S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

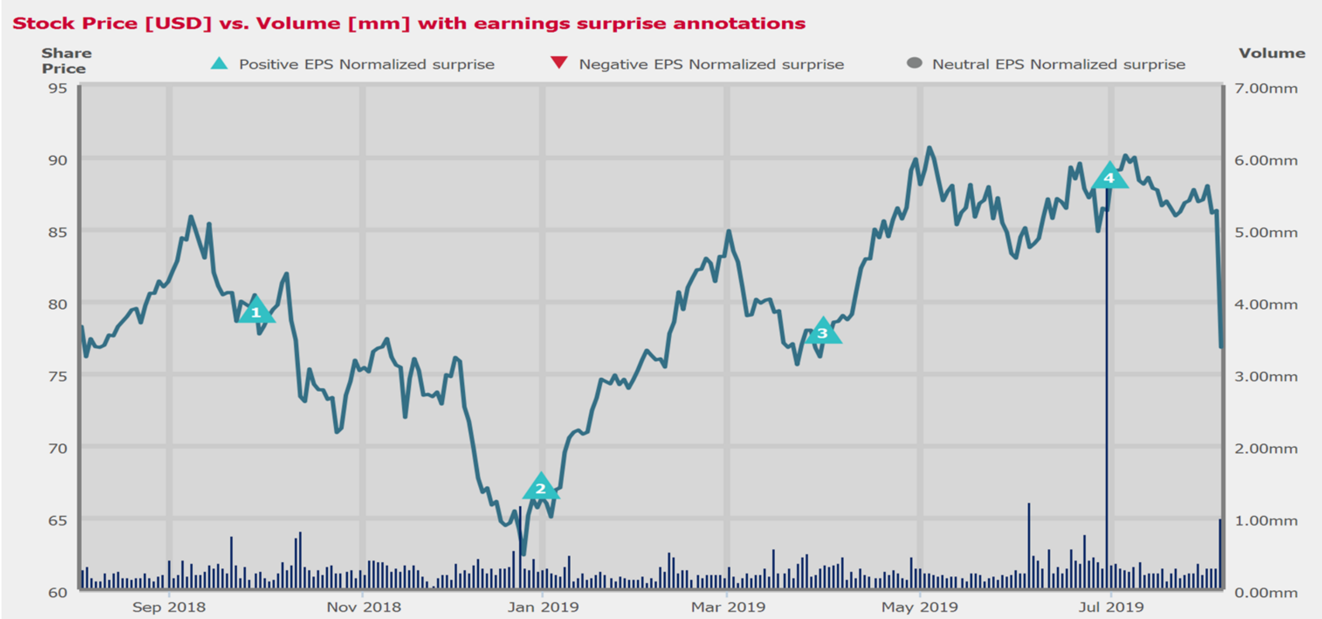
FQ2 2019 Earnings Call Transcripts

Monday, August 05, 2019 8:15 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.33	1.38	▲3.76	1.48	5.70	6.08
Revenue (mm)	1200.00	1235.30	▲2.94	1230.00	4899.40	5192.05

Currency: USD
Consensus as of Aug-05-2019 7:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	1.29	1.59	▲23.26 %
FQ4 2018	0.78	0.91	▲15.19 %
FQ1 2019	1.38	1.50	▲8.70 %
FQ2 2019	1.33	1.38	▲3.76 %

Table of Contents

Call Participants

EXECUTIVES

Christine Amanda Worley
Vice President of Investor Relations

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

James J. McKinney
Senior VP & CFO

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

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

Christopher Campbell
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Gary Kent Ransom
Dowling & Partners Securities, LLC

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Second Quarter 2019 Earnings Conference Call. My name is Sean, 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, Christine Worley, Kemper's new Vice President of Investor Relations. Ms. Worley, you may begin.

Christine Amanda Worley
Vice President of Investor Relations

Thank you, Sean. Good afternoon, everyone, and welcome to Kemper's discussion of our second quarter 2019 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer; Jim McKinney, Kemper's Executive Vice President and Chief Financial Officer; and Duane Sanders, Kemper's Executive Vice President and the Property and Casualty Division President.

We'll make a few opening remarks to provide context around our second quarter results and then we'll open up the call for a question-and-answer session. During the interactive portion of our call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Executive Officer; and Mark Green, Kemper's Executive Vice President and Life & Health Division President.

Before the markets opened this morning, we issued our earnings release and published our second quarter earnings presentation and financial supplement. In addition, we filed our Form 10-Q with the SEC. You can find these documents on the Investors section of our website at kemper.com.

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 2018 Form 10-K as well as our earnings -- our second quarter 2019 Form 10-Q and earnings release. This afternoon's discussion also includes non-GAAP financial measures that we believe are meaningful to investors. One such measure that I would like to highlight again is as adjusted for acquisition.

It is clearly important to understand our reported results, including the impact the Infinity acquisition has to Kemper, overall. However, investors have also expressed an interest in understanding the underlying organic performance of the combined businesses. Since our as-reported financials don't include Infinity's historical information prior to the closing of the acquisition and our current results include the impact of purchase accounting, the underlying trends are not easily visible.

