S&P Capital IQ

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Kemper Corporation NYSE:KMPR

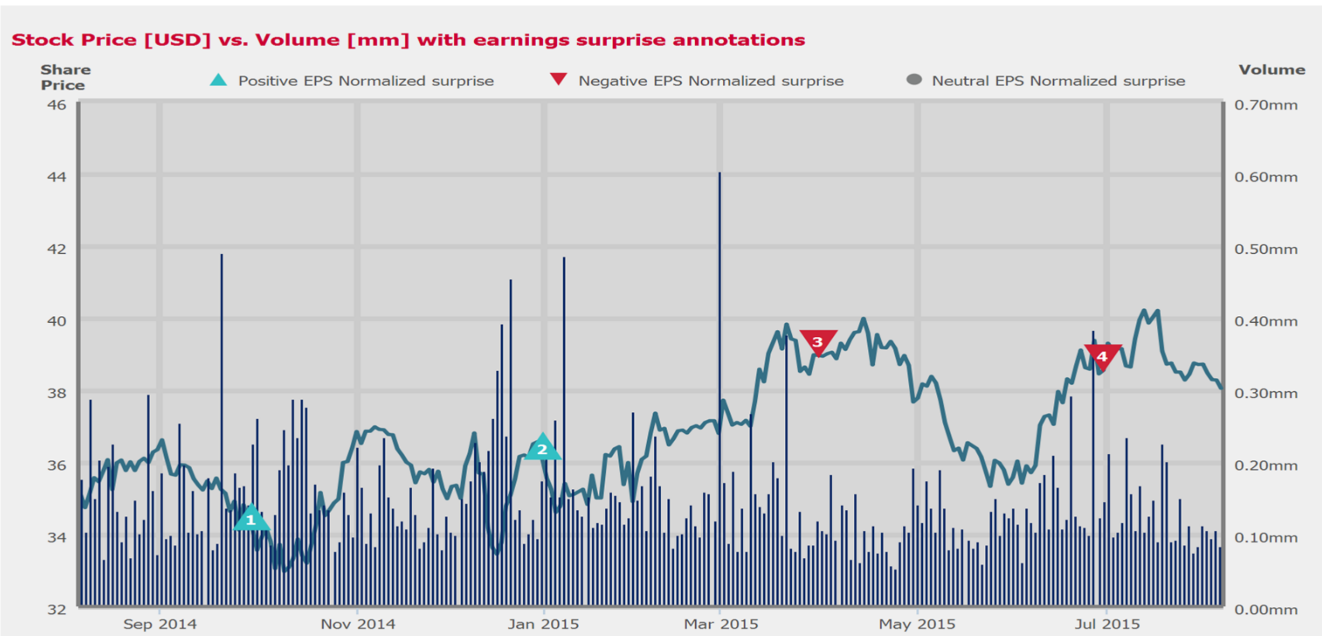
FQ3 2015 Earnings Call Transcripts

Friday, November 06, 2015 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.56	0.71	26.79	0.64	1.76	2.32
Revenue (mm)	558.11	613.40	9.91	567.56	2212.58	2331.12

Currency: USD
Consensus as of Oct-20-2015 3:19 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	0.55	0.71	29.09 %
FQ4 2014	0.73	1.02	39.73 %
FQ1 2015	0.52	0.42	(19.23 %)
FQ2 2015	0.49	0.13	(73.47 %)

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

Christine Amanda Worley
JMP Securities LLC, Research Division

Christopher William Martin
Macquarie Research

Edward Williams Jr.

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

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

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Kemper's Third Quarter 2015 Earnings Conference Call. My name is Jonathan, 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 3 of our business executives, starting with Don Southwell, Kemper's Chairman, President and Chief Executive Officer; followed by Denise Lynch, Kemper's Property & Casualty Group Executive; and Frank Sodaro, Kemper's Senior Vice President and Chief Financial Officer.

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

After the markets closed yesterday, we issued our press release 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, 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 2014 Form 10-K filed in February as well as our third quarter 2015 Form 10-Q and earnings release.

