S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

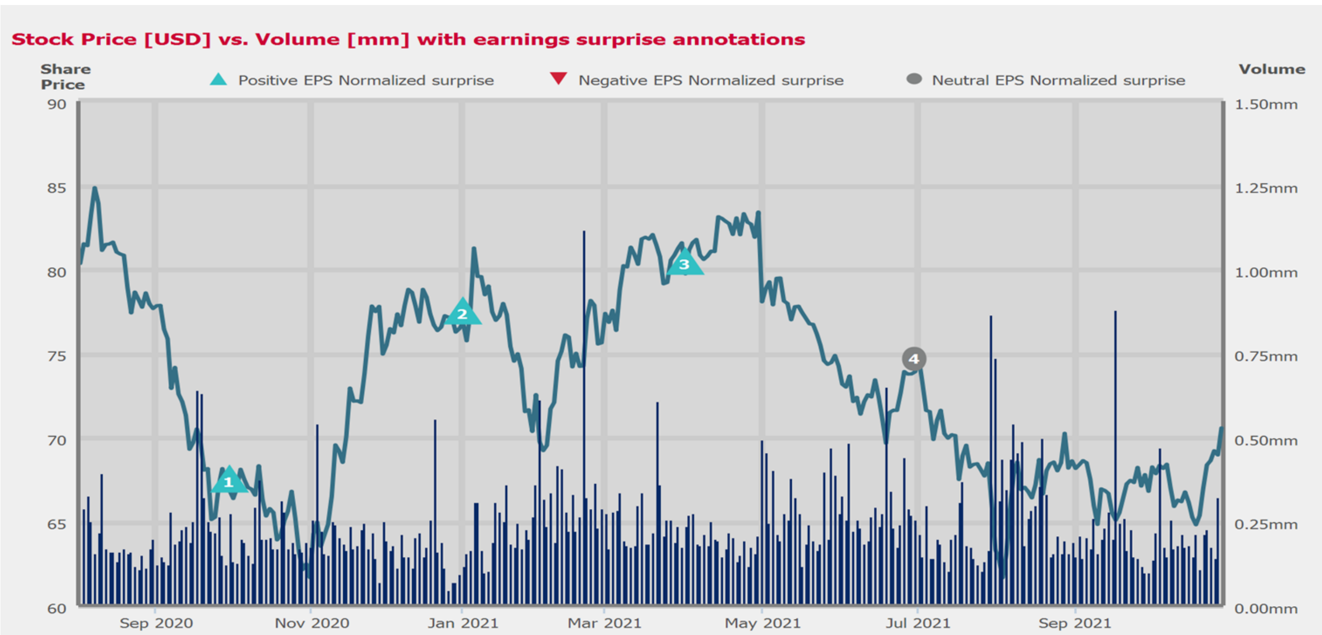
FQ3 2021 Earnings Call Transcripts

Thursday, October 28, 2021 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.37	NA	NA	(0.21)	0.40	NA
Revenue (mm)	1359.92	NA	NA	1470.24	5760.19	NA

Currency: USD
Consensus as of Oct-25-2021 4:22 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.97	1.36	1 40.21 %
FQ4 2020	1.54	1.59	2 3.25 %
FQ1 2021	1.29	1.31	3 1.55 %
FQ2 2021	1.37	(1.54)	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
President, CEO & Non-Executive Chairman

Michael Anthony Marinaccio
Investor Relations

ANALYSTS

Alexander Bolton
Raymond James & Associates, Inc., Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Third Quarter 2021 Earnings Conference Call. My name is Charlie, and I will be coordinating your call today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to introduce your host for today's conference call, Michael Marinaccio, Kemper's Vice President and Corporate Development and Investor Relations. Mr. Marinaccio, you may begin.

Michael Anthony Marinaccio
Investor Relations

Thank you, Charlie. Good afternoon, everyone, and welcome to Kemper's discussion of our third quarter 2021 results. This afternoon, you'll hear from Joe Lacher, Kemper's President, Chief Executive Officer and Chairman; Jim McKinney, Kemper's Executive Vice President and Chief Financial Officer; and Duane Sanders, Kemper Executive Vice President and the Property & Casualty Division President.

We'll make a few opening remarks to provide context around our third quarter results and then open 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 Eric 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 third quarter earnings presentation, financial supplement and Form 10-Q. You can find these documents on the Investors section of our website, kemper.com.

