S&P Capital IQ

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Kemper Corporation NYSE:KMPR

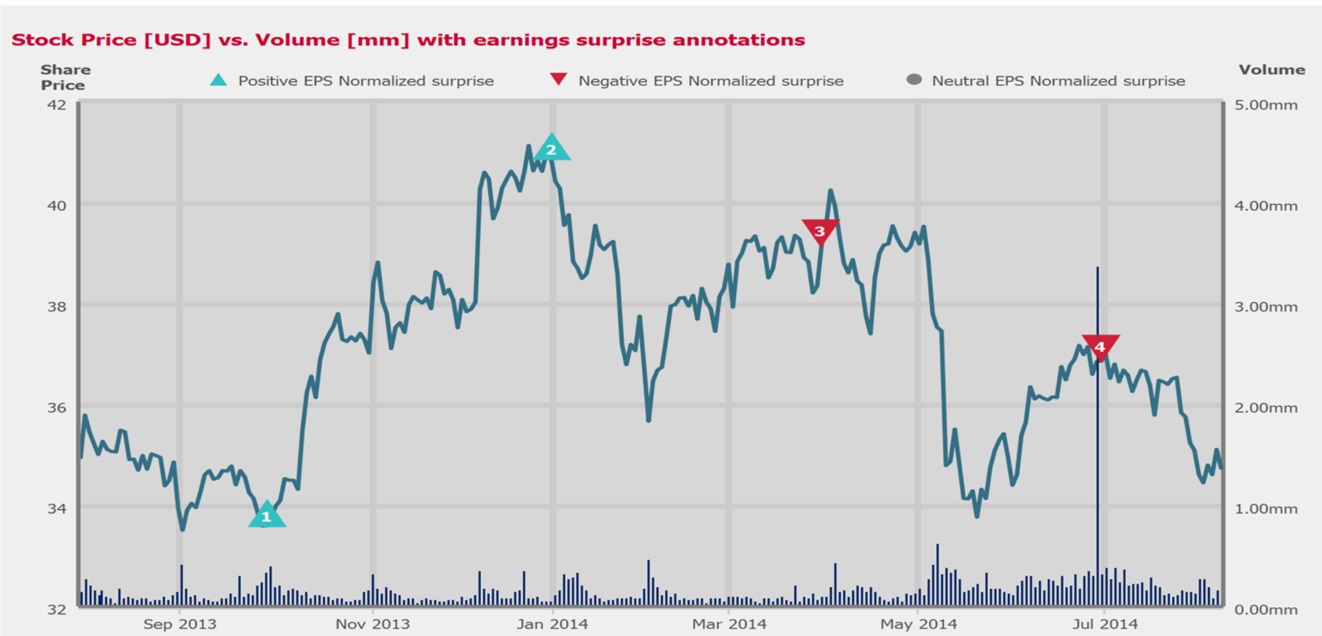
FQ3 2014 Earnings Call Transcripts

Friday, November 07, 2014 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	0.71	▲29.09	0.64	1.66	2.73
Revenue (mm)	541.20	535.60	▼(1.03 %)	537.63	2170.73	2155.35

Currency: USD
Consensus as of Nov-07-2014 10:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	0.40	0.69	▲1 72.50 %
FQ4 2013	0.60	0.83	▲2 38.33 %
FQ1 2014	0.65	0.56	▼3 (13.85 %)
FQ2 2014	0.26	0.18	▼4 (30.77 %)

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

Carl Doirin

Christine Amanda Worley
JMP Securities LLC, Research Division

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

Unknown Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Kemper's Third Quarter 2014 Earnings Conference Call. My name is Diana, 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'll 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 result. We will then open up the call for a question-and-answer session.

During this interaction -- interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Vice President and Chief Investment Officer; and Ed Konar, Kemper's Life and Health Group Executive.

After the markets closed yesterday, we issued our press release and financial supplement. In addition, we filed our Form 10-Q with the SEC, and you can find these documents on the Investors section of our website, kemper.com.

Please note that our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. For information on potential risks associated with relying on forward-looking statements, please refer to our Form 10-K filed with the SEC on February 14, 2014, as well as our third quarter 2014 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 third quarter of 2013, unless we state otherwise.

