S&P Capital IQ

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Kemper Corporation NYSE:KMPR

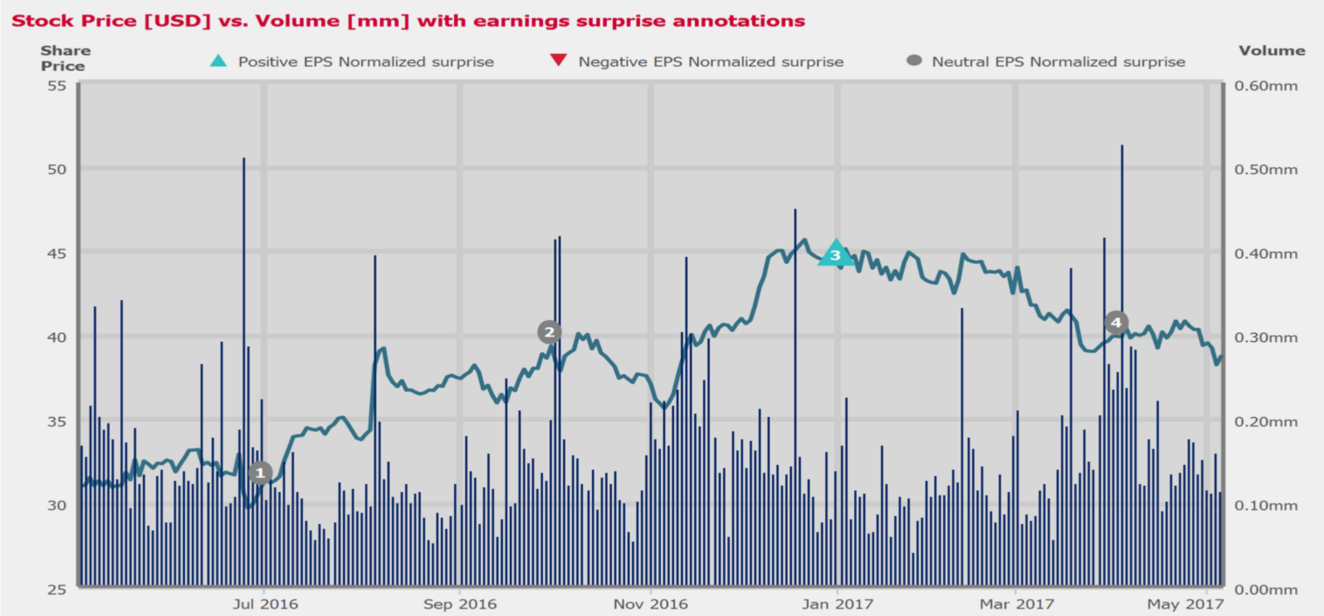
FQ2 2017 Earnings Call Transcripts

Wednesday, August 02, 2017 8:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.23	0.41	▲78.26	0.73	1.85	2.52
Revenue (mm)	643.80	660.60	▲2.61	653.55	2588.15	2669.30

Currency: USD
Consensus as of Aug-02-2017 6:26 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	(0.15)	0.09	NM
FQ3 2016	(0.44)	(0.36)	NM
FQ4 2016	0.42	0.56	▲33.33 %
FQ1 2017	(0.17)	(0.08)	NM

Call Participants

EXECUTIVES

George D. Dufala
Senior Vice President and President of Property & Casualty Division

James J. McKinney
Chief Financial Officer and Senior Vice President

Joseph P. Lacher
Chief Executive Officer, President and Director

Todd Barton

ANALYSTS

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

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Second Quarter 2017 Earnings Conference Call. My name is Nicole, 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, Todd Barton, Kemper's Assistant Vice President of Investor Relations. Mr. Barton, you may begin.

Todd Barton

Thank you, Nicole. Good afternoon, everyone, and thank you for joining us. This afternoon, you will hear from 3 of our business executives starting with Joe Lacher, Kemper's President and Chief Executive Officer; followed by Chip Dufala, Kemper's Property & Casualty division President; and Jim McKinney, 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.

During the interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Senior Vice President and Chief Investment Officer and Mark Green, Kemper's Life & Health Division President.

