S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

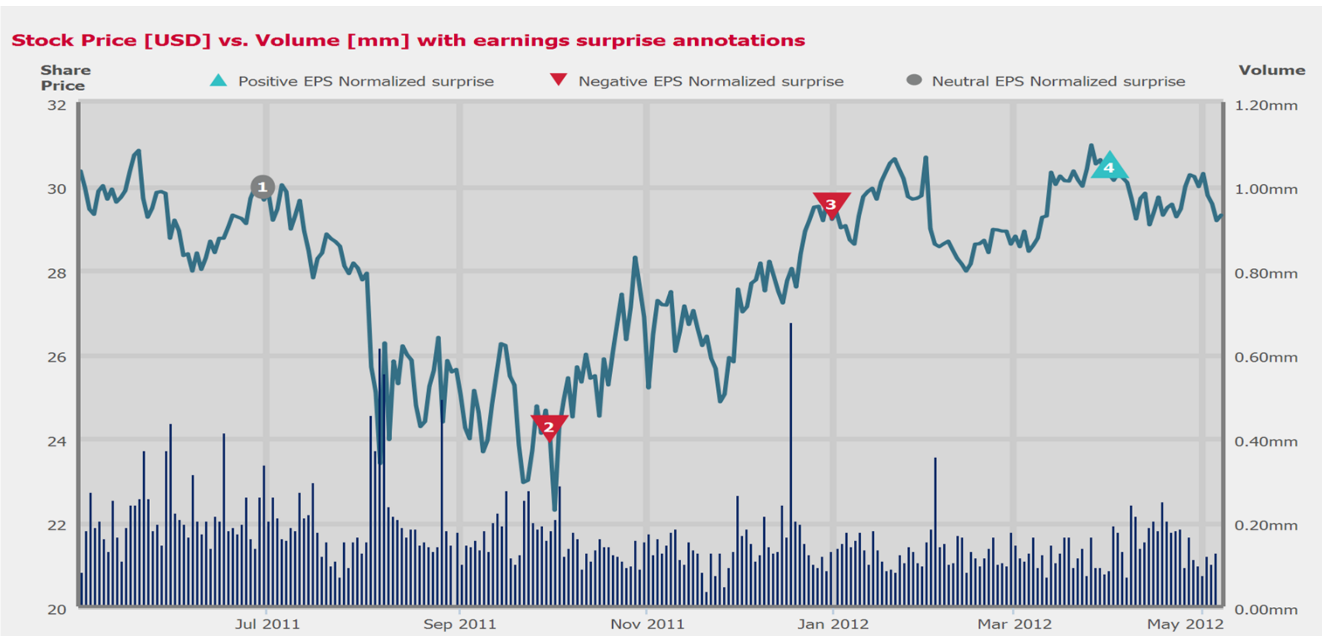
FQ2 2012 Earnings Call Transcripts

Tuesday, August 07, 2012 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.10	(0.01)	NM	0.49	1.74	2.49
Revenue (mm)	612.03	608.90	(0.51 %)	614.33	2446.76	2490.07

Currency: USD
Consensus as of Aug-03-2012 7:54 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	(0.42)	(0.03)	NM
FQ3 2011	0.51	0.16	1 (68.63 %)
FQ4 2011	0.70	0.42	2 (40.00 %)
FQ1 2012	0.53	0.60	3 13.21 %

Table of Contents

Call Participants

EXECUTIVES

Dennis Robert Vigneau
Former Chief Financial Officer and Senior Vice President

Diana J. Hickert-Hill
Investor Relations Professional

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

James Allen Schulte
Former Group Executive of Property & Casualty Group

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Paul Newsome

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Kemper's Second Quarter 2012 Earnings Conference Call. My name is Karen and I will be your coordinator today. [Operator Instructions] As a reminder, the conference is being recorded for replay purposes. I would now like to introduce your host for today's conference, Ms. Diana Hickert-Hill, Vice President, Investor Relations and Corporate Identity. Ms. Hickert-Hill, you may begin.

