S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

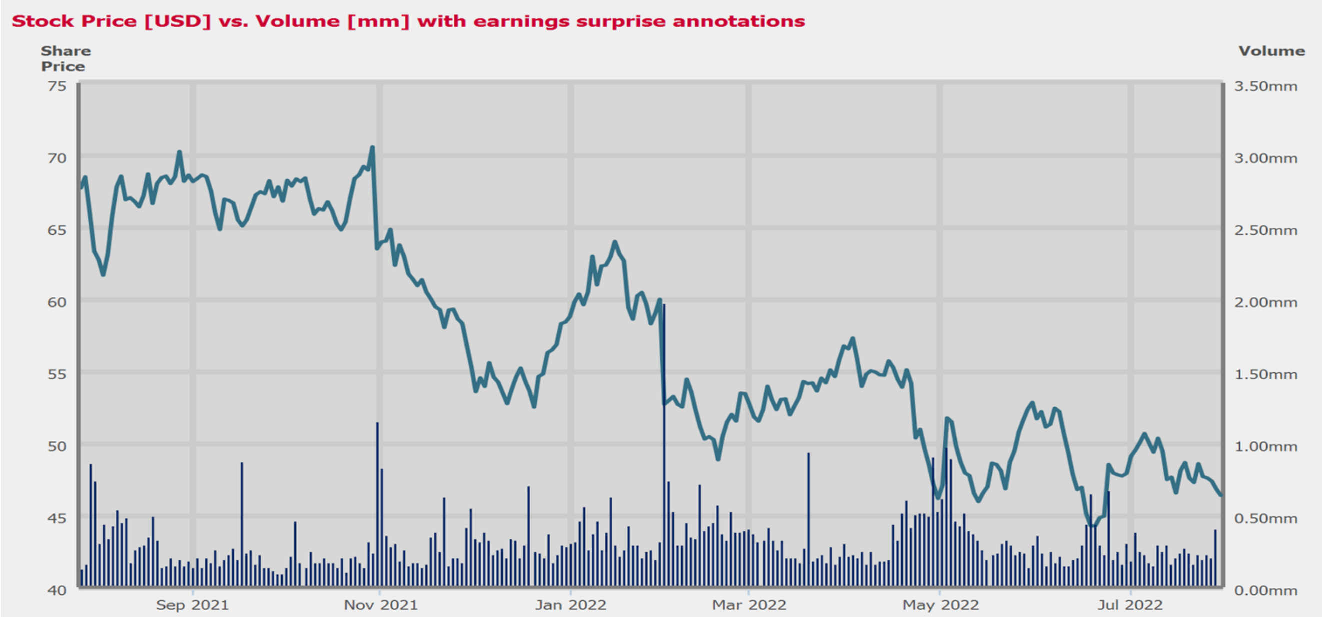
FQ2 2022 Earnings Call Transcripts

Monday, August 01, 2022 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.69)	(0.62)	NM	(0.18)	(1.50)	NA
Revenue (mm)	1446.80	1473.10	1.82	1470.13	5814.00	NA

Currency: USD
Consensus as of Aug-01-2022 4:21 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	(0.21)	(1.19)	NM
FQ4 2021	(0.28)	(2.05)	NM
FQ1 2022	(1.29)	(0.94)	NM
FQ2 2022	(0.69)	(0.62)	NM

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Call Participants

EXECUTIVES

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

James J. McKinney
Executive VP & CFO

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Karen Guerra

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Charles Gregory Peters
Raymond James & Associates, Inc., 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 Second Quarter 2022 Earnings Conference Call. My name is Bethany, 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 call, Karen Guerra, Kemper's Vice President of Investor Relations. Ms. Guerra, you may begin.

