S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

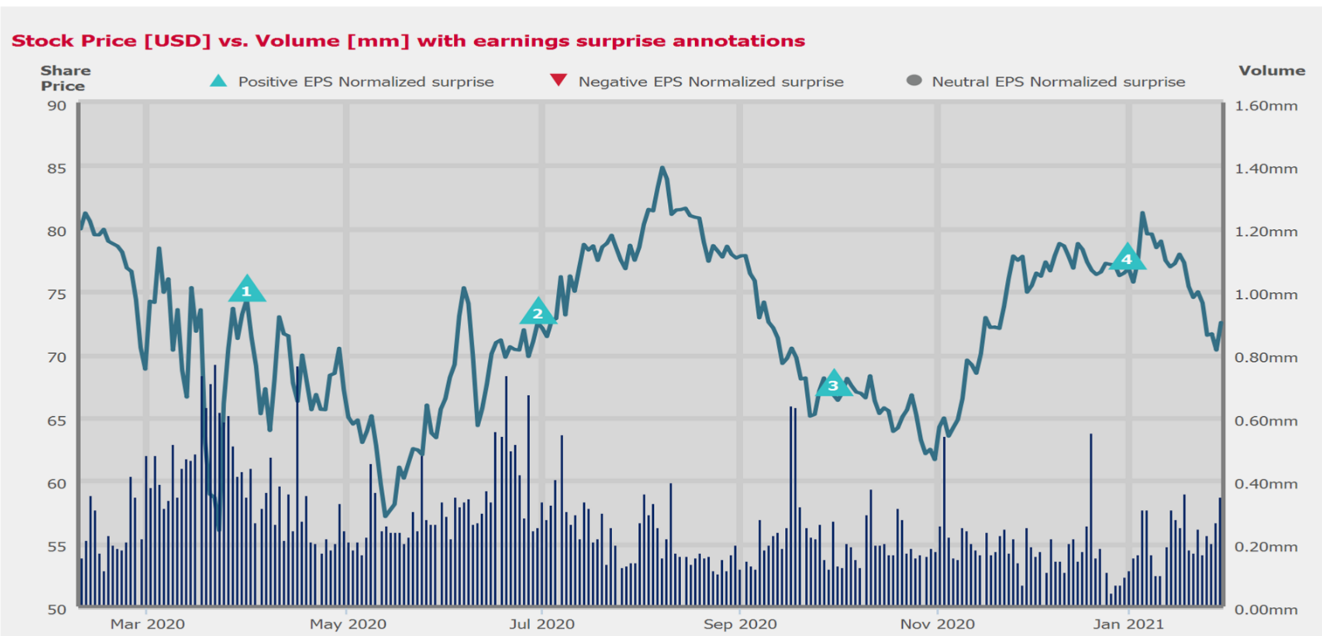
FQ4 2020 Earnings Call Transcripts

Monday, February 01, 2021 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.55	1.59	▲2.58	1.50	6.55	6.57	▲0.31	6.20
Revenue (mm)	1284.27	1318.60	▲2.67	1301.08	5066.87	5115.00	▲0.95	5327.09

Currency: USD
Consensus as of Feb-01-2021 10:45 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	2.37	2.43	▲1 2.53 %
FQ2 2020	0.97	1.20	▲2 23.71 %
FQ3 2020	0.97	1.36	▲3 40.21 %
FQ4 2020	1.55	1.59	▲4 2.58 %

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EXECUTIVES

Christine Patrick
Vice President of Investor Relations

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

James J. McKinney
Executive VP & CFO

Joseph Patrick Lacher
President, CEO & Director

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Fourth Quarter 2020 Earnings Conference Call. My name is Matt, and I will be your coordinator today. [Operator Instructions] As a reminder, this conference call is being recorded for replay purposes.

I would now like to introduce your host for today's conference call, Christine Patrick, Kemper's Vice President of Investor Relations. Ms. Patrick, you may begin.