After the markets closed yesterday, we issued our press release and published our earnings presentation and financial supplement. In addition, we filed our Form 10-Q with the SEC. You can find these documents on the Investors section of our website, kemper.com.

Our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. For information on potential risks associated with relying on forward-looking statements, please refer to our 2016 Form 10-K filed with the SEC as well as our second quarter 2017 earnings release and Form 10-Q. This afternoon's discussion includes non-GAAP financial measures that we believe may be meaningful to Investors. In our financial supplement, presentation and earnings release, we have defined and reconciled non-GAAP financial measures to GAAP where required in accordance with SEC rules. And finally, all comparative references will be to the second quarter of 2016 unless we state otherwise.

Now I will turn the call over to Joe.

Joseph P. Lacher
Chief Executive Officer, President and Director

Thank you, Todd. Good afternoon, everyone, and thank you for joining us on the call today. We had a strong second quarter and I'm pleased with our progress. I also remain confident in our ability to deliver on our continued earnings improvement commitments.

Before I walk through our results for the quarter, I want to provide a few comments from a long-term perspective. Looking at Page 3 of the presentation, we remain focused on building Kemper's overall value and our strategy underscores this long-term view. We continue to leverage our competitive advantages while building core capabilities to ensure we maximize shareholder, agent and policyholder value. During the quarter, we made good progress on these fronts as you'll see throughout the presentation.

Last September, we discussed Kemper's refined strategy and provided specific key elements of our Phase 1 activities. As a reminder, these are displayed on Page 4. While there's still work to do, I'm pleased to report that the majority of Phase 1 initiatives are complete or ahead of schedule. Our senior executive leadership team is in place and we're attracting top talent for the key next level executive positions. In our life insurance business, we are implementing voluntary steps to use the death verification databases. In our P&C division, we repositioned our legacy nonstandard auto book and completed the turnaround of Alliance United. Each of these businesses has reached pricing adequacy and we'll look to increase growth. We now have and are continuing to build a leading nonstandard auto franchise.

Turning to P&C claims. We previously told you that we got off to a bit of a bumpy start. We've refocused our efforts and with our claims leaders in place, we're on track to achieving our improvement goals. On the IT front, we successfully replaced our Life & Health policy administration system.

In addition, in P&C we rolled out a new policy administration platform in 4 states, which provides the foundation for our new preferred product suite. We're making good progress on reducing expenses. Chip and Jim will address these in detail a little later.

On Page 5, we provide the breakout of the normalized earnings improvement targets. Last year in our strategic update, we committed to improving earnings for P&C claims and overall expense initiatives. At the end of the presentation, we discussed these outcomes in terms of their impact on ROE. We've heard feedback that some people misinterpreted this as an ROE target. That was not our intent. Today, we're providing an updated after-tax view based on dollars with the same improvement targets. Over the last several years, the company generated an average of roughly $100 million of normalized net income. We highlight that we are on pace to nearly double our normalized run rate of earnings by the year-end 2018. Redesigning our claims service model will take out $85 million of loss in LAE costs on a pretax basis, which equates to roughly 5 points on a loss in LAE ratio and P&C.

On the expense front, we will take out $50 million to $65 million pretax, which equates to about 20% of our fixed expense base. The effect of these 2 initiatives increases normalized operating earnings by roughly $90 million after-tax, which as you can see, nearly doubles operating earnings.

Turning to Page 6. You can see our commitment to enhancing our core capabilities through the key hires we brought on board since our first quarter earnings call. In our Life & Health division, we added 3 leaders who are focused on enhancing distribution networks, growing the business and improving our analytical capabilities. On the P&C side, we have 3 new claims leaders to help us accelerate our claims transformation and achieve our claims savings. At corporate, we brought in 3 new key executives to help us build analytic superiority and operational excellence. We are also significantly adding top talent elsewhere throughout the organization to strengthen our core capabilities. Additionally, as we announced this morning, Susan Whiting joined Kemper's board today. Susan will bring valuable perspective to our board including expertise in consumer behavior. On the bottom of the slide, we highlight the 2 IT system successes I mentioned earlier. Our new Life & Health policy administration system gives us much more versatility and flexibility, improving our operational processes and positioning us for growth. The P&C policy administration suite enables us to design and create more sophisticated products, reduce operational costs and increase speed to market.