Diana J. Hickert-Hill
Investor Relations Professional

Thank you, Karen. Good morning, everyone, and thank you for joining us. After the markets closed yesterday, we filed our Form 10-Q with the SEC and issued our press release and financial supplement. You can find these documents on the Investors section of our website, www.kemper.com.

We'd also like to mention that in our financial supplement this quarter we added an additional page of disclosures related to our catastrophe frequency loss and severity performance. You can find this information on Page 11. This morning you will hear from 3 of our business executive, starting with Don Southwell, Kemper's Chairman, President and Chief Executive Officer; Jim Schulte, Kemper's Property and Casualty Group Executive; and finally, Dennis Vigneau, Kemper's Senior Vice President and Chief Financial Officer.

We will make a few opening remarks to provide context around our second quarter results. We will then open up the call for a question-and-answer session. Please note that our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. Please refer to our Form 10-K filed with the SEC on February 17, 2012, as well as our second quarter 2012 Form 10-Q and earnings release for financial information on potential risks associated with relying on forward-looking statements.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our 10-Q, supplement and earnings release, non-GAAP financial measures have been reconciled to GAAP where required in accordance with SEC rules. And now I will turn the call to Don Southwell.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Thank you, Diana. As you heard in the introductions, I have asked Jim Schulte to join the call to provide details on our property and casualty business. So I will confine my remarks to the following 3 topics: first, our recent decision about the direct business; second, our life, health and investment performance; and third, our progress on capital.

Starting with Kemper Direct. We recently announced that we are reviewing strategic options for the Direct business and that we have ceased direct marketing activities. Over time, we had undertaken several significant actions to improve profitability in this segment. We were intentionally shrinking the business until loss ratios and acquisition fundamentals improved, but we were not satisfied with the rate of progress.

Given the reality that we were not getting an appropriate return on capital, we decided it was time to take more significant action. We have stopped direct marketing activities. We are evaluating all of our options for Kemper Direct. Since our announcement, we have received a number of inquiries which we are actively exploring.

Turning now to our business performance, overall we're benefiting from the diversity of our portfolio of companies. The life and health businesses once again delivered steady top lines and good profits. This along with our strong portfolio yield has helped to offset losses in P&C. In the life and health segment the, top line held steady despite the discontinuation of sales of our dwelling and hospitalization products. We also delivered strong bottom-line performance and have taken price increases on life insurance to help offset the difficult interest rate environment.

Our Kemper home service company’s flagship entity, United States Insurance Company of America was recognized as one of the top 50 performing life insurance companies by the Ward Group, a leading provider of benchmarking and best practice services for the insurance industry. This was the second consecutive year that our life business was recognized. On the supplemental health side, I am pleased with our Reserve National team's performance as it continues its mix shift to products less affected by National Healthcare Reform.

The investment portfolio delivered a solid performance as we navigate this low interest rate environment. While returns on our equity method investments were lower than last year’s superior results, they were within our range of expectations. Despite the inherent volatility, we like the expected lifetime performance of these assets. As to capital, we are in a strong position. We continue to be disciplined as we allocate capital across our 4 priorities which include funding profitable organic growth, considering acquisitions that have a clear fit and make our existing businesses stronger, maintaining our competitive dividend and repurchasing shares.

On this fourth point, we have repurchased just over $50 million of stock year-to-date through July which is good progress on our plan to repurchase up to $100 million in 2012. I want to be very clear about my views of the quarter. In life and health, investments and capital management, we delivered solid results. On the P&C side results were disappointing. Our priorities for P&C are the following: improve margins before growth, increased homeowners profitability, achieve overall rate adequacy and continue to leverage our shared services to maximize operational effectiveness.

And now I'll turn the call over to Jim to provide color on the quarter’s results and explain how his team is addressing these priorities.