Karen Guerra

Thank you, operator. Good afternoon, everyone, and welcome to Kemper's discussion of our second quarter 2022 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer and Chairman; 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 second quarter results and then open the call for a Q&A session. During the interactive portion of our call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Investment Officer. After the market closed today, we issued our earnings release and published our earnings presentation and financial supplement and Form 10-Q. You can find these documents on the Investors section of our website, 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 conditions. Our actual future results and financial condition may differ materially from these statements. These statements may also be impacted by the COVID-19 pandemic. For information and additional risks that may impact these forward-looking statements, please refer to our 2021 Form 10-K as well as our second quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures that we believe are meaningful to investors. In our financial supplement, earnings presentation and earnings release, we've defined and reconciled all the non-GAAP financial measures to GAAP where required in accordance with the SEC rules. You can find each of these documents on the Investors section of our website, kemper.com. All comparative references will be to the corresponding 2021 period unless otherwise stated.

I will now turn the call over to Joe.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you, Karen. Good afternoon, everyone, and thank you for joining us. Before we discuss our second quarter results, earlier today, we announced the sale of our Reserve National Insurance company and its subsidiaries, which are predominantly focused on accident and health insurance to Medical Mutual of Ohio. This health business is smaller in scale and would require significant additional investment to meaningfully impact our portfolio.

Medical Mutual is focused on the health insurance market. We're pleased to have engaged a buyer that understands the value of our talent and the Kemper health team will be moving over in its entirety in joining the Medical Mutual team. We expect the transaction to close later this year or in early 2023, subject to regulatory approval.

Moving to current results. Today, we reported second quarter results that showed progress towards restoring profitability. We're pleased that our rate and non-rate actions accelerated in the quarter. The cumulative benefit of the actions taken over the past year continue to earn in. Unfortunately, the industry experienced increased severity inflation over this first quarter, which is particularly evident later in the quarter as supply chain and other disruptions increased. This pressure muted the benefits of our actions.

As we've discussed previously, this inflationary launch environment is dynamic, and the path to target profitability is unlikely to be linear. We remain on the balls of our feet and are positioned to quickly adapt our business as appropriate. While we still have work to do, we are confident that over time, our actions will return us to our long-term financial targets.

Turning to Page 4. Second quarter auto severity was driven by a number of factors. These include part costs, labor rates, rental car prices, time to resolve or remediate a claim, medical inflation and utilization and increased attorney representation. The aggregate impact of the increase in sequential quarter severity was most visible late in the quarter. When we first spoke about the anticipated post-pandemic loss disruptions, we highlighted a couple of key points: first, the rate increases with lag inflation increases; second, the time to return to equilibrium would be driven most significantly by how long it took loss inflation to stabilize; and third, with the pressure on loss costs in any given quarter was likely to move around.

Initially, it was driven most significantly by frequency and used car prices. The current quarter's increase in severity trend was driven largely by increased repair and remediation times and, to a lesser degree, bodily injury-related costs. To combat these effects, we again push forward to both our rate and non-rate profit restoration initiatives. We continue to believe that we are in a prolonged inflationary environment as both supply and demand remain out of balance. Our profit restoration activity corresponds to this assessment.

This quarter, we exceeded the expectations we outlined in the first quarter for the number of rate filings submitted, the percentage of our book impacted and the level of rate increases approved. Duane will provide more details later. We expect the cumulative actions taken since the second quarter of 2021 will result in meaningful acceleration in earned rate each quarter. This will contribute significantly towards establishing an equilibrium between earned premiums and loss costs, which have been out of balance due to the pandemic-induced inflationary environment.

In the Life & Health segment, our financial results continue to be negatively impacted by the pandemic and excess benefit costs. This quarter, however, and largely in line with industry trends, we've seen a sequential decline in mortality. As mortality normalizes, our Life business will see improved profitability.

In summary, our profit improvement actions have taken hold and will help to offset the ongoing environmental pressures. We remain a source of strength for our stakeholders and are well positioned for long-term profitable growth. I'll now turn the call over to Jim to discuss our operating results in more detail.

James J. McKinney
Executive VP & CFO

Thank you, Joe. I will begin on Page 5 with our consolidated financial results. For the quarter, we generated a net loss of $1.17 per diluted share and an adjusted consolidated net operating loss of $0.62 per diluted share. While the earn-in of profit restoration items continues to accelerate, the previously mentioned environmental challenges facing the P&C and life insurance industries continue to impact financial results.

