S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

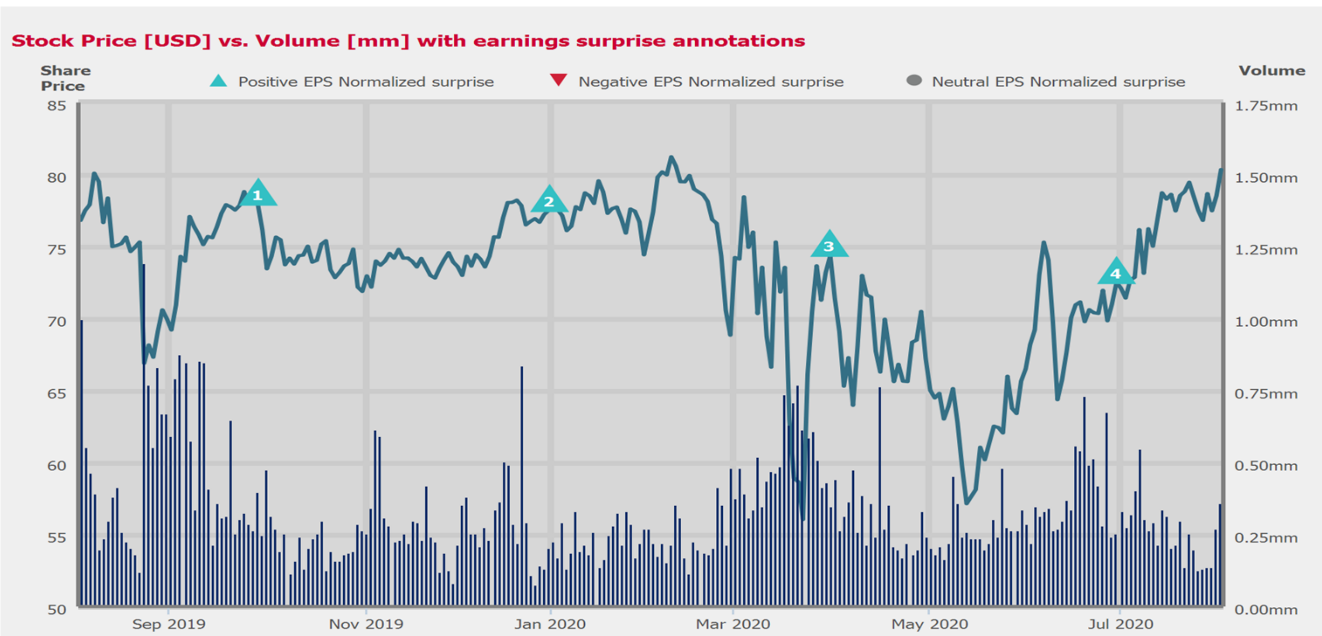
FQ2 2020 Earnings Call Transcripts

Monday, August 03, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.97	1.20	▲23.71	1.50	6.34	6.05
Revenue (mm)	1172.30	1154.60	▼(1.51 %)	1257.75	4957.33	5236.41

Currency: USD
Consensus as of Jul-20-2020 6:10 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	1.39	1.93	▲1 38.85 %
FQ4 2019	1.40	1.45	▲2 3.57 %
FQ1 2020	2.37	2.43	▲3 2.53 %
FQ2 2020	0.97	1.20	▲4 23.71 %

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Call Participants

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

Abhishek Patwardhan;CIFC Asset Management;Executive Director

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to Kemper Corp's. Second Quarter 2020 Earnings Conference Call. My name is Cole, 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, Christine Patrick, Kemper's Vice President of Investor Relations. Mrs. 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 second 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 and Casualty Division President. We'll make a few opening remarks to provide context around our second quarter 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 and Health Division President.

After the markets closed this afternoon, we issued our earnings release and published our second quarter earnings presentation, financial supplement and Form 10-Q. 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 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 2019 Form 10-K, our second quarter 2020 Form 10-Q as well as our second quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures we believe are meaningful to investors. One such measure I would like to highlight again is as adjusted for acquisition. It is clearly important to understand our reported results, including the impact the Infinity 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 Infinity's historical information prior to the closing of the acquisition, and our current results include the impact of purchase accounting, the underlying trends are not easily visible. 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 infinity information for periods prior to the closing of the acquisition to more easily 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 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 the social distancing practices that 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 the 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, Christy. Good afternoon, everyone, and thank you for joining us today. We continue to find ourselves in unique times. The pandemic is impacting consumer behavior, the macro economy, the investment environment and how we conduct our business operations. We expect that to be the case for the foreseeable future. While the effect of these items can be seen in various parts of our financials, in aggregate, we continue to deliver strong results. We remain confident in our business model, our financial position and our ability to continue to serve our customers and deliver value for our shareholders.