Christine Patrick
Vice President of Investor Relations

Thank you, operator. Good afternoon, everyone, and welcome to Kemper's discussion of our fourth quarter 2020 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer; Jim McKinney, Kemper's Executive Vice President and Chief Financial Officer; and Duane Sanders, Kemper's Executive Vice President and the Property & Casualty Division President. We'll make a few opening remarks to provide context around our fourth quarter and full year results and then open up the call for a question-and-answer session.

During the interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Investment Officer; and Erich Sternberg, Kemper's Executive Vice President and Life & Health Division President.

After the markets closed this afternoon, we issued our earnings release and published our fourth quarter earnings presentation and financial supplement. We intend to file our Form 10-K with the SEC on or about February 10. You can find these documents on the Investors section of our website at kemper.com.

Our discussion today may contain forward-looking statements within the meaning of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, the company's outlook and its future results of operations and financial condition. These statements may also include impacts related to the COVID-19 pandemic. Our actual future results and financial condition may differ materially from these statements. For information on potential risks associated with relying on forward-looking statements, please refer to our 2019 Form 10-K as well as our fourth quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures we believe are meaningful to investors. In our financial supplement, presentation and earnings release, we have defined and reconciled all the non-GAAP financial measures to GAAP, where required, in accordance with SEC rules. You can find each of these documents on the Investors section of our website at kemper.com. All comparative references will be to the corresponding 2019 period, unless otherwise stated.

Finally, I would like to note that due to social distancing practices Kemper is following in response to the COVID-19 crisis, our call participants are not in the same location. This may cause the question-and-answer section of our call to feel disjointed at times. We apologize in advance and ask for understanding from our listeners.

I will now turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Christine. Good afternoon, everyone, and thank you for joining us on today's call. By any measure, 2020 was a challenging year and the reasons why are well-known at this point. I'd like to again acknowledge and thank everyone across our nation who stepped up during these challenging times. I'd especially like to thank our employees whose professionalism and commitment to our customers has been exceptional.

Against this backdrop, I'm very pleased with our 2020 performance. We generated over $400 million of net income and nearly $440 million of adjusted consolidated net operating income. More importantly, a year ago, we highlighted key metrics that guide our capital management and investment decisions. We continue to believe you should use these to measure our long-term performance. And when you do, 2020 was a great success.

Tangible book value per share increased 15%. Return on tangible equity, excluding unrealized gains, increased 16%. We generated $425 million of cash from operations, and we continue to grow both top and bottom lines. Additionally, we've made investments to grow the strength of our franchise and further strengthen an already strong balance sheet. A few notable items include the acquisition of American Access Casualty Company, geographic expansion and increased levels of claims staff to support our expanding customer base and the transfer of a significant portion of our pension liability to a third party. It was a strong year, and we're well positioned for future success.

I'd now like to turn to Page 4 to discuss some specifics for the quarter. Net income was $98 million or $1.46 per share. Adjusted consolidated net operating earnings were $106 million or $1.59 per share.

Turning to segment results. Specialty Auto had a solid finish to the year. Earned premiums increased 10% annually, adjusting for the credits issued in the second quarter. Customer growth continued, and our position in the market strengthened as we were able to drive both new and same-store sales growth. Notwithstanding periods of COVID-related new business slowdowns across our portfolio, our customer base and demand for our products have been resilient and strong. We continue to invest in our specialty platform and capabilities, which we expect to continue to drive future market share gains.

Turning to our Life & Health segment. Earnings continue to be impacted by COVID-related mortality, in line with domestic trends. Despite what is roughly equivalent to a "one in a hundred year" P&C catastrophe event, the business has generated positive operating earnings.

Turning to Page 5. During the quarter, we announced the acquisition of American Access Casualty Company, a $370 million cash transaction. The addition of the AAC platform accelerates the expansion of our specialty franchise. It gives us increased scale in new and underpenetrated geographies where we have an opportunity to accelerate growth and expand our agency network. It enhances our customer reach with a focus on low-limit auto policies and further enhances our specialty capabilities within the Hispanic market. The acquisition also aligns with our previously communicated capital deployment guidance.

In summary, we had a solid quarter and year, our strategy is resilient and sustainable and has consistently generated attractive returns for shareholders. We're also pleased that last week, AM Best upgraded our key financial strength rating to A and the holding company's senior debt ratings to BBB. This is a further testament of our strong operating performance and ongoing progress.

