's a 7-point improvement in the underlying loss and LAE ratio, was offset slightly by higher catastrophes and a lower level of favorable reserve development.

Average earned premium increased more than 2%. The average earned premium change is driven by both rate changes of 5.4% in 2014 and changes in the mix of business.

Our low single-digit loss cost trends are mostly consistent with the industry. Bodily injury frequency has declined, and bodily injury severity has increased by low single digits, both consistent with the industry.

Property damage and collision loss costs have escalated by mid-single digits, also consistent with industry trends. Currently, we plan to file for mid- to low single-digit rate increases in 2015.

In commercial auto, net written premium was flat, and the loss in LAE ratio improved 9 points to 61%, with the underlying loss and LAE ratio improving 4 points to 74%. Average earned premium increased slightly at 1%, as mix shift changes offset filed rate changes of 5%. The mix shift includes the strong progress we made in transitioning the book to lower weight vehicles and lower limit policies.

In homeowners, net written premium was down 10% as a result of lower premium retention. Premium retention was down 10 points to 81%, primarily from catastrophe management actions and other profit improvement actions. The home loss and LAE ratio increased 12 points to 45%. Homeowners underlying loss and LAE ratio increased 4 points to 42% against a very light quarter in 2013.

While catastrophe losses increased, the fourth quarter of 2013 was a particularly benign catastrophe quarter. Also, there was substantially less favorable reserve development in the fourth quarter of 2014. Average earned premium increased 5% with filed rate increase of 5.5%. We're pleased with the continued progress we're making on homeowners as a result of our focused profit improvement actions. Currently, we plan to file for mid- to upper single-digit rate increases in 2015.

So looking at the Property & Casualty segment in total, performance and outlook improved in the following 4 key areas: one, our underlying loss and LAE ratio improved in the majority of lines, and this marks improvement in 7 of the last 8 quarters; two, underwriting expenses were down year-over-year, aided by our realignment in the first quarter, and we continue to have a sharp focus on expense management; three, new business writings have been strengthening in the second half of 2014; and four, the direct-to-consumer runoff continues to proceed well.

We are pleased with the progress we have made and the ability to execute the plans we set out. We look forward to continued underlying profit improvement in 2015. Improving revenue trends and to doubling our non-standard auto product premium, with the completed acquisition of Alliance United, later in 2015.

Now I will turn the call over to Frank.

Frank Joseph Sodaro

Former Senior Advisor

Thanks, Denise, and good morning, everyone. Today, I'll cover Kemper's overall fourth quarter and full year performance, capital and parent company liquidity. Kemper had a strong fourth quarter reporting net income of $65 million or $1.24 per share compared to $55 million or $0.99 last year. For the year, we reported net income of $115 million or $2.12 per share, compared to $218 million or $3.80 last year. Our net operating income was $54 million or $1.02 per share for the quarter, compared to $46 million or $0.83 last year. For the year, our net operating income was $97 million or $1.79 compared to $159 million or $2.78 last year.

Both net income and net operating income for the year were impacted by the software write-off in the third quarter of $35 million after-tax or $0.66 per share.

Total revenues were $560 million for the quarter, a decrease of $26 million, primarily from a $44 million decline in earned premiums, partially offset by $16 million of higher net investment income. On a full year basis, total revenues were just under $2.2 billion, down $230 million from last year, primarily from $164 million lower earned premiums and $60 million lower realized investment gains.

As John discussed earlier, net investment income increased $16 million for the quarter, but declined $6 million for the year. The fourth quarter annualized pretax equivalent book yield on average invested assets was 6.5%, an increase of 105 basis points over last year. For the year, pretax equivalent book yield on average invested assets was 5.5%, down nearly 20 basis points from last year.

The Property & Casualty Insurance segment reported net operating income of $25 million for the quarter, compared to $29 million last year. Results decreased as the improvement in the underlying loss and LAE ratio was more than offset by lower net income -- investment income, less favorable prior year reserve development and increased expenses as a percentage of earned premiums. For the year, the Property & Casualty Insurance segment reported net operating income of $25 million, compared to $101 million last year. Results decreased primarily from the software write-off taken in the third quarter, higher catastrophe losses and lower net investment income, partially offset by improving underlying loss and LAE results.

Net operating income for the Life & Health Insurance segment was $34 million for the quarter compared to $25 million last year. Results improved primarily from higher net investment income, which was partially offset by a higher start-up cost and benefits at Reserve National and higher legal fees at Kemper Home Service.

For the year, the Life & Health Insurance segment's net operating income increased $3 million to $92 million, as higher net investment income and improved property insurance results were offset by lower income from accident and health insurance and higher expenses at Reserve National.