James Allen Schulte
Former Group Executive of Property & Casualty Group

Thank you, Don. Kemper’s second quarter P&C results fell far short of expectations in 2 primary areas. First, although cat losses declined significantly over last year, losses in the quarter and year-to-date are well above historical averages. On a reported basis, the homeowners combined ratio was 135 and a 119 for the current quarter and year-to-date respectively. Second, the P&C group's underlying combined ratio for private passenger auto deteriorated 3 percentage points over last year, resulting in an overall of a 106% for the quarter. Severity is up in both liability lines to -- and to a lesser degree, in physical damage. As well, some business units are -- experience higher claims frequency and physical damage coverages. I'll provide some perspectives on what we're doing to improve the profits across the group. I'll start with an overview of the entire P&C area.

Second quarter cat losses were significant for the industry as a whole and we were not immune to that. While cat losses were less than last year’s record levels, they're still above our expectations, so we are continuing to take actions to improve profits. Overall while we're not ready to call it a hard market, we continued to see signs of improving market environmental conditions in some states in both personal and commercial lines.

Turning to Direct, I want to reiterate that we have ceased direct marketing activities. We continue to take actions at the same time to improve underlying performance. I'll give you an overview of where we stand in Michigan, New York and Florida. We have exited direct auto sales in Michigan and are in the process of nonrenewing the book of business. We are migrating the New York book to a new platform and we expect to achieve significant rate increases over the next 2 to 3 years. And finally, we decreased the Florida book 37% to $19 million in force over the last 12 months.

On the remaining states, we continue to take actions in line with our indications. Overall our current plans project the entire direct business to make profit in 2013.

I'll turn now to our largest P&C segment, Kemper Preferred. Like others in the industry, we experienced high level of cat losses in the second quarter. Although losses were below record levels from last year, they're still way above our expectations for the quarter. We are taking a number of steps to improve our results. On home we're taking significant rate action in most states, increasing deductibles, especially in states with tornado and hail exposure and improving the overall accuracy of our pricing. On auto we have accelerated our current increases and are zeroing on any problem business.

The preferred business has several ongoing initiatives aimed at increasing agency engagement and raising customer retention ratios and continuing to increase the mix of both new and renewal target market customers. As of the second quarter, the target market now represents over half of our in force book. Over the near term, we're addressing the uptick in underlying loss ratios to achieve pricing targets. In order to improve returns, we're taking many actions including addressing distribution relationships, having subpar loss performance trends to develop improvement plans or take other corrective actions.

Continuing efforts, we're also continuing efforts to reduce the amount in mix monoline auto business, particularly in non-target-market customers. The target market business tends to be more upscale business which has better loss ratios and retention levels. And finally, we're reviewing performance metrics and capital allocation plans, particularly in homeowners.

I'll note that some of these may result in fluctuation, some of the actions may result in fluctuations in customer retention ratios or earned premium but ultimately deliver higher profit margins and return for shareholders. We expect returns in the auto line to improve faster than in homeowner. Lastly on preferred, let me provide an update on the comprehensive rate actions we have in the pipeline to improve profit. On the homeowners book, we continue to file for double-digit rate increases and many of the states have already approved them. By the end of 2012, we now expect to achieve country-wide average rate increase of 10% to 11%, the majority of which we'll earn during 2013. This is 2.5 points above the original plan and we'll continue to needed rate actions. And if those actions don’t give us adequate returns, we'll reduce our overall exposures where targeted returns cannot be achieved.

On the auto book, we are targeting 7 to 8 points of filed rate on a countrywide basis by the end of 2012, the bulk of which we'll earn in next year. This is also 2 points above our original plan for the year and is largely targeted at the severity trend we see in liability.

While these actions will take some time to yield the full benefits, they are important steps for our long-term business model. As we shift our business mix we are seeing better underlying performance of target market policies. Stepping back, although we are pleased to see the positive results in the target market mix, new business and policy retention metrics over the last few quarters, I want to reiterate Don’s earlier comment. Our primary focus is to improve margins across the product lines and secondarily, to grow the business.