This morning's discussion includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement and earnings release, we 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 third quarter of 2014, 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 thank you for joining us today. Overall, we had a solid third quarter, and I'm pleased with the progress we're making. Key property/casualty legacy trends are improving, and we're getting nice growth from the Alliance United acquisition. While we know we have more work to do, it is nice to see improvement in key areas.

This morning, I'll begin our review by discussing our Life & Health segment results and our investment portfolio performance. Denise will update you on the Property & Casualty segment. And Frank will cover the financials, capital and liquidity, then I'll wrap up.

In total, Kemper earned $38 million of net income. Total revenues were $615 million, up $76 million as we benefited from added volume from the recent Alliance United acquisition. In the Life & Health segment, we had another solid quarter with stable trends. We earned $24 million, about a $3 million improvement, primarily driven by higher investment earnings. Revenues were $206 million, up $4 million, with a $6 million increase in net investment income.

Kemper Home Service Companies continue to benefit from our field office consolidation efforts. Production on a per-agent basis is up about 10%. Not only does this increase agent pay, but it also helps agent retention and recruiting. And year-to-date, we took out about a point of expense in our field structure.

In Reserve National, we're encouraged to see premiums stabilize. Our agents are thriving despite the marketplace changes that affected our hospitalization product. We have learned how to live with the Affordable Care Act, and our agents can still make a nice living.

I'll turn now to investments. Net investment income increased $4 million in the quarter to $76 million, benefiting from the continued good performance of our alternative investment in fixed income portfolios. Our pretax equivalent yield is holding up well at 5.2%, up 17 basis points for the quarter and 8 basis points for the year. We are taking reasonable risks to generate this strong performance.

Interest rates are neutral for the year, while credit spreads have expanded. This allows us to continue to put money to work at slightly higher yields than we had originally planned for in our investment-grade portfolio. We also generated $5 million of pretax net realized gains, primarily from sales of fixed income and equity securities. For the quarter, our total return was a positive 1.2%, primarily from net investment income. We're very pleased with our alternative investment's positive total return, both for the quarter and year-to-date, in light of the S&P 500 and high-yield

[Audio Gap]

negative performance.

Now I'll turn the call over to Denise to discuss our Property & Casualty segment results.

Denise Idell Lynch
Former Property & Casualty Group Executive

Thank you, Don. I'll start with the segment overview in total, and then go through the performance of each of our lines of business.

The Property & Casualty segment earned $21 million in the third quarter, up from a loss of $14 million a year ago. I'll note that we had a $35 million after-tax software write-off last year. Our total Property & Casualty revenues were $405 million, up $76 million. This increase was driven by our recent acquisition of Alliance United, which more than offset a decline in our legacy lines. The Alliance United brokers are very engaged and are delivering solid growth. We continue to work through the integration and are optimizing processes and performance. We are positive about this acquisition as it brings us scale in markets where we target growth.

Our total policies in force increased to $1.19 million in the third quarter, up from $1.17 million in the second quarter and $850,000 last year, benefiting from our acquisition. Additionally, we saw continued improvement in our legacy book, with Q3 marking our lowest level of decline in policies in force in 12 quarters, fueled by the healthiest level of new business policies written since Q2 2013. While policy retention continued to improve with our preferred product lines, our actions to address increasing loss trends on the legacy nonstandard auto book negatively impacted policy retention.

This quarter was uneventful on the catastrophe front, and our preferred auto product line continued to make progress with improving revenue and profit. Conversely, this was the second quarter of deteriorating loss results on the nonstandard personal auto line. The expense ratio was 24.4% with the inclusion of Alliance United. The legacy expense ratio rose about 0.5%, with expenses down $5 million, excluding the 2014 software write-off.

Now I'll provide an update on each of our lines of business. I'll start with preferred auto. Net written premium was $113 million, down about $10 million; and net earned premium was $112 million, down $18 million. New business premium grew by 39%, as new policies in force increased for the fifth consecutive quarter to the highest level since the third quarter of 2013. Premium retention at 83% improved both quarter-over-quarter and sequentially.

