S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR

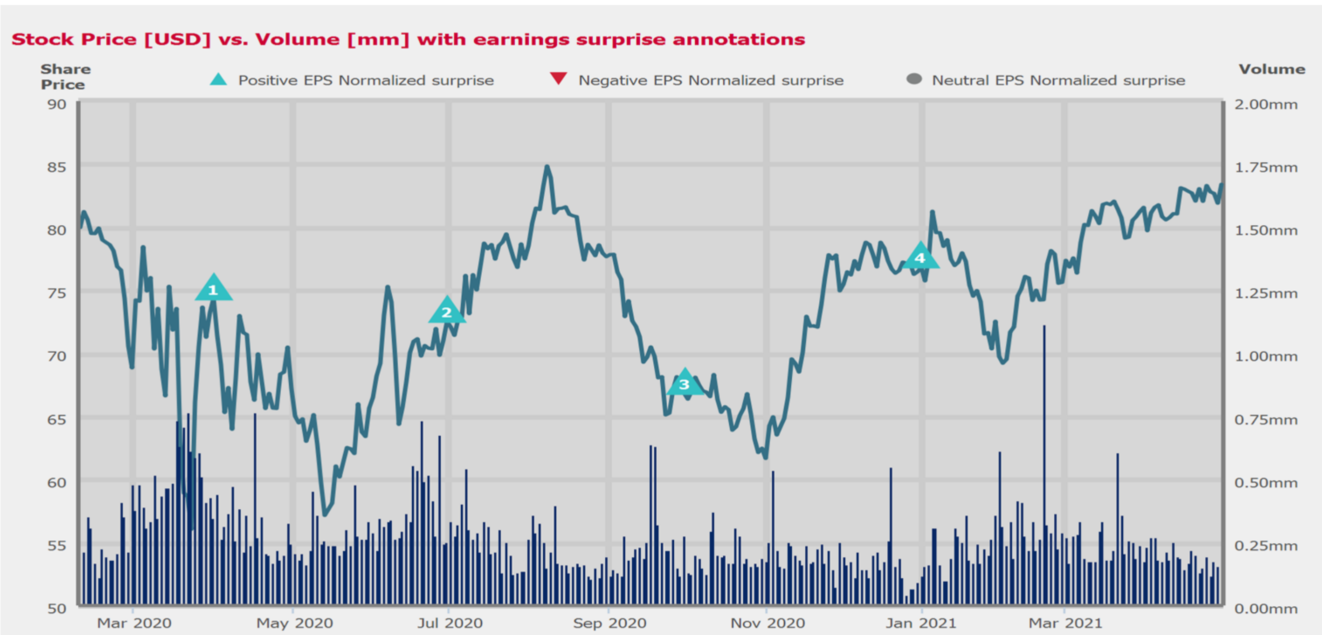
FQ1 2021 Earnings Call Transcripts

Thursday, April 29, 2021 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.54	NA	NA	1.29	6.55	NA	NA	6.13
Revenue (mm)	1291.96	NA	NA	1294.48	5066.87	NA	NA	5385.12

Currency: USD
Consensus as of Apr-26-2021 10:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	2.37	2.43	1 2.53 %
FQ2 2020	0.97	1.20	2 23.71 %
FQ3 2020	0.97	1.36	3 40.21 %
FQ4 2020	1.54	1.59	4 3.25 %

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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

Gary Kent Ransom
Dowling & Partners Securities, LLC

Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

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

At this time, I'd like to introduce your host for today's conference call, Christine Patrick, Kemper's Vice President of Investor Relations. Ms. 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 first quarter 2021 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 & Casualty Division President. We'll make a few opening remarks to provide context around our first quarter results and then open the call for a question-and-answer session.

During the interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Investment Officer; and Erich Sternberg, Kemper's Executive Vice President and Life & Health Division President. After the markets closed this afternoon, we issued our earnings release and published our first 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 2020 Form 10-K as well as our first quarter 2021 earnings release.

This afternoon's discussion will also include non-GAAP financial measures we believe are meaningful to investors. 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 2020 period, unless otherwise stated.

Finally, I would like to note that due to the social distancing practices 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 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, Christine. Good afternoon, everyone, and thank you for joining us on today's call. Since the end of 2020, we continue to see economic momentum build in many parts of the country. Vaccines are more readily available, restrictions are lifting and states are reopening as we move towards the recovery phase of the pandemic. There is no question that the past year has been difficult, but I'm looking forward to the opportunity from our in-person interactions with my Kemper colleagues, investors and other stakeholders in the near future.