Let's now turn to Page 4 to discuss our results this quarter. We recorded strong results in the second quarter in spite of the environmental challenges we faced. Net income was $126 million or $1.91 per fully diluted share, adjusted consolidated net operating earnings were $79 million or $1.20 per fully diluted share. We generated a rolling 4-quarter return on tangible equity, excluding unrealized gains of 19%. We've talked a lot over the last few years about the value of our diversified model and how it enables us to deliver consistent returns. The positive investments and enhancements we've made across our businesses have resulted in significantly improved earnings and stable cash flows through both favorable as well as challenged economic environment. Additionally, the model provides meaningful capital efficiency. Together with strong execution, these advantages enable us to consistently generate attractive returns for our shareholders. Our results in the current environment highlight the benefits of the model. As we previously disclosed, our specialty and preferred auto businesses provided customers approximately $100 million in premium credits during the second quarter.

Our thought process follows a simple principle of providing attractively priced policies to our customers while delivering reasonable returns to our shareholders. This matches customer expectations, allows us to significantly grow the business and to maximize shareholder value over time. The pandemic has impacted most of the inputs and the auto pricing equation to some degree, and the credits allow us to deliver pricing consistent with that principle. We will continue to monitor the impacts of the pandemic and consistently apply this concept going forward. Our Specialty Auto business continued its trend of strong performance in the quarter, margins remained solid and we were able to provide attractive pricing to our customers. This resulted in significant policy growth and further strengthened our market position. Additionally, we continue to invest in our platform and capabilities, which will allow us to better meet the needs of our customers and drive future market share gains.

Our preferred segment also delivered a solid quarter. Both our auto and home and other lines showed continued improvement in underlying combined ratios as a result of ongoing profit improvement actions across the segment. While we are pleased with our progress, we continue to evaluate a number of actions that will lead to sustainable and profitable growth. Similar to our other businesses, Life & Health was also impacted by the pandemic. Increased mortality experience was offset by reduced morbidity in our health book, and net investment income was down as first quarter market challenges were recognized in the quarter. While we expect some near-term volatility and benefit costs related to the pandemic, we remain positive about the long-term prospects and the strategic diversification benefits the Life & Health business brings to our organization. Our strong balance sheet and ample capital and liquidity provides significant financial flexibility. This not only allows us to support our businesses through turbulent times but also enables us to act on the opportunities that may present themselves in the current environment.

In summary, we successfully delivered profitable growth in an uncertain macro environment. We made important investments and enhancements to our capabilities, we strengthened our competitive advantages, and we delivered significant value to our shareholders.

With that, I'll turn the call over to Jim to discuss our consolidated operating results in more detail.

James J. McKinney
Executive VP & CFO

Thank you, Joe, and good afternoon, everyone. Turning to our results on Page 5. Net income for the quarter was $126 million or $1.91 per diluted share. This represents a 3% increase in net income versus the second quarter of 2019. Adjusted consolidated net operating income was $79 million. Our ability to deliver strong top line growth, solid margins and attractive returns in an uncertain operating environment is a testament to the resiliency of our business model.

On Page 6, we isolate the key sources of volatility. This was marked by pressure on alternative investments, seasonally elevated CAD activity and increased prior year development. Duane will touch on CAD activity and the development later in the discussion. One additional item of note is this quarter's strong equity market performance. It resulted in the recovery of a significant portion of the losses we experienced in Q1 within our equity portfolio.

Turning to Page 7. Net investment income, including COLI, for the quarter, was $68 million, down from $97 million in the quarter of 2019. Approximately 66% of the decrease was driven by our alternative investments, which put pressure on our annualized portfolio yield. I'll remind you that many of these investments report on a lag, so the reduction reflects the pressure we saw in financial markets during the first quarter. Our portfolio composition and strategy remains consistent and focused on high-quality fixed income investments. As of the second quarter, 93% of our fixed income portfolio consists of investment-grade securities. From a credit perspective, the portfolio continues to perform. Impairments were roughly 10 basis points, broadly speaking, the quality and the diversity of the portfolio continues to effectively support our businesses.