In an effort to provide insight into the underlying performance of the combined businesses, we also display our financials as adjusted for acquisition. This view removes the impact of purchase accounting and includes historical Infinity information to more easily provide a meaningful year-over-year comparison.

In our financial supplement, presentation and earnings release, we have defined and reconciled all the non-GAAP financial measures to GAAP where required in accordance with SEC rules. You can find each of these documents on the Investors section of our website at kemper.com. Finally, all comparative references will be to the corresponding 2018 period, unless otherwise stated.

I'll now turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thanks, Christine. Good afternoon, everyone, and thanks for joining us on today's call. I'm pleased to announce yet another quarter of strong financial and operational performance. This performance wouldn't be possible without the determination and focus of our associates coming to work everyday dedicated to delivering outstanding results.

This quarter demonstrated our continued progress in growing our portfolio of specialized businesses, which in turn has resulted in meaningful long-term value creation for our shareholders. We also took actions this quarter to further strengthen our balance sheet and enhance our financial flexibility, and Jim will provide more detail on these later in the call.

Before the discussion of specifics of our quarterly results, I'd like to note that on July 2, we celebrated the 1-year anniversary of our acquisition of Infinity. The transaction significantly accelerated our progress in becoming a leader in Specialty Auto business, giving Kemper the scale to further enhance our product management, claims effectiveness, ease of doing business and expense efficiencies.

As we reflect on this anniversary, I'd like to highlight 3 key points: one, we significantly exceeded every financial target we announced at the time of the transaction; two, our approach to integration has created a premier Specialty Auto franchise; and three, we have a strong team of experienced insurance leaders with proven ability to drive profitable organic growth and to execute strategic and successful M&A. All of this demonstrates our ability to enhance Kemper's competitive profile and grow intrinsic value. We look forward to deploying new skills across our portfolio of Specialty businesses.

Now let's turn to Page 4 and review the highlights of the second quarter. Overall, we generated industry-leading organic growth while maintaining a strong margin and balance sheet. We continue to create shareholder value as demonstrated by our 39% increase in book value per share and 35% increase in book value per share excluding unrealized gains on our fixed maturities.

Looking at our return on average equity excluding unrealized gains on our fixed maturity, we produced a 13.3% return, in line with our stated goal of delivering a low double-digit ROE. We delivered strong improvements in the underlying fundamentals of our business. Earnings per share increased 152% to $1.84 per share, while adjusted consolidated net operating income per share increased 97% to $1.38. Earnings -- earned premiums grew 70% on a reported basis, 8% on an as-adjusted basis. In our Specialty P&C segment, we reported very strong results with an underlying combined ratio of 93% and 10% growth as adjusted. While we continue to have policy enforce schemes in California, we saw an increase in growth across a wider range of geographies. We've previously highlighted that it would take time to deploy our combined strengths to generate these results. We're pleased to report that this quarter, we delivered double-digit profitable growth outside of California.

We're pleased with the 3% earned premium growth in our Life & Health business as we begin to benefit from investments to improve our capabilities. Despite some onetime benefit charges in the quarter, the business continues to provide stable cash flow and diversification benefits.

Our Preferred P&C business turnaround continues. As we've said before, this process takes longer and results are more volatile on a quarterly basis than we would hope, but we remain committed to generating an appropriate shareholder return in this business.

From a financial strength standpoint, we currently maintain over $870 million of available and contingent liquidity. This coupled with our strong current debt-to-capital ratio of 17.5% provides us with financial -- significant financial flexibility.

With that, I'll hand the call over to Jim to discuss our consolidated quarterly results in more detail.

James J. McKinney
Senior VP & CFO

Thank you, Joe, and good afternoon to everyone on the call.

Let's turn to Page 5 to discuss the second quarter financial results. As Joe mentioned, this was another solid quarter for Kemper. We continue to generate strong top line results while growing profits and returns. Earned premiums increased to $1.1 billion or 70% on an as-reported basis, driven by organic growth from each of our businesses and the acquisition of Infinity. On an as-adjusted basis, earned premiums increased 8%, primarily the result of a 6% increase in policies in force within our Specialty P&C business segment.

Top line growth improved, underwriting performance and the successful integration of our Infinity acquisition led to robust growth in net income, net income per share and adjusted consolidated net operating income per share. Net income for the quarter totaled $122 million, up $85 million from the prior year quarter. Net income per share on a reported basis increased $0.73 (sic) [from $0.73] to $1.84. On an as-adjusted basis, net income per share increased 90% to $1.90. Adjusted consolidated net operating income per share on a reported basis increased from $0.70 to $1.38. On an as-adjusted basis, adjusted consolidated net operating income per share increased 43% to $1.44. These results led to growth in book value per share and book value per share excluding unrealized gains on fixed maturities.

Moving on to Page 6. We isolate the key sources of volatility in our earnings. Adjusting for these sources of volatility, our underwriting operating performance is relatively in line with previous year.

Kemper continues to benefit from the addition of the Infinity business, which is helping us drive strong growth in underwriting profitability within our Specialty P&C segment.