I'd now like to turn the call over to Jim to discuss our fourth quarter and full year operating results in more detail.

James J. McKinney
Executive VP & CFO

Thank you. I would like to echo Joe's sentiment that we are pleased with our 2020 financial performance.

Turning to Page 6. You can see the results of our focused and consistent strategy execution and the solid results it has yielded. For the quarter, we reported net income of $98 million and adjusted consolidated net operating income of $106 million or $1.59 per diluted share, an increase of 10% over the prior year quarter.

On Page 7, we highlight that our business model continues to produce high-quality operating income. This is illustrated through an isolation of key sources of volatility that impact quarterly results. For the quarter, volatility items had a $0.05 impact on adjusted consolidated net operating income.

Turning to Page 8. Building on Joe's previous comments, we are committed to always seeking new ways to improve the organization. This quarter, we took advantage of market demand to reduce Kemper's pension benefit obligation to $382 million from $660 million at the end of 2019. This included lump sum payments and the previously disclosed purchase of group annuity contracts. These actions removed the nonvalue-added risk, further strengthening an already strong balance sheet.

On Page 9, I would like to highlight some of the key capital metrics we use to track our performance, including growth in tangible book value per share and tangible return on equity. Notably, we continue to outperform our stated long-term return targets. Excluding unrealized gains, return on tangible equity was 16%, and our growth in tangible book value per share was 15%. These metrics demonstrate the efficiency of our capital deployment decisions and our intrinsic value creation for shareholders.

Continuing on Page 10. Our capital and liquidity positions remained strong supported by a healthy balance sheet but well-funded insurance entities. For the year, we generated $425 million in operating cash flow and ended the year with a debt-to-capital ratio of 20%, within our stated range of 17% to 22%. Our business model has performed as designed, generating solid cash flows and providing substantial financial flexibility to fund growth.

Turning to Page 11. Net investment income for the quarter was $103 million, reflecting strong alternative investment income as financial markets rebounded. Our well-diversified portfolio continues to deliver solid results. Low market yields are a challenge for the industry, but our portfolio construction has alleviated some reinvestment risk. Over the next 12 months, we have approximately $100 million of assets maturing or roughly 1% of the portfolio. This low amount of maturities, achieved through thoughtful asset and liability management, helps minimize net investment income volatility.

In closing, we are pleased with the company's financial performance for the quarter and the year. Our strong balance sheet, financial flexibility and stable operating results allow us to serve as a source of strength for all of our stakeholders.

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

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

Thank you, Jim, and good afternoon, everyone. I would like to begin with the Specialty segment on Page 12. The segment continues to perform well, generating $91 million of operating earnings in the quarter.

Turning to the top line. Earned premiums increased 10% and policies in force were up 4%. In the quarter, we saw increased state and local shutdowns, particularly in California. Similar to initial shutdowns, this resulted in reduced new business volume. We anticipate that just like we saw earlier in the year, this will be a short-term impact as states reopen and economies rebound.

The underlying combined ratio was 91% in the quarter and 89% for the full year. We continue to experience largely COVID-related decreases in frequency, along with the industry. With another round of state shutdowns in the fourth quarter and varied reopenings, we've taken a cautious approach to our loss picks, similar to our response to the initial shutdowns.

Looking at expenses, the quarter saw noise coming from a couple of places. First, it was impacted by the mix shift, which comes from a few areas: the mix of new and renewal business and the largely anticipated geographic mix of state and product. These impacts on expense ratio are anticipated in our pricing. Beyond mix, we had a few onetime items. There was an increase in contingent commissions paid to agents due to higher-than-average profitability. We also made enhancements to our infrastructure, the cost of which was recognized this quarter.

We continue to build our systematic, sustainable competitive advantages and geographic footprint within Specialty, which will be accelerated by our acquisition of American Access. AAC's customer profile is similar to that of our legacy Alliance United book in California. It expands the low limit customer focus to a broader geographic footprint and attractive specialty markets, including Texas, Illinois, Nevada, Arizona and Indiana. The business model is scalable, providing growth opportunities in new and existing geographies. In addition, their distribution relationships strengthen our agency network and give us access to a captive channel with deep ties in Hispanic communities. We look forward to welcoming American Access to the Kemper team.