The underlying loss and LAE ratio improved to 68.5%, making this the 11th quarter-over-quarter improvement of underlying loss and LAE in this line.

While we continue to have favorable reserve development, it was at a lower level than what we experienced last year. Pure premium declined almost 6 percentage points, primarily from improved frequency. The longer-term trend remains flat with rising severity and liability and collision coverages offset by declining frequency in all coverages. Average earned premium was up just under 1% after filed rate increases of 4% were offset by mix changes.

Moving to our nonstandard personal auto line. Net written premium was $189 million, an increase of $111 million. Net earned premium was $177 million, an increase of $101 million. While Alliance United drove the majority of the increase, the legacy nonstandard auto net written premium was up 2.2%. Legacy new business writings were up and marked the sixth straight quarter of period-over-period improvement. The underlying loss and LAE ratio increased 8.5 points to 85.6%. About half of the increase was driven by the Alliance United acquisition, which performs at a higher loss and LAE ratio and a lower expense ratio. However, the legacy nonstandard auto book deteriorated 4 points.

2015 has marked a significant change in loss cost after a fairly benign pure premium trend over 8 periods. While not rising as quickly as Q2, we observed a 5.7% rise in pure premium from adverse frequency in all lines in most geographies. Severity rose 1.6 points, mostly in property damage and comprehensive coverages. Average earned premium is up just over 2%, with mix shift offsetting filed rate changes.

We continue to believe environmental factors, such as more miles driven and increased repair costs, are contributing to this increase in pure premium. We accelerated the timing of rate filings and increased our filed rate plan to 11% in our legacy book and has -- and have also filed rate in our Alliance United book. We also began rolling out a new class plan on our legacy portfolio and are implementing various additional underwriting, claim and agency management actions to adjust the rising pure premium trend.

In commercial auto, both net written premium and earned premium were stable at $14 million. After 3 consecutive quarters of improving period-over-period results -- adverse bodily injury and collision pure premium drove the underlying loss and LAE ratio up 16 points to 97%. Large losses were double the prior year and above the multiyear average. Adverse development from prior quarters of 2015 and prior accident years was $2.2 million, primarily in the liability and collision coverages. This compares to favorable reserve development of $600,000 last year. Various agency management underwriting and rate actions continue. It is important to remember that this is a relatively small book and subject to volatility.

Now turning to the homeowners line. Net written premium was $75 million, down $3 million, while earned premium was $72 million, $6 million lower. New business production grew to the highest level in more than 2 years. Premium retention was just under 84%, up sequentially for the third straight quarter.

We benefited from a quiet quarter on the weather front. Our catastrophe loss and LAE totaled $3 million after-tax, a decrease of $5 million and well below expectations for what is often an active catastrophe quarter. The underlying loss and LAE ratio increased 1.5 points to 50.4%, primarily from increased severity from large losses. Average earned premium was flat, as mix changes offset 4% filed rate changes.

So looking at the Property & Casualty segment in total, we believe we continue to make progress in core profitability and revenue with our preferred auto and home line. We are adjusting adverse loss trends in the nonstandard auto and commercial vehicle lines with aggressive actions. We continue to focus on managing our top line and are encouraged by agent engagement across the country, and we are pleased with Alliance United and its shared services integration.

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 consolidated third quarter performance, capital and parent company liquidity. Kemper reported third quarter net income of $38 million or $0.73 per share compared to $5 million or $0.09 per share. Our net operating income was $37 million or $0.70 per share for the quarter compared to $2 million or $0.04 last year.

Both net income and net operating income in 2014 included a software write-off of $35 million after-tax or $0.67 per share. Total revenues were $615 million for the quarter, an increase of $76 million or 14%, as $100 million of earned premiums from the Alliance United acquisition was partially offset by lower earned premiums from our legacy P&C lines.

