S&P Capital IQ

CONTENTS

Kemper Corporation NYSE:KMPR

FQ2 2015 Earnings Call Transcripts

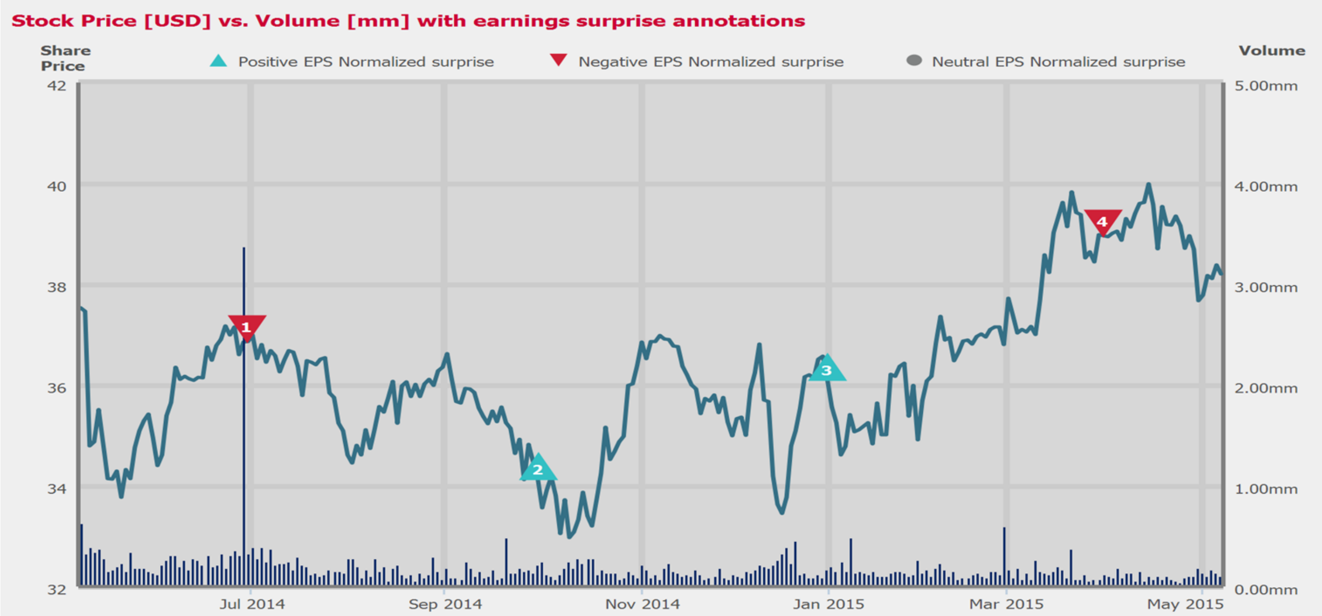
Friday, August 07, 2015 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.49	0.13	(73.47 %)	0.63	2.26	2.67
Revenue (mm)	551.61	577.40	4.68	578.83	2223.70	2373.07

Currency: USD

Consensus as of Jul-20-2015 1:04 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	0.26	0.18	(30.77 %)
FQ3 2014	0.55	0.71	29.09 %
FQ4 2014	0.73	1.02	39.73 %
FQ1 2015	0.52	0.42	(19.23 %)

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Call Participants

EXECUTIVES

Denise Idell Lynch
Former Property & Casualty Group Executive

Diana J. Hickert-Hill
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Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Frank Joseph Sodaro
Former Senior Advisor

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Kemper's Second Quarter 2015 Earnings Conference Call. My name is Jonathan, and I will be your coordinator today. [Operator Instructions] As a reminder, the conference 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 three 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 second 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 with the SEC as well as our second 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 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 second 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. I'll provide comments on three topics: our overall performance, our Life & Health segment and our investment portfolio performance. Denise will update you on our Property & Casualty segment, including some additional color on our recent Alliance United acquisition. Frank will cover the financials, capital and liquidity. I'll finish up with comments on our capital allocation priorities.