Let's turn to the Preferred segment on Page 13. In our Preferred Auto business, we continue to evolve the product, which is reflected in our results this quarter. As we position the business for target profitability, our results have been choppy. Additionally, we reported roughly $10 million of adverse development. The primary driver of development continues to be increased demand notices in uninsured motors and bodily injury as attorney involvement has increased over the prior year.

Preferred Home & Other reported an underlying combined ratio of 78% in the quarter and 80% for the year. This is an improvement from the fourth quarter and full year 2019 of 83% and 85%, respectively. Results this quarter also benefit from a reduction in expected losses from wildfires that occurred in the third quarter. Overall, for the Preferred segment, we expect continued profit improvement actions taken through underwriting, pricing and exposure management to bring us closer to our desired results.

I'll now turn the call back to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Duane. Turning to our Life & Health segment on Page 14. We're pleased to report that the segment was able to remain profitable while observing the protracted P&C catastrophe-like pandemic. Segment income was $9 million in the quarter and $60 million for the year, which is suppressed by increased COVID-related mortality. Our mortality experience remains largely in line with countrywide trends.

Despite shutting off Life new business sales for a handful of months this spring in response to the pandemic, we were able to grow overall life insurance premium. This is further evidence of the strength of our value proposition. While we have received positive COVID-related news in recent weeks with the rollout of vaccines, the situation remains dynamic with the timing of improvement, difficult to predict with accuracy. We believe elevated pandemic-related benefit costs will continue during 2021. We also expect it will remain in line with nationwide mortality. Long term, our outlook for the Life & Health business remains positive.

Overall, Kemper has delivered a strong year. Our portfolio of specialty businesses produced sustainable earnings while delivering attractively priced products to our customers. We continue to build on our competitive advantages and core capabilities. This will allow us to continue solid top line growth, and we believe this will also drive consistent book value growth and shareholder returns over the long-term while maintaining our superior risk profile.
I would now like to turn the call back to the operator to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Greg Peters with Raymond James.

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

I wanted to focus on 3 areas to focus on versus the top line, and then some expense ratio questions and the Preferred Auto. For the top line, I was looking at your information you provide on Slide 12 of the slide deck. And I was wondering if you could talk to us about, as we look out to '21 and '22, how you think the growth profile is going to look as we compare on a year-over-year basis. And can you include or incorporate into your answer any effects that any rate changes might have on your book of business?

Joseph Patrick Lacher
President, CEO & Director

Sure, Greg. This is Joe. I'll take a shot at starting with that, and then see if Duane wants to add anything to it. First, a quick reminder, we don't typically do forward-looking guidance. So I'm not going to give you exactly the answer you were looking for, but I'll try to provide a little color commentary maybe to help.

In the quarter, in our Specialty Auto business, it tends to be a seasonally -- Specialty Auto tends to have more seasonality in it than preferred. So we expect normally to see a little bit less new business in the quarter, and that is there. We saw a slowdown in new business applications in the quarter that we think are heavily related to COVID. We saw more shutdowns. I think behavior started to look more like the second quarter. And particularly, I think we're all aware, California has been particularly locked down. So we saw some connection to what we saw there.

If I was thinking about it and not necessarily giving you guidance, but if I were to think about it, I would kind of expect that as the lockdowns unfold or unwind and people go back out, we're going to see a more traditional view of new business activity. I think we might see and seeing a little bit of people going uninsured in the specialty auto space where they might not have historically because they weren't driving, and they might be willing to take that. I think that will unwind the same way we've seen in historic patterns regardless of a recession or a growth economy. They don't typically go at a pattern from an uninsured perspective, so I'd expect that would move back to a more normal state.