Page 8 provides a walk of net investment income from 2Q '19 to 2Q '20. Aside from the impact of alternatives, our net investment income yielded solid returns. While rate movements were stark over the quarter, our portfolio remained relatively resilient. This is in large part due to actions we've taken over prior quarters to address the risk of lower for longer interest rate environment, which included extending the duration on a large portion of our fixed income portfolio. As of the second quarter, our weighted average maturity was 12 years with an effective duration of 7 years.

Turning to Page 9. Our capital and liquidity remains strong. We have $943 million of committed in contingent liquidity, an increase of over $75 million compared with the end of 2019. We generated over $200 million of cash in the quarter and have generated over $560 million over the last 12 months. This is a testament to our diversified model, which is designed to produce stable cash flows to favorable as well as challenging economic cycles. Broadly speaking, our capital management strategy remains unchanged. Our capital stack continues to provide significant financial flexibility to support our businesses and take advantage of market opportunities. Our insurance entities remain well capitalized. Our debt-to-capital ratio is below 16%, and we have no near-term debt maturities.

On Page 10, I'd like to highlight some of the capital metrics we track closely, including growth intangible book value per share and tangible return on equity. Together, these metrics demonstrate the efficiency of our capital deployment decisions and intrinsic value creation. Over the last year, we have increased shareholder value by approximately 17% as measured by growth in tangible book value and cumulative dividends. This is driven by the team's strong execution capabilities and business model. Our operating model continued to generate strong returns over the quarter with a rolling 4-quarter return on tangible equity, excluding unrealized gains of 19%. This is the fifth consecutive quarter of delivering tangible returns on high teens, low-20s area.

In summary, we are pleased with our financial performance over the quarter. Our strong balance sheet, financial flexibility and diversified operating model position us to deliver continued growth amid uneconomic uncertainty and serve as a source of strength for all 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. Let's begin with the specialty segment on Page 11. The segment continues to perform exceptionally well despite a challenging backdrop that included a reduction in consumer shopping activity and other pandemic items that impacted the P&L. We generated approximately $68 million of earnings in the quarter. We continue to achieve industry-leading growth as we execute on opportunities to expand in both new and established geographies. Policies in force increased 7.5% compared to 2Q '19 when excluding the sale of classic car. And net earned premiums grew 10% year-over-year, excluding the impact of $87 million of premium credits. The reported combined ratio was 91%. The underlying combined ratio on an as-adjusted basis was 89%. Our performance benefited from changes in driving behavior due to shelter-in-place orders that led to a decrease in frequency. This was partially offset by an increase in severity and bad debt as well as pressure on investment income. The long-term outlook for the specialty segment remains attractive. We continue to deliver competitive pricing for our customers and generate consistently strong profitable growth. Investments in our business continue to strengthen our capabilities and low-cost operating model. These investments will enable us to enhance our value proposition to our customers and generate consistently attractive returns for our shareholders.

Turning to the preferred segment on Page 12. We continue to make good progress in preferred. The second quarter underlying combined ratio for the segment was 84%. Preferred auto reported an underlying combined ratio of 89%. Core performance continued to improve and the book benefited from similar favorable trends as our home and other underlying combined ratio also improved as we see continued benefits from our profitability improvement actions. During the second quarter, we experienced seasonally elevated catastrophes, largely as a result of weather-related events in the Southeast. Catastrophe losses for the quarter were in line with 2Q '19 and significantly better on a year-to-date basis. One additional item I'd like to note is the $9 million of adverse development we recorded in our auto book. The primary driver of this was an increase in demand notices in UMBI. At this point, it is unclear if this represents an increase in volume or an acceleration of timing. For reserving purposes, we took the view that it's an increase in volume. It is important to note that we are not seeing similar activity in other parts of our preferred or specialty books.

In summary, we're pleased with the progress we've made over the last few quarters. The actions we've taken to enhance underwriting, pricing and exposures are paying off, and we continue to evaluate additional opportunities to deliver sustainable, profitable growth.

I'll now turn the call back to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thanks, Duane. Turning to our Life and Health results on Page 13. Segment income was $16 million compared to $13 million in the second quarter of 2019. Please recall that the year ago quarter had roughly $6 million of onetime items. Performance in the quarter was impacted by pandemic-related mortality that was elevated, but in line with national experience. This was offset by lower morbidity in our health book and a couple of onetime items. In addition, segment earnings were impacted by lower net investment income. Going forward, to the extent that the nation continues to see elevated pandemic-related mortality, we would expect to see a parallel impact in our business.

