S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

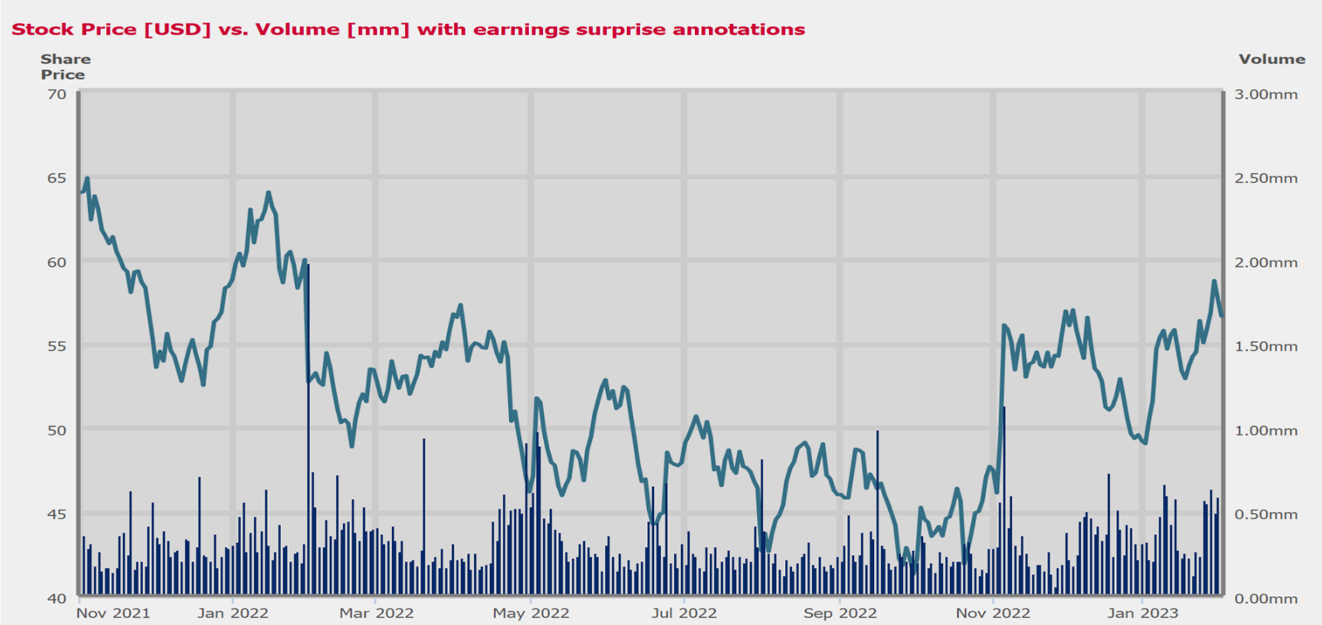
FQ4 2022 Earnings Call Transcripts

Thursday, February 2, 2023 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.58)	(0.48)	NM	(0.40)	(2.44)	NA
Revenue (mm)	1406.60	1409.20	▲0.18	1370.45	5632.45	NA

Currency: USD
Consensus as of Jan-30-2023 1:06 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	(0.28)	(2.05)	NM
FQ1 2022	(1.29)	(0.94)	NM
FQ2 2022	(0.68)	(0.62)	NM
FQ3 2022	(0.58)	(0.48)	NM

Table of Contents

Call Participants

EXECUTIVES

Duane Allen Sanders
Executive VP and President of P&C Claims & Personal Insurance

James J. McKinney
Executive VP & CFO

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Karen Guerra
Vice President of Investor Relations

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Timmy Lynn Stonehocker
Executive VP & President of Kemper Life

ANALYSTS

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Fourth Quarter 2022 Earnings Conference Call. My name is Jason Erne and I will be your coordinator today. [Operator Instructions] As a reminder, this conference call is being recorded for replay purposes.

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

Karen Guerra
Vice President of Investor Relations

Thank you, operator. Good afternoon, everyone, and welcome to Kemper's discussion of our fourth quarter 2022 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; Matt Hunton, Kemper's Executive Vice President and President of Kemper Auto; Duane Sanders, Kemper's Executive Vice President and the Property and Casualty Division President; and Tim Stonehocker, Kemper's Executive Vice President and President of Kemper Life. We'll make a few opening remarks to provide context around our fourth quarter results, followed by 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 markets closed today, we issued our earnings release and published our earnings presentation and financial supplement. We intend to file our Form 10-K with the SEC within the next week.