And then from a rate perspective, we have not taken rate decreases. We've taken rate rollbacks and rate givebacks in certain geographies. I would expect, at some point, you're going to see frequency go back to a more normalized level, severity go back to a more normalized level, and we'll see what will hopefully be -- what looks like a long-term set of averages, which has been in that 3%, 4%, 5% range over the long-term for Auto. That would be my expectation. I can't really give you a great guess of when that's going to work its way out. That's a function of how fast folks get vaccinated and how fast the economy kicks back into sort of a more normal environment. But once it gets to that point, I would expect we'll see a more traditional status. Duane, anything you'd add?

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

Yes. The only thing in terms of the -- I think you asked about the profile, I would say the likelihood is fairly consistent, certainly looking to accelerate the growth in the expansion states. But where we have our footprint today and how we're growing, my belief is it's going to be fairly consistent with that. And then again, just some acceleration in the expansion states.

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

That's helpful. On Slide 31 of your presentation, and I know you addressed some of the expense ratio issues in your commentary. I was just looking, the adjusted expense ratio for Specialty was tracking, let's call it, 160 basis points higher on a year-over-year basis in the fourth quarter. Is all of that related to those sort of the onetime call-out items? Or is -- are we entering a period where because as the economy reopens, et cetera, that maybe expenses could be up a little bit on an adjusted basis as we think about going forward?

Joseph Patrick Lacher
President, CEO & Director

Duane, do you want to start with that?

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

Yes. I think we did highlight, I think, some of those -- some of the drivers underneath there. One of the things for sure, as the mix continues to move on its geographic mix, certain states, fee components are unique to them. So as we move to states and grow states where the fee component is not as great, it will certainly have an impact. New and renewal business also differentiate themselves on the expense side where new business has more expense, so hopefully -- excuse me, has more fee income on it. So hopefully, as we return to normal growth rates, you'll start to see that move there.

Then we did have some of the higher commission this year because of the profitability component with some of our agents with the COVID and the frequency drop, allowed them to earn a little bit more. So those are the dynamics that I would look to see kind of reverse themselves and move as we move into next year.

James J. McKinney
Executive VP & CFO

And Greg, if I could add to that because I think you're trying to back into how should you think about this kind of over the long and medium term and what should be your base to kind of set expenses. And so not trying to give forward guidance, but what I might think of is, if you look at the year-to-date number, I think that becomes a reasonable proxy at kind of these profitability levels in terms of what you might expense from both a geographic shift that Duane is referencing as well as some of the difference in kind of contingent commissions that are also in the book at these levels in terms of how those plans are defined.

And then, I think, you can then potentially change or think about what might be the change, short 0.5 point, 1 point type things, if you got more of a return to a normal environment that would likely kind of roll through on a year-over-year basis given kind of our historical profitability levels.

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

Got it. And the final question is just on the Preferred segment. Just looking off of the information you provide on Slide 13. It looks like the Home & Other business, the underlying combined ratio, it's generally trending in the right direction and looks pretty strong. I'm surprised that we haven't seen more improvement in the Auto side, considering all the variables that whether it's COVID, reduced miles frequency, miles driven, accident frequency, et cetera. And I'm -- and on top of it, we're seeing this decline in the top line. So I'm just curious what your perspective is regarding the results that you posted. I'm sure you're not happy -- entirely happy with them, and I'm sure you're trying to implement some corrective actions.

James J. McKinney
Executive VP & CFO

Yes. No, I think that's a great question, Greg. And a couple of things that I would point you to that I think were important in our comments that we kicked off with. One, I think Duane did a nice job when we've highlighted what we've hopefully capped here in terms of the UMBI item that we chatted a little bit about over the previous 2 quarters. Those numbers as well as just having a very limited data set here to assess kind of the seasonality associated with fourth quarter have increased some of the error bars associated with the loss picks.

In line with our historical practices and how we would look at things, we tend to try to come at things from a 60%, 65% confidence level, and so no change with that. So when you -- with that increase kind of in the error bar, what you likely surmise is that we've been a little cautious as we've looked to recognize some of those elements. And as we get more data, I think that will give us a better -- I would take this as a data point that is, again, it's our best estimate, but let's see how that continues to evolve as we go forward because we have baked in and thought about kind of the '18, '19 year trend in there, and we thought about having very limited data for the fourth quarter to essentially understand how the product enhancements and the other elements that we've got working through there.