Our discussions 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 operation and financial conditions. 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 2020 Form 10-K as well as our third quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures we believe are meaningful to investors. One such measure is as adjusted for acquisition. It is important to understand our reported results, including the impact the American Access acquisition has to Kemper overall. However, investors have also expressed an interest in understanding the underlying organic performance of the combined businesses.

Since our as-reported financials don't include American Access' historical information prior to closing of the acquisition and current results include the impact of purchase accounting, the underlying trends are not easily discernible. In an effort to provide insight into the underlying performance of the combined businesses, we also display our financials as adjusted for acquisition. This view removes the impact of purchase accounting and includes historical American Access information for periods prior to the acquisition to more readily provide a meaningful year-over-year comparison.

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, kemper.com. All comparative references will be to the corresponding 2020 period unless otherwise stated.

I will now turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Thank you, Mike. Good afternoon, everyone. Thanks for joining us today. Earlier today, we reported results that continue to be impacted by the pandemic reopening. The earnings were below our long-term expectations, and as a result, disappointing. We previously discussed the anticipated challenges of the current environment, which is dynamic and changing rapidly. Against this backdrop, we're focusing on minimizing these impacts and optimizing the business. There are 2 groupings of items impacting our results this quarter. One, the pandemic and the integrated impact of restarting an economy post lockdown; and two, a group of items which are expected through cycles but unpredictable on a quarterly basis. I'll make a few broad comments on the first grouping before we dive into details. We'll cover the second grouping throughout the call.

When we look at the impact of the pandemic, these are unprecedented times for the industry. Historically, in P&C, there's been a rough balance between loss cost inflation and rate inflation. The dramatic frequency reductions at the start of the pandemic led to an extended period with effectively no rate increases. While accident volume was historically low, Kemper, along with most major companies delivered premium rebates to auto customers.

The reopening led to rapid increases in auto frequency. It also saw global disruptions in supply chain, together, leading to severity and combined loss cost inflation at levels we haven't seen in the industry for over 30 years. Across the industry, there's currently no significant rate in the system to offset this loss inflation. The system is out of equilibrium.

In some ways, it's like turning off the water supply to your house during a remodeling project. It's fine while you're working, but when you turn the water supply back on, water doesn't immediately flow from each tap. You'll hear some clanking. You get some air, some spray, some gurgling and a few surges of water before normal flow is reestablished. And you have to turn on all the tabs in the house to clear the pipes running to each faucet. It requires some work, some time and a little spray to restore the equilibrium. That's where we are right now. We're all asking a few big questions. What's the overall level of loss cost inflation or severity increase? When will it stabilize to a new normal? And how quickly will rate increases be approved and be earned into results?

I know that last quarter, there was a broad view that inflation was hopefully transitory. Like most, we revised our view in the last 90 days and see it as something we will be dealing with for a more extended period of time. In our life business, the Delta variant increased mortality to levels last seen near the height of the pandemic. Our results remain in line with national experience, with increased vaccination rates, advancements in medical care and strength in natural immunity, we anticipate moving from a pandemic to an endemic, resulting in a return to more normalized mortality rates. We'll offer some additional thoughts on these macro issues later in the call.

Moving to a few specifics on the quarter. Please turn to Page 4. We generated a net loss of $75 million or $1.18 per share as reported and $69 million or $1.08 per share as adjusted. We also produced an adjusted consolidated net operating loss of $76 million or $1.19 per diluted share as reported and $69 million or $1.08 per share as adjusted. Return on tangible equity, excluding unrealized gains, was 3%. This is below our target return.

As highlighted earlier, the impact of the reopening and other environmental challenges continued to negatively impact these. We are actively deploying corrective actions to restore target margins and returns. Our balance sheet and business model remain well positioned to navigate through these challenges.

Turning to segment results. As discussed, given the environmental headwinds impacting our P&C segments, our focus is on restoring them to target profitability. Our Life & Health segment, we are seeing higher demand for our products and strong policy retention. Although we experienced a reduction in COVID-related mortality last quarter, we saw a spike this quarter as a result of the Delta variant. Overall, the business remains positioned for long-term profitable growth.