Turning now to Kemper Specialty. Our non-standard segment also saw challenges in the quarter, particularly in the private passenger auto line. You saw the underlying combined ratio increase by over 5 points. Primary drivers include physical damage frequency and higher expenses. The business team is responding on multiple fronts to get ahead of those trends and restore profit including the following: the 2012 countrywide rate action target has increased from 6% to 10% and the timing of these rate actions have been accelerated.

Where possible, we are restricting new business growth and renewals in lower volume states and customer segments having higher frequency until adequate pricing is achieved or other corrective actions are in place to achieve targeted returns. In California, the business' largest state, we had our latest rate increase approved and a new personal auto class plan is slated to be filed later in the third quarter with a targeted implementation date early in 2013. And finally we have several ongoing agency engagement and customer segmentation initiatives. We're also taking underwriting and marketing actions to improve the results over the coming quarters. The commercial side, on the other hand, had another solid quarter and continues to grow premium.

Turning now to Kemper Services Group, this group supports our P&C businesses for such areas as information, technology, HR, claims and legal initiative. It allows us to take advantage of scale we have across the business. Accomplishments to-date include the integration of most aspects of the claims process and IT effort along with fully consolidated accounting reserving and HR functions.

So in sum, we're facing our challenges head-on, we're taking decisive actions in Direct and we are addressing our issues in preferred and specialty. We are committed to improving profit of these lines and I feel good about the plans we have in plan – in place.

With that, I'll turn it over to Dennis about the financials.

Dennis Robert Vigneau
Former Chief Financial Officer and Senior Vice President

Thanks, Jim and good morning, everyone. As you've heard, the second quarter results were below our expectations in 2 areas: catastrophe losses in the homeowners book were well above historical averages and elevated underlying combined ratios were experienced in the P&C group. I'll get into details by business on both of these topics as well as other performance drivers in just a few minutes, but first let’s walk through Kemper’s consolidated revenues and earnings.

Reported revenues for Kemper were $609 million in the second quarter, flat with last quarter and 6% lower than the prior year. Earned premiums were $529 million in the quarter, down slightly from last year largely from actions taken in Direct. Consolidated net investment income for the company was $75 million this quarter and included $1 million from equity method investments. Last year’s net investment income was $83 million and included $11 million from equity method investments, an exceptionally strong quarter.

As a reminder, this asset class inherently has a less predictable earnings pattern but they also have historically delivered lifetime returns well above other asset classes and provide important diversification benefits for the overall portfolio.

Aside from the $10 million change year-over-year I mentioned, net investment income grew $2 million or 3% due to higher average invested assets. The pre-tax equivalent annualized book yield on the portfolio was 5.6% for the period, down 50 basis points from last year. And finally, net realized gains in the quarter were $4 million pretax, lower by $14 million over the last year.

On a consolidated net operating basis, Kemper's second quarter net loss was just under $1 million or $0.01 per share compared to a net loss of $20 million or $0.33 per share reported in the second quarter of 2011. This year-over-year improvement of $19 million was comprised of the following 3 items: First, $31 million or $0.51 per share from lower cats, partially offset by lower after-tax earnings from equity method investments of $6 million or $0.11 per share; and $5 million or $0.08 per share unfavorable impact from the increase in the underlying personal auto loss ratio across the P&C group.

Shifting to the details of each of the operating units' performance, I'll start with Kemper Preferred, where the net operating loss for the period was $10.3 million, an improvement of $23 million over the second quarter of 2011.

This improvement was primarily from $30 million lower weather-related losses, which was partially offset by $4 million higher frequency and severity of non-cat fire losses, $2 million of higher severity in auto liability and $2 million lower net investment income. On the revenue front, net written premiums increased about 4% to $233 million and earned premiums grew 2% compared to the prior year.

Overall premium retention in the first half was 88%, up 2 points compared to last year.