Now let's turn to Page 7 and look at our second quarter's results. Overall, we had a strong quarter as the profit improvement actions we implemented to date are starting to come to fruition. In total, we delivered net income of $37 million or $0.71 per share in the quarter, up from $4 million or $0.08 last year. Net operating income was $21 million or $0.41 per share for the quarter, compared to $5 million or $0.09 last year. Net realized gains were $15 million after-tax in the quarter, compared to net realized losses of $1 million last year due to tax planning and portfolio management actions. Earned premiums increased 5% to $583 million and net investment income increased 4% to $77 million.

Life & Health continued to be a source of stability for the company. Earnings increased $4 million, accompanied by modest premium growth. For P&C, the key highlight was nonstandard auto, which continued to show significant improvement in both legacy and Alliance United. Our preferred auto business remains pressured with the challenges we discussed last quarter. However, we believe the claims improvements as well as rate and underwriting actions have us on the right path to getting this business to target profitability. We expect to see these results more significantly materialize in our financials over the next several quarters. We've applied the same focus to this business that we applied to turning around Alliance United. Similar to the first quarter, the company and the industry experienced heightened catastrophe losses. Catastrophe losses of $35 million pretax in the quarter were above our expectations, but below prior year and the first quarter.

Turning to Page 8. We isolated the key sources of volatility in our earnings. In the highlighted section at the bottom of the page, you can see that excluding these items, underlying operating performance improved for 4 sequential quarters. Most of the improvement over the second quarter of 2016 comes from our Property & Casualty division, where our nonstandard auto line drove a 7.5 percentage point improvement in the segment's underlying combined ratio. Investment income continued -- contributed to our improvement as well, primarily from higher levels of invested assets. Sources of volatility continue to stem from 3 main categories: catastrophe losses, prior year reserve development and alternative investment income. Cat losses in the quarter were $23 million after-tax or $0.44 per share. Second, adverse prior year development was $5 million after-tax or $0.10 per share, primarily stemming from the preferred auto line. Chip will discuss these items. Last, we benefited from strong alternative investment performance, which Jim will discuss.

Overall, we're pleased that our underlying operating performance is headed in the right direction and wanted to take this opportunity to expand on the turnaround of Alliance United, which is leading the improvement. The details are on Page 9. When Kemper acquired Alliance United, it faced significant loss cost pressure, was behind on rate actions and had an understaffed claims function. To address these items, this management team implemented a series of rate increases as well as underwriting and agency management actions and hired significant additional claims staff. On the bottom left, you can see the growth of earned premiums. We took a strategic approach to limiting new business while addressing the product, but we kept the agency plan engaged and maintained policies in force to fuel future growth. On the upper right, we show how our actions significantly improved the underlying combined ratio. On the bottom right, you can see the favorable impact these actions had on our profitability. We've successfully turned around this business ahead of schedule and the acquisition is now accretive. Now we are looking to grow the business and increase market share thoughtfully.

I'll wrap up my comments with our Life & Health division's results, which are on Page 10 of the presentation. On the top half of the page, you can see the stable revenue trend continued. Earned premiums increased $2 million to $153 million, primarily from the A&H products. Life earned premiums were flat for the quarter. Net operating income improved to $21 million, driven by higher net investment income. This division continues to be a stable source of earnings with strong and predictable cash flows. With our recent management additions, we look forward to positioning this platform for modest growth.

Now I'll turn the call over to Chip to discuss the Property & Casualty results.

Operator

Pardon me, everyone. We must have experienced a disconnect with the speakers. Please stay on the line.

[Technical Difficulty]

Please go ahead with the conference.

George D. Dufala
Senior Vice President and President of Property & Casualty Division

Thank you, and good afternoon, everyone. I'll start with nonstandard personal auto on Page 11 of our presentation. Just to reiterate what Joe said, we have seen significant improvement in Alliance United's results and similar trends across our entire nonstandard business. Earned premiums increased in both our legacy and Alliance United lines, totaling $234 million for the quarter, up $29 million or 14%. The top line growth was fueled by rate increases and strong renewals. Policies in force increased 2%, primarily from our legacy business. More importantly, we have seen increased profitability, which is reflected by the improved underlying combined ratio. Alliance United improved 23 points to 95% and the legacy lines improved 6 points to 93.6% as the entire business benefited from rate increases as well as underwriting and claims actions. With the turnaround and integration of Alliance United complete, we now have and continue to build a leading nonstandard auto franchise with nearly $1 billion of annualized net written premiums that is positioned for profitable growth. Given that we manage nonstandard auto as one business, we do not intend to regularly break out Alliance United results going forward.