During the back half of the quarter, the P&C businesses incurred a further uptick in loss cost severity trends that reduced the impact of previous actions. Claims activities largely mitigated the impact on prior year accident ticks. This is seen through the quarter's modest favorable prior year development. For the current accident year, the loss trend increased delayed the expected financial improvement this quarter. The achieved increase in rate and non-rate activities is expected to offset the impact on 2023 financial results.

In terms of our Life & Health segment, national mortality trends moderated in the quarter and have continued to do so. This, coupled with strong investment income, improved the segment's reported financial results. Going forward, we expect mortality trends to continue to align with national trends. To the extent that these remain favorable, we expect underwriting profitability to continue to improve. From a priority perspective, until we return to target profitability, our focus is on profit restoration initiatives and home improvement projects.

Turning to Page 6. This slide highlights the strength of our balance sheet. We maintained a healthy liquidity balance of $1.2 billion, and our insurance entities are well capitalized.

Turning to Page 7. Net investment income for the quarter was $119 million. This included a $13 million onetime gain on the real estate investment. In the quarter, we took several actions to reduce risk and increased liquidity in our portfolio. These actions provide us with additional flexibility to navigate a dynamic market environment and capture the benefit of increasing interest rates.

Overall, our portfolio construction philosophy remains unchanged. We continue to match our assets with our liabilities and allocate capital to sectors where we believe we will be compensated for the risk we take. In closing, as indicated in past quarters, it will take time for restoration actions to fully earn-in to our results. Although the company's quarterly financial performance continues to be pressured by various environmental factors, we remain confident that corrective actions we have and are taking will, over time, return us to our financial targets. I'll now turn the call over to Duane to provide the details on our P&C segments.

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

Thank you, Jim, and good afternoon, everyone. As Joe mentioned, profit restoration progress accelerated, but its impact was offset by increased sequential inflation pressure.

Moving to Page 8. We'll begin with our Specialty P&C business details. For the segment, policies in-force declined about 9%, while earned premium was up 3.4%. In the second quarter for private passenger auto, we exceeded our filed rate expectations, filing for an additional 19% of rate on roughly 1/3 of the book. We plan to file for an additional 11% from 6% of the book in the third quarter.

At this point, we have 2.4 points of earned rate, representing 26% of the cumulative average written rate increase. The earned impact of our rate actions will accelerate over the coming quarters and together with non-rate actions will further offset the impact of the current environmental pressures and put us on the path to profitability.

Finally, our commercial vehicle business continues to operate within our financial targets. Due to its underlying core capabilities and targeted market approach, commercial vehicle has experienced growth in policies in-force every quarter following the 2018 Infinity acquisition. Year-over-year, we have seen net written premium growth of 42% and policies in-force growth of 15%. Given the strength of the underlying business model and our ability to continue to achieve rate, we will continue to grow the commercial vehicle business.

Now let's turn to Page 9. Preferred Auto experienced a sequential underlying combined ratio decrease of 3 points. We continue to make progress towards offsetting severity through rate and non-rate actions in the quarter. In addition, we're experiencing benefits from the geographic repositioning of the book, which should support long-term profitable growth. Looking at the chart on the upper right, we filed for an additional 7% of rate on roughly 1/3 of the preferred auto book during the second quarter. We're planning to file an additional 15% of rate on 8% of the book in the third quarter.

Like the Specialty business, the benefit lag from written to earned rate from the filings over the last 12 months is also significant. In the second quarter, we have 1.3 points of earned rate, representing 20% of the cumulative written rate increase.