Shifting to Kemper Specialty. The net operating loss in the period was $2.8 million compared to a net operating gain of $5.3 million a year ago. This result was comprised of a $11 million decline in personal auto, partially offset by $2.8 million higher earnings in commercial auto.

Let me add some further color here beginning with the drivers of the $11 million variance for non-standard personal auto. First, the business had a $5 million shift in development, $4 million unfavorable in the current period from higher BI severity, mostly in the 2010 and 2011 accident years, compared to $1 million favorable development in the second quarter of last year.

Secondly, $3 million mostly due to higher claims frequency and physical damage, resulting in an increase in the underlying loss ratio of 4 points. Lastly, $2 million of lower investment income, coupled with $2 million higher expenses, the majority of which was related to technology enhancements.

Shifting to the commercial book, that performed well during the quarter, earning $4.8 million after tax, an increase of $2.8 million over last year. The main driver here was $2.3 million higher favorable prior year development across all accident years related to the mix shift in this product line.

Kemper Specialty net written premiums were $99 million in the quarter, reflecting lower volume on a personal auto side and higher volume in commercial auto. Earned premiums were $107 million in the second quarter, lower by approximately $7 million compared to 2011. Policies in force were roughly 306,000 at the end of June, down 10% over the same period last year.

Let`s shift to Direct. The team continues to execute its plans to improve overall profitability and for the second quarter, the business reported a net operating loss of $2.9 million, an improvement over last year of $1.9 million. The drivers of that variance included $2 million improvement from actions taken to reduce premium volume, $2 million improvement from lower cat losses and higher favorable development. These favorable items were partially offset by $1 million lower income on equity method investments and $1 million unfavorable impact of increasing severity and liability lines.

Let's shift to life and health. Net operating income increased over 8% and $19.5 million from lower catastrophe losses of $3 million which was partially offset by $1.5 million of lower net investment income. Overall earned premiums remain relatively stable at $161 million. The teams in life and health continue to respond proactively to the challenging environment, with price increases on new business, expanded supplemental product offerings and by maintaining a disciplined approach to expense management.

I'll wrap up on book value and capital. Book value per share increased in the quarter to $36.42, up from $35.69 at the end of the first quarter. Statutory solvency and surplus levels in the insurance companies remained strong, risk-based capital ratios were 480% in life and 290% for the property and casualty business.

On a combined basis, the insurance operating units have a max ordinary dividend capacity of roughly $175 million for 2012. Currently, we anticipate that between $70 million and $90 million will be paid as dividends to the holding company during the second half of the year, with all of that slated to come from the life business.

In terms of liquidity, the holding company ended the quarter with cash and investments of $163 million and a $325-million revolving line of credit remains undrawn.

I'll now turn the call back over to Don.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President
Thank you, Dennis and Jim. As you just heard, we did have a challenging quarter, yet we have solid plans in place to address the issues. So at this time, I'd like to turn the call back over to the operator so that Jim, Dennis and I may take your questions. Operator?

Question and Answer

Operator

[Operator Instructions]. our first question comes from the line of Paul Newsome of Sandler O'Neill.

Paul Newsome

I would hoping you could -- actually I have 2 topics. Let`s start with the claims trend issue. I think when we last discussed, it seemed to be more of a PIP issue and fairly focused in a fairly small number of states for obvious reasons. This time's much more broad based across all of your businesses and across all your states. Is that true? And can you offer any theories as to why it may be happening?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Well, I'm going to ask Jim Schulte to take the first crack at that.

James Allen Schulte
Former Group Executive of Property & Casualty Group

Yes, thank you. It is definitely true that we were seeing significant issues on PIP especially in the states of Florida, Michigan and New York on a direct basis. Late last year, we began to recognize other trends beginning to develop, especially on VI and liability lines in general and to some degree on physical damage. Those trends accelerated as the year progressed and we are taking rate action to address that.

Paul Newsome

So is the issue that you just missed that acceleration?

James Allen Schulte
Former Group Executive of Property & Casualty Group

I would say we saw it and it came faster than we expected.