Now, I will turn the call over to Don Southwell.

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

Thank you, Diana. Good morning, everyone, and thanks for joining us on our call this morning. I'll provide a few opening comments, including an update on our Life and Health segment and our investment performance. Denise will update you on the Property & Casualty segment performance. Frank will cover financials, capital, and liquidity. I'll then close with a few remarks on our capital deployment before we go into the question-and-answer session.

Let's start with the total view. At the end of the quarter, we announced a $35 million after-tax write-off of software for the Property & Casualty group. We included this noncash charge in net operating income, but it's also instructive to consider our performance without the charge to better see trends, which included underlying improvement in many areas.

So in total, our net operating income decreased $37 million to $2 million. Excluding the software write-off, net operating income from the quarter was almost flat with prior year, as improvement in the Property & Casualty underlying loss ratio nearly offset lower net investment income.

Turning to our Life and Health segment, we had a good quarter, but not as good as last year.

We reported $20 million in net income, down $3 million. Net investment income and lower premium revenue drove the decline. These were partially offset by lower benefit payments and insurance expenses.

Premium revenue for the quarter was down 4%, although flat sequentially, primary -- primarily from a lower level of accident and health insurance premiums. Most of this premium decline is due to the non-renewal of a portion of Reserves -- Reserve National hospitalization policies. These were required to be non-renewed in 2014 in accordance with the new national healthcare law.

In addition, many of these hospitalization policy holders also owned other Reserve National supplemental policies, which they allowed to lapse when the mandatory hospitalization non-renewal occurred.

Partially offsetting this decline was an increase in premium revenue from new supplemental products, which totaled about $2 million in the quarter.

Life insurance premiums decreased 2% in the quarter with a decrease in Kemper's Home Service life premiums being partially offset by an increase in life premiums from Kemper Seniors Solutions.

Net investment income supporting Life and Health segment decreased $7 million with about $4 million coming from equity method investments. But we do expect some volatility, and the remainder coming from lower income from other equity interest in lower yields in this low-interest rate environment.

In total, insurance expenses declined, in line with the decrease in earned premiums. We continue our investment to grow the Kemper Senior Solutions and Kemper Benefits businesses, but some of this spend was offset by lower operating expenses at Kemper Home Service.

Kemper Senior Solutions and Kemper Benefits generated $5 million in earned premium in the quarter.

Now I remind you, that these businesses are still in the early stages, so while market reception is favorable, expenses are still high relative to premiums, producing some drag on current earnings.

Now I'll turn to our overall investment portfolio performance. We continue to see solid results, given the challenging investment environment.

Our total return was positive for both the quarter and year-to-date, coming in about 1.3% and 7.4%, respectively. This was driven by increased bond values from declining interest rates and equity appreciation.

For the year, we have purchased $400 million of fixed maturities. This included purchasing more than $280 million of investment grade bonds, with a pretax equivalent yield of 4.5%, and more than $120 million of non-investment grade bonds to replace most of the non-investment grade redemptions to date.

So our diversified fixed income portfolio remains 93% investment grade. We do not expect a material change in our overall non-investment grade fixed income allocation.

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

Denise Idell Lynch
Former Property & Casualty Group Executive

Thanks, Don. Property & Casualty insurance segment reported a net operating loss of $14 million, down from net operating income of $23 million. Excluding the software write-off, Property & Casualty net operating income was $22 million with solid improvement in the underlying book of business.

Overall, our underlying loss and LAE ratio results continue to improve.

In the quarter, underlying loss and LAE ratio improved 3.5 points, with 6 of the last 7 quarters showing quarter-over-quarter improvement. We feel good about the profitability momentum and look forward to continued progress.

Overall, catastrophe losses were below our expectations, but not as low as third quarter of 2013, which was an unusually light catastrophe quarter. While we remain focused on improving profitability, we are also addressing top line challenges.

Overall, net written premium was down 11%, primarily as a result of our deliberate actions to improve the overall quality and price adequacy of our book of business and to reduce catastrophe exposures. We are encouraged by agent engagement trends on new business and look forward to continued progress.