In closing, despite the incremental pressures in the second quarter, we're close to written rate adequacy in most states outside of California. We've been responsive to rate needs driven by identifying the pressure points early in the cycle. We're in the top quartile in our industry for restoration actions. Although our actions will take time to run into the book, the pace will accelerate throughout the balance of the year. I'll now turn the call back to Joe.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you, Duane. Turning to our Life & Health segment on Page 10. Business profitability improved due to declining COVID-related mortality and solid investment performance. Income benefited from higher net investment spread and a onetime valuation gain on a real estate investment. Notable trends within the quarter include like new business sales at pre-pandemic levels, despite significant inflationary pressures that disproportionately impact our customer segment, persistency above 2017 to 2019 results, rising interest rates and corresponding new money spreads, new money yields, over crediting rates. These items provide a favorable tailwind of restoring the business to its pre-pandemic levels of profitability.
Finally, I'd like to thank all our employees for their continued contribution and support as we continue to navigate this environment. Overall, our profit restoration actions are working. We have more work to do, but we're confident our approach will provide steady improvement. I'll now turn the call over to the operator for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from the line of Greg Peters with Raymond James.

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

I'd like to begin with the question. I thought the slide in your investor deck, I think it's slide -- the one that -- I just lost it, the one that does the inflation stats, which is Slide 14. Was interesting in the context of your comments around filed rate actions outpacing projections. Because in this chart, it does look like, as you've highlighted, Joe, in the comments that the motor vehicle body work inflation trends are working against you.

So I'm trying to match what we see in this chart versus the rhetoric around filed rate actions and the lag. When are we going to cross that threshold where you start to see these rate actions drive -- match what you're seeing in the inflation stats? And when will we see -- when do you think we'll start to see improvement in the underlying combined ratio?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

So well, a couple of us will do a tag team on this one, Greg. There's a couple of pieces going on. In Page 8 and 9, we try to give you a view of filed rates effective than how they get written into the book and then earned into the book because there's a lag. And what we've been trying to do on those slides is show you, we may file -- let's look at the second quarter or even the first quarter for specialty auto. We filed for 59% -- on 59% of our book, we had an 8% increase. Those -- there was a -- 21% of the book had an effective rate of 10%, but that only would make translated into a 6% written and a 1% earned. There's a lag on that.

What that is, is once it's approved, you typically will go into new business immediately, but in some states, there's a lag. Renewals have a 45- or 60-day lag, and then you've got to have the book turnover. Every month, it's got to be written and then you start the earning in process. So you really just have to sort of lay out the parallelogram and watch those come through. It's just a math exercise on timing.

Inflation immediately impacts loss results because there's no lag on it. Every claim immediately gets it. That's what we were trying to convey on what now is Slide 13, that illustrative example. And very specifically on 13, we gave you a couple of lines in blue and a couple of lines in red. And those aren't meant to be exact lines, those are meant to be a spread. What we've said in the past is we're not 100% sure when they're going to cross because it's a function of what regulators approve and what's the actual inflation going on in the market.

We've seen regulators outside of California and New York be very rational in understanding the economic reality of what's going on and moving rates up at an appropriate pace to preserve their market stability. And we've seen inflation be lumpier in spots, and it will work. It will work there. Page 14 is giving you inflation by component. It's not weighting those in terms of how they work back into a total loss content. So it's intended to give you a little bit of an illustrative view on how the components are moving around.

James J. McKinney
Executive VP & CFO

Greg. Jim McKinney. I would just add on top of some of the comments that Joe made. I think it's a combination of things that you're talking about, right? It's your underwriting actions that you've taken, plus the earned rate. If I think about this particular quarter, we were initially thinking that there would likely be a little bit more of a combined ratio improvement than what ended up transpiring over the quarter aligned with my comments.

Basically, what we saw is about another incremental 2 to 3 points of severity pressure coming through. To give you an idea of what we're -- these aren't small numbers, we were projecting more like a 9% number, and we got something that was closer to 12%, depending on which coverage and what you're looking at and how you're mixing it.

So when you think about that, that ate up some of the anticipated improvement that we had. Now we also outpaced from a rate filing perspective, another. So when I think about kind of the run rate number, say, for the 2023 period in that, I'm not seeing any change in what I actually would anticipate reporting or currently, and I'm not trying to get into that right now for Q1 of 2023. I do see a quarter or a little bit longer of a pushback in some of that improvement that came through this quarter.