During the quarter, we temporarily suspended new life sales due to stay-at-home orders, we have since resumed new business production and are continuing to adapt to the pandemic environment.

In summary, we remain positive about the long-term outlook for our Life and Health business, we continue to assess new growth opportunities, and we expect the segment to continue to play an important strategic role in providing diversification benefits and enhanced capital efficiency.

Turning to Page 14. I'd like to spend a few minutes discussing how the current environment is impacting different areas of our business. The situation with the pandemic remains fluid as widespread state reopenings in June were followed by enhanced restrictions across some geographies as infection rates began to rise. The movement in and out of state recovery phases has implications for both the overall health of the economy as well as consumer behavior.

Looking at our Specialty and Preferred segments, the degree of lockdown that states are experiencing as well as the potential to shift between phases of reopening will impact driving as well as insurance shopping behavior. In our Life & Health segment, we expect mortality experience to increase as COVID-related deaths increase, which remain in line with national trends. We expect increased market volatility and sustained low interest rates resulting from continued economic uncertainty to impact our investment portfolio.

Despite these challenges, our business continues to be well positioned to deliver value to all of our stakeholders. Our capital and liquidity are strong. We have a high quality and diversified investment portfolio that is built to support our businesses, and our diversified business model provides consistent cash flow and returns.

Before I close, I'd like to acknowledge our employees. These have been challenging times for everyone but every day, I'm reminded of the resiliency, dedication and focus of our entire team, their commitment to meeting the needs of our customers while delivering value to our shareholders makes me proud to be part of this organization.
And now we'll turn the call back to the operator to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Greg Peters with Raymond James.

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

A couple of questions. First, in the Specialty business, I was wondering if you could give us more color around the policy count. Just looking at the data you provided, and it looks like sequentially, policies in force were down a little bit. So I'm curious if that's just a reflection of what was going on during the second quarter versus the first quarter. In the context of what you said, it certainly seems like you're growing. And so I just -- the follow-on would be where -- what markets are you growing in relative to a year ago?

Joseph Patrick Lacher
President, CEO & Director

Sure, Greg. Let me just make sure we're looking at the spot you are to make sure we're pointing at the same numbers. Where are you seeing -- what are you seeing in the sequential -- where are you looking?

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

So I'm looking -- so I'm on Page 11. And you're showing policy count of 1,902 for -- and then if you go to the same slide, and this is Slide 15, for specialty, it says 1,914, and this is for the first quarter.

Joseph Patrick Lacher
President, CEO & Director

Got it. Yes, last year. Okay. I understand exactly.

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

No. This is not last year, this is the first quarter.

Joseph Patrick Lacher
President, CEO & Director

I mean yes. I'm sorry. Last quarter. Yes. I misspoke. First quarter of this year.

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

Correct.

Joseph Patrick Lacher
President, CEO & Director

Yes, there's a modest downtick in that sequentially. And you're correct. I think that part of -- a big chunk of what we'd expect to be happening is there was dramatically less shopping behavior in the quarter. So there is some impact when we do that sequential component. We are growing policies on a year-over-year basis. And we think about it, Greg, that way. I'd also think about it that to Joe's point with shopping behavior. What you're seeing is a little bit of the difference in the mix just over those periods of time because of the disruption between those policies that are more 6-month policies versus 1 year. And so I think the right way to look at that is on a year-over-year basis just because some of that normal business that would have continued to flow in that is more short term in nature effectively, you see less of that coming in and out. And you really see, when you look at the 1-year number and the quarter-over-quarter comparison, you see the difference in terms of those policyholders that are longer term inside your book and drive a lot of value. You should remember that the right way to look at it probably is ex-classic car. And that number in the first quarter was 1,879 versus in the current quarter, 1,877. So they're essentially flat. The decline you're seeing is largely driven by the classic car piece.

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

Got it. Mercury announced their results this morning. And obviously, they're a different market than you are, but they are in California. And they did announce that they intend to extend their premium refunds for the month of July. I know you guys have been given a very generous program in the second quarter. Has there been any discussion about extending it beyond the second quarter? Or where do you think you're sitting with that at this moment?