As we implemented profit improvement strategies, we have also seen pressure on the retention front. While our premium retention is lower than expected, we feel good about the risk quality and improving price adequacy of the book of business.

Turning to expenses. Excluding the software write-off, our total expenses were down over $7 million, as we are benefiting from lower acquisition cost, as well as from lower expense levels following the organization realignment we implemented earlier this year.

That said, we are seeing pressure on our expense ratio because of the lower premium level.

Earlier in the year, we indicated, we are targeting a 2- to 4-point improvement in our underlying combined ratio in 2014. While we are achieving progress on the underlying loss ratio, the expense ratio deteriorated with the decline in earned premium. We expect the pressure on the expense ratio to persist.

Now, I will provide some color on each of our lines of business. I'll start with auto. Private passenger auto experienced the biggest revenue pressure, with net written premium declining 13%, with roughly 20% of that decline related to the runoff of our direct-to-consumer business.

New business levels are starting to improve, but written premium is down. Rented premium retention, which includes both standard preferred and non-standard books, was down 4% to 74.2%.

The loss in LAE ratio improved 1 point, as the 3-point improvement in the underlying loss in LAE ratio was offset by higher catastrophes, and a lower level of favorable reserve development.

Average earned premium increased more than 3% and exceeded loss cost trends. Our low single-digit loss cost trends are mostly consistent with the industry.

In the last year, bodily injury frequency has declined, while bodily injury severity has increased by low single digits, both consistent with the industry.

Property damage and collision loss costs have escalated by mid-single digit. Also, consistent with industry trends.

In commercial auto, net written premium increased 8%, the loss in LAE ratio was 78% with the underlying loss in LAE ratio up a point to 82%. This remains an area of focus, as we continue to shift the book to lower weight vehicles and lower limit policies.

In homeowners, the net written premium was down 8% from both lower new sales volume and lower premium retention. Premium retention was down 7 points to 84.7%.

Home loss and LAE ratio improved 7.3 points to 58.9%, while catastrophe levels improved sequentially, they are still higher than what we saw in the third quarter of last year, which was a light catastrophe quarter.

Homeowners underlying loss in LAE ratio improved 9 points to 49%, reflecting an increase of 11% in average earned premium and flat pure premium trend.

We are pleased with the continued progress we are making on homeowners as a result of our focused profit improvement actions.

So looking at the Property & Casualty segment in total, performance and outlook improved in the following key areas: our underlying loss in LAE in auto and homeowners improved quarter-over-quarter in 6 of the last 7 quarters; underwriting expenses were down $7 million year-over-year; and we continue to have a sharp focus on expense management; new business writings improved each quarter of 2014; and the direct-to-consumer runoff continued to proceed well.

We remain focused on driving initiatives to improve profitability while gradually improving premium retention and new business.

Now, I will turn the call over to Frank.

Frank Joseph Sodaro
Former Senior Advisor

Thanks, Denise, and good morning, everyone. Today, I'll cover Kemper's overall third quarter 2014 performance, capital and parent company liquidity.

We reported net income of $5 million or $0.09 per share compared to $70 million or $1.23 per share last year. Our net operating income was $2 million or $0.04 per share for the quarter compared to $39 million or $0.69 per share last year. Both net income and net operating income included the previously announced software write-off of $35 million after-tax or $0.67 per share.

Total revenues were $540 million for the quarter, a decrease of $96 million, resulting from a $45 million decline in earned premiums, $41 million lower net realized gains, and $10 million lower net investment income. $39 million of the decline in earned premium was from Property & Casualty, of which $7 million was from the continued runoff of our direct-to-consumer business. And $6 million was from lower Life and Health earned premiums.

The net investment income decrease of $10 million was driven by lower income in our equity securities, fixed maturities, and equity method investments.

The third quarter annualized pretax equivalent book yield on average invested assets was 5.1%, down about 80 basis points from last year.

Now I'll discuss the financial results of each of our businesses.

The Property & Casualty insurance segment reported a net operating loss of $14 million for the quarter compared to net operating income of $23 million last year. The current quarter results included the $35 million software write-off. Excluding this impairment, the Property & Casualty segment's combined ratio improved 0.8 points to 96.1% for the quarter, driven by improved underlying loss in LAE results, partially offset by higher calendar quarter catastrophes and higher expenses as a percentage of earned premiums.