Net investment income increased $4 million for the quarter. The annualized pretax equivalent book yield on average invested assets increased to 5.2% in the quarter compared to 5.1% last year.

The Property & Casualty segment reported net operating income of $21 million for the quarter compared to a loss of $14 million last year. Excluding the software write-off last year, results were flat as $5 million of less favorable reserve development and a higher underlying loss and LAE ratio were mostly offset by $6 million of lower catastrophes and the inclusion of Alliance United results. Alliance United added about $2 million of net operating income to the P&C segment.

In the third quarter, we finalized our purchase price allocation. And as a result, the bottom line benefited from a onetime catch-up adjustment of $2 million. As part of the acquisition, we hold $12.5 million in escrow to secure general indemnification receivables. Unfavorable reserve development and legal items put us above the escrow, so approximately $2 million of losses flowed through to Kemper's bottom line in the quarter, offsetting the purchase price adjustments.

Net operating income for the Life & Health segment was $24 million for the quarter compared to $20 million last year. Results increased primarily from higher net investment income and lower expenses partially offset by higher policyholder benefits. Both benefits and expenses fluctuated within our expectations. Net operating loss from corporate and other increased $3 million, primarily from higher retirement benefits related to the impact of low interest rates on the pension liability.

I will now cover book value, parent company liquidity and capital. Book value per share was $39.45 at the end of the quarter, down 1% from year-end, largely from the impact of higher market yields on our fixed maturity portfolio and shareholder dividends partially offset by net operating income. Book value per share, excluding unrealized gains on fixed maturities, was $35.04, up 2% from the prior year-end, primarily from net operating income partially offset by shareholder dividends.

From a liquidity perspective, at the end of the quarter, the parent company held cash and investments of about $345 million, and our $225 million revolver remained undrawn. Statutory surplus levels in our insurance companies remain strong, and we estimate that we will end the year with risk-based capital ratios of approximately 400% for our Life & Health group and 325% for our legacy P&C group. In October, the Life & Health group paid an ordinary dividend of $50 million to the holding company and would be able to pay an additional $30 million during the remainder of 2015 without regulatory approval.

We plan to make a $30 million contribution this quarter into Alliance United, primarily to support Alliance United's growth and for the reduction in statutory capital resulting from adverse preacquisition reserve development and an added mission of indemnification receivables.

During the quarter, we repurchased nearly 0.5 million shares at an average price of $35.39, bringing our total repurchases for the year to $41 million. We estimate that we have more than $225 million of excess capital.

I will now turn the call back over to Don.

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

Thanks, Frank. I'll now touch briefly on our 3 long-term capital allocation priorities. Funding profitable organic growth is our top capital priority. We are encouraged by the improving new business and retention trends in our legacy business, and we expect Alliance United to continue to grow.

Strategic acquisitions are our second priority, and we're pleased to have Alliance United as part of our Property & Casualty segment. We continue to work through the integration process and look forward to the continued benefit of having it in our family of companies.

On our third priority, we return significant capital to shareholders through dividends and share repurchases. In total, we returned $30 million to shareholders in the quarter.
Now I'll turn the call over to the operator to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Christopher Martin from Macquarie.

Christopher William Martin
Macquarie Research

So my first question is with regard -- related to the Alliance United growth. Can you talk about just briefly the fairly aggressive growth that Alliance United had over the past few years? And also, now you say that -- seeing that there's some unfavorable development, you'll be putting more capital into that growth. Can you sort of talk about that and where you see the book going as you take corrective actions?

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

I'll talk about the revenue growth at Alliance, and then turn it over to Frank for your second question. Alliance has positioned itself very well in the California market. It has a very focused plan on meeting the needs of the brokers it does business with and the policyholders it targets. It's been very strategic about an ease-of-doing business strategy and the product positioning of its portfolio, and it has really benefited from delivering that value to the brokers and continues to benefit from delivering that value to the brokers. We expect that to continue. As we look forward, we also are looking at how we position the product and the business for continued profitability and growth. And so we look at all the factors going into that, whether it's pure premium or the type of risks we're ensuring, and we'll continue to make good choices about profit management and growth.