Despite everyone's desire to get back to normal as quickly as possible, reopening will present a dynamic and challenging operating environment. It will take longer to stabilize than any of us would hope. Just like the start of the pandemic, where we saw a mix of both positive and negative financial impacts, as we return to normal, we anticipate a similar abnormal mix.

Before turning the call over to Jim to walk through our financials in detail, I want to offer some brief comments on our performance for the quarter. Turning to Page 4.

Net income was $123 million or $1.85 per diluted share. Adjusted consolidated net operating earnings were $87 million or $1.31 per diluted share. Turning to the key metrics that we use to evaluate our performance.

Over the past 12 months, tangible book value per share, excluding unrealized gains, increased 17%. Return on tangible equity, excluding unrealized gains, was 18%. In addition, we generated $526 million of cash from operations. These metrics highlight how our actions are driving long-term intrinsic value creation. Turning to segment results.

This quarter, we witnessed the pace and timing of reopenings vary significantly by geography. Our concentration of business in California, which was one of the last states to reopen, impacted both our top and bottom lines.

Specialty auto reported operating income of $80 million, a 33% increase over the prior year quarter. Our top line grew 7%. Shopping behavior in January and February was slow, especially in California, with demand recovering later in March. We also experienced an uptick in both frequency and severity as drivers have gotten back on the road. Duane will provide more detail in his commentary.

Despite these near-term headwinds, the business remains well positioned for attractive long-term growth and returns. Our preferred segment continues to make incremental progress on repositioning efforts. Quarterly results were impacted by elevated catastrophe losses, primarily from winter weather-related events. Despite this, particularly when recognizing our reinsurance program, our anticipated annual range of catastrophe results is unchanged. Turning to our Life & Health segment.

Earnings continue to be impacted by COVID. Our mortality experience remains in line with national trends. The pandemic has also significantly impacted purchasing behavior. We're experiencing stronger policy retention and increased demand for our products. Our Life & Health businesses are positioned to deliver strong cash flows and consistent earnings.

Year-to-date, we took actions that demonstrated our thoughtful approach to capital deployment. We closed on our acquisition of American Access on April 1. We repurchased roughly $85 million worth of Kemper shares. We continue to focus on enhancing our positive impact on the environment and sustainability. As Jim will detail, we committed to a solar energy investment, which will provide a renewable energy solution for homeowners while providing attractive returns.

In summary, while we faced some short-term headwinds this quarter, we delivered solid results. As we move through the pandemic recovery, we expect decreases in mortality as well as increased frequency and severity in auto. Our business model is positioned to navigate this environment in a way that's good for both our customers and investors.

I'd now like to turn the call over to Jim to discuss our first quarter operating results in more detail.

James J. McKinney
Executive VP & CFO

Thank you, Joe. Turning to Page 5. You can see the results of our strategy execution and the performance it has yielded. For the quarter, we reported net income of $123 million and adjusted consolidated net operating income of $87 million or $1.31 per share.

On Page 6, we highlight that our businesses continue to produce high-quality operating income. To help illustrate this, we isolate key sources of volatility that impact quarterly results. Please note that first quarter 2020 results include over $1 per share of benefit from the final payment of our favorable CSC settlement. We have also broken out the impact this quarter from our solar investment, which I will discuss shortly.

On Page 7, we display some of the key capital metrics we use to track our performance, including growth in tangible book value per share and tangible return on equity. We continue to outperform our stated long-term return targets. Excluding unrealized gains over the past 12 months, return on tangible equity was 18%, and our growth in tangible book value, excluding unrealized gains and losses per share was 17%. These metrics demonstrate the efficiency of our capital deployment decisions and intrinsic value creation.

Continuing on Page 8. Our capital and liquidity position remains solid, supported by a healthy balance sheet and well-funded insurance entities. Over the past 12 months, our business model generated $526 million of operating cash flows. We ended the quarter with a debt-to-capital ratio of 20.6%. This is well within our stated target range of 17% to 22%.

On Page 9, we provide details on nearly $500 million of capital actions taken year-to-date. Through April 27, we've opportunistically repurchased approximately 1.6% of outstanding shares, totaling roughly $85 million. Additionally, we repaid the $50 million term loan. Further, in February, our Board of Directors voted to increase our annual dividend to $1.24 per share. This is our third consecutive annual increase. Finally, we closed on the $372 million acquisition of American Access. In total, these actions demonstrate our strong capital stewardship.