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

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

Thank you, Jim, and good afternoon, everyone. Earlier, Joe noted the milestone anniversary of our Infinity acquisition. I'd like to reiterate that the combination of our 2 entities has been successful in accelerating our progress towards becoming a premier Specialty Auto franchise. By leveraging our core capabilities and harnessing the strength of our talented and committed team, we've achieved harmonized operations and enhanced revenue growth. These efforts, along with many others, have resulted in a successful second quarter.

Looking at our Specialty P&C Insurance segment results on Page 7. As with the prior 3 quarters, I will review this business on an as-adjusted basis, including Infinity results and all prior periods.

Earned premiums increased to $766 million for the quarter, up 10% over the second quarter of 2018. Policies in force increased 6%. The top line growth remained above industry average while producing very strong profitability, driven by our continued market and product strength. We remain focused on generating growth and increasing market share while maintaining appropriate underlying combined ratios.

In the second quarter, Specialty Auto's underlying combined ratio was 93%, largely consistent with the prior year. We continue to further enhance our capabilities, delivering value to our customers and generating disciplined profitable growth.

On Page 8, you will see the results of our Preferred P&C Insurance segment. Earned premiums increased to $189 million for the quarter, up 4% over the second quarter of 2018. The underlying combined ratio increased for the quarter to 94%. I'll discuss the drivers separately by product line.

In the Preferred Auto business, we remain focused on achieving an appropriate underwriting margin. In the quarter, earned premiums increased 9% and the policies in force increased 3%, reflecting continued rate activity.

Turning to our Homeowners and Other business, the underlying combined ratio was 83%, roughly 3 points higher than last year, primarily driven by intra-year development on 9 catastrophe large losses. Our policies in force decreased about 5% as we continue to diversify our cat exposure. Despite a relatively active cat quarter for the industry, we didn't experience the same magnitude of losses. We've commented on this in the past, particularly when we've seen losses proportionally higher than the industry. And given the modest size and concentration of our book, industry results are not always a good indicator of our cat losses. While underwriting results in this segment remain below our profitability goals, we expect improvement actions in claims, rate and underwriting will move us towards our desired results.

On a final note, in July, we announced that we entered into a marketing agreement to begin transitioning our classic collectors book of business to Hagerty. This book had $16 million in annual premiums in 2018. The transfer's proceeding as expected.

I'll now return the call back to Jim.

James J. McKinney
Senior VP & CFO

Thank you, Duane. Our Life & Health division's results are on Page 9 of the presentation. The team's continued focus on enhancements to our agency capabilities and process improvements resulted in earned premium growth of over 3%. This quarter, the operating profit for the business was impacted by higher onetime benefit costs and an increase in expenses as we are enhancing our products and investing in our service and technology platforms to further develop our capabilities and target markets.

Turning to investments on Page 10. Our portfolio remains diversified and highly rated as demonstrated on the bottom left of the page. Looking at the chart on the upper left, you can see the investment performance over the past 5 quarters. This quarter, we delivered $96 million in net investment income. The core portfolio produced higher net investment income largely due to the addition of Infinity's investments. This resulted in a pretax equivalent annualized book yield of 4.7%. This is down from 5% in the second quarter of 2018 due to the shift in asset mix driven by the addition of the Infinity portfolio.

On Page 11, we highlight our strong capital and liquidity position. In the second quarter, operating cash flows increased $30 million to $148 million compared to the second quarter of last year. This was a result of increased scale and disciplined operational and financial management.

Turning our attention to the chart in the upper right of Page 11, you can see that our insurance groups remain well capitalized. On the upper left hand corner chart, we present parent company liquidity. During the second quarter, we took advantage of favorable market conditions and the ability to replace expensive hybrid securities with permanent capital to further strengthen our capital position. In May, we repaid a $35 million term loan with cash on hand. In June, in a series of transactions, we raised approximately $130 million through a common share offering, entered into a new $50 million term loan and increased the borrowing capacity of our revolving credit facility to $400 million.

Subsequently in July, we used the proceeds from the equity offering together with a portion of the new term loan to redeem the $150 million, 7.375% subordinated debentures due 2054. At quarter end, we had substantial financial flexibility with $313 million in cash and investments and $660 million in borrowings available from our revolver and our subsidiaries.

Our debt-to-capital ratio at the end of the second quarter was 19.2%. As a result of the aforementioned capital actions taken after the quarter closed, we currently have $213 million in cash and investments, and our debt-to-capital ratio has decreased to 17.5%. This action decreases our long-term weighted average cost of capital and provides us with high-quality capital structure with appropriate flexibility.

With that, I'll turn the call back to Joe for closing comments.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Jim. Our long-term perspective remains focused on building Kemper's overall value, and this quarter demonstrated our ability to do so in 3 key areas. First, our financial results highlight the strength of the insurance platform we've built. The disciplined approach to our portfolio specialized niche focus businesses again produced revenue growth solid earnings and shareholder returns. Second, the continued earnings, ROE intangible book value accretion obtained from the Infinity acquisition show the value we're able to create through our disciplined approach to acquisitions. Lastly, as Jim just discussed, we continue to further enhance the composition and flexibility of our capital structure.