In summary, we are taking the actions necessary to combat the environmental challenges, the P&C industry and our business. We, along with the rest of the industry, are repriming the pipes and restoring equilibrium in the system. The benefits of these actions will take time to fully work their way into our book. And on the Life side, the Delta variant has caused another spike in COVID-related mortality. Our strong balance sheet and business model enable us to continue to navigate the current environment and position the business for growth in 2023.

I'll now turn the call over to Jim to discuss our third quarter operating results in more detail.

James J. McKinney
Executive VP & CFO

Thank you, Joe. Turning to Page 5. Environmental headwinds led to challenged financial results. We reported a net loss of $75 million and as adjusted loss of $69 million to reported consolidated net operating loss of $76 million and an as adjusted net loss of $69 million. The corrective actions we have taken and are taking in response to higher frequency and severity will, over time, return our auto business to target profitability. In addition, as the health impacts of COVID subside, life mortality and benefit costs will revert to normalized levels.

Turning now to tangible book value per share. Excluding unrealized gains, tangible book value per share declined $3.27 compared to last September, $3.11 of the changes related to AAC and the corresponding goodwill the transaction created. We continue to believe this transaction is accretive to franchise value.

On Page 6. We highlight our view of operating income, which continued to be negatively impacted by environmental challenges. As mentioned earlier, this quarter experienced higher frequency and severity leading to our Specialty P&C segment reporting an as-adjusted underlying combined ratio of 108%, a further strengthening of reserves due to an atypical second surge in Florida PIP related litigation and elevated life costs due to excess delta variant related mortality, higher new business sales and persistency gains.

On the bottom half of the table, we indicate sources of volatility. Except for prior year reserve development, the remaining items are relatively consistent with past periods.

On Page 7, we review 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. Over the past 12 months, return on tangible equity, excluding unrealized gains, was 2%. This was a direct result of the environmental challenges impacting the industry. While this is disappointing and below our target, we've instituted and will continue to institute corrective measures to return the business to target profitability.

Continuing on to Page 8. We highlight the strength of our balance sheet. We continue to produce strong cash flow, generating over $500 million over the past 12 months. Our insurance entities are well capitalized. Liquidity remains strong, and our debt to capital ratio of 21.3% remains within our stated target range of 17% to 22%. This business profile provides us with financial flexibility to navigate this environment.

Turning to Page 9. Net investment income for the quarter was $102 million. Our portfolio construction is designed to match liabilities and provide stable income through various cycles. This quarter, we generated a pretax equivalent yield of 4.4%.

In closing, the company's quarterly financial performance continues to be pressured by various environmental factors. We are confident that the corrective actions we have taken and are taking will over time return us to our financial targets.

I'd 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. To start, I will make a few comments about the current environmental challenges impacting our businesses as well as the relationship between earned rate and loss trend.

Let's turn to Page 10. There continues to be several environmental challenges impacting auto loss costs. On the frequency side, miles driven continue to increase, leading to an 18% to 20% increase in claim activity. At the same time, severity increased 8% to 10% due to supply chain challenges, labor shortages and social inflation. We are taking actions to address these challenges.

Last quarter, we discussed the impact of some recent Florida PIP related court rulings and the related increase to our prior year reserves. Typically, significant Florida PIP related court decisions results in a single surge of litigation. This time, we witnessed an atypical second surge, therefore, we are further strengthening reserves by $25 million.

Let's turn to Page 11. Based on some questions we received over the quarter and discussions taking place within the industry, we thought we'd take a moment to review the interaction between earned rate and loss trend for various periods in and around the pandemic. This is an illustrative display intended to bring context to those discussions.

Pre-pandemic, the relationship between loss cost and earned rate had maintained a long, steady equilibrium. There have been times of modest divergence creating either increased profitability or margin compression. But over the long term, they were largely balanced. During the pandemic-related lockdowns, there was a dramatic drop in frequency, resulting in a significant reduction in loss trend and noticeably improvement in profitability. This eliminated the need and ability to raise rates.

When the economy reopened, frequency increased as miles driven surge. In addition, challenges to an already stressed supply chain were exacerbated, increasing severity. Together, these items drove a surge in loss trend that escalated at unprecedented levels. Since there is little to no rate running through the system, margins were immediately and adversely impacted. Given that rate changes are subject to a regulatory approval process, it will take at least several quarters for their earned impact to be seen in results.