Our discussion today may contain forward-looking statements with the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, the company's outlook and its future results of operations and financial condition.

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 on additional risks that may impact these forward-looking statements, please refer to our 2021 Form 10-K as well as our fourth 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. Thanks for joining us today, and welcome to our fourth quarter conference call. I want to start by saying that I'm optimistic about Kemper's future. The quarter included improving underlying profitability masked by a few infrequent items impacting financial results.

Our top priority remains returning the company to target profitability. Further, our initiatives to enable greater capital return while reducing volatility in earnings and cash flow are well underway. We are observing continuous improvement in the underlying profitability of our core businesses.

Our recent strategic actions are already delivering results. I'm bullish about achieving adjusted consolidated net operating income during the first half of 2023 and producing underwriting profits during the second half of the year. The strength of Kemper's differentiated capabilities, market focus and enhancement initiatives positions the company to provide attractive near- and long-term returns to shareholders.

In the fourth quarter, we made progress on each of our initiatives. Highlights include the following: rate-taking activities exceeded the third quarter forecast, rate approval for California specialty personal auto, cost structure enhancements aligned with third quarter commitments, continued strong profitable Commercial Vehicle growth and improved Life profitability.

The current operating environment remains dynamic. This requires us to be agile, use quality and timely information and have a team that can quickly ingest adapt and respond to these changes. We have the right team in place to navigate through this period and capture the opportunities that will emerge on the back side.

As a reminder, we'll be holding an Investor Day in New York on Thursday, March 9. This will be a great platform to discuss Kemper's journey to date and the road ahead. The event will include presentations from myself and Jim as well as Matt Hunt, who leads our Specialty Auto franchise; and Tim Stonehocker who's responsible for our Life business. As a result, Matt and Tim are joining our usual speakers today.

I'll now turn the call over to Jim to discuss additional details on our operating results and an update on our strategic initiatives.

James J. McKinney
Executive VP & CFO

Thank you, Joe. I will begin on Pages 4 and 5 with our consolidated financial results. For the quarter, we generated a net loss of $0.87 per diluted share and an adjusted consolidated net operating loss of $0.41 per diluted share. This included unfavorable prior year reserve development of $8 million and $9 million of catastrophe losses in the quarter.

The ongoing environmental challenges facing the P&C and life insurance industries continue to impact Kemper's financial results. Significant factors include severity trend inflation, seasonality and modest adverse development and while moderating elevated mortality. Our energy and efforts remain concentrated on restoring the business to profitability and the inputs that will enable us to achieve our target returns.

These include filing for additional rate, implementing further underwriting actions and reducing expenses. The combination of profit actions earning in -- at an accelerated pace, improvements in expense run rates and reduced mortality in our Life business will lead to continued improvement in our financial results.

Turning to Slide 6. To enable greater insight into our underlying results we have included an underlying reported to normalized combined ratio walk. It details the biggest items impacting our P&C ratios. This includes seasonality and modest reserve development. Normalizing for these items, we saw approximately 1 point of sequential improvement in Specialty's underlying combined ratio and approximately 3.5 points of improvement in preferred P&C.

Moving to Page 7. This quarter, we had modest prior year and intra-year development. It was driven by elongated settlement time lines for third-party claims, additional defense costs driven by an increase in litigated PIP claims and a decline in salvage values relative to used car prices.

Consistent with our reserving philosophy, we react quickly and provide operating transparency into trend changes. Despite the challenges today's environment creates, we are able to accomplish this due to the quality and speed with which we gather and act upon information. This allows us to maintain appropriate reserves. Recall that for the year, we had favorable prior year development of approximately $17.4 million.

Moving to Page 8. Last quarter, we announced several operating model enhancements to improve productivity and growth including expense reductions. These initiatives are on track, and we expect to deliver on each of our commitments. During our fourth quarter, we secured approximately $61 million in run rate savings. This included 0.6 points or $34 million improvement in our LAE ratio, approximately $18 million in enterprise expense reductions and $9 million in savings from real estate optimization.