Thanks to our entire team, our strategy and business model continues to perform well, expanding Kemper's reach to serve specialty markets with easy-to-use, affordable and appropriate insurance and financial solutions.
Now we'll turn the call back to the operator to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Greg Peters with Raymond James.

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

I wanted to revert back to Slide 7 in your presentation. And I noted that on an as-adjusted basis, your policy -- policies in force were up almost 6%. Can you talk about where that growth is coming from? Is it coming from expanding the geographic footprint? Or is it in your existing states? And can you also dovetail comments on that with conditions in California and Florida?

James J. McKinney
Senior VP & CFO

We'll go ahead -- Duane, maybe you give some comments and we'll tag-team a little bit.

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

Yes. Got it. So I think the first part of your question was the 6%, is that coming from new markets or in places that we currently play? So we are growing in existing markets. And this isn't an introduction of new states. It's actually expanding the growth in existing. And as we've talked about before in terms of kind of diversifying the book away from the concentration out West, we've been able to successfully do that and continue to [add tip] on that side. And the second part of your question, can you ask that again? I want to make sure I got that.

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

I was -- conditions in California and Florida.

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

Yes. So I -- from a market perspective, we -- we're -- we feel good about where we are. We have an opportunity to continue to grow in California. Even though we are a sizable player there and that continues to show growth in some of our other core states, whether that be Texas or Florida, we feel the same about both of those. We continue to find opportunity. We watch the marketplace. We look at the other players and kind of get a sense of what they're doing and how they're responding in that. And then we move the business forward to the -- to how we think it's going to turn out to desired -- with the desired kind of outcomes. So again, we participate well in that space, and we're going to continue to watch those and take advantage of the opportunities that are presented to us.

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

Okay.

Joseph Patrick Lacher
President, CEO & Director

Greg, were you trying to get at -- I think what Duane was getting at, and we were talking about it earlier, the marketplaces, we're seeing a little bit more competitive activity in Florida, but still feel like we're good -- we're well positioned there. And California's still a reasonable environment, we're not seeing anything crazy from a competitive perspective there. Is that what you were trying to get at with that?

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

I think that -- yes, absolutely. And I know with your expense ratio being so low that, that's got to be a critical advantage for you guys. But can we pivot to Slide 8? And I wanted to just spend a minute. And you talked about the underlying loss ratio on Auto trending up. And I know you said don't get too hung up on 1 quarter's results. But can you give us a sense of what you mean by impact from business mix? And for the Auto, what's your longer-term target?

Joseph Patrick Lacher
President, CEO & Director

Let me give a shot at that and then, Duane, provide color or nudge me back. And Greg, I'll actually make this comment with Slide 8 on Preferred, but I'm going to actually expand that a little bit and make a similar one on Specialty. What we're seeing in both of these businesses is the mix impact. And I'll use Specialty as the example first. You were asking about growth. Well, we're still going in California, but probably closer to the state's population growth rate or maybe a little more. We're seeing a bigger growth in that in Texas and Florida.

We're seeing some very high percentage growth in some geographies outside of Texas and Florida and California, but they're more modest states for us. So if you add it all up, the PIF growth, most of it came outside of California. Big chunks in commercial vehicle. When we look at the programs, as an example, our commercial vehicle business runs a little higher expense ratio but has a better loss ratio. Our Alliance United product in California has a more attractive expense ratio, largely because it's fee income, but we -- as a result, we can run with a higher loss ratio.

We're running all of those thinking about the total combined ratio. So you can get some quirky things sometimes when the mix is shifting, where it looks like the expense ratio is running up and the loss ratio is moving in a different direction because of intentional thought processes on our part about how that mix works together. It's more appropriate to have that expense ratio in commercial vehicle, it's more appropriate to have the fee structure we do in Alliance United, and as a result we manage the loss ratios differently. Similarly in Preferred, as we look across the different states out where we're growing and we look across the different products we have, whether it's our new prime product or some of our legacy products, in some cases, they have different commission or expense structures and as a result, they have different underlying loss -- permissible loss ratios that can cause some geography difference between the components of the combined ratio.

We don't typically provide target combined, which I think was the last part of your question. We do reference the fact that we are targeting a low double-digit ROE and once that's achieved, growing the organization -- and you can do some capital assumptions in each of the product lines that it will get you close to a target. But given the mix of product lines we have, that becomes not a great idea to get individual targets. We started to be very precise at that point.

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

That -- those are great answers. So the last question I have... yes, go ahead.

James J. McKinney
Senior VP & CFO

Greg, this is Jim McKinney. And if I can add on, I just -- I don't want folks to potentially miss this. If you look at pages kind of 37 and 38 of the supplement, there we provide the underlying combined ratios as adjusted, where we've essentially kind of normalized the purchase accounting adjustments. What you'll see there is through 6 months for our Specialty Auto business, we've got an underlying of 92.7% versus a year before that of 93.5%. And if you look at just the Personal Auto with inside Specialty, which is on the supplement Page 38, you can actually see we're running a 93% combined ratio for the first 6 months of this year on an underlying basis, which is about 0.1%, 0.2%, roughly in line with where we were at a year ago. So you're seeing that while we have continued to obviously grow faster than the market, continue to make market share gains, both in terms of California and then now you're really starting to see a pickup outside California where we continue to demonstrate the same consistency and margin, but at that same point in time, picking up policyholders much faster than what the market's at -- is growing.