Turning to Page 10. Net investment income for the quarter was $103 million, reflecting the continued recovery of alternative investments. Low market yields and rich valuations in certain market sectors are a challenge for the industry. Our portfolio construction, which focuses on matching liabilities and total return, helps alleviate some of these challenges. This is evidenced through the quarter's pretax equivalent yield of 4.5%.

On Page 11, we highlight the investment we made with Sunrun. Our investment dollars are being used to finance the installation of solar panels on a portfolio of residential houses. This initiative has a meaningful benefit to homeowners, as well as to the environment. The structure of the investment allows us to fund the deal as well as receive the benefit of tax credits.

From an accounting perspective, returns will primarily be recognized through the income statement as tax credits and deductions, with the majority of benefits recognized through 2022. The largest expected impact took place this quarter, which increased net income by $13 million or $0.20 per share. This is a great example of how we can use our capital to benefit both the environment and our stakeholders.

In closing, the company's financial performance in the quarter was sound. We are optimistic about the future. I would like to now 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. I would like to begin with the Specialty Auto segment on Page 12.

The segment continues to generate strong earnings, with operating income of $80 million in the quarter. Our top line remained pressured by states that were slow to reopen, particularly California. This resulted in reduced new business volume, which slowed earned premium growth to 7% and policies-in-force growth to 2%. As California reopened, we experienced improved customer demand and growth in late March. Turning to expense.

We continue to be impacted by the mix shift I detailed last quarter. As a reminder, decreased shopping behavior affects our mix of new and renewal business. In addition, as we grow in different geographies, there is a shift in our mix of state and product. Last, we continue to make investments in our people and technology, further strengthening our franchise.

As Joe and Jim mentioned, we closed on the acquisition of American Access April 1. It has been a pleasure to welcome the newest members of the Kemper family. Our combined team is focused on integration and the ability to leverage AAC's capabilities to enhance our specialty business. Turning to the Preferred segment on Page 13.

We continue to take actions to improve the profitability of the business through underwriting, pricing and exposure management. This is reflected in the underwriting combined ratio and PIF numbers for both our auto and home business. The segment was impacted by $24 million in catastrophe losses, largely from winter weather.

While first quarter catastrophe losses were elevated from a historical perspective, it does not change the range of our expected full year catastrophe impact. This is due in part to our aggregate reinsurance treaty, which helps limit volatility on an annual basis. Overall, the Preferred segment, we expect ongoing profit improvement actions to continue to bring us closer to our desired results.

I've made comments about the impacts of reopening, with a return to near normal. As we look forward, it's important to think about potential trends in frequency and severity. We are already seeing frequency increases as miles driven is nearing the pre-pandemic level. Severity is also experiencing pressure as repair costs have gone up. With this backdrop, we are conscious of balancing short-term growth and long-term profitability. We will continue to believe we are well positioned for sustainable top line growth and solid margins.

I'll now turn the call back to Joe.

Joseph Patrick Lacher

President, CEO & Director

Thank you, Duane. Turning to our Life & Health segment on Page 14. Segment income was $7 million, which remains suppressed by COVID-related mortality. However, we are experiencing positive momentum as the P&C catastrophe-like impact begins to moderate. We're seeing associated mortality reductions. The nature of the pandemic has led to increasing product demand as well as stronger policy retention. These trends were seen during the quarter through new sales comparable to pre-COVID levels and reduced lapse rates. This is evidenced by the growth in face value of our book.

As policies stay longer, it's good news. It creates intrinsic value for our Life & Health franchise. However, in the near term, benefit costs will remain somewhat elevated as mortality and retention trends begin to normalize. Overall, our outlook for the Life & Health business remains positive. The segment is situated for long-term cash flow and intrinsic value creation.

In conclusion, let me return to where I began. We expect the next phase of the pandemic to have a mix of impacts across our businesses. We expect to see a decrease in mortality, more auto insurance purchases, increases in auto frequency and loss cost inflation and a robust economy and associated investment impacts.

We believe we are well positioned for this environment, and we'll continue to provide appropriate coverage for our customers as well as attractive results and value creation for all our stakeholders. I want to thank our team for their collective effort and dedication. Kemper wouldn't be where they are today without their contribution.
With that, I'll now turn the call over to the operator for questions.