Turning to Page 9. We highlight the strength of our balance sheet. We have appropriately capitalized insurance businesses and a healthy liquidity balance of $1.3 billion. Further, we continue to have the capital needed to navigate this environment and appropriately invest in the advancement of core capabilities. In addition, as previously disclosed, we are committed to reducing debt outstanding by $150 million and bringing our debt-to-capital ratio back to our long-term target of 17% to 22%.

Moving to Page 10. Net investment income for the quarter was $106 million. New investment yields are up 250 to 300 basis points over the prior year, leading to a pretax equivalent annualized book yield of 4.6%. We estimate $275 million to $325 million of our fixed income portfolio will be subject to reinvestment in 2023. This will provide incremental improvements to future investment income.

On Page 11, we provide an update on our strategic initiatives. During the quarter, we submitted our initial filings with the Illinois Department of Insurance to establish a reciprocal exchange. We also formed Kemper Management LLC to serve as the reciprocals attorney-in-fact. The project is on track, and we expect to write premium in the structure during the third quarter of 2023.

Additionally, we completed the sale of Reserve National Insurance Company and its subsidiaries otherwise known as Kemper Health to Medical Mutual of Ohio on December 1. Finally, as indicated on our third quarter call, we initiated a strategic review of Kemper Personal Insurance, our preferred home and auto business. We continue to explore options and we'll share additional details when available.

I will now turn the call over to Matt to discuss the Specialty P&C business.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Thank you, Jim, and good afternoon, everyone. Moving to Page 12 and our Specialty P&C business. Aligned with Joe's earlier comments, we are laser-focused on restoring the business to target profitability. Our actions are outpacing loss cost trends and underlying profitability is improving.

As noted on Page 6, during the quarter, the specialty auto book reflected a sequential normalized underlying combined ratio improvement of approximately 1 point, driven by the realization of earned rate exceeding loss trend.

Let me comment on the 2 components of Specialty Auto business. Since the third quarter of 2021, on a weighted average basis across our entire personal auto book, we have filed for approximately 43 points of rate. Through the fourth quarter, 21 points have been approved and are effective in the market with 8 points of that having been earned. As we move forward, we will continue to file rate aligned to loss cost trends.

Shifting to Commercial Vehicle, the business continues to perform well. For the year, the underlying combined ratio was 93.8%, year-over-year net written premiums grew 33% and policies in force grew 17%. To reaffirm, the segment is expected to see additional improvements in the first quarter and deliver underwriting profits in the second half of 2023.

I will now turn the call over to Duane.

Duane Allen Sanders
Executive VP and President of P&C Claims & Personal Insurance

Thank you, Matt. Now we'll turn to Page 13. Similarly to the specialty auto business, the preferred segment is focused on restoring profitability. As noted on Page 6, preferred quarter was impacted by a few unusual items. This includes seasonality and modest prior quarter reserve development. On a normalized basis, the underlying combined ratio improved by approximately 3.5 points.

As we look forward for the next couple of quarters, we expect the rate and non-rate actions we have taken and will continue to take to keep pace with trend, and we will deliver profit improvement in the second half of the year.

I will now turn the call over to Tim to cover the Life business.

Timmy Lynn Stonehocker
Executive VP & President of Kemper Life

Thank you, Duane. Turning to our Life & Health business on Page 14. Despite higher levels of inflation impacting our market segment, the business continues to see strong sales demand and good persistency. New business sales are aligned with prepandemic levels and profitability continues to improve with pandemic-related headwinds subsiding. .

Excess mortality has declined for the last 3 quarters, and we are nearing prepandemic mortality levels and expect continued improvements. In addition, the business continues to benefit from new investment yields at or above our pricing assumptions. The combination of these items will lead to additional improvements in our financial results.

I'll now turn the call over to Joe.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thanks, Tim. Turning to Page 15. In summary, I continue to be optimistic about our prospects. You should leave this call with a strong understanding of the following: first, the financial benefits of our initiatives will earn into the book on an accelerated basis. We expect to be profitable in the first half of the year and make an underwriting profit during the second half. Second, the inputs that drive profitability continue to trend positively, including rate in excess of loss trend, improving mortality and interest rates above pricing assumptions.