Joseph Patrick Lacher
President, CEO & Director

Jim's highlighting there, Greg, the -- there's some purchase accounting numbers that run through with sort of quirky quarterly pieces. And they have a swing, one was a help last quarter, and one was a hurt this quarter. So if you're picking up the expense ratio and you're trying to do sequential quarters, your head is going to scramble on that, which is why we've got the as adjusted. And which is why really -- looking at the 6-month numbers on 37 and 38 does a much more accurate job of projecting what the underlying trends of the business are without getting into the quirky purchase accounting piece. But there's enough going on in those 2 quarters of [p gap] stuff on the expense ratio that you can easily make the wrong conclusion that something was going south.

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

Right. Those are -- that's great color. I just -- the final question, I know there's others who want to ask questions. Just -- can you just broadly talk about frequency and severity across your book in Auto? And how the trends were in the second quarter?

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

So I don't think we're largely outside of the industry on the frequency piece. We're -- it continues to, I guess behave well. On the severity side, we see a little bit on the BI side, particularly in California. I don't think we're seeing quite there what industry is seeing. But that's -- that -- again, I don't think we're a unique industry at large, otherwise maybe somewhat more moderate based on our limit distribution. So I don't think there's anything else to add on that or any other color.

Operator

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

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I was hoping we could turn to the Life Insurance business. And if you could help maybe parse out the piece that is a one -- truly onetime [in mortality and morbidity] pieces you were talking about as well as talk to more about these expenses? Obviously, it's a pretty substantial earnings impact if we have a new run rate at -- what was reported this quarter.

James J. McKinney
Senior VP & CFO

Yes, Paul. Great question. I'm going to take it in a couple of pieces here, just hopefully help -- try to keep it simple and then we can come back over the top, if that's all right. The first one -- and I think the simpler one to kind of roll through is really inside our life component, with inside the Life & Health segment. Inside there, you've seen really a onetime kind of benefits increase of roughly $3 million inside that group. 100% onetime from that perspective. In addition to that, you saw roughly $2 million of expense that would be onetime items that are there. Again, purely episodic related to some investments in the business.

And then you saw a couple of other items there inside, if I were to phrase it, about $2 million inside that segment that would be -- I wouldn't say sporadic in nature, but they're onetime, they're not items that you would necessarily expect to see on a quarter-over-quarter basis. But you might expect us to incur that expense on a 12- or an 18-month type period. And some of the items that go into that include expenses associated with some rate filing preparations and some other things that are inside our life business, they're a little bit less frequent than what you might normally see on the P&C side. And so that can create a little bit of expense noise.

On the health side, you saw really -- as we've highlighted and called out, about $4 million related to a onetime really review of the business. And as we've continued to see a little bit of -- good growth inside that business, and as we become more seasoned, what we saw is similar to what you could see in some other things, we had some older claims that are in there and a few additional ones that are going to end up settling a little bit higher than what our initial assumption was. That's not really a run rate impact per se in terms of what we're seeing coming in, but it represents really the catch-up of multiple years of business inside there and just us having an enhanced view in terms of what might be some of the severity associated with some of those older or long-dated claims.

Nothing to kind of -- overly kind of think about or try to run rate in terms of your numbers, really kind of onetime in total. And then when you look at some of the other things, you see that in total, we've shown good growth inside that -- those -- that segment. The net result of that is a little bit of upfront expense pressure that comes in. Again, the remaining component there is about $2 million. And what you see there versus, say in the P&C segment, and it's really kind of a mission-design program, if you will, is that some of the benefits that earn out over time where you normally DAC -- again, not to get too much into the accounting because some of these additional costs aren't specifically subscribed to a particular policy of that. You have an upfront expense associated with them versus seeing that kind of over the life of the policy. So they're there, they're a part of the business.

But it's not again something that I look at and say, "Hey, has our underlying cash flow projections growth, margin sustainability inside the business segment changed?" I don't believe it has. The way I would think about that if I were modeling out the Life & Health segment is look at the run rate over the last 12 months. I think that will give you a good indication of where things would be. I don't see any real material changes from that. And I really don't see any material range -- changes from where I'd expect the year to turn out from what our expectations are.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Great. And then my second question. Could you just give us a little bit more color on the investment side? You had a fairly remarkable investment return this time around and sounds like alternatives helped out as well. Maybe talk about sort of the sustainability of that as well?

James J. McKinney
Senior VP & CFO

Yes, Paul. I think we feel good about overall investment portfolio, the results that we both achieved this quarter and over time. There's not a meaningful change -- well, there's no change relative to the strategy or how we manage that or how we pick things. I think what you're seeing is just the benefits of our continued execution in that capability. We think we've build out some strong investment skill sets and we think that those have played out over time. And nothing there to note this quarter versus any others. Just really continued day in and day out execution.