Question and Answer

Operator

[Operator Instructions] And our first question this afternoon comes from Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple of questions. Maybe if I could start with American Access. Can you help us understand -- I mean you made comments about California being close or kind of locked down for a lot of the quarter and opening up later in the quarter. If I recall, American Access' kind of biggest exposure is Texas, which has been kind of opposite end of the spectrum as California with regard to lock down. Can you give us a little color on kind of what they've been seeing in terms of shopping activity and what we should expect when that comes into the fold of Kemper in Q2?

Joseph Patrick Lacher
President, CEO & Director

Yes. We'll do a couple of comments. Duane will provide some in a second, Matt. Just one over the top. We closed on them on April 1, so none of their numbers are in the quarter. So we can give you a little bit of a view where we have some sense of that.

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

Yes. Matt, this is Duane. It's not too dissimilar from what we're seeing in our own book today. We continue to get deeper into that space some more we're together. But I would say it's -- we're seeing -- because of the nature of the business that we do write is very similar, we're seeing similar trends across most of those components.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. And that would extended kind of your comments about frequency and severity as well. Just by geography, you aren't seeing much terribly different in Texas versus your bigger concentration in California and Florida?

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

That is correct.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And then just, I guess, a modeling question. Of the 20 -- what was the contribution from the cap in the quarter towards the aggregate deductible? And how -- or the other way of asking is, how much is left on the deductible before you start recovering from it?

Joseph Patrick Lacher
President, CEO & Director

Yes. No, I appreciate the question. It's about $15 million, plus or minus a couple of million bucks here or there, Matt. And I say that because, obviously, we'll have more precision here. You've got our best estimate in terms of this stage. But in the next 30, 60, 90 days as we see more of the page and some of the other elements, that will more fully come in.

Matt, I'm going to follow up a little bit even though you didn't ask for it. One of your questions seem to be poking at frequency and severity and what we're seeing as well as growth stats. And I think you were poking to try to understand how things are unpacking underneath. We definitely saw California reopen slower. And given the size of that in our book, it was a significant impact on January and February and into the early part of March.

We had seen in April growth move back to more of what we would have seen as normal. We thought about -- if you look at the last couple of years, we've probably been averaging that 5% to 8% range from a growth perspective. And we're seeing numbers in the lower end of that range. So that's a reasonable way to think about it. We think the quarter is a bit of an anomaly and wouldn't want you walking away run-rating the quarter because I think that would be a bad picture.

Similarly, on the frequency and severity, this is a little bit what I talked about when I made a comment about abnormal as we return to normal in terms of trends. We saw in the pandemic that frequency sort of dropped through the floor relatively quickly when people shut down. And as people are restarting, we're expecting that frequency to come back up. We're seeing some of that. And some modest frequency or modest severity increases that are running across the book.

We do expect -- now this is a forward view, and it's an industry comment. We fully expect that the market is going to heat up. People are going to get back to work. And we're likely to see some loss cost inflation on the severity side not because the accidents are more severe, but when you think about the chip shortages that we're hearing people talk about for new cars, those are going to have impact on repairing vehicles.

But when you think about what's going to happen with employment trends, we fully expect that we're going to see a relatively low unemployment. We're going to see cost going up for body shops, for health care, for other items that are going to have a loss cost severity pressure in the back half of the year. With all the stimulus that's been put into the economy and with all the supply chain challenges that are going to occur, we anticipate that, that's going to be an industry-wide frequency and severity challenge in the back side of the year. So that's definitely factoring into our thought process.

And I assume that's some of what you were trying to get in your commentary. We don't see that radically different by geography once they're open. And we do think it will be pervasive across the industry. It's something we're all going to deal with.

Operator

[Operator Instructions] Our next question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. I was looking at this solar investment. Just trying to understand the pieces. I realize you said a lot of it will come through the tax line. But I was wondering if you could kind of help us understand how that might affect the actual tax rate that we see going forward? Or how much -- how many dollars are available to save in the future quarters?

James J. McKinney
Executive VP & CFO

Gary, so I think you're asking for a projection. So generally speaking, as these things play through, I mean this quarter, we had roughly $28.6 million, I believe. Again, give me a little rounding, maybe $100,000 here or there, but benefit that came through. That's followed by an offset of the asset by about $15 million, which gave you about a $13 million benefit. Those elements are generally recognized -- or the tax components are generally recognized as incurred from that perspective. There will be some benefits as you go forward, but more of that will come with -- and as we continue to fund the investment.