Moving to Page 12, I'll start with Specialty P&C. Against this backdrop, this segment experienced an underlying combined ratio, year-over-year increase of 22 points, a sequential quarter increase of 2 points and an underwriting loss of approximately $80 million. Despite this recent performance, we remain comfortable with the profile of the business. The frequency change versus 2019 is about 1%. This quarter's loss and temporary rate loss cost imbalance doesn't impact our view of the long-term profitability of the business.

Over time, we anticipate a favorable outcome from our ability to address recent challenges through pricing and other profit improvement actions. Given the environment, we are prioritizing profit restoration over growth. The chart on the upper right should help you see how rate actions will migrate through our book of business. And as an example, during the third quarter, we filed an approximately 3% rate increase on roughly 34% of our business, and it is already affected. We're in the process of filing for an additional 6% of rate on 38% of our business in the fourth quarter. Understandably, it takes time for file and effective rate to be written and earned into our results. Over multiple quarters, rate and non-rate actions will return the business to target profitability.

Turning to the preferred segment on Page 13. The Preferred P&C segment continues to face similar environmental challenges and was further impacted by Hurricane IDA. Similar to Specialty, we are prioritizing profit restoration over [growth]. Looking at the chart on the upper right, during the third quarter, we filed for approximately 4% rate increase on roughly 39% of our business, and 31% is already effective. We are in the process of filing for an additional 13 points of rate on 57% of our business in the fourth quarter. Overall, for the Preferred segment, we continue to expect ongoing profit improvement actions to bring us closer to our desired level of performance.

I'll now turn the call back to Joe.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Thanks, Duane. Turning to our Life & Health segment on Page 14. Overall, this business was negatively impacted by increased mortality related to the Delta variant and Hurricane Ida. For the quarter, segment net income was $3 million. Our mortality results continue to remain in line with countrywide trends. We continue to see and are encouraged by strong consumer demand for our products. This is evidenced through high new issuance rates and policy retention that remain above pre-pandemic levels. Overall, the outlook for the Life & Health segment remains positive.

In summary, this quarter's financial results were disappointing. As we stated earlier, it's going to take time for corrective actions to earn into our book and return us to target profitability. We believe our actions will position us for growth in 2023. Our balance sheet provides appropriate financial stability for these types of challenges. Our strong capital and liquidity positions enable us to navigate and optimize the current environment.

Despite the continued challenges, we remain financially strong. Our team will continue to deliver on our promises to our customers and provide attractive long-term results and value for our shareholders.
I'll now turn the call over to the operator for questions.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Greg Peters of Raymond James.

Alexander Bolton
Raymond James & Associates, Inc., Research Division

This is Alex Bolton calling in on behalf of Greg. Could you take some time and, I guess, divvy out how labor shortages, materials and, I guess, time of repair affect in severity?

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Sure, Alex. Happy to. What ends up happening when you're repairing a vehicle is anything -- if you get in an accident and do $2,000 worth of damage to the bumper, that's the minimum that's going to get paid. From that point, effectively, leakage starts. We've got to repair that vehicle. If you've got a labor shortage and it takes longer at the body shop, that might cause another day or 2 of rental car expense. If the rental car companies don't have all the inventory they had pre-pandemic, they might have their rates up. So now in addition to a day or 2, you got, it is actually at a higher cost.

If you're finding out there's labor shortages in the supply chain, so trucks aren't moving from ports in California, you might find that the headlight you needed that was manufactured overseas isn't there, and it's taking a little extra time in that car sitting in the body shop, and there might be storage charges because it's waiting for the parts to come in. All of these things add up to incremental increased costs in the process. It might be that those parts cost more because they had to pay the truck driver higher wages to get them there or they're running 24/7, so there's, over time, run through the process.

Alexander Bolton
Raymond James & Associates, Inc., Research Division

Yes. I guess I was just asking from a portion standpoint, I guess, is it more labor cost? Is it more material costs?

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

It really is across them. We're not -- at this point, we don't have our sealers out with enough sensitivity to really try to get each of the different components of them. There's something in all of them that's running through. My sense is that the issues, these are high single digit, low double digits overall, it may vary a little bit by local geography. So the precision of that is I'm not sure the biggest driver.

I'd probably point you, Alex, because I assume what you're trying to do is project a turn or a trend shift. I'd point you back to maybe Page 11, the illustrative example Duane was using, where what you see is there's this change in loss trend, whether it's labor or supply chain or social inflation, whether it's technology issues in the car and the fact that there's chip shortage. Whatever they are, those changes in loss inflation occur immediately, and they're immediately earned across the entire book.