The underlying loss in LAE ratio improved 3.5 percentage points to 66.8%, primarily from higher average earned premium rates in personal auto and homeowners.

Catastrophe losses and LAE were $14 million in the third quarter compared to $10 million last year.

Insurance expenses, excluding the write-off dropped $7 million, but the expense ratio increased 1.4 percentage points to 28.1% in the third quarter, driven by the lower premium base.

Now shifting to the Life and Health insurance segment. Net operating income was $20 million for the quarter compared to $23 million last year. In the third quarter, net investment income decreased $7 million compared to last year. Insurance expenses decreased $4 million, as lower home service agent commissions and lower legal expenses were partially offset by higher startup costs related to our Reserve National growth initiatives.

I'll now cover book value, capital, and parent company liquidity. Book value per share was $39.96 at the end of the quarter, up more than 8% from year end, largely from the impact of lower market yields on our fixed maturity portfolio.

Book value per share, excluding unrealized gains on fixed maturities was $35.31, up 2% from year end, due primarily to the impact of net income.

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 430% for our Life and Health group, and 330% for our Property & Casualty group.

Overall, we estimate that we ended the quarter with more than $250 million of excess capital. The software write-off did not impact our calculations of excess capital or statutory surplus because the asset was not admitted for statutory accounting.

During the quarter, the Life and Health group paid a dividend of $54 million to the holding company, and we're planning for our insurance subsidiaries to pay additional ordinary dividends of at least $25 million during the fourth quarter.

Turning to liquidity. At the end of the quarter, the parent company held cash and investments of about $300 million and our $225 million revolver remained undrawn.

Now I'll turn the call back over to Don.

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

Thanks, Frank. As you just heard, we are at a strong capital position. Our long-term capital deployments priorities remain unchanged.

First, funding profitable organic growth; second, strategic acquisitions; and third, returning capital to shareholders, both through share repurchases and dividends. We make our near-term decisions within this framework as we evaluate options.

Beginning with our first priority, we are selectively funding organic growth in certain areas. Yet in total, premium revenues are declining in 2014 as we shared with you earlier. As a result, organic growth will not use capital this year.

As for our second priority, we routinely evaluate opportunities for strategic acquisitions and are keeping some powder dry.

Turning to our third priority, returning capital to shareholders. We repurchased more than 800,000 shares in the third quarter.

In addition, we maintained our competitive dividend. In total, we returned $43 million to shareholders in the quarter and $146 million year-to-date.

When we look at our progress overall, we are pleased in some areas and remain committed to continuing our turnaround in others. We're optimistic about our prospects.
With that, I'll turn the call back over to the operator, so we may take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from Carl Doirin from Raymond James.

Carl Doirin

So I had a couple of questions. First of all, I was curious about what your latest thoughts are on Telematics?

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

Denise, you want to grab that one?

Denise Idell Lynch
Former Property & Casualty Group Executive

Sure, I'll be glad to grab that. We've been looking into Telematics and the various applications of Telematics, both from rate perspective and a customer experience perspective. And what I'd say is we continue to look at that and continue to examine exactly when and how we want to apply Telematics in our business model.

Carl Doirin

And I also had a, I guess, couple more. I was really interested also in any thoughts you guys might have on the pricing cycle in homeowners? Are we near the top? Or is there some room left?

Denise Idell Lynch
Former Property & Casualty Group Executive

I'll take that one as well. Our point of view from our book of business is that we'll continue to evaluate how our book is performing relative to expectations. We'll continue to look at -- and what indications tell us about the book of business and loss trends, and then we'll continue to take an appropriate amount of rate or other underwriting actions to achieve the outcome that we want. Looking more broadly in the marketplace, we do continue to see, I'd say, disciplined underwriting and disciplined rate taking in the homeowners marketplace.

Carl Doirin

You guys haven't made up your mind or have any thoughts on where exactly the industry is as far as the market as a whole?