Third, restructuring and integration efforts are on track to produce targeted expense savings. And lastly, our reciprocal and Bermuda capital initiatives provide short- and long-term opportunities to further optimize capital and reduce risk. We are confident in the actions we have taken in response to increased loss costs seen over the last 18 months. We are trending in the right direction. Enhancements in our operating model will further advance profitability gain.

Finally, I want to thank our entire Kemper team for their collective effort and dedication.
With that, operator, we can now take questions.

Question and Answer

Operator

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

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

To start off with, Joe, thanks for the guidance that you've provided regarding expectations for operating income in the first half of '23 and underwriting profitability in the second half of '23. I'm wondering how the rate actions that we're seeing that you filed for the first quarter '23. How those come into play and intersect with the guidance that you provided? Or is the guidance you provided really a reflection of the previous rate action you've taken?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Greg, thanks for the comments. The bulk of it is going to be driven by -- particularly the first half of the year is going to be driven all by actions that are already taken. If we file for something in the first quarter, the likelihood of it being approved and effective and then working into the written rate and the earned rate, it will have a de minimis impact on the first half of the year. It could, if it were approved early enough in the year, start to be written in and have some impact on the back half of the year. So those could affect it. You should assume, though, that our statement that we're expecting to make profits in the first half and an underwriting profit during the second half to be regardless of whether or not we get an approval on the first quarter numbers.

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

Okay. That's appropriate. Can you pivot and maybe this is a good opportunity for Matt to chime in, Duane, but it seemed like you're calling out Florida PIP again? And then I look at the policy count growth and the decline, can you give us a sense of where is this across the network? Or is this regionally specific or some color around where the problems -- where the real hotspots are at this moment in time?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Sure, Greg. And I'm going to start with a quick comment then I'm going to actually ask Jim to because I would tell you this is a function, maybe a little less operational and a little more of how it's working through some of the reserving numbers. Maybe, Jim, you offer some comments and these guys want to add?

James J. McKinney
Executive VP & CFO

Yes, Greg, thank you, Joe. I think the big element that what we see kind of in this quarter, and again, maybe it's some of the changes in the assignments of benefits or other elements is we've seen an additional amount of litigation activity associated with PIP claims, obviously, in Florida. That change caused us to take -- revisit a little bit when we look back across this year and in prior years and then going forward, what we think that litigation rate is going to be. We don't importantly see a difference in terms of what we're seeing from a severity side that's notable. This is purely about the defense cost and making sure that we've got the right dollar amounts that are associated with that here kind of given, again, that increased frequency with which that's occurring. And again, I'm not 100% sure I can tell you kind of some of these changes in that kind of more revealed here. Maybe it's a little bit related to some of the -- again, the property changes in that where folks can go. But overall, we took care of it here this quarter and nothing here really to note more than that.

Duane Allen Sanders
Executive VP and President of P&C Claims & Personal Insurance

Yes. This is Duane. Only one thought beyond that. I think it's important to recognize that in that space from a litigation perspective, not all litigation is created equal. And a lot of times there's, what I would prefer or call, frivolous or meritless type litigation, but you still have an obligation to defend. And so to Jim's point, you probably don't see a lot on the severity piece and it's more on the defense side. And we were just truing that up, making sure that we're in a position to handle those as they come through.

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

Got it. Last question just is going to pivot to the catastrophe reinsurance renewals. It's obviously pretty topical in the industry. And maybe you could -- I was looking at the Slide 19, where you talk about your program. It doesn't look like your retention on cat ex a loss change, but you did drop the ag program. Maybe you can just give us some color on what's going on there.

James J. McKinney
Executive VP & CFO

Yes. No. Thanks, Greg. Jim again. big picture-wise, obviously, I think everyone's aware of kind of the trends in the reinsurance market, obviously, with inflation and other elements and some of the uncertainties that have gone on there. Over the last couple of years, we had been close to essentially where we were breakeven from a crossover perspective, from a pricing [indiscernible].

Again, we haven't had a claim or used anything since like 2018. And so when you think about that relative to kind of the increased pricing that was out there today, it's just no longer penciled both with the shrinking book and that we have in the property or the diversification that we've added with inside that book at this stage from an economic perspective, just to maintain it.