Looking at our second quarter in total, Kemper earned $30 million of net income in the quarter, an increase of more than $20 million, primarily from realized gains on equities and net income from our Life & Health segment. While we measure our sales primarily on our operating earnings performance, harvesting gains on equities is part of our investment strategy. These gains can be lumpy, but they are real.

We earned $7 million in net operating income in the quarter, down from $10 million. The change was based on a combination of factors, primarily a lower level of favorable development and a software write-off. These were partially offset by catastrophe losses, which were significantly lower this year, but catastrophes were elevated in both periods.

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We continue to reshape our Property & Casualty business. We completed the acquisition of Alliance United. We're already benefiting from its performance in the important California nonstandard auto market, and it feels good to be growing again, with Alliance United's $62 million of earned premiums in the quarter and overall P&C revenue trends improving.

New business is up and retention is increasing on our home and personal auto lines. Denise will cover the segment's performance in more detail, but I am pleased that we're seeing progress.

Turning to our Life & Health segment. We delivered $14 million in earnings in the quarter, down $2 million. Revenues were up $4 million to $204 million, with a lift driven primarily by a $6 million increase in net investment income.

In our Kemper Home Service Companies, we recently consolidated field offices, which, on average, resulted in 11% more in premium per agent. This has increased agent pay and will help agent retention and recruiting. It also reduced field expenses by almost 1% of premium.

In Reserve National, we were about flat on the bottom line. Premium was up nearly $1 million, which is good considering all the changes we made as a result of national healthcare reform. And nonrenewals required by the Affordable Care Act are now behind us, and we should continue to see premium growth.

I'll turn now to investments. Net investment income increased $4 million in the quarter to $77 million, driven by the performance of our alternative investments and fixed maturities portfolio. Our total return for the year is positive, and once again, we outperformed our benchmark for both the first and second quarters. We generated $34 million of pretax net realized gains, $31 million of which came from the sale of equity securities. We sold about $150 million of equity securities for portfolio asset allocation and tax planning purposes. Our fixed income portfolio remained entirely rated with 68% Rated A or better and 91% investment grade.

Since the beginning of the year, the average rating on our combined fixed maturity and short-term portfolio has remained steady, while duration has decreased slightly.

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 want to update you on three topics before I cover the quarter's results: first, our Alliance United acquisition; second, enhanced reporting in our personal auto lines of business; and third, the software write-off in the quarter.

Let's start with the Alliance United acquisition. Independent broker feedback is positive, and we are seeing a nice steady flow of new business and continued renewal policy persistence. We are making substantial progress with the integration of shared services, which is proceeding on plan. I will note that in this quarter, Alliance United was accretive to net income, and we expect it to contribute $3 million to $4 million to Kemper's total net income in 2015.

Second, I'll note that beginning with this quarter, we are providing additional disclosure for the personal auto lines in our financial supplement, which now details results for both the preferred and nonstandard personal auto lines. We are including Alliance United within our 2015 nonstandard auto line of business results.

Because Alliance United has a lower expense ratio and a higher loss and loss adjusting expense ratio compared to our other nonstandard business, we expect to see some shifts in expense and loss ratios for both the nonstandard auto line and for the Property & Casualty segment in total. This will affect quarter-to-quarter and year-over-year comparisons. This also affects guidance on our underlying loss and LAE ratio.

Our legacy lines have posted 0.5 point improvement year-to-date, and we expect 1 to 3 points of underlying improvement for the full year in our legacy business. However, with only 2 months into the acquisition, we are not ready to provide underlying loss and LAE guidance on Alliance United.

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On the software write-off of $7 million after-tax, we undertook a project several years ago to modernize our Property & Casualty billing systems. In the second quarter, we made the decision to stop the billing system project, as we had determined the cost and timeline to complete the project was no longer acceptable. The asset write-off was a result of that decision. We are evaluating our best options to serve our technology needs going forward, but have no significant capitalizable development projects and process.