My statements though, kind of with where we're at, I continue to think in terms of what I would be if I were trying to start with an underlying assumption and then make adjustments up or down. I would start with underwriting actions kind of continuing to be driven to offset some of the trend or where it's out -- let's say, outside of kind of popped. And I would think about the incremental earned rate. So if we're going from 2 to 4, think about that as maybe the baseline combined ratio improvement that you might anticipate on a quarter-over-quarter basis, then needing to adjust if we get a pop like late -- we do the best we can to forecast those things, but there's a little bit -- there's just only so much that we can do on that front.

Again, we're trying to give you the best estimates that we have. But at that same point in time, absent those things, we would generally think that our underwriting actions and that we're going to take are going to hold serve on that inflationary front, and that will be the incremental improvement kind of coming through on a quarter-over-quarter basis. Hopefully, that's helpful. Happy to go deeper or talk if answer the question.

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

That's good detail. I guess on the underwriting or non-rate actions that you've taken, where are we -- what inning are we in, in that? Or is that just a continuous cycle that's going to persist until you get to underwriting profitability?

James J. McKinney
Executive VP & CFO

Well, I think in terms of the earning component of that, right, or let us back up here for a moment, like in terms of the actions that we've taken, we've continued to take more, we continue to work those. And that will -- they will stay until we are hitting the underwriting profitability targets in that, that we intend to achieve or need to achieve, right, that are appropriate for the business.

Now in terms of their earn-in, which is different than when we've actually taken them, they're earning into the book, right? So if you have underwriting tiers or other things that have changed, and let's say that, that slots up, let's say, 10 points, right? Well, on a 12-month policy, that's going to probably take you anywhere -- that's going to take you 23 to 24 months for that to fully earn into the book. And it will be 14% to 16% on a 6-month policy basis where you make those type of adjustments.

So long story short, I would say we're in the third or fourth inning, maybe fifth inning in terms of seeing them earn their way into the book for that improvement, but those decisions happen to -- we're probably sixth or seventh inning. And Duane, correct me if I'm wrong, in terms of the actions that we've taken and maybe it's even later than that in terms of where we're at on all the underwriting things we've done.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

And I'll add on that to what Jim said, Greg, to the extent inflation continues to incrementally deteriorate, we will need to incrementally take more rate and potentially more non-rate actions. If inflation stabilizes, at 8 or 9 points for the next 3 years, then those actions will catch up and eventually, we'll handle it all with rate, and we might take some of those actions off.

If things continue to deteriorate, we saw 9 jump to 11 or 12. This next quarter, it jumps to 14 or 15, then we're going to wind up having to take further actions, and we'll continue to do that. That's really what we were trying to express in that whole Slide 13 that stable, but high level of inflation is irritating, but we will eventually get back into equilibrium. A volatile up and down on inflation is one of the more challenging environments to deal with just because of the lag that pricing comes back with any earned lag. And again, the earned lag isn't any more than just saying how long does it take the policies to renew at the new price and what's the exposure you're dealing with.

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

Thanks for that clarification. That's helpful. I guess the final question, and I realize there's others probably waiting to ask questions. I just want to touch on California. It's a big state. There's a lot of press out there regarding whether the commissioner is going to approve any rate at all. I think GEICO that was in the news this morning about pulling or -- pulling out its agencies. Can you give us an update sort of where we are as of the end of the quarter as it relates to the pending rate requests in California?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes. Rate requests do appear, the short answer would be stuck in California. We've had a variety of discussions back and forth with the insurance department. Some of those have been at high levels. Some of those have been deeper with folks asking questions about the individual filings. So there's actually some work that's going on there. The commissioner has expressed a point of view that he thinks that rates -- rebates or rate refunds to customers in the COVID period were inadequate.