Denise Idell Lynch
Former Property & Casualty Group Executive

Homeowners is a -- it's a volatile marketplace, particularly when I think about catastrophes. This year, maybe for the industry is turning out perhaps to be a lighter year, but -- and last year was a lighter year. But there is still volatility that can affect carriers in very different ways. I guess, I think, about it and, I think, that carriers are in different places. And so, I guess, I believe, that there is still some need to continue to address profitability and to get appropriate returns over the long-term, and not just in a single year. So I'd say that, there's still some need for rate in the industry, and we'll continue to see that.

Carl Doirin

And if I can sneak in one last one. How much -- related to the Reserve National. How much of the non-ObamaCare policies have you guys sold in the fourth quarter of last year? If you have that number?

Frank Joseph Sodaro
Former Senior Advisor

I'm sorry. Could you repeat the question?

Carl Doirin

The non-ObamaCare hospitalization policies for Reserve Nationals sold in the fourth quarter of last year?

Frank Joseph Sodaro
Former Senior Advisor

Yes, we don't sell any policies that are part of the ObamaCare exchanges. All of the policies that we sell are various kinds of supplemental products that are not subject to those rules. That answer your question?

Operator

And our next question comes from Paul Newsome from Sandler O'Neill.

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

I'd like to maybe talk a little bit more about the old goal of reaching 10% ROE in light of the shrinkage in the size of the business on both the Property & Casualty and life side of the business. Are we getting to a point, given the decline in the business where the scale is such that both sides of the business really can't give us a double-digit ROE? And if that's the case, then is the next thing for us to follow rebuilding that scale?

Frank Joseph Sodaro
Former Senior Advisor

Paul, scale is certainly an issue, and more scale makes things easier. I would say, even -- the given top line trends that we've seen, we've got some temporary expense ratio pressures. But that we're not materially in a different place as far as our ability to achieve. It does push out our timeline. And we've constantly talked about also looking for opportunities to grow through acquisition. So we see the same thing you see that it's easier with more scale, and we'd like to have more scale, but we want to do it in a smart way. And we'll look for smart ways to build that scale.

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

I guess, one of the things I'm struggling with -- and I don't know if you can respond to detail as I would like. Is that -- I'm having trouble coming up with how to come up with more than ROE that's in the mid-single digits in general, especially given, it looks like your portfolio yields maybe falling given where interest rates are at. The life side, you've got the A&H business is going away in part because of the ObamaCare. And then obviously, the P&C side has shrunk a lot this year as well. So I'm having trouble, and given where your capital position is, and desire to hold all excess capital. I'm having trouble coming up with those pieces. Is there any way you could kind of walk us through how those pieces, not necessarily next year, but over the next couple of years could move in a way that would give you a higher ROE?

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

Yes. There's really 4 elements we've talked about that are necessary to get us to double-digit ROE. And one of those is just simply that CATS are normal. So in any given year, you're going to have some volatility due to CATS. But normal CATS is one element of that. And continued improvement in the P&C profit margins. We've talked about getting our combined ratio down in the 95% range. And that's an important element. Third important element is increasing interest rates because, we believe, that they will happen, timing is difficult. But particularly, given our life business, interest rates staying where they are, are not conducive. So we've planned on interest rates to move, pretty much as the Federal Reserve base case scenario projects. And that is a slower projection -- slower growth this year than they projected last year. But increasing interest rates is certainly part of what will be required. And most importantly, it's full deployment of capital. And we would like some of that deployment to come in terms of growth and not entirely in terms of returning to shareholders. Is that helpful, Paul?

Operator

And our next question comes from Matt Carletti from JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

It's actually Christine Worley standing in for Matt. Just had a couple of questions on your exposure management. Looking at the top line, given previous guidance, we would have thought that we would have -- the pressures that we're seeing there would have started to ease by now. Can you sort of give us an update on where we are with that? Or are we starting to turn a corner? Or should we expect these double-digit topline declines to continue for at least the next couple of quarters?

Denise Idell Lynch
Former Property & Casualty Group Executive

I think, for us in Property & Casualty, we're starting to see some trends improve on our new business. I think, I've -- I shared that. We're focusing very much on the agent experience in our sales rep deployment, making it easier to do business with. And we're seeing that translate into improved new business and certainly on a sequential basis. So we like that. The pressure really has been on the retention, and that really reflects a lot of the hard work we've been doing in our pricing and improving our price segmentation, as well as our catastrophe management work. So that's where we've seen the biggest impact certainly to the book of business. And it's the right thing for us to do. We like the outcome on the underlying loss improvements. We like the outcome in reducing some of the catastrophe exposures. So those are the right things to do, but we do expect some pressure there.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. So it sounds like continued pressure on the retention side, but some improvement on the new business side?