Frank Joseph Sodaro
Former Senior Advisor

Hey, Chris, and if you wanted to add to that for the -- whatever [ph] is in the contribution. So just to put in perspective, the additional growth from what we were anticipating is about $25 million of premium. So that's adding -- we cut it pretty close when we put the $75 million, made that contribution in the first place. And then the rest of it is really kind of a timing issue. We had adverse reserve development that we -- that the indemnification was put in place with that in mind, and the nonadmission of the indemnification receivable is kind of have a timing issue at this point.

Christopher William Martin
Macquarie Research

Okay, great, that's helpful. So then with the growth that you're expecting and sort of the actions you're taking for -- to improve profitability, do you still expect to earn about $200 million in premiums from the Alliance deal this year?

Frank Joseph Sodaro
Former Senior Advisor

Yes. We still expect to be -- come in over $200 million of premium from that acquisition this year.

Christopher William Martin
Macquarie Research

Okay, great. So next question is, can you kind of sort of talk about the lawsuit that was announced last week against the treasurer in the State of Illinois?

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

Sure, I'll take that one. But first, let me just emphasize that we comply with all Illinois law and regulations regarding both unclaimed property and payment of life insurance benefits. We believe that it's improper for the treasurer to interfere retroactively with our very clear contractual terms, which have been approved by an Illinois regulator. And beyond that, I would refer you to our 10-Q for a more elaborate discussion.

Christopher William Martin
Macquarie Research

All right. And just one last question that's really unrelated. You also have some really good results in your alternative investments book, which most people have not. Can you sort of talk about what investment you have in there and what your performance has been like quarter-to-date?

John M. Boschelli
Chief Investment Officer and Senior Vice President

Sure. This is John. The alternative investment book has really 3 main groups. One group, we group it into our equity method and our fair value method book of business, and that really resides in our insurance company. That's kind of a long-tail, long-term investment. And really, the underlying investments are credit-related, so we've just been kind of plodding along in this kind of Goldilocks environment. So that's really the big driver in most of that result. We also have a fair value option component, which is made up of our hedge fund book that's held at the parent, and that is really targeted to be market-neutral. So with that, we do have a little insight into this quarter, and it's about neutral or just slightly negative.

Operator

Our next question comes from the line of Steven Schwartz from Raymond James.

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

Just a few. First, for Frank, the $225 million in excess capital that you cited, was that just at the insurance companies? Or does that include the holding company as well?

Frank Joseph Sodaro
Former Senior Advisor

That's the total company.

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

Total company. Could you remind us vis-à-vis the insurance companies, what you would measure excess capital against your $400 million would be versus what target, say, for the life companies?

Frank Joseph Sodaro
Former Senior Advisor

Steven, it's kind of a complicated in that -- it's a complicated way to get there. I would say the $400 million is a little bit over what we would target. And the $325 million, just a little bit over. And our insurance companies, we look right now that we're getting pretty close to the point where they're -- right where they need to be. So not a whole lot of excess sitting down in the insurance companies now. We've been fairly aggressive taking that up to parent.

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

Okay, that's good. And then could -- this is probably more important for Life & Health as well, but kind of what new money rates are looking -- where you're investing? What kind of rate you're investing at so far this quarter?

John M. Boschelli
Chief Investment Officer and Senior Vice President

Yes, I'll take that again. The -- so this quarter, it's pretty much similar as the last 2 quarters. In our investment-grade book, we're seeing our yields coming a little bit higher that we're expecting, so a little north of 4%, which is a mixture of both pretax equivalent grossed up, a component on our municipal bonds and then regular corporate bonds. Those are really the 2 main areas.

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

Okay. And then just on your cats in California, maybe talk to that. It didn't sound like you got tagged at all by wildfires. I'm not sure how much homeowners business you've got there. But kind of maybe talk about how you're situated as the drought continues and undoubtedly fire events will continue.