We've expressed a point of view that the insurance department looks at an 8-quarter time period when they're looking at rates. So even if you pick 3 or 4 months that might have looked like a rate refund was inadequate, if you take a rolling 8-quarter, then the refunds or rebates were more than adequate. And right now, there's a disagreement on that. And I think the commissioners had got that disagreement with the entire insurance industry.

What we're increasingly seeing is carriers, ourselves included, that are becoming increasingly less willing to write new business, more restrictive from an underwriting perspective, tightening everything they can. And we will, in the relative short order, my personal belief is we'll start to see the markets seize up, and they're going to have a social and cultural problem where they're not going to be able to have people bind or change auto insurance.

So I worry about it from that perspective from the customers. We think our data clearly shows that we're justified for the rate increases. It's unambiguous from that perspective. I know the commissioner has a point of view. But I do think that you are starting to see more and more carriers respond in more restricted fashions. And at some point, when nobody is selling in certain segments, that's when it's completely obvious that the market is frozen. And I just hope the commissioner doesn't push it to that point because it will take a long time to restart it.

Operator

Our next question comes from the line of Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Greg covered a lot of what I had. Joe, I wanted to kind of clarify something, I think you mentioned a couple of times and Jim might have as well about kind of the accelerating earned premium impact as we go forward and how some of the nuances and inflation this quarter might have just kind of pushed that off by a quarter.

Would I hear you say that would I also be right in concluding that we should expect an acceleration in [accident] year loss ratio improvement in the specialty auto book, absent further degradation in inflation?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes, you should. What I'd tell you, Matt, and let's take this simply, let's normalize everything. Let's just say you had a book of business and you got a 12% rate increase on it, and it was effective January 1. One twelfth -- and of all your policies were 12-month policies. One twelfth of your book would be -- we're renewing that in January and would get to 12%, so you basically get 1% premium. Let's assume everything is the first of the month.

And then in February, you'd have 2 months, and so you get 2% of the 12% would be working its way through. And it would take you until December to get all of the 12 points written. So you would earn it in that pattern. So what we're telling you and the reason we built the slides the way we did on 8 and 9 is we were showing you the filed and effective so that when you see that effective, you can then say, "Oh, now that this is effective and approved, but for the passage of time, this will be written and earned into the book." And it's just a matter of when those renewal dates pop up.

So the fact that these rate increases have layered on top of each other, every month, another set of new business is getting that and another set of renewals have gotten that in the written and then that comes into the earned. So what was getting a lower rate last month is going to get a higher rate next month, all else being equal. So it will accelerate as a result.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And then just kind of along the lines of inflationary environment, obviously, gas prices have been quite high, I'd say, most so in California, which is your largest state. Have you seen anything in your data suggesting people driving less because of that or just because of the economy in general? Or is that not -- you're not seeing that?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

We're not seeing very significant changes in frequency that I would attribute to that. There's normal volatility around frequency, but there's nothing that we'd point to and say a wholesale adjustment there from a frequency perspective.

James J. McKinney
Executive VP & CFO

Matt, what I might add to what Joe was saying is I would separate environmental frequency from the frequency enhancements that we continue to bring into the book, both through our underwriting actions and our pricing sophistication. Our frequency from an underwriting and pricing is -- continues to trend significantly better than, say, 2019 as an example, it is further better this quarter than it was actually last quarter.

So you see the impact of the actions in that going through. Whereas I would say that environmental frequency that you would see coming through could be anywhere from 0 to say 1%. Many people get different estimates, but that would be kind of holding serve, I think, a little bit up versus what is actually happening in our book because of the actions and the sophistication that we continue to build out.

Operator

Our next question comes from the line of Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

It was great to see the RBC ratios rise in the quarter. I was wondering if you could remind us the components of the liquidity at the parent company, particularly the borrowing capacity. And how that -- all those pieces work? I noticed the debt to cap is up a little bit, as you'd expect. Is there a -- perhaps there's a maximum component of that debt to cap. And just if you can kind of walk through those pieces so we can just better understand the liquidity capacity.