Turning to preferred on Page 12. Earned premiums in total were $183 million, down slightly from last year and the underlying combined ratio was up less than 2 points to 93%. The preferred auto underlying combined ratio continued to be elevated at 103%. We talked last quarter that the industry had seen adverse loss trends and mentioned that we were a little late responding with rate. We've implemented numerous rate actions. Given these are primarily 12-month policies and policies need to renew before the rate takes effect, it will take another couple of quarters for the earned rate activity to be fully visible on our loss ratios. As we continue to work through our claims initiatives, our results still reflect some of the added pressure from the issues we described last quarter. We've got a new claims leadership team in place. We've identified the breadth of the issues and have made meaningful progress on remediating them. But like our rate initiatives, it will be another quarter or 2 until the benefit appears in our financial results. Despite the bumpy start to redesign the P&C claims service delivery model, we remain confident that we will reduce loss in LAE cost by $85 million pretax on a run rate by year-end 2018 compared to the first half 2016 annualized results. From a top line standpoint, net premiums -- net written premiums decreased $1 million, primarily from lower new business as we implement the necessary rate and underwriting actions.

Looking at homeowners, the underlying combined ratio was 79.6%. The big story for the quarter was catastrophe losses, which has been the big story for the entire industry.

I will talk about our experience on Page 13. This slide shows quarterly catastrophe losses in LAE since the first quarter of 2013 as well as several averages. For the entire industry as we all know, homeowners catastrophe losses are inherently volatile. Let me start by indicating that we still believe the long-term projected average we use in pricing is appropriate. The chart shows that the short-term average is above the long-term projected average. I will also point out that our book is small. As a result, our losses are likely to have a higher standard deviation or more volatility than the industry. Although the short-term average losses have been higher, we believe the long-term average is still correct from a pricing perspective. That said, we are still -- that said, we are actively looking at the use of reinsurance to reduce the potential of high frequency, low severity catastrophes that we experienced over the past several years. As the chart indicates, this is generally a first and second quarter issue for us. We are taking the next couple of months to ensure we get the right additional homeowners reinsurance program in place. Our intent is to reduce the impact that high frequency, low severity catastrophes will have on future earnings volatility and capital.

With that, I'll turn the call over to Jim.

James J. McKinney
Chief Financial Officer and Senior Vice President

Thanks, Chip, and good afternoon, everyone. Starting with investments on Page 14. This function continues to be an area of strength for Kemper. We manage a diversified and highly rated portfolio that has performed well over time. Looking at the chart on the upper left, you can see our performance over the past 5 quarters. We delivered $77 million in net investment income in the second quarter, a $3 million increase from last year. The increased returns were driven by our diversified alternative investment portfolio, which modestly outperformed our expectations. The core portfolio continues to produce stable returns with higher investment base more than offsetting the slightly lower rate. Overall, in the second quarter, the portfolio delivered a pretax equivalent annualized book yield of 5.2%, 20 basis points higher than the same period last year. On the bottom of the page, we've broken out the portfolio by investment type and provided the fixed maturity ratings. The portfolio remains conservative in nature with roughly 80% comprised of fixed maturities and of those, 90% are investment grade.

On Page 15, we highlight our strong capital and liquidity. In May, our $360 million senior notes matured, and in June we issued an additional $200 million of the 2025 senior notes. The effective yield on these additional notes is 4.4% and will result in lower interest expense of $13 million on an annualized basis going forward. Our debt-to-capital ratio decreased to 22.6%, providing us with ample financial flexibility. The reduction of leverage and invested assets will not have a material impact on our investment income. You can see in the chart in the upper left-hand corner, we ended the quarter with ample holdco liquidity. We had $188 million in cash and investments as well as $384 million in borrowings available from our revolver and the insurance subs. Looking at the chart in the upper right, you can see our insurance groups continue to be well capitalized.

Finally, our book value per share, excluding unrealized gains on fixed maturities, was $35.13, up slightly from $35 at year-end.