Joseph Patrick Lacher
President, CEO & Director

Sure. And I tried to address those comments early on, and I'll sort of point back to those comments. We announced a 15% auto premium credit for the first 2 months of the quarter. We ultimately added some additional credits in June. The bulk of those additional credits were related to California. When we took those additional credits in the month of June, we looked by line. So for auto, we looked by product. We look individual states and we look at the individual behavior that we were seeing underneath that. You were starting to see stay-at-home orders lifted and activity return in different cases. We're looking at all of the pricing variables that I go into the auto equation. Some of that is frequency. There's been severity impacts. There were bad debt impacts when we were extending grace periods. Net investment income has obviously been impacted. So we were sort of looking at the totality of those and taking a view that we wanted to rebalance the equation, if you will. We had a point of view from a pricing perspective of where we thought was an appropriate relationship with the customer, generated a reasonable return for shareholders, and our goal is to grow the business as much as possible because we thought that provided the best answer for customers, and it provided the greatest shareholder value creation by growing the organization over the long term. We're going to take that same point of view as we look at the rest of the pandemic. So if we see all of those variables coming together where the equation is out of balance, we'll think about additional premium credits. As appropriate, and we'll do it on a serial basis in an individual product and state level. Maybe the best way for you to think about it, Greg, if I were in your shoes, might be to say, we're not expecting to see a high degree of favorable benefits just in frequency, work their way into the bottom line. We're looking to keep that equation largely balanced with the upfront intent.

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

Got it. And that -- when you talk about it like that, I'm looking at the underlying combined ratio for the specialty, which obviously came in below 90%, which is a great result for you. But if I look at the -- it feels like the target is more in the low 90s versus below 90%. Is that an accurate read or am I overthinking this?

Joseph Patrick Lacher
President, CEO & Director

Well it depends on what you're expecting in the investment income environment to be. And sort of everything that works through the pricing equation. We stop, and we think about frequency, severity, bad debt components, service expenses that run through all of these items. Whether or not there is a difference in how frequency -- frequently we're quoting in servicing policies, what the investment income picture is. We're in an uncertain environment. So the error bars, if you will, around every one of those is a little bit wider and trying to peg where truth ultimately will end up on all of those. So we're looking at all of those equations. It becomes a little harder to project the exact outcome of all of them because they're all moving in slightly different directions and with a little more volatility than we normally have. Hopefully, that helps. So we're not fundamentally changing our underwriting -- our ultimate ROE target or ROATCE target because of this. And we are recognizing that in a different investment income environment, that might somewhat change the underwriting target, but those things should actually be held together when we think about the appropriate price for a customer and the appropriate return for shareholders?

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

That makes total sense. Just the final question. And I know you discussed it in your opening remarks, but can you just revisit the prior year development and give us some more color around what you think is going on there? And just some additional data so we can help process this.

Joseph Patrick Lacher

President, CEO & Director

Sure. Maybe I'll let Duane start talk about it and then a couple of us may provide a little color as we go.

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

Got it. Thanks, Joe. So are you speaking to on the specialty side or preferred side? I want to make sure I'm addressing the question.

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

Well specifically, you talked about the UMB notices. So that's what I was specifically focused on.

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

Yes, yes, yes. Got it. Yes. So what we're seeing there, Greg, is, I'd call it just a pronounced activity on the UMBI piece. It's -- and we're going to -- we're taking -- I think we're taking the right approach on it. We're going to monitor it and track it. So demand notices have historically would come in. We had patterns around those. We could almost -- from a timing perspective, when those would show up. And it seemed to -- as of late, has moved forward on us or has, again, I would call it pronounced is just more coming in than we've seen in the past. So we're trying to see if this is something that's different, a change in pattern or what it might be. Now normally, what happens on the UMBI, it seems to be in the realm of attorneys work. You get the simpler stuff upfront, which might be some of the PIP actions and then you'll get your BI, then it works its way into the UMBI. So I don't know kind of if there's a change in kind of the norm for even there on the attorney side, where there's some acceleration on those cases. So again, we're watching it. It seems to be isolated right now right there on the preferred side, and we're going to continue to monitor it and see where it comes out.

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

Was there -- was it concentrated in a specific state or a region or just across?

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

No, it is not. We've done some deep dives on that to better understand it. At this point, if I had to say it'd be more environmental in nature in terms of -- from a geographic perspective, it's not -- I can't say that it was California, New York, North Carolina, it seems to be just generally across the board.