Paul Newsome

Okay. I'd like to switch very quickly to the life side of the business. Obviously on a year-over-year basis the life business did fine. But sort of quarter-by-quarter, I think of the life insurance business, not like the P&C business, as being sort of more of a continuous business. The earnings were a lot less than sort of the quarterly run rate we've seen in the past. Perhaps you could talk to that. I mean is this sort of a $90-million business that -- which is what we should think of from the quarter or is it more of a $100-million-plus business?

James Allen Schulte
Former Group Executive of Property & Casualty Group

Paul, there are definitely some things going on in the life business that over the long haul will provide challenge. The most obvious is low interest rates. And our portfolio yield is holding up quite well and yet it still is down, I think 50 basis points from the same quarter last year and with roughly $3 billion of assets, that has an impact. Interest rates in the future, if they stay low that'll continue to have some impact on this business. Short of giving guidance, I would just say that we've been taking actions that help offset these low interest rates. Certainly we've been trying to keep the topline steady and controlling our expenses. And in addition to that, we recently took a price increase on our basic life insurance product to recognize the fact that interest rates aren't what they used to be.

Operator

And our next question comes from the line of Adam Klauber from William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

Just follow-up on Paul's question. So what is, in the preferred auto book, what's the rate that severity is running now versus say 6 months ago? And what type of rate increases are you putting in now in that preferred auto book just across the board compared to 6 months ago?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Jim, do you want to take that one too?

James Allen Schulte
Former Group Executive of Property & Casualty Group

Sure, be happy to. At the end of the year, we had taken approximately 2 to 3 points of rate on both home and automobile. Right now our plans on home call for about a 10% to 11% rate increase across the country during 2012 and on auto we're going to run at about 7% to 8%.

Adam Klauber
William Blair & Company L.L.C., Research Division

The 7% to 8% was that compared to 6 months ago, was that in that 2 to 3 range?

James Allen Schulte
Former Group Executive of Property & Casualty Group

That would be correct.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And how about, what's been the jump in severities compared to 6 months ago, severity trend?

James Allen Schulte
Former Group Executive of Property & Casualty Group

It's up approximately 2% on the liability lines.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then in homeowners, as you've begun to put in some of the higher rate increases, how have retentions been running?

James Allen Schulte
Former Group Executive of Property & Casualty Group

Retention has remained pretty strong on homeowners. We really target package business which combines auto and home together and retention has stayed up pretty well on home.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay, that's good to hear. And the non-standard specialty book, what type of rate increases are you putting in that book of business for the higher PD?

James Allen Schulte
Former Group Executive of Property & Casualty Group

We are taking approximately 8% to 9% year-over-year. We intend to have that by year end and that would be up significantly from last year.

Adam Klauber

William Blair & Company L.L.C., Research Division

Okay, great. As far as the direct business, you mentioned you've already received several inquiries. Are you running a process through the banker going out to people or is it more just people calling in and -- interested parties calling in, interested in the division?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Adam, we did note that we had several inquiries and let me just expand a little bit on this topic. As Jim indicated, we expect to be profitable in 2013 with a secession of marketing spend and with the actions taking in some of the problem states and with a significant seasoned book, our internal options include profitability. So any external option will have to be better than our internal option. We are trying to do this on a relatively fast but careful and cautious basis, a thoughtful basis, rather. So we're unlikely to have – we're not going to have the standard auction, where we spend a long time trying to round up people. The likely suspects have come to us and will be identified quickly and we should reach a conclusion for what's best for shareholders in the not-too-distant future.

Adam Klauber
William Blair & Company L.L.C., Research Division

Great. How much capital supports that business?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Dennis, you want to take that one?

Dennis Robert Vigneau
Former Chief Financial Officer and Senior Vice President

Sure. We've got roughly $175 million supporting that business line.