On Page 16, we provide an update of our commitment to eliminate $50 million to $65 million of annualized expenses by year-end 2018. For the first 6 months of 2017, we are on pace to exceed our $20 million run rate commitment by more than $5 million. We continue to streamline and automate processes where appropriate, while investing for the future.

Now that we have refinanced our debt, our -- and have addressed -- and are addressing DMF concerns, stabilized Alliance United and identified a path for improved P&C preferred profitability, I would like to pause for a moment and remind you of our capital deployment framework, which we have outlined on Page 17. Priority 1, we always look to deploy as much capital as we can into organically growing our business with appropriate risk-adjusted returns. Priority 2, over time, we want to opportunistically invest in acquisitions that strategically enhance our business an ability to provide growing returns and enhanced ROEs to our shareholders. Priority 3, if there is capital that we don't think we will deploy in an appropriate time period, we will look at our dividend and repurchase policies. One caveat. If we believe that our stock is trading meaningfully below intrinsic value, we will look to opportunistically repurchase shares that provide significant EPS accretion to shareholders.
With that, I am pleased to turn the call back to the operator to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple of questions on kind of the 2 sides of the auto business. I thought I'd start with Alliance United or even just the nonstandard more broadly. You talked about kind of being at kind of adequate profitability or adequate rating and going forward looking at a growth strategy. Can you give us a little bit of detail kind of how that would be positioned in the market competitively versus your peers? You know are other peers still playing catch up and you suspect that there is still larger rate increases on their end and that yours will be a little more competitive? Or what other factors should we think about?

Joseph P. Lacher
Chief Executive Officer, President and Director

Matt, this is Joe. I'll start with one and then see if Chip wants to chime in. You are getting a little more precise about what our tactical market actions would be relative to the competition. I think what we're really trying to signal and say is, we're very comfortable with the profitability of this business. We don't think it needs to fundamentally be improved more. We think the right balance on managing profit and growth is that this is the point where we are to be focused on appropriately growing this business. That does not in any way signal that we're trying to bounce this around and try to find a way to get the combines over 100 again by doing something stupid. We're going to be disciplined, thoughtful underwriters and prices in the market and we're going to look at each of the markets where we are doing business and look for opportunistic ways to grow this business. In terms of what competitors are doing? You know that this nonstandard auto market has a lot of smaller competitors in each different geography. So it becomes more complicated to describe what we think each one of them are doing in the marketplace. We've actually been growing this business modestly, while we have been fixing it. So we think that we have a strength and a capability and are positioned to thoughtfully grow it going forward.

George D. Dufala
Senior Vice President and President of Property & Casualty Division

Matt, this is Chip. I would just like to echo, what Joe said, I completely agree and also the work and the investments that we've made in the claims operation continues to help position us for that future growth. We feel very good about where we are and where we're going. And we're going to keep a very close eye on the market.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay, great. And then I just wanted to shift over to the preferred auto. Can you give us a little bit of granularity just on kind of what maybe average rate that you are taking looks like, kind of what -- how that compares to your view of loss cost trend? I'm really just trying to get my hands around how quickly or kind of how many cycles maybe it would take to get the combined back to a reasonable amount kind of below 100 kind of run rate profitably or target profitability, if you will?

George D. Dufala
Senior Vice President and President of Property & Casualty Division

Yes, Matt. We are looking forward to getting there as well. We have been taking currently the high single-digit rate increases on our preferred lines and preferred auto to catch up. As we've stated previously, we've been behind in rate. We recognize that and so we're being aggressive in the actions that we are taking. We really think we got to go through a full pricing cycle, as you know, as I mentioned in my remarks. Policies take a year to renew and it's really kind of a 12-month cycle. So we will continue to take the necessary steps. We will continue to improve our claims operation, which will be additive to our competitive position and ultimately to those lost costs. And we feel good about the direction that we are heading.

Operator

Our next question comes from Bob Glasspiegel with Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

A little bit more color on the adverse reserve development in auto in the quarter? Was it continuation of first quarter trends? Do you think you got it at this point?