Joseph Patrick Lacher
President, CEO & Director

Greg, I think Duane has done a really nice job kind of highlighting a little bit of the uncertainty is. What I would take from a takeaway perspective is we saw a little bit of a change in terms of a pattern in terms of just the speed at which things come in, you could read that as notes indicated as more or you could read it as a similar event, but because you've got a few less -- if things going on in the world, accidents, other things, that attorneys potentially are getting to some of these things a little bit earlier in the cycle than they might normally do. This is something that we've only seen really recently over the last 2 quarters. We took the approach to start with, hey, we think it's going to be more. So we could have a highly confident number from a balance sheet we could get this potential item behind us. It could work out, quite frankly, at the end of the day, that we just see it as an acceleration that's really due to the environment. But I think the takeaway is realistically, we got a strong balance sheet. We don't anticipate this being something that is ongoing, and it's something that's really short term here in nature in terms of where we've seen it over the last couple of quarters.

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

Great. I guess I should add, congratulations to Christine, and you guys got to sit down and talk to her about her definition of maternity leave.

Joseph Patrick Lacher

President, CEO & Director

We did have a couple of discussions around optionality, and she reminded us that she was more than an adult, but we do congratulate her on the newest addition to her family.

Operator

[Operator Instructions] Our next question will come from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Could you give us a few more words on just the general competitive environment in the auto business, in particular? There are at least concerns within, I guess, the standard auto business that state farm and maybe some others. I've seen some others are lowering rates under the assumption that some of this frequency trend might be somewhat permanent. My sense is that's not happening in nonstandard, but I could be wrong. Just some thoughts as to what you see out there.

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

Do you want me to...

Joseph Patrick Lacher
President, CEO & Director

Go ahead, Duane. Give it a shot, and then I'll jump in, too.

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

Sure, certainly. So I would have to say, I think you're thinking about it right. It is nuanced. It's nuanced into specialty versus preferred, and you see the gamut in terms of activity. For the most part, in most states, regulators have really clamped down on any rate increases, but there is a smattering of rate decreases, probably ranging from the nominal minus 1%, 2%, all the way up to minus 4% depending on the market. There still seems to be an uptick in rate in the Florida market, in particular, driven by PIP and the BI side. So not as much on the downside there. So all in all, we find ourselves in a good spot. We monitor the marketplace. We're watching for all that rate activity as it manifests its way through the process. But I think it depends on where you are, who you're competing against, and then where each competitor finds themselves. So it's vast and varied, I would say, at this point.

Joseph Patrick Lacher
President, CEO & Director

I think the thing I'd add to it, Paul, and I agree with Duane, is the bulk of our business is in the specialty auto space, and we are not seeing a meaningful difference in the competitive environment inside of that space. I know what you're talking about relative to a couple of the big guys in the preferred auto and home or the preferred auto space potentially behaving differently. We're not seeing that kind of change in activity inside of the specialty auto space.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I'm also curious about any early reads on change in demand in the life insurance side of the house. I would expect there's some cross currents there with renewed obviously -- renewed showing why the product is valuable, but then that's a segue into the economy...

James J. McKinney
Executive VP & CFO

Can I ask you to stop for one second? Can you just start the part of the question? I heard -- I lost a couple of words, and I don't want you to stop you and have you do the whole thing over. I heard you on the life insurance.

Jon Paul Newsome
Piper Sandler & Co., Research Division

So on the life insurance side, I was wondering if there had been any early reads on changes in demand for your product. I would imagine there's some cross currents there with obviously, the product having some obviously increased value, but also, it's a pretty -- it's a market segment that was pretty hard hit from an economic perspective.

Joseph Patrick Lacher
President, CEO & Director

Yes. What we're seeing, particularly in our market segment. And I don't know how it works across all of life insurance. But in our segment, we're seeing, if anything, a positive view. We suspended life sales for part of the quarter just because we're a fairly high-touch kind of environment, and we modified some of our processes around that, but we wanted to be respectful of shelter-in-place orders. Even if we were an essential business, we didn't see new sales as at the top of the urgent list. So we slowed those down. We actually saw improvements in our lapse rates. Meaning that people were making sure they paid their bills because they value the product. So that was a positive sign. And in terms of once we've restarted the sales, we're seeing very strong and healthy new business sales. Any -- there's a little bit of pressure there, but I would describe it. It appears to us to be more operational in nature of just the ability to get out and about and talk with people than it is any reticence or lack of interest from a demand perspective. Sometimes you see a macroeconomic pressure or some sort of property-related CAD that may have some pressure on demand. I think the fact that this is a pandemic-related issue, I think, has people thinking about issues and valuing the products differently. So I think it's probably a plus.