I will now cover book value capital and parent company liquidity. Book value per share was $39.88 at the end of 2014, up more than 8% from the end of last year, largely from the impact of lower market yields on fixed maturity portfolio. Book value per share, excluding unrealized gains and fixed maturities, was $34.50, essentially flat with the prior year, as net income was offset by dividends and the impact of updating our pension plan assumptions.

At the end of the year, we reduced our discount rate by 80 basis points and adopted newly published mortality tables. We expect our pension expense to increase $15 million for 2015 as a result of these changes.

Statutory surplus levels in our insurance companies remain strong, and we estimate that we ended the year with risk based capital ratios of approximately 430% for our Life & Health group and 350% for our Property & Casualty group.

Overall, we estimate that we ended the year with more than $300 million of excess capital. However, we have about $150 million earmarked for our Alliance United acquisition.

During the fourth quarter, the Life & Health group paid a dividend of $25 million and the Property & Casualty group paid a dividend of $37 million, bringing total dividends paid to the holding company to

$217 million for the year. We estimate that our insurance companies will have a maximum ordinary dividend capacity in excess of $200 million in 2015, and given the excess surplus in our Property & Casualty companies, we are considering requesting regulatory approval for an additional dividend of about $100 million.

Turning to liquidity. At the end of the year, the parent company held cash and investments of about $330 million, and our $225 million revolver remained undrawn. With our strong capital position, we have the resources to repay our $250 million notes maturing at the end of November. But with the favorable bond environment, we are evaluating all options.

I will now turn the call back over to Don.

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

Thanks, Frank. As you just heard, we are making decisions that are consistent with our long-term capital allocation priorities. These priorities remain unchanged. One, funding profitable organic growth; two, strategic acquisitions; and three, returning capital to shareholders, both through share repurchases and dividends. Putting capital to work is an important component of our double-digit ROE goal, and we made good progress in 2014.

Beginning with our first priority, we continue to selectively fund organic growth in certain areas. But as was true last year, organic growth will not use capital this year.

As to our second priority, we are pleased with our plans for Alliance United Group to join the Kemper family of companies. We routinely evaluate opportunities for strategic acquisition. When we see opportunities like this one, where the fit is great and the financials make sense, then we move forward.

Turning to our third priority, returning capital to shareholders. We repurchased more than 250,000 shares in the fourth quarter. In addition, we maintained our competitive dividend. In total, we returned $167 million to shareholders in 2014.

Before moving to the question-and-answer portion of the call, I'd like to add one more highlight. While we have been issuing insurance policies for more than a century, we do have an exciting milestone coming up. February 14 will mark the 25th anniversary of our incorporation. As you may be aware, our holding company used to be a part of Teledyne Corporation. Today, we operate with you, our shareholders, as our owners. And this is a nice opportunity to remind you that we are ever mindful of your interests as we continue to fulfill on a strategy to position Kemper for long-term profitability.
Now I'll turn the call over to the operator and take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Steven Schwartz of Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

First, I do want to touch on Alliance. Don, you said something at the beginning there that I was unaware of, the agency operations. Maybe you can put some numbers around that. Maybe how much you expect them to contribute to earnings? Or that it has in the past?.

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

Well, Steven, I was trying to subtly say we're not ready to give numbers, when I said part of it's public and part of it is not public. Alliance doesn't publish those numbers, and we're not prepared to give them at the moment. But I think there was some inferences drawn when people look at statutory blanks and thought that maybe the financial impacts of this acquisition would be less good than we believe it will be.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

I admit to be one of them, so that's interesting. Okay. Good on that. Another auto question maybe, gas prices. I know I'm planning on getting in the car a lot more this summer, wondering maybe what Denise thinks by going out there and how that was taken into account in terms of thinking about pricing for this year.

Denise Idell Lynch
Former Property & Casualty Group Executive

We look at a lot of variables when we think about what's going to happen for loss cost trend. And we anticipate not terribly different loss cost trends in the future. But certainly, we are looking at things, as you said, driving more miles and such. So that's what we're looking at.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then one more if I may. Don, back to you. Could you remind me -- I should probably know this but I don't -- the kind of the target size of the case for Reserve National in the employee benefits business that you're looking at.

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

Steven, we generally target smaller employers like 50 to 500, but we've also moved into some exchanges that have larger accounts. And we've got several, at least a couple I think you could say, several larger accounts with thousands of employees.

Operator

[Operator Instructions] Our next question comes from Adam Klauber of William Blair.

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

Couple of different questions. So on the -- you've had really nice improvement in the loss ratio in the personal lines business. Denise, I think you mentioned at least 200 basis points next year. Is that coming from work you've already done as far as trimming the book of bad business? Or is that work that you intend to do in 2015?