James J. McKinney
Executive VP & CFO

Sure. So the first piece is the $275 million in cash and investments that we have in the holdco, that's just cash and investments. So obviously, we can move that around and use that to cover fixed expenditures or other as we deem appropriate. And we've got, obviously, the revolving line of credit, that's $600 million that comes across from there. That particular line, obviously, we can draw on remaining good standing.

One of the elements that I think is important to remember is that when you're thinking about some of the covenants or that, that we might have on debt to cap at 35%, that is based on an amortized cost associated with that debt. So the move that you're seeing, basically, you're talking about the change in the fair value of debt being greater than $1 billion through AOCI that you're looking at right in the statement, which is largely driving those numbers. Those numbers don't come into account with our borrowing capacity from that perspective.

So that provides a lot of flexibility. And then we have another about $300 million in excess of that between of liquidity that our subsidiaries can provide to the holdco, and we can move across the plate as needed. On top of that, we have additional dividend capacity and other elements with inside our subsidiaries. I think if I or someone we have a lot of capital to transition and then to eventually grow when we have effectively achieved rate adequacy across the books and then we've got a balanced curve between risk and reward for doing that.

And we've got, obviously, a lot of liquidity to optimize kind of the entity structures and that, that we have. I'm happy to go deeper in any particular area. But I think over the top, if I had a takeaway, it would be we have plenty of capital and liquidity to continue to grow and optimize the business.

Paul Newsome
Piper Sandler & Co., Research Division

I think that gets me where I need to go. And then I want to ask some questions on Reserve National. Any indication, I don't think you've broken that out from a profit perspective, historically, at least on a GAAP basis. And I was just wondering if the -- the GAAP gain as we joined through our models is -- if the basis is similar to the statutory surplus? Or is it materially different number as we think about the gain from Reserve National?

James J. McKinney
Executive VP & CFO

Yes. So think plus or minus $5 million of profit actually kind of run a couple of million dollars here or there. I would -- it won't be an earnings element. It won't be something that we notice or that you noticed because that capital will be redeployed into other earning activities perfectly at a higher ROE for us as we move forward. So I would expect it to be accretive over the medium to longer term from an earnings perspective in terms of the additional investments we need to make in that business for it to become meaningful for us.

In terms of the GAAP versus the stat view, we expect a gain from a GAAP perspective, it will be less than the statutory perspective. I don't -- we'll see where everything kind of moves forward there [commissions] to that, but think about maybe half to 1/4 of that is a rough estimate. Now again, I don't want -- not confirming numbers this way or that way because there's a lot of pieces that can move between now and 12/31. But we anticipate a gain from a GAAP perspective as well as the statutory perspective.

Paul Newsome
Piper Sandler & Co., Research Division

Great. And just one final question, I'll let some other folks ask. You mentioned New York was your existing rate at least wasn't on board as much as other regulators outside of California. I haven't heard of New York is doing anything particularly different. Obviously, a huge state for you guys, but any thoughts on those why you called out New York in a particular way?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

It's not an issue at all for us in our Specialty business. We've got a part of our preferred businesses there, and they are being a little bit of a challenge in preferred auto.

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

Yes. This is Duane. They've kind of shut down anything outside of the annual 4.9 that they just normally let roll through. They've just kind of put a hold on additional rate filings beyond that. So again, that's isolated to the New York on the preferred side.

Operator

Our next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you all. First, just curious, was there any current year development in the Specialty, Personal or Preferred segment this quarter. So catch up from the -- or, at least catch up from first quarter given the deteriorating severity?

James J. McKinney
Executive VP & CFO

A couple of million bucks. So -- it's favorable, but again, not going to -- a couple of million dollars, definitely not changing the numbers on a $1 billion number.

Brian Robert Meredith
UBS Investment Bank, Research Division

So it's favorable, actually interesting. Okay. Yes, because that was my other question I had. I was just a little curious about the prior year development that you're seeing that's favorable. I was a little surprised by that given your comments about the deteriorating severity situation. Where is that favorable development coming from?