Operator

[Operator Instructions] And the next question will come from Abhita (sic) [Abhishek Patwardhan] with CIFC Asset Management.

Abhishek Patwardhan;CIFC Asset Management;Executive Director

This is Abhishek. In the light of the fact that most of the insurance companies are issuing refunds on the auto side, at least. How should we think about your expenses, especially around the commissions that you pay in the agency channel to create more policies? Does that typically go down with the lower revenue? Or should we expect that number to stay static?

Joseph Patrick Lacher
President, CEO & Director

Yes. I'll go back to the comments I made at the top of the presentation and really back with Greg Peters. The way we're looking at these -- any premium -- return premiums we have to customers is how it balances out in total. So we're not looking at this on a univariate basis. We're looking at all of the items combined. So make up a number. Pretend before we were shooting to run -- you tell me what combined ratio you want to pick, call it 95%. If we were trying to hit a 95% combined ratio, and we expected a certain investment income return, which produced a certain profit margin, we're now looking at it and saying, okay, investment income is down a little bit. So that requires that 95% to be a little bit better. We're looking at what happened to frequency. We're looking at what happened to severity. We're looking at what might be running through as bad debt. We're looking at how we're handling commissions. We're looking at everything in that equation. And then we're saying, what would the appropriate premium credit be to return to a largely neutral position recognizing that there's sort of error bars or margins of error around each one of the assumptions. So the commissions, the operating expenses, overhead, everything is taken into account as we think about trying to rebalance that pricing equation, which as an investor, I would suggest you, makes it a little bit harder for you to do an exact line item model, but it makes it a little easier because we're projecting for you what the end outcome ought to be. So if you're coming to the conclusion that the margin is radically different as a result, you're modeling it wrong because we're trying to bring it back, which is that neutrality.

James J. McKinney
Executive VP & CFO

The one thing I would add to what Joe said, that I think adds a little bit of clarity to this as well is, remember, this isn't a kind of one period or one point in time type of analysis. When you think about the investment rate environment, when you think about some of the reserves and what's going to happen. That is a multiquarter, multiyear view that we have to have in terms of doing right things both by our customers and our shareholders.

Joseph Patrick Lacher

President, CEO & Director

That's an excellent point, Jim. And I probably really forgot to describe that before. Think about this when we're doing this, we're not trying to -- we don't price our policies per month. We price them over a policy term, a 6-month or a 12-month time period. So when we're making these adjustments, we're saying what would the entire policy period generate and that investment income might be earned over that entire period. You get a 1-month good guy. You still have to deal with the investment income over the entire time period that might provide a slightly -- when you're looking at an individual quarter, a particularly good one quarter spot and then a little bit of pressure on another where we're pricing it over the entire policy period when we're thinking about this.

Abhishek Patwardhan;CIFC Asset Management;Executive Director

Got it. And just to follow-up, if I may. When you say you provided the refund for, let's say, month of April and May and maybe even in the month of June. Is that a prorated refund? Or how should I, let's say, a policy cost $600 for 6 months, is the refund going to be only for those 3 months? Or is it going to extend more than that? How should I calculate the refund?

Joseph Patrick Lacher
President, CEO & Director

The way we handled was, customers that were active at the end of April got a 15% credit for their April premium in their May bill than customers who were active at the end of May got a 15% credit on their May premium delivered in their June bill. We did that for all of our auto customers. Then we came back and in a couple of states on a couple of products, it appeared to us that the data going through the same process I described, warranted an additional credit it was not 15%, it was a smaller number in those circumstances. And we applied that for customers who had been customers as of the end of June, we applied it as a credit to their July bill.

Abhishek Patwardhan;CIFC Asset Management;Executive Director

Got it. Understood.

Joseph Patrick Lacher
President, CEO & Director

No problem. Happy to help. I know it's a little bit confusing on all of these, and every company seems to do it a little bit differently, which is why we're trying to describe for you all, the principle around what we're doing and how we're approaching it because then that helps you understand what the answer is at the end and why.

Operator

And this concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Lacher for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator. I appreciate it. And thank you all for being with us and for your interest. We're pleased with our results this quarter and look forward to talking to you again next quarter. Thank you very much.

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