Denise Idell Lynch
Former Property & Casualty Group Executive

Adam, I'd say it's a combination. There is a good percent of our book of business that's in 12-month policies. And the actions we take on those 12-month policies carry through from the work we've done in '14 into '15. And then I'd also say we continue to look at what we expect for loss cost trend and what we expect to put in the market for pricing and other underwriting actions to continue to make progress against our profitability objectives. So really, it's a combination of the actions we've taken and then what additional steps we are taking to be able to drive towards our profitability goals.

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

Okay. That's helpful. And then similarly, most improvement this year and expected next year, is that mainly the auto book, and obviously, auto book is much larger? Or is some of that coming from core homeowners, obviously, excluding catastrophes?

Denise Idell Lynch
Former Property & Casualty Group Executive

We'd like to see continued improvement across our book of business towards our profitability objectives. So as you know, we give the forward look in terms of the 3 or 4 points. We don't break it down further than that. But what I can say is that we'd like to see continued improvement across all of our product lines.

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

Okay. And then just sort of a detailed question in frequency. I think you mentioned that BI severity frequency is down. You mentioned that PD costs are up in general, which I know the industry they are. How about PD frequency? How has that been faring?

Denise Idell Lynch
Former Property & Casualty Group Executive

PD frequency has actually been fairly benign for us, so low single digits.

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

Okay. Okay, that's helpful. And then going back to the investments, obviously, good year and really nice return this quarter. What sort of return can we expect out of the alternative portfolio on an ongoing basis?

John M. Boschelli
Chief Investment Officer and Senior Vice President

This is John. I think I'll take a crack at that. We've had a pretty good performance last year. And even into 2013, pretty solid 12% type returns or income yield on that. That's probably higher than what we would expect. When we kind of plan out a long-term average, it's somewhere between a 6% and an 8%. So that's probably more where we would look for a long-term average to coming in.

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

Okay. That's helpful. And then finally on the acquisition front. Again, I think it's good to see you're putting your capital to work in, again, as you said, a relatively accretive way. How does the pipeline look right now? Are you active? Or I mean that's, obviously, a decent-size deal. Are you going to integrate this deal and then go from there?

John M. Boschelli
Chief Investment Officer and Senior Vice President

We continue to look. It's been a while since we were able to find one that made sense for us at the right price. And it could be a while again. But we're always on the lookout. And I think we would not want to stay in the sidelines for a long time waiting to assimilate before we looked at deals, whether we're ready to do another one right away. We've got the capital resources, bandwidth to integrate. It could be an issue if it comes too quickly, but we are definitely on the lookout.

Operator

[Operator Instructions] And our next question is a follow-up from Steven Schwartz of Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

One more. What do you guys think of Google Compare, and what that can mean for the industry? And maybe what that can mean for you?

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

Could you repeat that, Steven? I missed that first part.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Yes. What do you think of Google Compare? And [indiscernible]

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

Want to take the first crack, Denise?

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes, Don pitched it over to me for first crack. So I think it's interesting. There are -- as we look at distribution trends for personalized insurance over a longer period of time, there have been multiple changes with comparative rate or affecting how distribution is done. The direct-to-consumer channel, the integration of direct and independent agent, alternative channels whether it's worksite or Google Compare -- a whole variety of storefront selling. So I think it's interesting. We'll have to see how effective it is. But like all distribution trends, they can create opportunities and they can create disruptions. So we'll continue to look at that, as well. Don, you may have something you want add to it. But there was one thing I actually wanted to correct. I noticed I misquote when I was talking about our progress over the year on retention, so I just like to add that at this point. When I gave the 2 points of progress on retention, I was talking about -- excuse me, the deterioration I was talking about policy retention, so I just wanted to clarify that point also.

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

The only thing I'd add it's really just a build on what you said, Denise, is that Google, you can't underestimate a company with that kind of financial resource and tech savvy. On the other hand, it's not clear that, that's a big disruptor to me.

Operator

And at this time, I'm not showing any further questions. I'd like to turn the call back to Mr. Don Southwell for any closing remark.

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

Thank you, operator. I'm pleased with our fourth quarter. We are well positioned for the future. In Property & Casualty, we continue to improve our underlying performance. And while we have more work to do to bring the top line up along with our bottom line improvements, we are making good progress. Our Life & Health segment provides us a steady source of capital, even while we invest in key initiatives. Our investment portfolio continues to deliver in a tough reinvestment environment. And finally, our capital and liquidity positions remain strong, affording us great flexibility to make smart moves like our planned acquisition of Alliance United. We remain committed to deliver the shareholder returns we all seek. We appreciate your time, and we look forward to updating you on our call next quarter.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a wonderful day.