George D. Dufala
Senior Vice President and President of Property & Casualty Division

Bob, this is Chip. Most of the adverse development we've experienced this year in the preferred auto line has been primarily due to bodily injury and uninsured, underinsured motorist coverages. From my perspective, for the most part it's with older claims that have been kind of rattling around the hallways here for a while and we have picked up some new information and candidly we have a lot of new eyes from the claims organization on those files. And so based upon having that new information and how new management might interpret the information differently than what prior management did is causing a little noise in the results. Do I think we have it all fixed? No. Do I believe that we are in a much better trajectory than we have been in the past? I really believe that and feel we are turning the corner there.

Joseph P. Lacher
Chief Executive Officer, President and Director

I'd probably add on top -- Bob, if I can for a second, I'd add on that. I think Chip's comment is very much about whether we've got the problem fixed. I think you were also asking, I think, what's going to run through the P&L. We think we've got the numbers right on those and we think we've got everything there. When you change claim processes, it causes a lot of noise in the actuarial triangles. And we've done our best to get it. Obviously, by definition, management's best estimate is our attempt to get that number right. We could still see a little pressure there as the claim department rattles their way through these items. We think we've actually got it right and then what we're now going to see is not the effect of sort of [indiscernible] processes from the past, but we are going to start to see the effect of the stronger ones going forward. But calling that turn precisely is a hard thing to do. We think we're either at it or really close to it, enough to where we're confident that these results aren't going to meaningfully deteriorate. They're going to move the right direction.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Fair answers. Appreciate it. Is there anything in the data in the reserve development that suggests you need more price? Or is that independent of the other stuff that you're doing in pricing?

Joseph P. Lacher
Chief Executive Officer, President and Director

There is nothing we're seeing in the underlying data. We highlighted the fact that we were behind somewhat on the loss trends. And we needed to get some rate there. We had made some missteps on some of the operational processes we're doing in claim. We will both reverse those and fix them and improve to get our 85 target. So those don't cause us any angst in terms of a pricing perspective. Those are just items that we're going to change and fix that will drop to the bottom line. The pricing impact is relative to the loss cost trend.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Great. If I could just focus on the chart on Page 5. You get the $100 million of annualized earnings moving to $190 million -- to $197 million roughly by '19 and that's just through expenses. There should be some earnings growth beyond that, right? This is sort of normalized run rate today in '19?

Joseph P. Lacher
Chief Executive Officer, President and Director

Yes. What this was intended to do is really not be a new projection, but to state what we were doing last September in a slightly different format. The claims initiatives are $85 million pretax or $55 million after-tax, that we're going to let drop to the bottom line and the expense savings are the $33 million to $42 million, which is $50 million to $65 million pretax. On a -- and normalized earnings base from the company was $100 million. So that we expect to see drop. If fundamentally, we grew the business, you are right, that would -- that could change that profile somewhat. We're trying to make it simple for you, so that's the only other thing you'd have to take into account. If we're making system changes and investments there or adding analytic capability or anything else, all of that stuff is net. These are the expense impacts, net of investments that are going to drop to the bottom line. And it's expenses and loss in LAE. So whatever we have to do to get those, these are the net benefits. But growth, meaningful growth, we wouldn't have covered.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So x-seasonality, you'd be at $45 million to $50 million run rate first quarter of '19?

Joseph P. Lacher
Chief Executive Officer, President and Director

That's about the math that we would work out there.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And the last question. Was your use of capital and discussion of buyback to say that buyback is now potentially on the table? I think you had been pretty clear that there was going to be no buyback for a bit of time...

Joseph P. Lacher
Chief Executive Officer, President and Director

Yes, I think we're taking ourselves out of the penalty box. For a period of time, the place was clearly in a rebuild phase. We were clearly in a spot where the earnings weren't where we needed them to, the business wasn't performing where it needed to and we had a lot of things to fix. It would have been inappropriate to continue buying back shares while we were dealing with that. This quarter, we refinanced our debt, we got the Alliance United turnaround behind us. A lot of those things are ticked off the list. And we can get out of the penalty box.

Operator

Our next question comes from Greg Peters of Raymond James.

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

I'm not sure whose idea it was for this afternoon call, but I kind of like it. It's unusual relative to many of your peers. I just wanted to follow up with a question just on underwriting performance in different regions, specifically in California. I'm curious about your perspective on the competitive environment there as it relates in particular to your nonstandard business. And then I had a follow-up.