We certainly have thoughts, but there becomes a question of seeing it actually roll through the data that I think will give us additional perspective here for a couple of quarters. A long way of saying, I guess, a little frustrated but also monitoring and thinking that I don't think we're just pleased at all with the progress that we've had today, but there's a time period for which that will work in and work through the data.

Operator

Our next question comes from Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Joe or Duane, I was hoping you might be able to kind of go up to 30,000 feet and give us your thoughts on kind of what's going on in the competitive landscape in your core nonstandard auto specialty market. There's been a lot of moving pieces in terms of, at the large end, one of your similar-sized competitors being acquired. Obviously, you guys have been acquisitive over the years. And we know there's lots of smaller private companies that we don't get as good insights into. So can you help us understand just from a competitive dynamic what's going on and how you see the market?

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

Yes. I'll -- let me jump in and then, Joe, certainly, if there's anything else you think is worth adding. I would say this that -- certainly, not a lot of new entrants. Those that are kind of participating in the space today or continuing to do so, you'll see varying degrees of actions across the state in terms of some of the things they might be doing for increased volume or increased top line. As the shutdowns are negatively impacting the growth, you'll see some CSR, which is your agent sales reps and those folks, getting different types of incentives to write business. You'll see commission lines move a little bit. You'll see some actually taking some rate decreases, which I find interesting.

So the participants are largely the same and then you see a varying degree of activity for top line. And of course, we watch it closely and pay attention to that. And again, it does vary by state. So it's hard to say consistent actions across but nothing I would say as, I guess, highly unusual or unexpected at this point in time based on where some of them are.

Joseph Patrick Lacher
President, CEO & Director

Yes. That's a great answer, Duane. And Matt, I'll maybe add one more thought to it. I know you were asking for sort of the 40,000-foot view. I'd echo Duane's point that you're not seeing a lot of new entrants there. There's a lot of small players there. Really, you saw none of them do a premium giveback. So what they got was some COVID-positive frequency, which was probably a little good news for their results. So they're probably about as enthusiastic now as they are at any period of time, which is a little bit what's putting a little new business pressure around the market, and were still growing. I fully expect as the pandemic unwinds and people are driving again, whatever that short-term good news and help was for them dissipates and they're back to the dynamic of where stronger, more effective competitors and business models will win. And so I would expect that, that will create a more attractive market as the pandemic moves back to normal.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. No, that's very helpful. Great. Then just a couple of numbers questions, if I could. In the Preferred Personal Auto, I think, Duane, you gave some good color on the little bit of the prior year there. Can you give a little color on the accident year? It upticked a bit the kind of the underlying loss ratio in the quarter. Is it similar stuff and you're adjusting the full year '20 for the same trends? I'm just trying to get a feel for kind of where the year ended kind of ex COVID benefits, however we adjust that, just trying to get a real read on kind of the jumping-off point as we go forward.

James J. McKinney
Executive VP & CFO

Matt, this is Jim. So I tried to provide some good commentary to Greg kind of to that. I think from a jump-off, again, not providing guidance, but if I were to try to think about it, understanding that some of the things that we looked at for UMBI and all the elements that I mentioned before, likely lead to some intra-quarter development that's inside there. So if you want to get a good pace, what I would do is kind of look at the 4-quarter average for lookout loss ratio, and I would be building off of that, understanding that we continue to enhance the business and we feel better today about the mix than we did 6 months ago and than we did 12 months ago. Sorry, Duane, it sounded that you might want to add, but I wanted to make sure that we connected these couple of things.

Matthew John Carletti
JMP Securities LLC, Research Division

Perfect. Very helpful. And then last one, if I can, the Commercial Auto line. Same sort of thing, just the accident year loss ratio, still a good number, upticked a little bit. Are you seeing activity come back in that commercial auto space? Is that what's going on there, it's more miles and frequency? Or is it something else?

James J. McKinney
Executive VP & CFO

No. Yes, thanks. More just a little bit of seasonality, not really a significant change or underlying difference across the curve. But you get a little bit of seasonality inside there just as we do with some of the other -- the business units. Again, I'd think about that kind of again at the baseline, those year over -- the full year results and kind of be building off of that.