Now I'll provide an update on each of our lines of business. I'll start with standard preferred personal auto.

Net written premium was $112 million, down about $15 million, and net earned premium was $113 million. New business premium grew by 55%, as new policies in force increased for the fourth consecutive quarter to the highest level since the third quarter of 2013. Premium retention at more than 81% improved year-over-year and sequentially.

The underlying loss and LAE ratio improved to 68.9%, making this the 10th quarter of underlying loss and LAE improvement in this line. While we had favorable reserve development, it was at a lower level than what we experienced last year. Pure premium was up slightly, about 1.5%, from physical damage severity, but the longer-term trend remains flat, with rising severity and liability and collision coverages, offset by declining frequency in all coverages. Average earned premium increased 1.6% after filed rate increases of 4% were partially offset by mix shift changes.

Moving to our nonstandard personal auto line. Net written premium and net earned premium both increased $62 million to $135 million and $139 million, respectively, primarily from the acquisition of Alliance United on April 30.

Our underlying loss and LAE ratio increased to 83.2%. This is higher than second quarter 2014 as a result of including Alliance United, which performs at a higher loss and LAE ratio and because of a significant rise in loss frequency across all our nonstandard coverages and in most states.

Excluding Alliance United in the quarter, frequency rose 6%, up from longer-term favorable frequency trend. Elevated frequency with benign severity drove pure premium up more than 6%. Longer-term pure premium trend remained flat to slightly negative.

While weather played a part in the elevated frequency, we believe other environmental factors, such as miles driven, are driving this outcome. We have accelerated the timing of rate filings in the first and second quarters, and increased our filed rate plan to more than 9.5% from about 6% and are taking various additional underwriting and agency management actions to improve performance.

Adverse development of $2.8 million compared to favorable development of $1.7 million affected the results of this line. Average earned premium was up slightly after filed rate increases were partially offset by mix shift changes.

In commercial auto, net written premium was down about 5% to $15 million, based on our successful transition to lower weight class vehicle, which have a lower average premium per policy. Earned premiums were stable at $14 million. Our underlying combined ratio improved 10 points to 100.7%.

Turning now to our homeowners line. Net written premium was $74 million, down $6 million, while earned premium was $72 million. New business production grew to the highest level in 2 years, but not enough to offset the 8% decline in policies in force. Premium retention declined 3.7 points to 82%, as mix shift changes offset policy retention improvement of more than 2 points to 77.4%.

Catastrophe losses and LAE were $18 million after-tax, a decrease of $14 million, but still well above expectations. Our underlying loss and LAE ratio increased 3 points to 50.9%. Increased severity, including large fire losses and noncatastrophe weather, led to a sharp increase in pure premium in the quarter, although the longer-term pure premium trend remains mid-single digits.

Average earned premium increased slightly after filed rate increases of 4% were partially offset by mix shift changes. The homeowners line also had substantially less favorable reserve development of $2 million as compared to $6 million.

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Looking at our Property & Casualty segment in total, we continue to work towards underlying loss results. We are taking actions to address the nonstandard auto book and are closely analyzing frequency trends. We continue to focus on managing our top line and are encouraged by new business and retention trends. And we are pleased with our results 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 second quarter performance, capital and parent company liquidity. Kemper reported second quarter net income of $30 million or $0.57 per share compared to $9 million or $0.17 per share. After-tax net investment gains were $21 million for the quarter compared to net investment loss of less than $1 million.

Our net operating income was $7 million or $0.13 per share for the quarter compared to $10 million or $0.18 last year. Total revenues were about $610 million for the quarter, an increase of $67 million or 12%, primarily from $62 million of earned premium from the Alliance United acquisition and the higher net realized gains, somewhat 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 5.4% in the quarter compared to 5%.

The Property & Casualty segment reported a net operating loss of $3 million for the quarter compared to a loss of $1 million last year. Although both quarters were hit by higher-than-expected catastrophes, if you exclude the software write-off, results improved as lower catastrophes were partially offset by lower levels of favorable, prior year reserve development and about a 1 percentage point increase in the underlying combined ratio.