Operator

Our next question will come from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to talk about competition also. When I look across the market, companies are all -- standard companies -- standard auto companies are looking to grow, evolve, reached acceptable profitability or gotten close. And I just wondered if you're seeing any change in the nature of the competition? And whether it's coming from other companies that are maybe broadening their appetite? I'm really just trying to get a sense of the level of competitiveness that you might be seeing in the market.

Duane Allen Sanders

Senior VP and President of Property & Casualty Division

Gary, this is Duane. I -- yes, it's still a relatively firm market. I don't know that there's additional players in this space. Sometimes you'll -- we'll watch the activity obviously in the states we participate. You'll see some pricing move and -- particularly in the specialty market. And we're -- we stay focused on that. But it's not -- I'm not seeing new players, I see the same players. I still see [quote] are still in place. So I -- nothing materially has changed, it's not like we're seeing others that weren't participating before that are now participating. The cohort of competitors are fairly consistent.

Joseph Patrick Lacher
President, CEO & Director

We're answering that, Gary, assuming you're asking the question of are people sort of crossing streams and moving from preferred into nonstandard, and we're not. And we're not seeing a lot of softening in standard. There is, Duane, is it fair to say a little bit more competitive dynamic going on in the preferred space but not to where we've seen it being really stupid.

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

No. Not at all.

Joseph Patrick Lacher
President, CEO & Director

Is that a fair description? Is that what you were getting at, Gary?

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. That is what I was getting at. Yes. And one other thing I noticed in the queue on -- in commercial auto, it mentions frequency of claims as a contributor to the lower loss ratio there. Is that any kind of trend? Or is that just a random variation in the quarter?

Joseph Patrick Lacher
President, CEO & Director

Yes. I think we'd look at it as -- we like to think that it's good execution and selection. When it's happened for several quarters in a row, we'll confirm that. I don't -- the book's big enough that it shouldn't be purely random, given its limits profile. But I'm not sure I'm ready to declare that we've got 2 years of dramatically less loss trend. It's just for that -- for the period we saw some less -- some lower frequency. We're pretty good at this end of the market and tend to do a nice job of attracting a good underwriting profile.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Is that commercial book a book that you think you can grow as well?

Joseph Patrick Lacher
President, CEO & Director

We've had several years of double-digit profitable growth. So we're thinking that's way more than a pattern. We believe we can continue to do that. We're at the small end of that commercial vehicle. We're not dealing with 50, 100 vehicle fleets. We're dealing with 1, 2, 3 vehicles, a couple more artisan contractors. We're filling a void in the marketplace. It matches up well with our Specialty Auto business, and we're operating it in a particularly thoughtful way. We're not getting caught up with some of the other noise or challenges that other folks I think have in the commercial auto space. Very much like Specialty Auto is different than Preferred Auto. We are playing in a section of that market that's different than we think. Like I said, there's been I think midteens growth for more than 2 years. I just don't remember off the top of my head what it was because I've got a -- I don't have Infinity statistics in my head quite as well as the Kemper ones.

Operator

Our next question will come from Adam Klauber with William Blair.

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

On the Life business, Jim, you said that look at the last, I think, 4 quarters. So does that include that this quarter, that again you had a bunch of one-timers in the -- what you consider a run rate?

James J. McKinney
Senior VP & CFO

No. I would take the previous kind of 4 quarters, Adam, from there. And I think that will give you a pretty directionally accurate number. I would not include this particular quarter in terms of that run rate. You might start with the base. But from an estimate, in terms of how I'm looking at it, modeling what I would expect to happen kind of given the information I have now, I'm basically looking at where it's been over the last 4 quarters. Previous to -- and nothing in that thesis has changed.

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

And then as far as the loss ratio on the -- or the benefit ratio on the Life business, this was that second time you adjusted in 3 quarters. Is -- and I've always thought of that business as a lot small policies. So I'm surprised to see this much adjustment in the last couple of quarters. So is there a pricing issue? Has it changed the mortality? What's the dynamic that's causing this variation?

James J. McKinney
Senior VP & CFO

Adam, I think unfortunately a little wonky. Normally there's kind of 1 quarter a year that you end up a little higher than what you were anticipating from a frequency of occurrence. And you usually get 1 quarter where it's a little bit lower. When you're looking at kind of this run rate, it's more of a -- and I don't mean this in a artificial, but if you're kind of flipping heads or tails, and I don't mean -- it's not like it's purely sporadic. But in terms of what creates that noise, it could be a flu season, it could be a bunch of different things. This year, it happens to kind of be inside this quarter. Again, I would not look at that as being some type of trend or a different standing from where it's historically been. It's just an unfortunate pattern and nothing's going to really change there from the long-term underlying economics of the business.

Joseph Patrick Lacher
President, CEO & Director

It's not lost on it -- lost on us, Adam. It's 2 of the last 3. And that starts to feel like it's a pattern in the other direction. But what we're telling you is when we dig underneath it and are looking at all the components, our best guess is the 4 prior, excluding the current quarters, is the best view of what it is going forward. And it's just hard without getting into a level of minutia that I don't think you really want to get into to sort of see the underlying pieces.