Denise Idell Lynch
Former Property & Casualty Group Executive

Right.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. Perfect. And then, yes, you touched on it in your previous answer. But the accident year loss ratio and improvement that we've seen throughout the year, is that reflective of the exposure management actions that you've taken? Or is it more sort of looking at where the book is running for the year, and trying to true-up where you think it'll eventually fall out or where it should fall out.

Denise Idell Lynch
Former Property & Casualty Group Executive

We really have been working for a good period of time of improving our underlying accident year improvement. And it's been more deliberate than catastrophe management, exposure management. It's included risk selection and price adequacy and really all through our operations. So we've actually been at this for a good period of time. And so when I look at our underlying results, I really attribute it to a lot of that hard work between underwriting and exposure management and price adequacy. Now naturally, there's always loss trend that goes into that. That's environmental in nature that may influence. But when I think about our progress, our progress absolutely reflects the hard work of improving profitability.

Operator

And our next question comes from Adam Klauber from William Blair.

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

A couple of questions. Can we go over cash available for dividends and buybacks? Frank, I think, you said maybe you have $300 million at the holding company? How much of that is -- how much cushion do you usually keep in?

Frank Joseph Sodaro
Former Senior Advisor

You're correct. We have -- about $300 million of cash and short-term investments at holding company. We target somewhere between $40 million and $60 million for cushion.

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

Okay. And then I think, you mentioned the dividends. I missed it. What's your statutory dividends this year?

Frank Joseph Sodaro
Former Senior Advisor

We took $54 million up from the Life group this quarter. We took $100 million up from P&C earlier in the year. We have remaining capacity at the life group of $25 million, and at P&C group of about $38 million.

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

Okay. And aside from profitability getting better or worse, is there any reason, we think, we should think, next year your dividend capacity should be any better or worse than this year from the subs?

Frank Joseph Sodaro
Former Senior Advisor

There should not be a material change to the dividend capacity from the subs.

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

Okay. That's helpful. On the technology write-off, you wrote-off a software, I guess, what direction are you taking now with your technology efforts?

Denise Idell Lynch
Former Property & Casualty Group Executive

Okay. I think, I'll take that one, Adam. The -- we -- it's important to us to continue to build platforms that serve across our Property & Casualty business. So we do intend to continue on that pursuit, and we are in the process then of evaluating alternatives to continue that process.

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

Okay. So it sounds like, we'll hear more about that later. Is that a good way to think about it?

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

Sure. The only thing I would add is that we've got some systems initiatives that are ongoing that are taking -- will allow us to improve things in the short-term as well. And we will continue those.

Adam Klauber

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

Okay. And then finally, again, a lot of discussion on the improvement in underwriting, and that's a great sign. I think 9 months, I calculated the improvement in the underlying accident year for P&C was well over 200 basis points, if you exclude CATS and development. Could you -- was the -- how material is -- how material is getting rid of the Direct business to that improvement?

Denise Idell Lynch
Former Property & Casualty Group Executive

It's an interesting question. I think, the Direct business was important in the sense that it was a big expense item for us. And we weren't approaching our profitability targets with the speed that we wanted to. So that certainly has been a part of it. But aside from the direct, the ongoing business has demonstrated really a substantial amount of improvement across all of our lines. All of our lines with the exception of commercial vehicle, which is the one that we're still working on. So our direct business was in the right decision for -- and has contributed to our improvement, but it's really been across lines with the exception of commercial vehicle.

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

Okay. Sorry, if you mentioned this before. What type or what level of rate increases are you putting into the commercial vehicle line now?

Denise Idell Lynch
Former Property & Casualty Group Executive

It's -- I think, about 5% to 6% on our commercial vehicle book of business.

Operator

[Operator Instructions] And our next question comes from Jason Bussell [ph] from the Millennium.