Rate changes, whether it's loss inflation going down or loss inflation going up, our rate changes have to be filed and approved, and then they roll on to the book of business at renewal. So they're earned over the policy term. Rate is always going to lag inflationary trend. The gap between rate and inflationary trend, I think, is the story rather than the subtle differences between whether it's labor or steel or different geographic differences, those are going to be small error bars of the fact that rate effectively got shut down for most of the auto industry. And everybody's got to see it. You didn't need rate increases during the pandemic period. And you saw a rapid increase in inflation. That gap is going to overshadow everything for a while.

Alexander Bolton
Raymond James & Associates, Inc., Research Division

Okay. I appreciate that. And maybe can you touch on the regulatory environment. It seems like you're getting some rate. But I guess maybe what's your expectation of regulators look inside of a profitable 2020?

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Yes. It's a great question, and there's sort of 2 things underneath it in the question. One is the regulatory environment. And the second one is the activity we're having. Regulators go through a normal process. They look at your historic results, and they look at the current loss trend that you're dealing in the current period of time. Their responsibility is to have fair and appropriate rates for consumers and to ensure companies are making a reasonable return to ensure their solvency.

It's a little confusing for all of them when they look back and say how do we account for 2020? How much do you weight that in a process? And different states are looking at that in different ways. I think every month that we put out a new set of results as an industry, and [indiscernible] it's becoming more and more apparent to those folks that 2020 was an anomaly and really does, in fact, need to be discounted.

I think you can see that, to some degree, with our activity. Duane pointed out that in the second quarter, we had rate activity on roughly 1/3 of our book. In the fourth quarter, we had rate activity on nearly 40% of our book, 6 points, or we are anticipating in the fourth quarter, I'm sorry. In the third quarter, we had 1/3. In the fourth quarter, we're anticipating roughly 40%. I'll tell you, we may get closer to 100%. The big dog for us is California. California has a unique set of rules and rating templates, and you have to go through their rules and rating templates.

The second that those templates are showing that we have a need for a rate increase, we'll be in there filing it. I'd expect that on some of the programs we have in California, that may occur in the fourth quarter. It almost certainly will in the first quarter. That's roughly half of our book. If you assume it's roughly 50% of that specialty auto book, we're at roughly 90% of the activity. You should be walking away with the fact that we saw this issue early. We were responding with it rate briskly. And we're taking those rates, and we're -- we've been reasonably successful and expect to be more so. My guess is most of these states will require a second round on it. So we'll get through the first round and then we'll go back for -- we'll go for 2 as quick as we can.

Alexander Bolton
Raymond James & Associates, Inc., Research Division

Okay. I appreciate that. And then maybe in Life and Health, I noticed the expense ratio jumping up a little bit. Maybe you can touch on what's happening there.

James J. McKinney
Executive VP & CFO

Happy to. Actually, I think it's a little bit misleading. I'd point you to Pages 38 and 39 of the supplement. If you look there, what you'll see in terms of what's driving that is the amortization of essentially the VOBA asset from the acquisition of AAC. If you remove that, which is about 1 point for the quarter, I think you'll end up seeing that it's down a little bit on a quarter-over-quarter basis and on a year-over-year basis, so not really much to report. Happy to go deeper if you want, but that's effectively what you're seeing going through there is a little bit of amortization associated with VOBA.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

And correct me if I'm wrong, Jim, but I think if you go back to right after the Infinity acquisition, you'd see the same thing running through our numbers. The VOBA gets put up after an acquisition and amortize it in as an expense and works its way out. So you saw the exact same pattern in the first couple of quarters after the Infinity acquisition.

James J. McKinney
Executive VP & CFO

Yes. That's correct, Joe. And again, that's just kind of for folks just because I know it's an unusual item there that you get an asset, right? It's intangible basically, and this is how you essentially bring it cash as you receive it and it translated into a tangible asset. It's not per se necessarily expense, because you got the revenue at the top, you get the expense offsetting it for that transfer, and it's intended just to be the mechanics for how something on your balance sheet turns from an intangible to tangible. Some net results to us are nothing in the quarter. We outlined it on 38 and 39 specifically. So you can see this run rate of the businesses because we think that's likely going to give you the best comparable.