Today, about $65 million of the $100 million has gone out. There's another $35 million. When you think about the ratio of the $28 million to the $65% million, that would give you a reasonable estimation of what might come in the future for some of the credits or other elements that are coming through. In terms of the timing of that, it would be really hard for me to tell you whether it will be more of that will come Q2, Q3, Q4. A lot of it has to do kind of with sales demand and relationships that Sunrun has as well. And so that will literally occur as they fund.

I think really attractive item, though. I mean if you think about just net dollars both in terms of what does it mean from an environmental perspective and then also doing something that's thoughtful for our shareholders in a way of increasing capital effectively through utilization of tax credits and -- is a really thoughtful thing for us to do.

Gary Kent Ransom
Dowling & Partners Securities, LLC

The item that we're actually seeing in the income statement, the negative piece, not the tax piece, but is that -- how does that relate to the actual investment that you made in the quarter?

Joseph Patrick Lacher
President, CEO & Director

Yes. So you're getting basically -- and I'm going to overly simplify here for a moment. Let's say, you're getting a 2% cash return, and then we're looking at, say, a 9% wherever 10%, 8%, I'm not trying to give you too much of a number, but just if you pick the number, right? At the end of the day, that's our after-tax kind of IRR that would come in. So as we get effectively income that would be both above that 2% and our tax credits, you then are impairing that asset that you sent out the door to reduce its value, right, to bring you back to, say, again, that 9%, to that 8%, to that 10%, what your target IRR is. That would be directly off that...

Gary Kent Ransom
Dowling & Partners Securities, LLC

That would be sort of the amount of the write-off...

Joseph Patrick Lacher
President, CEO & Director

That would be the amount of the write-off. Yes.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay.

Joseph Patrick Lacher
President, CEO & Director

But you should -- again, similar presentation, if you look at Progressive's financials and some of the others that are out there, I think you'll see similar treatment. And I wouldn't say that it's going to repeat every quarter either. There's -- the largest component of this has been recognized this quarter. The way to think about this is really that net outcome.

If you look at Page 11 of our earnings presentation, we try to put the pieces together for you. So you see the $15.4 million reduction to total revenues. And that line item is obviously broken out. We did that specifically to provide the transparency and to enable kind of that predictory component, that confirmatory component. And then you see the $28.6 million benefit for the credits coming through for a net increase of income of $13.2 million.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. That's helpful. I think that sets me in the right direction. I guess going back to the growth. I just finished reading a J.D. Power survey that was talking about how there was a huge amount of additional shopping. This is going back to 2020. And thinking about what you were talking about how the shopping was lower for your part of the business or for non-standard specialty, does that make sense to you that there'd be a lot of shopping going on in -- for a lot of the major players, but you might see less?

Joseph Patrick Lacher
President, CEO & Director

Yes. Gary, it does make sense to us conceptually. And I'll tell you why. What we tend to see in a normal environment with standard -- with almost anybody, the absolute dollar amount they're paying for insurance and the price changes they see or life events trigger shopping behavior. So your typical standard and preferred individual insured. There's a normal amount of people moving around and buying cars, which sort of set the baseline. If you're in a relatively stable pricing environment, then you don't -- you see a certain normal level of shopping behavior. Unless there is some sort of shock to the system, either a big rate increase that runs through or something else that sort of wakes up the group to say, "hey, I want to think about this," you see a modest amount of shopping behavior. The pandemic was one of the things that people said, "hey, I'm not driving." Does this make sense? And you started to hear about in the news and people talk about it. So that group would have seen there an increase in behavior.

In a specialty auto environment, what you tend to see is a heightened sense of shopping when people are seeing rates going up and when they're seeing -- they're moving through their own economic activity. In this environment, they were seeing less rate increases and less disruptive changes. So they could have simultaneously gone down because they were getting premium givebacks and seeing non-rate increases at the same time a preferred group might have been seeing more activity up. So it would probably be that the nonstandard group may have still been elevated relative to the preferred, but it was lower than normal. And the preferred group may have still been below, but it was higher than normal. It's not -- it doesn't necessarily conflict those 2 components.