Operator

Our next question comes from Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Congrats on the quarter and year. On the pension change, was there an expense that was in 2020 that might not be recurring with the buyout? Or was it pretty neutral?

James J. McKinney
Executive VP & CFO

Something -- we lost you a little bit on our end, Paul. I think it was our audio in this room. You're asking about the pension, but I missed just the question part.

Paul Newsome
Piper Sandler & Co., Research Division

Was there an expense for the pension that might not reoccur given the buyout in 2020?

James J. McKinney
Executive VP & CFO

Yes. So high level, I think you're thinking about -- we traditionally get a couple of million dollars over the last few years of benefit that's going through the results as essentially our investment performance in recent years has exceeded essentially the crediting rate that's inside that. I wouldn't think about results really changing up or down relative to this. I would look at it as a reduction in nonstrategic risk for us and that, effectively, the redeployment in capital, all the things that we would maintain from an economic capital standpoint, will support other higher earning assets and, as a result, wouldn't expect any change to the bottom line as a result of our decisions to reduce the pension risk.

Paul Newsome
Piper Sandler & Co., Research Division

Great. With the last couple of days of last week since the announcements from companies selling their life companies -- multiline companies selling life companies, I'm getting questions about whether or not Kemper would be a similar company. Obviously, I don't want to ask you specifically if you're going to do something you're not, but maybe you could just talk about sort of the pros and cons of -- and your view with this, what pros and cons are of fee to multiline and maybe what makes Kemper fairly unique if -- with those -- that relationship with multiline.

Joseph Patrick Lacher
President, CEO & Director

Sure, Paul, happy to. First of all, I would not describe us as a multiline and wouldn't use it. It has a context for people. We're a portfolio of specialty businesses. I realize we have multiple lines, so it may grammatically be correct, but these are businesses where we look for each one of them to have a systematic, sustainable competitive advantage and to be able to organically grow and produce appropriate returns on their own. And then to be part of the portfolio, either they need to enhance the portfolio, the rest of the companies in the portfolio or be enhanced by being part of the portfolio. And as an example, if you just take our Life Insurance business and our Specialty Auto business, they are great examples of that. The capital diversification benefits that we get from having the 2 businesses inside of the same portfolio are significant. If we were to break them apart, we would require incremental capital to be deployed in those now 2 separate businesses. There's a plus for having them.

I can't speak completely to other folks and why they wouldn't have done it, but I would assume that if somebody had a sale and had a multibillion-dollar write-off on it, it wasn't because they had a systematic, sustainable competitive advantage, it was because of decades of errors or problems, and they were cauterizing the wound. That's a different spot than where we are now. It actually adds value to us and makes us better as a place, which is why we're doing it, and we have a competitive advantage. So I think it's our focus.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Most have been asked already, but just quickly here, is it possible to quantify at all what the COVID mortality negative was in the Life Insurance business in the quarter?

Joseph Patrick Lacher
President, CEO & Director

Yes. We don't typically break out that number for you, Brian. Hold on a second, let me check something. I know what you're trying to do. This is not going to be perfect, and there's some error bars around it, but what I might do is look at the U.S. mortality rate, and it's in the neighborhood of $10 million for every 100,000 lives lost in the U.S., somewhere in that zone. That's -- it's not perfect, and there's probably a plus or minus 15% or 20% error bar around it, but I think that's probably going to get you close enough to what you're looking for. And you realize that's not a cash question because the issue becomes -- unfortunately, the people pass away, the charge to the income statement is the net amount at risk, not the full face amount. So depending on who and where and the age is, it moves around a little bit, which is what gives it a little volatility.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Interesting. Okay. Great. And then I just wanted to just go back just quickly on the specialty policies in force and the drop. Was there any big drop in retentions or anything as well? I was just surprised that you could have a sequential drop in PIF. That's the first time I've seen that in a while.

Joseph Patrick Lacher
President, CEO & Director

Yes, the retentions were actually up. We got a couple of things going on. The fourth quarter tends to be the seasonally low shopping period for Specialty Auto. The last couple of years, we've had competitors that have been blowing up and pushing business into the market like Access in California and Windhaven in Florida, which created a little bit of an anomaly in those time periods. This year, you would have had that seasonally lower shopping period pushed down more so by the COVID stay-at-home. And what we definitely saw is, in those COVID new business shopping reduction periods, we saw retention upticks, and we saw that here as well.