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes. California is actually an important market for us for homeowners business. It's one of our larger markets, so it is an important market to us. With respect to the wildfires earlier in the year, it was really a nonevent for us so, we did not get hit severely with that at all. We are -- we underwrite wildfire quite extensively and are thoughtful underwriters with respect to that cat peril. So we feel good about that.

Operator

Our next question comes from the line of Paul Newsome from Sandler O'Neill.

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

I wanted to ask, if what the big insurers were saying is right, that we are in an uptick in clean frequency, I guess, 2 questions. One is, does that sort of environment make it easier or harder to improve profitability for a company like Kemper? And could you talk a little bit about your abilities to change -- the speed at which you're able to change rates when you detect trend change?

Denise Idell Lynch
Former Property & Casualty Group Executive

Okay. I guess, first, I'd say that we continue to see what we referred to last quarter as almost a tale of 2 autos, where our preferred auto book of business continues to have a favorable frequency. That's true in the quarter, and it's true when we look at longer trend line. However, what we did experience last quarter and again this quarter is a real spike in frequency, and that is different than our longer-term trend. So the question, so what does it mean for a carrier like Kemper? Well, clearly, it's important for us to understand when we have a trend or an anomalous situation and respond appropriately. We began responding, actually, in February, more aggressively to our nonstandard book of business, increasing our filed rate plan, taking more aggressive actions on underperforming books of business, agency management and looking at other processes that manage that portfolio for profitability. So we began that process in February, and we expect that to, obviously, have an impact on our book of business. So what does that mean long term? Well, if the trend stays about where it is, clearly, the actions we are taking are going to make good progress. If the trend accelerates, we'll need additional actions. So we will continue to be aggressive in taking the right action so that we can improve profitability. And in terms of how fast does it take to get actions into the book of business, clearly, there are some actions that we move on and have a more immediate impact. Others take effect as the book renews. Or, for example, we've been launching a new segmentation class plan within our nonstandard legacy book of business, and that needs to roll through the book for new business. So some things take a little longer as business renews. And others, we can put into the marketplace right away.

Operator

Our next question comes from the line of Christine Worley from JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

I was wondering if you could just talk about sort of the difference in reserving methodologies between United Alliance, the legacy book, and Kemper. And if so, sort of if you're bringing that onto the Kemper methodology.

Frank Joseph Sodaro
Former Senior Advisor

Christine, this is Frank. I'll take that. They, being a relatively younger, new company and building their book, had different reserving practices than us. We started aggressively with implementation and getting them onto our methodologies and building the data we needed to get the proper segmentation. So I would say we're not entirely there with the entire amount of history we would want, but we are fairly -- we're far along the way to having them up on our reserving standards with how we would traditionally look at it.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. And then just looking at top line growth. It looks like the headwinds, they've sort of progressively been slowing, especially in preferred auto and home. Have you seen that continue into the fourth quarter? And how are you thinking about that a little bit longer term?

Denise Idell Lynch
Former Property & Casualty Group Executive

We're -- we like the trends that we've seen in our preferred lines, really, auto, home and our other lines. And that's been a multi-quarter effort around engaging our agents to do business with us, writing more new business, retaining more new business. And like I said, this is a multi-quarter effort, several quarters on preferred auto, several -- we're a few quarters now on the home continuing to grow. And our efforts continue, our agents continue to engage with us, so we're feeling optimistic about the progress we're making.

Operator

Our next question comes from the line of Adam Klauber from William Blair.

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

How's the search for the new CEO? And could you give us maybe some time parameters?

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

Adam, I'll take that one. The search is going well. The board is engaged in the process, and I expect that there'll be no trouble having my replacement in-board well before my announced retirement date.

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

Okay. And then on the investment side, how did the alternative portfolio do this quarter?

Frank Joseph Sodaro
Former Senior Advisor

For the September? Is that the question?

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

Yes, for the September quarter.