James J. McKinney
Executive VP & CFO

So the team has been enhancing the claim processes that have gone through. And so if you think about running an inflationary number if you thought it was going to take you 8 quarters to resolve particular item, and it came in, in 6 quarters, you got 2 quarters less of inflation that came in. And so we've had some favorable experience in terms of some of the things that we've been doing on the total loss side. We've had some benefits in terms of the BI side in terms of bringing things to resolution.

And so that acceleration of doing things on that front has produced some positive results for us. And I would suggest that when you think about the totality of our balance sheet, obviously, having those trends, we're aware of the trends that we've had today. We've had several quarters here of modest favorable development. I would suggest that we are picking and trying to pick our numbers with the same consistency and view such that we are getting it right in terms of what's taking place in the environment.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

It comes down to the operational pieces that Jim was talking about. We saw some of the same pressures people did on claims staffing. We push to add folks there to make sure we had an adequacy there and did a good job. When you get a little bit of an extra set of bodies there, then the claim team can, again, alter those process, you can get after things and work the inventory down and that helps.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And Joe, you did mention that you're seeing some pressure on the BI severity side of things as well. Maybe you can dive a little bit more into that. Is that medical cost inflation is where you're seeing the pressures? I mean, some companies have kind of [indiscernible] that, but most companies I'm talking think it's relatively benign.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes. I'll let Duane provide a little more color on it. It's -- we're seeing a modest uptick, and there's a little bit in medical treatment and a little bit attorney rep. We're not calling it out anywhere near the uptick where you've been seeing on medical coverages, but it's not zero.

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

And I think, Joe, he's bang on, on that. It's -- there's a little bit of an uptick on treatments. There was a reluctancy in the past, I think, for folks to treat, but now that folks are more comfortable in getting out. So there's just an uptick on treatment, and then there's a slight bump in some of the costs associated with that. And then again, a small amount of attorney rep. So nothing to Joe's point, that is obvious as metal, but we are seeing a little bit on the BI side trickle in.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And just last question, Joe, and I think I've asked this before, but I just want to get your view. Given what we're seeing happen this inflation and persistent and getting worse, has it made you rethink your view with respect to 12 versus 6-month policies and being able to catch this quicker with a 6-month policy?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes, that's obviously part of what we've been doing in some of our non-rate activities is making shifts in those pieces. And if we ever thought that there had been -- I think anybody who's got a 12-month policy anywhere right now, standard or preferred or nonstandard in a rapidly changing inflation environment would prefer to be at 6-month policies. There's clearly a trade to get rate that's better than retention for everybody, that would be a point of view in this environment.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. So you're saying you're actually switching over from 12 to 6-month policies on renewals for stuff right now?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

There's places where we can and there's places where we can't. That is a change -- in some stages is a change in term and condition, so you can't do that, so you can adjust on new business. So it will not be a one policy cycle term to change the book. It will move slower than any of us want because, again, in some states, going from a 12-month to a 6-month policy, you'd actually be effectively canceling them and nonrenewing and rewriting and that in some states, you're not allowed to do that just to change a policy duration.

So we factored that into our point of view, that's the case where you can make that change on new business. But we've also slowed new business in many geographies, trying to -- it's another way you improve your underwriting results as new business tends to have a higher loss ratio. So we've been slowing that down. So I'm trying to answer your question, but it winds up being a univariate question when there's a multivariate equation we're balancing. For it's always that one variable, I prefer to be all 6 months. But when you put the other variables involved, we wind up with a slightly different answer.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Is California one of the states you can or cannot do it on?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

You cannot switch in California. You can change your point of view on new, but not on the in-force.

Operator

There are no additional questions floating at this time. I would like to pass the conference back to the management team for any closing remarks.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you again for everybody's time and attention and thoughtful questions as we collectively work our way through the very fun environment of inflation in a post-pandemic world. I really wish that the Fed had been right, and it was transient, but I think we're going to be dealing with it for a while. Thanks, everybody.

Operator
That concludes the Kemper's Second Quarter 2022 Earnings Conference Call. I hope you all enjoy the rest of your day. You may now disconnect your lines.