George D. Dufala
Senior Vice President and President of Property & Casualty Division

Okay, Greg, this is Chip. When you think of the California marketplace, it is a very heavily regulated market. There are a lot of very specific things that you can and can't do. And we've traditionally followed those to the letter. As you think about what our competitors are doing as Joe mentioned earlier, there are so many very small kind of niche nonstandard carriers that really do unique things with the market segments that they target or different affinity groups that they are targeting. What we are doing is we are looking at the main competitors within the marketplace and try to offer a solid value proposition to the customers, so that our agents and brokers really have something to sell. We continue to leverage data as we go forward. We're going to want to do an even better job of using the data to make better and more informed decisions. But as I said earlier today, we feel really good about where we are and where we're heading and what we've done. And we're going to grow very judiciously. We want to grow especially in California, but we're going to do it the right way.

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

Great. Sort of a segue, you talked about data. I wanted to touch on technology. Two aspects, first of all, I know a number of your peers, larger companies have talked about automating the claims process further, reducing the need for adjusters, et cetera. And I'm curious if you have a perspective on that? And then secondly, there seems to be an emergence of whole sorts of technology out there that are aimed at reducing or identifying distracted driving and I am curious if you have a perspective on that as well?

George D. Dufala
Senior Vice President and President of Property & Casualty Division

Okay, let me take both of those. When you think in terms of the technology that's being introduced into the claims world, as you know, at first notice of loss, it's a very important time to gather as much data as you possibly can, so that you can start the file up right. There are a lot of startups entering into that space, a lot of existing organizations have started to fine tune online applications from your smart device or from your tablet, the connectivity that many late-model cars have, where folks are able to report a loss through OnStar or the like, Volvo On Call. I know a lot of folks are spending a lot of time and energy trying to make those systems work. We are paying very close attention to those. We want to be an organization that services our agents and policyholders the way they'd like to be serviced. So as you have very -- 4 or 5 generations that are out there driving at the moment, we need to be able to have that high touch environment for the policyholders and claimants that want to have their hand held and then we also have to have the very slick, online, quick and easy process for folks that want to follow that path. So we are paying very close attention to that. We are watching all the various insure tech and fin tech and the startups that are out in that space. And in today's business world, you have to understand how they are working and what they are doing to be effective. When you think in terms of what Lemonade has put on the table and how they are trying to automate pretty much the entire claims process, that's innovative and creative. We will pay close attention to that. But we also do view that there is a place for people and for skilled claims handlers to be involved in that process and we'll continue to do that. In terms of distracted driving, that continues to be a real issue. The Insurance Institute for Highway Safety recently came out again and reconfirmed that even hands-free devices, such as Bluetooth, do not improve distracted driving. They have also talked about that as marijuana has been legalized in several states that, that's also impacting the results of those territories. So between distracted driving, between other external factors that enter into the market, those are eventually going to work through the loss trends and we're going to have to take action and be sure that we're building our products and rates accordingly.

James J. McKinney
Chief Financial Officer and Senior Vice President

Greg, I just want to -- this is Jim McKinney. Sorry, I just wanted to take a moment. Since you opened up the timing question, just maybe set expectations here on a go forward path for us. Outside of kind of the year-end process, from a close perspective, we've been making great progress as it relates to various enhancements in terms of process improvements or automation activities. As such, you're going to see us bring in our close about 2 days per quarter in terms of when we would have kind of our earnings announcements release on a go-forward basis until we're at about 20 to 21 calendar days. And so from a timing perspective, we'll look at mornings, afternoons, we will try to slot where we wind up kind of in the best place so that we have an opportunity to have your attention as well as others and to have thoughtful questions. But you should also expect us to continue to move our -- move this call forward quite a bit as we have information in a much faster and streamlined way. We're going to get it out to the public as fast as we can on those things.

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

And just as a follow-up point on that. The earlier it goes, the less conflicts there will be in the earnings season as I'm sure you are well aware.

James J. McKinney
Chief Financial Officer and Senior Vice President

I am.

Operator

[Operator Instructions] Our next question comes from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I think I know the answer, but I think it's worth asking anyway. If we assume that your business is at rate adequacy from a new business perspective. And -- is there anything structurally that we should think about that would extend the rate at which it earned in? I sort of use a rule of thumb, it takes about 1.5 years. If we assume that absolutely today you're at rate adequacy with the business as you renew?