Excluding the impact of the Alliance United acquisition, the underlying loss and LAE ratio increased by about 1 percentage point, primarily from the impacts of the current year development in both years and uptick in nonstandard auto frequency and higher severity in homeowners, partially offset by higher average earned premium.

Net operating income for the Life & Health segment was $14 million for the quarter compared to $16 million last year, as higher policyholder benefits and insurance expenses, primarily legal costs from one case, more than offset higher net investment income.

Corporate and other was essentially flat, as a $2 million tax benefit from settling the 2007 through 2011 tax years and $1 million of lower interest expense were offset by $3 million from higher employee retirement benefits.

I will now cover book value, parent company liquidity and capital.

Book value per share was $38.85 at the end of the quarter, down 3% from year end, largely from the impact of higher market yield on our fixed maturity portfolio. Book value per share, excluding unrealized gains on fixed maturities, was $34.71, essentially flat with the prior year-end, as net operating income was offset by dividends.

Turning to liquidity. At the end of the quarter, the parent company held cash and investments of about $380 million, and our revolver remained undrawn. In addition, during the second quarter, we amended our $225 million revolver to extend the expiration 4 years, with generally equal or better terms. This new credit agreement expires in June 2020 and allows, if expanded, for a maximum borrowing limit of $300 million during the term.

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 310% for our legacy Property & Casualty group. Additionally, we believe Alliance United is adequately capitalized.

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During the quarter, we repurchased 50,000 shares at an average price of $36.57, bringing our total repurchases for the year to $24 million. The Property & Casualty segment paid an extraordinary dividend of $192 million to the holding company, and as a result, we do not plan to take additional P&C dividends during the remainder of 2015.

The Life & Health Group paid an ordinary dividend of $43 million to the holding company and would be able to pay an additional $80 million during the remainder of 2015 without regulatory approval.

After funding the Alliance United acquisition, 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 touch briefly on our three long-term capital allocation priorities: first, funding profitable organic growth; second, strategic acquisitions; and third, returning capital to shareholders, both through share repurchases and dividends.

Starting with our top priority of funding organic growth, we are encouraged by our improving new business and retention trends, and Alliance United is expected to continue to grow. On our second priority, strategic acquisitions, we're pleased to see the initial results from Alliance United in our Property & Casualty segment. We continue to work through the integration process and look forward to the benefit of having it in our portfolio of companies. We keep powder dry as we continue our discipline of evaluating strategic opportunities that can benefit Kemper and our shareholders. And our third priority remains to return capital to shareholders. On that front, we maintained our competitive dividend of $0.24 per share and continued to repurchase shares. In total, we returned $14 million to shareholders in the quarter.
Now I'll turn the call over to the operator to take your questions. Operator?

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Question and Answer

Operator

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

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

I got two. First, Frank, you seem to be dancing around it, but could you put a number on the legal expenses in Life & Health?

Frank Joseph Sodaro
Former Senior Advisor

Sure, Steven. The legal expenses year-over-year were up around $4 million, and this is really -- the bulk of this is related to one case. It's an employment matter, and we don't expect that case to develop materially going forward.

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

Okay. And then for Denise, just, I guess, maybe an informational question. You noted the frequency much higher in nonstandard. It didn't sound like it was much higher in standard. Just -- is it because these people are riskier and they're in their cars? Or is it because their mileage is going up much more than a standard maybe because they benefit more from lower gas prices? Do you have any thoughts on that?

Denise Idell Lynch
Former Property & Casualty Group Executive

It is an interesting contrast in our book of business when we look at the quarter, where our standard and preferred frequency trend continues to be quite favorable. In fact, in the quarter, a negative trend. And even if we look over -- or in the quarter, negative, and then over a longer period of time, a negative trend. But as compared to nonstandard, where -- at least in this particular quarter -- we saw a spike in frequency. When we look over the longer term though, we actually see frequency even in our nonstandard lines of business at a negative trend. So I can't really say it's the customer profile and their driving behaviors. I can observe what we are seeing in the marketplace for this quarter. I can see the coverages that it's in and the states where we're observing it. But we continue to push to understand a little bit more -- a lot more about the drivers that we observed in this quarter.