Operator

The next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. First, I'm just curious, is there any way to kind of break down what loss trend looks like in your specialty auto versus 2019, right? I think that would probably be a better comparison than looking at some of the frequency and severity statistics you've got up there right now.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Sure, Brian. Let's do a little...

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Just curious like frequency is it well above? Okay.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Yes. Yes. We'll take you through it. The reminder before the guys come into the detail, that will give you a directional item. The precision of it doesn't work exactly the same, but it will give you a directional.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Great. And then, Joe, or going through that, I guess my next question for...

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Do you want to speak to that one? Why don't we -- and then...

James J. McKinney
Executive VP & CFO

Yes. Go ahead, Duane.

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

Yes. And there's a big picture. If I were to take us back to 2019, and you think about frequency in our specialty auto business for where we're at, we're roughly within about 1 percentage point from where we were in 2019 at this stage. When you think about that from an ultimate perspective, obviously, that has some assumptions here in terms of how these things go out. You do see a little bit of a difference in terms of the driving patterns in this period relative to '19. But there's, at this stage, going to probably be not a whole lot of movement in that, so we feel pretty good.

What that should tell you is our profile is basically kind of the same from that perspective or similar, if not, maybe even improving because there's some differences in the feature counts in terms of how we establish those. They're higher in terms of what it is today than maybe what they would have been historically, so that 1% is kind of a high number.

When you think about the severity side, when I'm looking at that, that's really in that double-digit range that we've talked about that you've both seen in that 10% to 12% range. And then we've ended up seeing on some of those things that have a little bit longer tail. There's not a real long tail in this business. But things like BI claims and others that would come through, you've seen the severity trends or that inflation trend that we're talking about now go back and impact some of those claims essentially that were open there, which we talked a little bit about last quarter and this quarter. And so when you break that up, you are seeing basically kind of double-digit type inflationary trends on a year-over-year basis over the last couple of years, both due to the mix differences, the driving changes that come through there in terms of their impact on the severity [indiscernible] cost of the same item last year versus this year and the year before, those costs are up in that -- again, in that inflationary range that we talked about that is high single digits, low double digits.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then next question, Joe, I'm just curious. So last quarter, I know we were going through talking about this, it sounded like that you were comfortable continuing to grow your business through this kind of loss cost situation right now. Now you're talking about returning to growth in 2023. Is that simply because you think that the inflation is not transitory anymore? Or is there something else that's happened? And does that also mean that we won't see normalized profitability until 2023?

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Yes. The couple of pieces underneath it, and I'll try to unbundle them, Brian. When we were sitting last quarter, we had growth in the business, and there was a view that the inflationary trend was lower and it was going to be more transitory. That would suggest a profit challenge, but one that would be corrected more rapidly. What's happened since then is I think -- I know we have changed our view on that. I believe, broadly in the environment has changed. I mean every time I pick up a Wall Street Journal or turn on CNBC, the mood is certainly different in the last 90 days of the severity of the inflation and its duration. That is going to put more pressure on profitability, which will take longer to unwind from a -- and match with a pricing perspective. That's really part of what we were trying to show on Page 11, that gap.

And part of the reason on the right side of that, you help me. If you tell me those 2 red lines that are dotted, is the inflation going to stay up and stay that way and stabilize in an 8%, 9%, 10% range and persist there? Or is it going to start tapering back into 4%, 5%, 6% range where it was before? There's a cone of opportune potential there, and then there's going to be a cone of what rates are. And are they at the higher end or the lower end, that presents a fair amount of uncertainty in sort of that circle on that right side of when does rates start exceeding loss cost and correct it.

Given that uncertainty, we are tapping the brakes on growth initiatives. We are intentionally slowing that down because of that imbalance, not because we're troubled by our long-term prospects, not because we're troubled by our underwriting for no other reason than it's unclear how long that inflationary piece is going to go. And the last signals we've gotten is [indiscernible]. I would tell you that we're very diligent about how we're thinking about that when we're reserving and we're booking our results, and I think you're going to be able to look at numbers, you're going to -- you see our paid losses on our reserves, and you're going to see that there's a strengthening bias there that's saying we're anticipating that problem.