So again, kind of the net historical value to us was a couple of million dollars, again, once you include kind of capital considerations of this. It would have been $3 million, $4 million if you kind of think about it the other way. Not a big element in terms of the total change to us. But we -- our framework and that have us make sure that we're always solving for what we think is the best answer for our shareholders and our stakeholders. And with the changes that are inside the market, we updated kind of our program thoughts accordingly.

Operator

Our next question is from Brian Meredith, UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them for here. Just a quick clarification. When you say profitability in Specialty P&C, do you mean Specialty Commercial and Specialty Personal will both be profitable underwriting wise in the second half of the year or just in total?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes. In those comments, Brian referencing the segment in total.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Because Specialty Commercial is already profitable. So I got you. Okay. And then the second question on that -- got you. Got you. And then on that, I'm just curious, what is your kind of loss trend assumption in making that type of a statement. Are you assuming that we're going to continue at these double-digit levels that we're seeing right now? Are you assuming it goes down to single digits? What's your assumption?

James J. McKinney
Executive VP & CFO

So we don't disclose our assumptions on that standpoint other than what we can give you is what we have been seeing more recently is something that's much more comparable to kind of some of the historical norms. There's still some inflation inside there. We see a higher level. You might think about low double digits on some of the things that we're seeing from a commercial perspective, but auto may be running more in that kind of 5%, 6% kind of area.

Any way you look at it, this does take into account what we think is the mix component that would be there, both from a state perspective, a coverage perspective and other. And so what we're trying to give you is kind of the net answer. It includes what the earned rate and other elements are going to come in. If you think about kind of the framework that we outlined before, where we talked about jumping off of kind of that normalized underlying, think about sequential improvement as it relates to the -- basically the additional earned rate coming in and underwriting actions offsetting effectively some of the trend.

What I would suggest is, you'll get -- maybe you're adding at this point in time, 1 point -- 1.5 points inside there for a trend just because some of the underwriting actions on a sequential basis aren't going to continue to materially increase from that perspective. So they won't fully offset trend. So sort of giving you any advice, maybe you got a little bit there.

But you should basically kind of be coming to that outcome where you're baseline way to kind of think about improvement and begin to think are we going to be a little faster, a little slower than that would be, again, kind of that earned premium change earning in, maybe 1 point, 1.5 points difference from effectively trend kind of exceeding those underwriting actions and then essentially your answer begins to fall out and then you can appropriately adjust up or down relative to you think the additional progress we'll make against that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. That's -- my point I was just trying to get to is that if you missed your thought of like getting to that number by the end of the -- underwriting profit by the end of the year, it's going to be because trend is running hotter than you have expected.

James J. McKinney
Executive VP & CFO

It would be. We obviously would corresponding update guidance as we went, but it would be -- this would be something unforeseen, right, and significant, to some degree, not -- it should not be -- if we're talking about 1 point or 2 throughout the year, a little higher, a little lower, we're comfortable relative to the guidance in that, that we're -- we provided here. So again that's been something [indiscernible]. We're pretty comfortable with thinking -- with the thought of profitability.

Brian Robert Meredith
UBS Investment Bank, Research Division

I get it. So we've learned in the last 2 years, nothing surprising, right? So second question -- Yes, I get it. I get it. I get it. The second one, I'm just curious, California, it looks like you all filed for and were approved for 6.9%. I know a competitor of yours actually achieved a lot more than that. I think it was north of 17%. Does that make you kind of reconsider -- rethink your strategy with respect to getting rate in California?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

I'm going to answer it in sort of 2 ways, and then I'll let Matt offer some comments, too. That's not making us rethink our strategy because you haven't outlined our entire set of tactics at this point. We filed for that 6.9% that was approved, some time ago. We have since filed for additional rate in those programs, and that's at roughly 30 points. .