Operator

[Operator Instructions] Our next question comes from Jeff Schmitt with William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Yes, most of my questions were answered. But I guess just one on the overall expense ratio, it was pretty close to 22% for the year, obviously, elevated from how you had the premium credits flowing through. But what's the run rate there, I guess, excluding that impact? And will the American Access still have much impact on that? I mean -- or are there synergies there?

Joseph Patrick Lacher
President, CEO & Director

Yes. I'll give you an overall comment, Jeff, and then let Jim work the components. Looking at the -- I think you're looking at the overall expense ratio for the entire company. Is that what you're looking at?

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Right, yes.

Joseph Patrick Lacher
President, CEO & Director

I would suggest to you that that's not a particularly useful number to look at. I think you need to break up the specialty businesses and look at them separately because, if one of them were growing and one of them were shrinking, you could expect that expense ratio would change, and it would be exactly the right answer. You need to break them apart because that matters a lot inside of these businesses.

James J. McKinney
Executive VP & CFO

Yes. I mean, big picture, I think what you're asking about is has there really been any fundamental change to expense ratio or not. When you think about this in terms of the totality of the company, there are 3 big items, right, that are inside that, that are different than prior years that are a little wonky and kind of distort what is really intrinsically happening, whether or not there's really any true change. One is the premium credits. Understand that there's about $100 million rolling through the financial results associated with that, right, which effectively changes what that underlying ratio would be. It's not as if we change commissions or outcomes associated with those things. So that was something that we chose and thought was the right thing to do. So that is going to lead to a little bit of pressure. But it's not long-term or systemic pressure, it's related to what was the right answer for the environment across our company and our customers.

Then you've got bad debt that is associated with the environment that is in line with us providing kind of free insurance, which we don't traditionally do, but you got a little bit more of that, again, regulatory provided. And then you've got a change in the fee income, right, that offsets and some of the mix elements that Duane referenced. These things are largely environmental-related. If anything, as you continue to move forward and kind of think about the business, I think we're building on the competitive advantages and the disciplines we have. You're just going to have a little bit of noise in kind of the short-term COVID environment where you get some of these things that occur that aren't indications of kind of what your long-term run rate would be and are more, again, kind of subject to the environment and the right way to navigate the environment and just what kind of comes through.

So I'd tell you, no real change to the long-term positioning or other that you should be thinking about in my mind, but you could continue to have some noise here for the next, I don't know, 12 months or -- whatever we remain kind of in this environment and as we work through it.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And just on the higher mortality and life book, is it pretty safe to say -- I mean it seems like the majority of those losses, and I think I've heard others say maybe it's as high as 90%, would be losses you would have expected anyway in the next, call it, 3 years, 4 years, 5 years. Is that the case where you could see lower benefit payments, I guess, in a couple of years?

Joseph Patrick Lacher
President, CEO & Director

Yes. I understand the question, and I don't mean this to be glib, but everybody is going to die at some point. So if they died sooner, by definition, there's an acceleration of the process. There's probably some from an accounting perspective of when those benefits move up, but I'm not sure -- I know -- I assume what you're trying to do is trying to model it, sort of figure out what to put in as the good guy in the next couple of years. I think you're going to have an offset between those mortality costs. You're going to have an offset around the underlying profitability that we're getting from those businesses or those -- there'll be a little bit over a couple of years, but I'm just not sure we know how to measure it quite yet.

I don't think it's big enough to be a big driver. I wouldn't take the $10 million per 100,000, and then say I'm going to take whatever that ultimately comes out to be, and I'm going to divide that by 2 or 3 and roll that back into the 2 years following. I think you'd get a bad estimate from doing that. I think you'd probably be better off looking at our pre-COVID run rates and working more around those, adjusting for the different investment income environment.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Joe Lacher for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator, and thank you, everybody on the call for your interest today and for your questions. Look forward to speaking with you next quarter.

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