Frank Joseph Sodaro
Former Senior Advisor

Third quarter, yes. Well, it did pretty well, a little bit higher than we would have expected or predicted. It came in at about an annualized income -- annualized book yield of about 8%. And so that's offsetting maybe -- our year-to-date is just a little bit under our expectations. And so from a year-to-date point of view, we're just north of 7%.

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

Great, no, that's really good. Do you account for that? Is there a lag on the accounting for that? Or is that the results from the quarter you reported this quarter?

Frank Joseph Sodaro
Former Senior Advisor

Yes, there's a -- it varies on the type of investment we have. So about 15% of that -- of our book is -- there's no lag at all. Another 30%, there's about a month lag, and then the remaining little over 50% is a 3-month lag.

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

Okay, okay. Maybe too early, but will there be some deterioration on the part that there was a lag just because, obviously, last quarter was a tough quarter in a lot of financial markets?

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

Well, it's -- yes, it's a little hard for us to totally see out there in the future. But the things that impact, really, the -- our lagged portfolio is more the general economic conditions and refinancing conditions of the middle market. And there really hasn't been a lot of issues with that. There's been some volatility in the equity market, obviously, in the high-yield market, but that only has a small impact on the business that these LPs and LLCs are focusing on. So again, we kind of view it more as a -- if the businesses -- if the general economy is going smoothly, it's designed to produce some form of a smooth earnings outcome, and we always hope every quarter.

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

Okay. And then excluding the alternatives, what was your investment yield on the fixed book versus a year ago, if you have that?

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

It's pretty stable in the mid-5s. I don't have it on top of my head, but it maybe -- it changed by just a few basis points.

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

Okay. And then on the homeowners business, what sort of rate are you getting this year? And how would you characterize the competition in the homeowners market?

Denise Idell Lynch
Former Property & Casualty Group Executive

For the homeowners market, we're getting low single digits, mid-single digits on our rate. About 4% on rate is what we filed on our homeowners book of business. Of course, that will vary by state. And in terms of the competition, this continues to be a good line of business for us. There's a lot of value that our independent agents and brokers bring to policyholders as they advise them. There certainly is competition in the line, but I would say very different than the personal auto line.

Operator

[Operator Instructions] Our next question comes of the line of Edward Williams from Capital Return Management.

Edward Williams Jr.

Just a couple of quick follow-ups regarding the United Alliance deal and some of the adverse development there. Specifically, the escrow indemnification balance, how large was it? Is it totally exhausted already? Or will future adverse development go right to the bottom line for Kemper? Or is there any other means of recourse if adverse development continues?

Frank Joseph Sodaro
Former Senior Advisor

Edward, this is Frank. So that general indemnification book, it was $12.5 million that -- and reserve development was clearly one of the items that would go into that bucket, and that $12.5 million is currently exhausted. It's not all from reserve development. There are other matters that are in there. So further fluctuations would flow -- would drop down to our bottom line.

Edward Williams Jr.

Okay, okay, that's very helpful. And then could you just help me -- maybe for 2014, if could help me walk from -- for United Alliance -- or Alliance United, pardon me, to move from calendar year to accident year? So trying to get an understanding of kind of points of development and any colors to which accident years they were allocated to?

Frank Joseph Sodaro
Former Senior Advisor

I don't have a whole lot of detail on that, but the development we're experiencing is primarily from '14 and a little bit from the beginning of -- the first quarter of '15 also. That's the vast majority of it.

Edward Williams Jr.

Okay. And more '14 than Q1 '15?

Frank Joseph Sodaro
Former Senior Advisor

Probably a little bit more '14, but it's -- there's a decent amount from the first quarter of '15 also -- from pre-acquisition date '15.

Operator

And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Don Southwell for any further remarks.

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

Thank you, operator. As I said in my intro, we had a solid quarter. Our businesses are making tangible progress in key areas, and we have plans in place to deliver improvements in others. Our investment portfolio, once again, delivered good results. I'm pleased with our focus and look forward to seeing our efforts pay off for Kemper and for you, our shareholders. Thank you for your time this morning.

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