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

I appreciate that, and I know there's a lot that goes into benefit ratio. Are you changing? Or is there need to change your pricing on either the life or A&H product?

Joseph Patrick Lacher
President, CEO & Director

The life business, we've made some pricing changes in the last year, 1.5 years. They were not related to any of the benefit issues that we're talking about. They were relating to our broad view of mortality, tables, the investment environment, all the underlying components and assumptions that we've got inside of the product and where our mix was going. So they were disconnected from this. We've been in the process of making some pricing changes in our health business over the last 2.5 years. And that behaves in some cases a little bit more like a P&C business when you're thinking about it from a pricing perspective, where there is a frequency, a severity, you're working trends, you're working mix as it behaves a little more like an auto book might and we're plugging along with those, constantly looking at those and moving.

This will certainly factor into our thought process inside of that space. But again, the 12-month policies in it, it will work its way through much like you were changing prices inside of Homeowners. But there's nothing we've seen in the last -- those 2 of the last 3 quarters where you saw one-timers that's suggesting to us that we have our pricing assumptions off. So I answered the question on pricing action we're taking. I think what you're getting at is, is there something that makes us change our view on pricing because of those losses? And they have not materially changed our view there.

James J. McKinney
Senior VP & CFO

And Adam, just to put that -- it's roughly a $4 billion [serve of] basically 5 -- average life policies of $5,000. But when you're thinking about that, a 0.1% change kind of on your frequency or other elements, right, can have a swing like this. And that's just not -- when you're thinking about kind of what's normal [out there], that's just not outside of what you would expect with a book like that of that size.

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

Okay. And then on the expense side for Life & Health. Again, the -- last year you had a run rate of -- to whatever, $78 million, $80 million. You jump up to $87 million. Why did it jump up this quarter? I mean is it related to the jump up and loss is total separate? I mean why'd they both hit this quarter?

James J. McKinney
Senior VP & CFO

Can you help us -- I want to make sure I'm answering the question specifically. Can you point me to what exactly you're looking at? Because I don't want to answer the wrong question.

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

Sure. The interest expenses, 2Q '18 were at $79 million and then for 2Q '19 were at $87 million.

James J. McKinney
Senior VP & CFO

Yes, got it. The $79 million forward going to the $87 million one?

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

Yes.

James J. McKinney
Senior VP & CFO

Got it. You're dealing with -- there's -- it's some one-timers. We had a couple of bucks running through there that are across the place. We expanded some call center staffing that reflects the fact. We made -- we've made some investments to expand our ability to grow that business. And some of those come in front of that growth. We added some e-application capability. We've added some agent recruiting and training. We stepped up the growth that occurs inside of that space and sort of a onetime ripple through related to some agent sales trips. We had the plan in place for how they qualified for the trips for the whole year.

We brought online the new capabilities and you can't change a comp plan and a trip qualifying plan in the middle of the year. That's not a good thing to do with the distribution populations. So they got the benefit of the new capabilities with benchmarks that were set with the old capabilities. Because those costs are not associated with an individual policy, they're associated with everything they wrote over the entire year, you can't DAC those. They wind up being an expense in the current period. We won't set up that plan to run that same way now that the new capabilities are there.

We deployed some onetime changes in some of the actuarial consulting resources we were using for the firm and we brought them online, and that's running through the time period. So it's a series of smaller items that taken together become a not insignificant dollar item. And candidly, we could have spread them out over time a little bit so it didn't pop. We actually thought that the right answer was to make the investments and move those items at the appropriate timeliness to see the benefits as briskly as we could.

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

Okay. And then -- sorry, I don't mean to beat it to death. But again, there is pretty good variation this quarter in that business. So historically, we've always thought of this business as more of a steady state business that -- of course it can bounce around a little quarter. But going forward, should we be thinking of it as a steady state business? Or is this one that quarter in, quarter out, you can have decent swings in the numbers?

James J. McKinney
Senior VP & CFO

No. I would think about it, Adam, as a fairly steady state business with somewhere along there you're going to get 1 quarter effectively that has a little less frequency than you're expecting and 1 quarter where you generally are going to have a little bit more. For the total of the year, no change in terms of what your overall expectations are. When you're going through, as I mentioned earlier too, when you're trying to think through the expenses in that on a sum total, you had just under $5 million that was related to volume items. Again, those are expenses coming out that will be -- we'll get the benefits essentially over many years, right? But that expense is upfront and different from where we're at.

You had investments that were close to $5 million inside the quarter, right? That -- again, those are expenses that have been incurred, but the positive benefit of that is going to be for many, many years. Average life of the policy is 17 years, right? That's coming in. But again, expense up front on that front. And then again, some of those other onetime expenses that Joe's alluding to, another $3.5 million inside those types of items that are coming across. Again, would not expect those types of items to repeat, but the benefits associated with them do.

And so big picture, I continue to look at the business very much in line with what you've historically seen. We're bullish about the fact that it's starting to grow a little bit. It's not that it's going to have huge growth, double-digit growth or anything like that. But we're excited about the 3% growth and we think that the business continues to enhance itself from a competitive position and capability standpoint that's good for the overall franchise overall. And I wouldn't expect any other changes from a cash flow or volatility perspective. It's just a little -- a few onetime things that we're doing now to further enhance the business.