It will show up on the state side and I think at roughly a 37% because it combines the 2 and the state is actively working those with us. So we're aware of what's going on in the marketplace. We're aware of what's moving. And we're several months past that being filed and working. So it's not new. I'll let Matt comment on sort of where we are.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

So this is Matt. Just a couple of quick thoughts on our ongoing conversations with the California Department of Insurance. So we have a great relationship with them. We have a good conversation flow back and forth. As we navigate through the filings, one thought I would add is we file generally what our experience supports, and we're confident in the data, right, as we submit that to the California Department. And as we go back and forth, we'll work it as expeditiously as possible. But our expectation is that the current filings that we have, we'll work them through the filing. Hopefully, we'll get them through and effective sometime in the near future.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Especially to this point have been productive and active. They're not sitting dormant and they're not moving. And I would maybe just make the general comment that the larger filing you referenced gives us -- gives us confidence as an industry, I think, that things are moving.

Operator

Our next question is from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I was wondering if you could talk a little bit about auto claim frequency. And I would imagine, please correct me if I'm wrong, that a lot of your non-rate effects would -- had a beneficial effect on that frequency, and I'm just wondering if there's any way that you can think about or you can tease out how the frequency you're seeing might vary depending upon -- if you sort of adjust for all of the pretty significant non-rate actions that you're taking?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Yes, Matt, maybe you start taking a shot at specialty auto. I think that's the biggest place, Paul, on that. And Duane, you can you add some color to it.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes. So just quick comments on frequency. As a function of our underwriting actions and our pricing actions in the marketplace on a year-over-year basis, on the PPA side, we're seeing sort of pretty significant negative frequencies come-through. They're as expected in the negative sort of 10% range.

On the Commercial Vehicle side, we're seeing a slight elevation, but that's also a function of our mix that we're pushing through. So it's a plus 2 plus , plus 3 in that range on the frequency side as we shift towards a more preferred segment on the commercial space. And so again, generally in line with our expectations and nothing is out of pattern for us.

James J. McKinney
Executive VP & CFO

And I think, Paul, when we think about the story, I know at one point in time, you had a question in terms of -- from an underwriting perspective, I think the key element of what we take away from this is we continue to see frequency down from the prepandemic levels that we had. And certainly, it returned in certain pockets or came up, but as a whole, frequency down the real outcome that's come through our financial statements is the severity factors that we've referenced before.

And again, we're working our way through that. I think the positive thing is the environment, at least at this point in time. While there's still increasing trend, it is moderating and returning more to normalized levels. And the early kind of visibility that we might have to where those trends are going, continue to kind of pace in that direction.

Something changes, obviously, we'll take note of it and react accordingly. But right now, if you're thinking about trends, think about us, continue to make further enhancements on the underwriting front and frequency gains or maintaining what we have here. And then hopefully a continued normalization of the severity environment with, again, the significant rate that we've taken to match up to the severity environment earning in, in an accelerated way here to kind of return us to the traditional target profitability levels that are appropriate for the business.

Jon Paul Newsome
Piper Sandler & Co., Research Division

That makes a lot of sense. I just -- what I was trying to think about was you're obviously trying to significantly improve the quality of the book, not just put-through pure rate. and whether or not that decline in the frequencies, primarily because of the mix change to a better book than versus sort of an environmental change.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

I think, Paul, when, I think, Matt gave you a roughly 10%, 11% decline in private passenger auto, I don't think you've heard anywhere a suggestion that frequencies are down 10% or 11% environmentally. I'm trying to be careful not to be exactly precise which one is which. But if you add up all the conversations you've heard about frequencies and other spots, you have to assume it was something other than an environmental issue working under there, wouldn't you?

Jon Paul Newsome
Piper Sandler & Co., Research Division

I would imagine so. That would be my guess. But just trying to confirm.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

It's a very material number.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Indeed, that's good question. Just any thoughts further on sort of the competitive environment and how that works into your thinking about profit expectations next year. I would guess that we're still in an environment where people are doing basically the same kind of things that you are. But just anything on -- you're seeing more recently from what your competitors are doing versus you guys?

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Sure, Paul. I'll make a comment overall, and I'm pretty sure it covers all of PI and our Specialty Auto business. The bulk of the industry is still dealing with profit challenges. In some cases, they're still recognizing that they have them and responding to them. We expect this will be the commercial equivalent of a hard market for a while. .

We're not -- it's not factoring into our calculus at this point to do anything other than be driving to restore the profitability. And I don't see anything that impedes in the near term, our ability to make that focus. There's not anything wonky going on from a competitive perspective that would restrict it.