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

Okay. Just one more. Can you discuss maybe the market in California for Alliance United? I know Mercurius is -- has been talking about taking rate.

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes, we continue to see this as a good market for Kemper. We've been in the market for a good, long time. We understand the market well. And with the addition of Alliance United, we certainly have a bigger footprint there. We do see it as a competitive market. There are many players there in California. And at the same time, what we do see are nonstandard carriers taking rate increases much in the same way that we are approaching managing that market and treating the pure premium trend that we see.

Operator

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

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

I wanted to follow up a little bit on the legal costs that are running to the Life business. And maybe get -- if you could help us a little to get a bit of better sense of the run rate of the earnings in the Life business, both given additional legal expenses plus other issues. I for one am having a little trouble getting around to see how quickly the earnings may or may not be falling off.

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

Paul, Frank commented on this one particular case. It took our legal expenses up by roughly $4 million this quarter, and that we believe is nonrecurring. In terms of guidance on earnings, we really haven't given that. Expenses, you can see the trends absent this case, and investment income is a significant driver, and we've tried to be clear on our investment results. So I guess, I'm not sure quite how to answer your question short of giving guidance, which we haven't done.

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

I mean, is it safe to say that given the current interest rate environment, you pulled the excess legal costs out, but this is a business that would expect to see profits continue to fall?

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

I would say that over long periods of time our portfolio rate will continue to fall unless interest rates rebound beyond where they are today.

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

Did I hear [indiscernible]. Did I hear it correctly that the Alliance United business should add about $3 million to $4 million in 2016? Is that the expectation?

Frank Joseph Sodaro
Former Senior Advisor

Yes, that's correct. I'm sorry, I want to make sure, Paul, I heard your question. Were you asking what it was going to add to the current year?

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

Well, yes. I just wasn't certain I heard that correctly.

Frank Joseph Sodaro
Former Senior Advisor

Yes. It was $3 million to $4 million in the current year.

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

So that's, what, about...

Frank Joseph Sodaro
Former Senior Advisor

That was correct.

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

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That return on investment?

Frank Joseph Sodaro
Former Senior Advisor

Well -- and you have to remember, in the first year here, we have some things going on. We have integration costs that are occurring and we have purchased accounting that is still settling in. We're going to have that finalized hopefully in this third quarter. So what we've said about that is we like the acquisition. We think the returns will be accretive. And we just need everything to settle in. And as that happens, we will look to provide more guidance going forward.

Operator

Our next question comes from the line of Katelyn Young from William Blair.

Katelyn Young

I'm in for Adam Klauber. A few questions for you guys. Sounds like you're seeing some moderate rate increases on the nonstandard side. And I know at least last quarter, you spoke to maybe single or mid-single digit rate increases, but there are quite a few balls in the air in business mix and whatnot. Can you just speak a little bit more on the rate side that you're seeing?

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes, I'll be happy to talk about that. So we are addressing the portfolio, the nonstandard portfolio for Kemper, and we're treating it in a variety of ways. Certainly, rate is one, and we certainly did have rate in the pipeline of about, call it, 6-ish percent before, say, the beginning of the second quarter, when we began increasing actually our rate plan. So we began taking more rate and set out a new objective even before this quarter results. But we are now increasing our rate plan to somewhere around 9.5% on that nonstandard auto book of business. But in addition, evaluating the trends that we're seeing or at least the quarter that we're seeing, the pure premium trend and what's driving that frequency, we want to make sure that we're treating that appropriately. So we're also looking at the drivers, and we're also looking at agency management and other underwriting actions that we may want to take to address this portfolio and improve its overall performance.

Katelyn Young

Sure. Okay. And then on the acquisition, are there further integration costs to be had throughout the remainder of the year that would be material or noticeable at least in the third quarter?