And you're seeing a speed of response from us in terms of how fast we're attacking rate and moving. I think you've heard other folks talk about their intent to raise rates, but they're moving with a different level of speed. We believe we saw this early. We're moving on it early. And what we believe is it's going to have a temperature that anybody who's writing auto is going to have, and so we're tapping the brakes in a different way than we thought we needed to 90 days ago. What you should see, if you look at what's going on in the third quarter from our activity, is not only do we see it, not only we tap the brakes, but we actually got rate filings moving quickly after that. It's a nimble and responsive organization that when there's a nail up that needs to be hit, we hit it.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Makes sense. And obviously, you're probably taking other initiatives to kind of improve that profitability as well aside from just rate.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Yes. Rate, non-rate. If there's a lever to pull, we're looking to pull it and work it with the caveat that when it's cold outside, you don't burn the furniture in the house for heat that's going to cause long-term damage. We're not doing anything that's causing long-term damage. We're being very thoughtful. If there are investments that we can make that are going to enhance and strengthen our expense infrastructure that put us in a better position going forward, we'll continue those. But we're not going to be trying to figure out how to roll out new states for growth or how to do other things like that. We're tapping the brakes and closing the shutters and run through the storm.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Great. And then just 1 last question here. The Florida PIP charge. I kind of felt after last quarter that we were done with that. And then obviously, it happened again. It sounds like you had a resurgence of suits. Where are we with that? Is that behind us?

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

Yes. This is Duane. Good question. I think it's always -- there's a challenge to make sure that you're understanding completely that environment and the litigation that comes out of there, certainly around PIP. But our comfort level has increased significantly from where we were. We're starting to see that trend the direction that we're feeling comfortable with what's coming in. And the other thing that we're doing is we're working the, what I'll call, the mitigation process around that for any of the outstanding bills to get ahead of what could be potentially a problem in the future.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Duane, let me add a clarification and maybe ask you to add some of the anecdote we were talking about earlier. We were highly comfortable. We had the right number last quarter given the normal pattern of surges and suits after a significant court dealing. We had a second surge. Can you talk a little bit, that second surge without a pattern, it was atypical that caused us to have a different point of view. We believe we have it set now, but you got a little bit of local market anecdote in terms of what [indiscernible]?

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

Yes. There's a couple of dynamics that takes place in that process there. There are things in, I'll say that patterns that historically would come through to what we're speaking of where you get a onetime hit. There seems to be an arbitrary lull in this one where they had slowed down for some reason, some of the bulk billing that takes place that seemed to reoccur at a later date. There was also, I think, some angst around the potential repeal in the marketplace of PIP. So you've got people there that were anxious about, well, if I'm going to do anything, do it. So they sped up that process a little bit.

And then you've also got -- we mentioned earlier about just staffing shortages across in many dimensions that certainly the firms there, they're not exactly [indiscernible]. So their ability to try to push things through to normal pace starts to wane. So they -- there's a breather in there and then they reemerge.

But as I commented earlier, we've very proactively have been working what I'll call the front end of that on our side to make sure that we're not -- we're trying to be able to position ourselves to avoid future litigation on that type of claim.

James J. McKinney
Executive VP & CFO

So I think Brian -- and Joe gave some good commentary on that. The only other thing I might add, Brian, is there was a lot of commentary, obviously, last quarter, both on our call and on other calls, specifically related to the limiting versus participating and some of the other challenges that [happened]. Duane mentioned some potential items. There's a bunch of different hypotheses that are out there. We're not -- this is a new pattern in terms of having 2 humps. That's not something that we've seen before. Don't really know if it was related and what effectively happened is we woke some folks up between the call or in some of the press that it got, not just in RSA, but cost from an industry perspective.

Or if it's to Duane's other points are potentially, they're dealing with labor challenges or other stuff that potentially led to a different kind of reporting pattern or other. Hard to tell. But either way, we moved forward and thought it was prudent to try to put a bow on this. We'll, I'm not anticipating anything else. I can't give you 100% confidence in this. But again, we're highly -- feel really good and confident about the numbers that we have put up and our ability to kind of recognize this.

Operator

[Operator Instructions] There are no further questions on the line at this time. So I'll hand the call back over to the team.

Joseph Patrick Lacher
President, CEO & Non-Executive Chairman

Thank you, operator, and thank you, everybody, for joining the call today. We appreciate your interest. We're going to continue banging away and working to reestablish and reignite the profitability inside the joint and get back to delivering on our results for our customers and our shareholders. Thanks for being with us.

Operator
This concludes today's call. Thank you for joining. You may now disconnect your lines.