Operator

Our next question is from Andrew Kligerman with Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

I'd like to drill down a little bit more on Paul's frequency question because I'm thinking about Progressive's call last quarter, and they talked about frequency potentially beating down as much as 20% at that operation. The question for you is gas prices. Is that potentially the reason for lower frequencies? Or is it just a permanent change in driving behaviors?

James J. McKinney
Executive VP & CFO

So I think I want to separate a couple of things. One, I want to be careful about our internalization of Progressive items. I think they were maybe referencing coverages or other elements in between. The number that we're providing just to avoid confusion is the sum total in terms of the impact on our book.

When we think about that, there's probably -- I wouldn't say that we don't -- when we look across, you see people driving at a different periods potentially in the day or, but you don't really see miles driven from a perspective down material in fact, in many cases, it's up from the prepandemic norms.

Associated with that, I think on a baseline component, if you're just comparing -- trying to compare as much apples-to-apples, I think the benefits from frequency from a pandemic perspective have largely been neutralized or gone away. And so I think you're actually at a really normalized kind of environment from a frequency perspective. And so differences from a frequency perspective, from there -- our underwriting actions and other things that we've done both from a mix perspective and a segmentation perspective to continue to enhance the potential outcomes that we have and refine the book.

And so I think the way to think about this is that this is us moving forward, we think that we're going to continue to build off of these elements. We're always looking to enhance those and that might be the way to kind of think about where at least we're at and how we're thinking about them.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

And gas prices, the element there? Anything to add about that?

Joseph Patrick Lacher

Non-Executive Chairman, CEO & President

Look, the gas prices are there. I think what Jim was trying to say, and I'll echo it, you had a big, big movement of frequency down relative to the pandemic lockdowns. Then you had a big year-over-year relative moving of frequency up as people start going out. Then depending on your book, you continue to sort of gradually see that get back to a prepandemic level. .

We never, in our book, saw as much of a drop as many folks saw with our Specialty Auto focus. And we popped back up to prepandemic levels earlier. We have continued for several quarters to report that our frequency is below our prepandemic level and has been declining. I think what you would see from a pattern is that most folks have been saying that theirs was going up a little bit as they were returning to that prepandemic level, so they've been directionally different.

We're a little bit -- again, that pattern was not exactly the same for us because of the Specialty Auto nature of our book and the geographic concentrations, but we're watching those big issues.

Yes, if you're looking at elevated gas prices from 1 quarter to the next or 1 year to year, they can have some impact. I think the other forces at play of the pandemic shutdown and reopening and the underwriting pieces are bigger. If we're matching from today, say, for the next 9 months, we might see that elevated gas prices for a longer period of time and the inflationary offset and pressure on disposable income might cause people to drive less, but I would be watching -- that if I were you, I would be watching miles driven because if miles driven are flat, it's not like because gas prices are higher, people are driving safer.

If they're still driving the car miles driven, you're still going to see losses. I think that would be a good thing to match if you're trying to use that as a proxy is track gas prices and track miles driven, and that will give you a forward thought process. When you get to an individual company, you're going to find different issues that may be a function of their underwriting or geographic mix? Does that help?

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Yes, very helpful.

Operator

There are no further questions. So I'll pass the call back over to the management team for closing remarks.

Joseph Patrick Lacher
Non-Executive Chairman, CEO & President

Thank you, operator, and thank you, everybody, for joining the call today. I'll just leave you with 2 final thoughts. One, just another quick reminder. We'll be holding an Investor Day in New York on Thursday, March 9. We're excited about that opportunity to spend some more time with you, let some of our leaders get a little bit deeper into our core businesses and talk about our opportunities going forward. .

So we look forward to seeing you there. Details on attendance will follow. And just a reminder of the key takeaways that we had on Slide 15. We're bullish about where we are in our opportunities going forward and the fact that a lot of hard work going back into enhancing and restoring the company to target profitability and executing our strategic initiatives will really bear fruit over the course of 2023.

So thank you for your time and attention, and we look forward to talking to you in March.

Operator
That concludes the conference call. Thank you for your participation. You may now disconnect your lines.