Frank Joseph Sodaro
Former Senior Advisor

Yes, we have integration costs that will be kicking up here over the remainder of the year, and it will still into next year also. So it's hard to nail down the exact timing of when they're going to hit, but we expect them to impact the results in the short run.

Katelyn Young

Okay. And do you have an order of magnitude or estimate at this point in time or...

Frank Joseph Sodaro
Former Senior Advisor

It's somewhere -- really, I'm not comfortable nailing down the exact number, mainly because of the timing of it. But they will -- it will have an impact on the numbers until those -- until they're fully integrated, which we plan to happen within the first couple of years, for sure.

Operator

[Operator Instructions] Our next question comes from the line of Christine Worley from JMP Securities.

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Christine Amanda Worley
JMP Securities LLC, Research Division

Most of my questions have been asked and answered, but I just wanted to follow up on the auto loss trends a little bit more. One of your peers was seeing a big uptick on the severity side. And I'm sorry if I missed it, but it doesn't sound like you were seeing that. Can you sort of talk about the trends that you're seeing in severity, both on the standard and the nonstandard auto books?

Denise Idell Lynch
Former Property & Casualty Group Executive

Sure, Christine. We're not seeing that same rise in severity across the books. So in the quarter, for our standard and preferred, our severity continues to be actually pretty benign. And then on the nonstandard, the same thing, pretty benign. Now that may vary a little bit by coverages. We might see a little bit more by coverages. But in total, we're really not seeing that kind of spike in the quarter. And then when we look over the longer term for our preferred and nonstandard -- excuse me, for the preferred book of business, it's really the same story. It's pretty flat in the way of longer-term severity trend, although it will vary a little bit by coverage part. And then when we think about the nonstandard book of business and look at their longer-term trends, it's up a little bit more, low single digits on severity, and again, varies by the coverage part. So that's really what we're seeing in the book of business both in the quarter and over the longer-term trend.

Operator

Our next question comes from the line of Brian Rohman from Boston Partners.

Brian Rohman
Boston Partners Global Investors, Inc.

A couple of questions. Allstate talked about frequency and severity trends in their auto book of business. Are you seeing what they're seeing? Or is your environment different?

Denise Idell Lynch
Former Property & Casualty Group Executive

I'm happy to address that. What we're seeing is different trends on our different portfolios. We have standard preferred auto book of business and a nonstandard book of business. What we're observing in our standard and preferred book really is benign frequency in the quarter, negative frequency in the quarter, and over the longer-term trend, really benign frequency in that preferred book of business, in fact, negative trend. On the nonstandard book of business, so that is the story in the quarter. And in that nonstandard book of business, that's where we saw an elevation in frequency in the quarter, where I talked about pretty significant frequency increase of about 6% there in our nonstandard book of business, which is very different than our longer-term trend, which has been negative frequency trend in that nonstandard book of business.

Brian Rohman
Boston Partners Global Investors, Inc.

And is that -- is that frequency change also in the new California book of business?

Denise Idell Lynch
Former Property & Casualty Group Executive

We are observing frequency in our Alliance United book of business as well. Yes, there is positive frequency trend, not favorable, but positive frequency trend in the Alliance United book of business as well.

Brian Rohman
Boston Partners Global Investors, Inc.

Did you factor it in when you bought the company? Or is that turning out to be a bit of a surprise?

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

It's early, Brian. But I would say that we've seen nothing that surprises us yet about the Alliance United acquisition.

Brian Rohman
Boston Partners Global Investors, Inc.

Even though frequency is up?

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

We don't have the same kind of long-term trends to look at, and we've had Alliance United for 2 months. And in 1 month, we had very low claim counts, and in another month, higher claim counts. So it's a little hard to say exactly what to expect there. But by and large, what we're seeing is consistent with what we expected to see when we priced this acquisition.

Brian Rohman
Boston Partners Global Investors, Inc.