Operator

And our next question comes from the line of Steven Schwartz from Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Just to follow up on the last question. Don, you're renewing, right, on the direct marketing side of the business, it's just that there's no new sales outside of the 3 states?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Outside of the 3 states, we are stopping marketing spend but we're fulfilling sales. Some sales come to us -- continue to come to us through the website, so on affinity cases that are in place, so we are fulfilling sales. We haven't discontinued new sales. We've discontinued marketing spend.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. I guess what I'm not – what I don't understand maybe is, all right, if I'm a client of Kemper Direct and I want to renew 6 months from now, can I or not?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Yes.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Yes. Okay, good. If I can on the life side, I've been well aware for a long time that there's seasonality on the loss ratio, although it didn't seem to show up in this quarter. What I am wondering about on the expense side. Is there seasonality on the expense side? Because the expense ratio is much higher in the first quarter, and I actually see that that's kind of been a pattern for the last couple of years.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Dennis, you want to help out with that?

Dennis Robert Vigneau
Former Chief Financial Officer and Senior Vice President

Yes, I'd say there's not really, I'd say, identifiable seasonality to that business. There are fluctuations quarter-to-quarter but nothing that I'd point to that would drive any sort of meaningful expense fluctuation.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then one more if I may on life, and then I'll go back to auto. There's a lot of talk about ACA coming into 2014 and the potential to maybe arbitrage the costs, arbitrage the penalties, arbitrage the fact that it's guaranteed issue with accident, health and other types of policies. I'm kind of wondering if Reserve National is looking at that?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Dennis?

Dennis Robert Vigneau
Former Chief Financial Officer and Senior Vice President

When you step back at a high level, here's how we're thinking about Reserve National. They've been, as you know and we've talked about previously, since late '09 they've been repositioning their business, their product suite as well as repositioning the distribution force and away from those products that have been most affected by national healthcare reform and towards a much broader array of supplemental product offerings that should be far less likely to have any negative impact as that comes into full implementation, which quite frankly is still in many ways, just uncertain at this point. So they've been thinking about the issues that you raised but forging ahead and just really doing all of the necessary blocking and tackling on the distribution and product side to continue to move the business forward so that whatever may develop, they're as well positioned as they can be for those changes.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

And I'll just add that we have discontinued sales of our hospitalization products which are subject to the medical loss ratio requirements and the field force is making the transition very nicely.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay And then finally for Jim, with the price increases that you're talking about, I think it was Don said he thought maybe, not ready to call a hard market but things are changing. Are you, looking at this, are you going to be in line when you are done competitively do you think, Jim?

James Allen Schulte
Former Group Executive of Property & Casualty Group

Yes.

Operator

And our next question is a follow-up from the line of Paul Newsome from Sandler O'Neill.

Paul Newsome

I just wanted to kind of make sure on the thought, the aggregate price increases were the auto and home businesses, personal lines. Is that enough at this point to get you to the level of profitability that you think you should have? Or are we sort of implying more than one round of price increases above the underlying claim costs? Because I'm thinking simple math, you're sort of 110 combined. The all-in price increases are probably 8 or 9 and you've got underlying loss cost trend of maybe 3, or maybe even 4. So that takes you to, from the 110 to something that's still probably not breakeven. Am I just doing too simple on the math or do we need more price increases?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

I'll answer it in 2 ways. One on homeowners, I believe homeowners will take a series of rate increases over the coming years to bring that line back to profit. As you know, homeowners is heavily driven by weather and weather can change overnight and that picture could clear up very quickly. Auto, actions there will show up much quicker but even there it will take a series of rate increases to bring us back in line.

James Allen Schulte
Former Group Executive of Property & Casualty Group

And I would just add, Paul, that 110 is probably not the right starting point for your simple approach because it does include some abnormally high weather.

Operator

Thank you. And I see no additional questions in the queue at this time.

Diana J. Hickert-Hill
Investor Relations Professional

Thank you, operator. This is Diana. If anybody has any follow-up calls you can contact me directly.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone have a good day.