Operator

Our next question will come from Christopher Campbell with KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. Can you hear me?

Joseph Patrick Lacher
President, CEO & Director

We can, Chris. Go ahead.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

All right. I guess first question is, how should we think about the organic growth potential in Specialty Personal Auto and then commercial auto?

Joseph Patrick Lacher
President, CEO & Director

Well, we are feeling good about the growth we've generated in both segments of the Specialty business. We don't give guidance on growth or revenue going forward. We don't give guidance on earnings either. So the best I can tell you is I might think about it that we've seen a pattern of fairly strong, fairly consistent growth out of both sections of that business. We've got very attractive combined ratios. I think if you did a little bit of math, you would probably come to the conclusion that if we were targeting or delivering it over time a low double-digit ROE, that those businesses are likely exceeding that target.

We've expressed before that we think the best way to build long-term shareholder value is once we meet that target to grow the business as much as we can. So that would suggest that we're willing to let a little bit of that margin deteriorate to make sure that growth continues. And then it becomes a bet that any one of us can have on whether the market conditions continue where they are, what happens to frequency and severity and whether or not we can still squeeze out some more capability improvement from what we're doing in bringing these 2 companies together. But I think the net is we're in a pretty strong position now. It would be hard to imagine those conditions could change in a single quarter or 2. I tried not to give you guidance, but I think I generally pointed you in some ways to think about it.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. No, I appreciate that. And then so -- but if you're thinking about those 2 lines, I mean just -- and -- more of the Personal Auto side, rates are coming down fairly dramatically in some of your states like California, et cetera. So how should we think about like just your willingness to grow in a softening market?

Joseph Patrick Lacher
President, CEO & Director

Well, I don't think we're seeing rates come down in the Specialty Auto. That's what I was answering. Are you asking about Preferred? I may have misunderstood.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Well, I'm thinking -- well, I mean like kind of what I'm thinking about is if you look like the top 10 auto writers like by state, you look at California, it might have been like 9% in 2017. And that's come down over time. So I guess it would be more biased towards the Preferred side.

Joseph Patrick Lacher
President, CEO & Director

Yes. We very much think of these as 2 separate markets. They roll up through the same stat line and they are very different markets. And when we look inside of our specialties, what's going on in California is very different than what's going on in Florida. So we're specialists. And when we look at each one of those individually -- so the market conditions of pulling statewide data for auto in total is going to not be a great picture of what we're seeing at street level in terms of what we're going after. So I think the premise is off a little bit.

The way I might describe it to you, Chris, is if you think about book value creation and the shareholder value accretion over time, we would suggest that if 2 companies started out both at a 96% combined or a 93% combined and one tried to maintain that margin and the other said, I'm willing to let it creep up a little bit to something like a 95% or 96% or 97%, which might generate that low double-digit ROE and grow, and the other said, I'm going to try to just preserve that margin and I'm willing to sacrifice the growth, my sense is you would, as a shareholder, have much better shareholder returns from the one that was growing the book of business at appropriate margins but not trying to maintain exceptionally strong ones, than you would have in the group that tried to just purely maintain the margin.

And I think if you back up 20 or 25 years ago, you could find one or two examples of each of those investment pieces and how they were executed in the market by stock companies focused on personal lines, and it'd be pretty obvious which one you would have wanted to pick in that process, which one grew shareholder value more. So we're focused on generating that long-term shareholder growth, which is hitting the appropriate returns and growing as much as we can. So if our choice was to trade 2 points of combined ratio now for 4 or 5 points of growth, we would.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then are you noticing -- I mean are there any like hotspots in terms of states? I think one of your competitors pointed out like Georgia, like especially around the Atlanta area, and I know that was like something that Infinity was working on. Like that and then Florida were kind of hotspots for that competitor? Are you seeing any uptick in loss costs in those markets? Or any other ones?

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

Not in particular, no. Especially, on the 2 that you mentioned. On the Georgia side, that is an area that we're -- the Infinity gang is focused on. And we're still small but growing. And Florida, we've -- again, we're a bigger player there and we continue to watch for anything -- early signs of something that might cause a little bit of pressure. As I mentioned I think in an earlier question around -- I think the severity question on BI, and I mentioned that we got a little bit of pressure in the BI side on California. But outside of that, we're not seeing anything material.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And you're not seeing any like pickup in litigation in Auto? Like I know that they recently passed some laws like trying to plug up some of like the homeowners' abuse, like -- and fraud that happens there. Now just curious if by plugging that up, any of that might spill over into Auto. Like maybe that's like the next thing the -- [playing as far] wants to attack down there.

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

I mean it'll be interesting to see what the future holds. But at this point, we're certainly not seeing anything run over.

Operator

[Operator Instructions] At this time, there are no further questions in the question queue. And this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Joe Lacher for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you very much, operator, and thanks to everyone for your time today and all your questions and your interest in Kemper. We look forward to updating you again next quarter.

Have a good day.

Operator

The conference has now concluded.
Thank you for attending today's presentation and you may now disconnect.