Okay. Second question, premium growth. If I remember from the discussion on the P&C side, standard auto and preferred auto premium were down, commercial auto premium was down. And I believe -- I can't remember what you said about nonstandard. But the general comment and question is, absent the acquisition, premium were down, and are you still reunderwriting the book of business so that you're still seeing some stuff that you don't want?

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes. The legacy book of business, as we call it, continues to be down on a year-over-year basis, as we had been doing extensive reunderwriting and pricing of the book of business over a period of time. And many of those actions are in and working their way through the book. So we're at the tail-end of many of those, although we continue to monitor and adjust our game plan as we need to, to drive the progress that we expect to continue to see. What I can say also is that our new business premium is, in fact, strengthening, and we have several quarters of strengthening new policy count, and our renewal retention continues to strengthen. But as we look at year-over-year comparisons, we continue to be down as that reunderwriting and pricing in the book of business works its way through.

Brian Rohman
Boston Partners Global Investors, Inc.

And the agency count or agent count, how is that going?

Denise Idell Lynch
Former Property & Casualty Group Executive

We continue to manage agents, some agents. Most of our agents stay with us; some agents, we terminate through our agency management process. And then we've been appointing agents where it's appropriate. Net-net, we are up slightly on a year-over-year basis on new agents, both from targeting appointments to support certain product lines and then also through some of our cross-appointment process.

Brian Rohman
Boston Partners Global Investors, Inc.

Okay. A couple more questions, if you would. The software write-off is -- let's see, this is the second software write-off in the last 3 or 4 quarters. Given your commentary today, are you suggesting there's nothing left to write off? And are these two write-offs related?

Denise Idell Lynch

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Former Property & Casualty Group Executive

Okay. Let me take that question. Years ago, the company initiated several projects to consolidate and replace core systems for P&C. Along the way, there were successes such as our claim system, but in the third quarter of '14, we wrote off the policy administration system. Since the billing project was proceeding on plan at the time of that policy write-off, we continued to work with the vendor to complete the billing software project. During the second quarter of '15 though, we concluded that the billing system could not be completed at a cost or a time frame that was acceptable and decided to stop work on the system. Therefore, the asset was written off. Now the vendor is CSC, and we have other relationships with CSC, but no longer have any capitalized assets for projects in development with CSC. And we're evaluating alternatives to replace the system.

Brian Rohman
Boston Partners Global Investors, Inc.

Do they owe you any money?

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

We'll just say we're pursuing our legal options.

Brian Rohman
Boston Partners Global Investors, Inc.

So what's happened here is not -- is very much out of the ordinary. And I can sort of read into your tone that nobody's particularly happy with this.

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

Well, you can't be happy with it, Brian.

Brian Rohman
Boston Partners Global Investors, Inc.

Pardon?

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

You can't be happy with it.

Brian Rohman
Boston Partners Global Investors, Inc.

No, and it's a lot of money. All right. Last question, commentary. Because we are stockholders and not happy with the stock performance, the priorities for excess capital -- I would, at this point, move share repurchase and capital return up to the top, and I would move acquisitions to the bottom. And given what's going on in the reunderwriting in the book of business, you've got plenty of capital, even returning what you describe as excess capital, to write the existing book of business. That's more of a comment that it is a question, but I'd be interested in your reaction.

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

Well, I'm happy to note your suggestions, and we try to balance all these capital priorities and have a good record of returning capital to shareholders, which seems to be your primary interest. We've done that very well and very consistently over time.

Operator

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

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

Thank you, operator.

Our results this quarter were mixed. We had another good quarter on investments, the Life & Health segment continues to be stable. In our Property & Casualty segment nonstandard auto profitability was pressured, especially given the marked increase in frequency. However, we see good results in preferred auto, improving results in commercial vehicle, encouraging revenue trends and a great start to the Alliance United integration and its contribution to our financial performance. We are focused on driving further improvements. Our team remains committed to delivering the shareholder returns we all seek. Thank you for your time today, and I look forward to updating you again next quarter.

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

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