And what we were talking about in the quarter, when people are generally staying at home and the activity is less, they're buying fewer cars, they're executing fewer transactions that triggers that shopping behavior in the specialty auto environment. And that's exactly what we saw in California and the rest of the country in March and April last year. And it's definitely what we saw in California in the early part of this year. It's a good thing to remember that when you're comparing, particularly when you're comparing shopping pieces, our California business is 60-ish percent of our total auto book. You get some other big players like a Progressive, it's mid-single digit. So we're going to look different meaningfully than other folks as a result, and the specialty auto piece will look different than that J.D. Power.

Operator

And our next question comes -- is a follow-up question from Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Joe, just to circle back on the color you gave there. Would it be right to then think about whether it's through industry or Kemper as part of it in the non-standard world that as kind of those dynamics take place, as frequency is back and as severity might build a little, you guys are -- the loss ratio in the quarter ex cap is kind of you guys manage the business to a pretty tight range and it's kind of back to the lower end of that couple of point range that it bounced around in, the presumable to think -- that are reasonable to think that you might grind your way up in that range as that occurs. And then assuming the industry acts responsibly and take pricing action to combat it, you work your way back down to a equilibrium.

Joseph Patrick Lacher
President, CEO & Director

In general, I agree with your statement, but I'm going to disagree a little bit with the starting point. We look to get an appropriate return, and there is a reasonable range around that and then grow the business as much as we can. The pandemic resulted in frequency dropping and resulted a series of change that saw the industry broadly see a combined ratio improvement. We did as well. We have consistently been saying you should not assume that the combined ratio you saw us, say, in the second or the third or the fourth quarter of last year be run-rating that because that is not what we are targeting as a long-term combined ratio. That has some overheated favorable profitability, which we expected was going to reverse out when the frequency came up. That's why we didn't necessarily -- we did some premium givebacks, but we didn't move rate down because we expected when that frequency and severity pop back up, that was -- we had closer to the right rates for a normal environment.

Matthew John Carletti
JMP Securities LLC, Research Division

That makes sense. I was looking at the quarters in like '18 and '19 when I was looking at where it was. And yes, that's what I'm looking at. And you were well below that, of course, in '20.

Joseph Patrick Lacher
President, CEO & Director

Yes, that's the -- if you did math and you think about ROEs, Matt, you're going to wind up in a mid- to upper 90s combined ratio. So it depends on which point you pick and you can -- you can see a bunch of different things in there. But at Progressive, what I said for years, they're targeting at a 96%. We don't give you a combined, but we give you a low double-digit ROE. Put your premium to surplus ratio on there, you're going to come out with a 96%, 97% number that's somewhere in that range. That provides an appropriate return and appropriate ROE, and we're going to be looking to grow from that. So you should expect some compression from where we are as that frequency and severity upticks.

Our expectation is every auto carrier is going to see the same concept that's going through the severity. We make it a little bit of a difference on frequency depending on state mixes. But the frequency is going to come up. And if there's a supply chain issue, getting steel, getting parts, getting labor to fill out body shops, getting who knows where they make the paint, if it's getting shipped from overseas. I mean we see all these things going through the supply chain. I don't see any way by the fourth quarter of this year, we're not going to see a lot of stress on that system. And it's going to push some sort of inflation in there.

Now if I'm wrong, great, we're all good. If I'm right, then we're all in trouble. And there's a pressure there. And the question becomes who's models in a better spot to respond around it. We have been anticipating that the unwind from the pandemic would have some of that in it. And we're not maybe pulling the most aggressive growth levers that we might have been able to that might have sort of permanently locked in lower rates. We were anticipating this was coming. And you've seen a year where there's been not a lot of rate increases from different players, some with decreases. I think that pressure will work its way through in the back half of the year.

Matthew John Carletti
JMP Securities LLC, Research Division

Yes. That makes sense. And one quick numbers question, just as you're talking a little bit top line before. If I'm recalling, about -- I know, it's $87 million of premium credits last Q2. So obviously, you have something to adjust for as you think about this Q2 for nonstandard auto.

Joseph Patrick Lacher
President, CEO & Director

Yes, if you're just trying to do a premium, an earned premium estimate, yes, you would definitely make that adjustment.

Operator

[Operator Instructions] And ladies and gentlemen, at this time I'm showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator, and thank you to everybody on the call today for your time and your interest. We look forward to being back with you next quarter. And if there's follow-up questions, let us know. Thanks.

Operator
And ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.