Joseph P. Lacher
Chief Executive Officer, President and Director

I'm not sure. Can you help us a little bit, Paul? I'm not sure I 100% understand the question. Are you talking nonstandard? Preferred? Or are you talking in general?

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I'm talking in general.

Joseph P. Lacher
Chief Executive Officer, President and Director

Okay. So help me one more time with the question because I want to make sure...

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

So us analysts will look at your company and if we assume that the business that you're renewing today is all rate adequate. And we assume that you're going to have some sort of level of combined ratio at that rate adequacy. Usually it takes about 1.5 years for an auto writer in general to get to have that fully work through the book. I'm wondering if there's anything unusual about your business, the way things are structured that would extend or delay, or shorten that sort of normal process of the book -- of the rate getting earned into the book?

Joseph P. Lacher
Chief Executive Officer, President and Director

So let me -- I'm going to answer it slightly different than you asked it. I think I'm getting at what you mean, but I'm going to state it in slightly different terms to make sure -- in the way we're thinking about it. For 6-month policies, rate would earn into the book more rapidly than you described. Most of our nonstandard business is 6-month policies. In preferred, virtually all of the policies are 12-month policies. So if we took a rate change in a given state, it would take 12 months for all of the policies to renew and subsequently be impacted by that rate change. And the last one, say -- let's say it was a January rate change wouldn't renew until December and wouldn't fully earn until the following December. So on average, you're about right. If we think about rate changes and we say we plan to take, make up the number, 7% on our book, that's going to be effective in different states at different times. And then you're going to have to go through the renewal piece. So depending on how you're modeling it. If you assumed everything was a January 1 policy and everything got the rate change the same day, yes, that's about right to think about the earned impact fully baking in. It's obviously a little more complicated because of the length of each policy term and because the states will get things at a different time. Did I answer your question or not answer it?

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

You're spot on.

Joseph P. Lacher
Chief Executive Officer, President and Director

I'm sorry for being thick on my part.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

No, no. I'm usually quite incoherent so I'm amazed you really get it out of me. I actually kind of want to ask, kind of bit of a softball question on the life business as a follow-up. We just haven't talked about that much and the changes there. I think most of us kind of have an expectation that earnings there will be basically kind of flattish from now until the end of time. Any updates as to what you are doing there that might change that sort of general outlook?

Joseph P. Lacher
Chief Executive Officer, President and Director

Yes. I'm going to -- we're going to avoid giving you a lot of details on that right now because there's a bunch of things we're working on there. I think the company probably has had a long-standing view that we thought these businesses were very stable and at some point somebody may have described them as a slowly melting iceberg, that they were just a slow steady drop-off. That is not this management's teams belief in terms of what they are. We think that there are ways that those businesses can grow. We're actively looking at improving processes and capabilities, and exploring those items. It will not move incredibly quickly or be double-digit growth numbers inside of the near future. If you're trying to ask the question how do we view the business? That's my answer. If you're trying to figure out from a modeling perspective, what to put in your models over the next 12 months? It's not going to be a huge growth number. There'll be some impact to the expense savings in the whole company that will fall into the life as well at the P&C, but that's embedded in the $50 million to $65 million of expense savings. Beyond that, we're going to keep working that business and as those initiatives have a little more substance behind them and are bigger, then we'll shine a little more light on them.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Lacher for any closing remarks.

Joseph P. Lacher
Chief Executive Officer, President and Director

Terrific. Thank you, operator. And thank you to everybody on the call. Before we sign off, I just want to provide you another quick thought or 2. Overall, Kemper had a very strong quarter. Our Life & Health business continues to perform well. Higher net income and earned premiums in the quarter, our nonstandard auto business led our improvement, driven by all of the actions we've taken to reposition the business. And while our preferred auto business is currently challenged, we're confident about our ability to reposition the book for profitable growth in upcoming quarters. The investments and improvements in our claims organization will make us more competitive on the P&C side overall. And last, our investment function continues to provide enhanced returns and has outperformed peers over time. I'm pleased with the overall progress of the company, and I look forward to updating you again next quarter.

Thanks for your time today, and thanks for your interest.

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