Unknown Analyst

Sorry, if I missed this earlier. I think in the release, the book yield on the investment portfolio was 5.1%?

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

John, is that the exact number?

John M. Boschelli
Chief Investment Officer and Senior Vice President

Yes, that's for the quarter, yes.

Unknown Analyst

And what is the new money rate?

John M. Boschelli
Chief Investment Officer and Senior Vice President

It's a loaded question kind of. But we are investing across the platform of different types of investments. But we put to work for the quarter in the investment grade area was about a 4 50 [ph] pretax equivalent yield.

Unknown Analyst

4 50 [ph] pretax. Okay. And the -- I think, to expand on Adam's question, the holdco cash, I know that you have a debt maturity coming up next year. Is the intention to use some of that to retire given that -- I

guess, I'm trying to understand the -- what debt to capital level the company expects to be running at and if that -- if you currently expect to retire that maturity?

John M. Boschelli
Chief Investment Officer and Senior Vice President

So where are we looking at right now is we're preparing to retire that matured -- that maturing. We have -- when we issued our Hybrid, we committed to bringing our debt to capital ratio down in line with where it had been historically. So what we really are doing now is monitoring our options with the long-term intent to bring that ratio down more in line with where it has been. We have a 2017 maturity also out there. So we're looking at our options and we're monitoring it.

Unknown Analyst

And down to where it's been, you mean in the low-20s?

John M. Boschelli
Chief Investment Officer and Senior Vice President

That's where it's been historically.

Unknown Analyst

Okay. And then one follow-up for Denise. I know that you talked about retention falling, were you referring to just home or auto too?

Denise Idell Lynch
Former Property & Casualty Group Executive

I was referring to both lines.

Unknown Analyst

And what is the retention now versus a year ago outside of direct in auto, in personal auto?

Denise Idell Lynch
Former Property & Casualty Group Executive

We don't break that out because we report now by segment. So -- but the direct business continues to decline at about the same rate that it had been. So -- but we report today on an all line basis.

Unknown Analyst

Okay. And the -- I'm wondering, given the fact that you're facing challenges with retention, presumably some of the business you'd like to keep, what's the up rate in the auto business that's -- is it a rate issue? I guess, I'm trying to understand why the non-direct, the personal auto is -- retention is facing challenges because that's not -- it's not as CATS exposed for you obviously.

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes, that's true. We've been addressing the underlying performance of the auto book of business. We were dissatisfied with where it was performing, and set out to improve that line, several quarters ago as well. So it's really talking about improving the underlying book of business there in the auto. And as a result of that, we, for several quarters now, have been addressing the profitability with rate and underwriting risk selection actions, primarily. And so it's from that work that we're experiencing the pressure on retention.

Unknown Analyst

Was there any regions in auto that you wanted to address with rate and underwriting actions? Or was it with certain -- was it -- is it more on the nonstandard side or in the preferred side?

Denise Idell Lynch

Former Property & Casualty Group Executive

We -- it's really a state specific we look at and product line specific as we do our indications and evaluate the book of business and then make choices about applying rates. So it is by state and by line. So therefore, it will vary depending on what we see the trends being and where we see the line by state performing relative to our expectations. So it's a variable.

Unknown Analyst

Okay. And it sounded like from your comments, regarding new business that [indiscernible] experiences is improving that you sound like you've got a good handle on these issues and they will probably turnaround?

Denise Idell Lynch
Former Property & Casualty Group Executive

Yes. The new business we are seeing -- a sequential basis improvement in our new business and again we have been addressing that as well. So we expect that to continue to make progress.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back to Don Southwell for any further remarks.

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

Thank you, operator. Before we wrap up, I do have just a few comments on our results in the quarter in really 4 areas. In Property & Casualty, we continue to improve our underlying performance, but the software write-off in the top line did pressure overall results. Our Life and Health segment profits were good, but slightly lower due to reduced investment income and the expenses associated with funding our strategic growth initiatives. Our investment portfolio continued to deliver in a tougher investment environment. And finally, our capital and liquidity positions remained strong, which afford us great flexibility. We continue to focus to deliver to the shareholder returns that we all seek, and we do appreciate your time. Look forward to updating you next quarter.

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