S&P Global
Market Intelligence

Kemper Corporation

NYSE:KMPR

Earnings Call

Wednesday, February 5, 2025 10:00 PM GMT

Call Participants

EXECUTIVES

Bradley Thomas Camden
Executive VP & CFO

Joseph Patrick Lacher
President, CEO & Director

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Michael Anthony Marinaccio
Vice President of Corporate Development

ANALYSTS

Andrew Scott Kligerman
TD Cowen, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Fourth Quarter 2024 Earnings Conference Call. My name is Constantin and I will be your coordinator for today. [Operator Instructions]

As a reminder, this conference call is being recorded for replay purposes. I would now like to introduce your host for today's conference call, Michael Marinaccio, Kemper's Vice President of Corporate Development and Investor Relations. Mr. Marinaccio , you may now begin.

Michael Anthony Marinaccio
Vice President of Corporate Development

Thank you, operator. Good afternoon, everyone, and welcome to Kemper's discussion of our fourth quarter 2024 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer; Brad Camden, Kemper's Executive Vice President and Chief Financial Officer; and Matt Hunton, Kemper's Executive Vice President and President of Kemper Auto. We'll make a few opening remarks to provide context around our fourth quarter results, followed by a Q&A session. During the interactive portion of the call, our presenters will be joined by Chris Flint, Kemper's Executive Vice President and President of Kemper Life; Duane Sanders, Kemper's Executive Vice President and Chief Claims Officer for P&C; and John Boschelli, Kemper's Executive Vice President and Chief Investment Officer.

After the markets closed today, we issued our earnings release and published our earnings presentation and financial supplement. We intend to file our Form 10-K with the SEC in the coming days. You can find these documents in the Investors section of our website, 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 on its future results of operation and financial condition. Our actual future results and financial condition may differ materially from these statements. For information on additional risks that may impact these forward-looking statements, please refer to our Form 10-K and our fourth quarter earnings release. This afternoon's discussion also includes non-GAAP financial measures we believe are meaningful to investors. In our financial supplement, earnings presentation and earnings release, we have defined and reconciled all the non-GAAP financial measures to GAAP that are required in accordance with SEC rules. You can find each of these documents in the Investors section of our website, kemper.com. All comparative references will be to the corresponding 2023 period unless otherwise stated.

I will now turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Michael. Good afternoon, everyone, and thank you for joining us today. I'm pleased to report that we delivered very strong results for the year and even stronger results for the fourth quarter. We're excited to dig into these in more detail. But before we do that, I'd like to make a few broader marketplace comments. We've been experiencing a hard market due to the massive COVID-related inflation spike which led to a meaningful imbalance between premiums charged and underlying loss trend. Against that backdrop, carriers with competitive advantages and quick responsiveness would be able to rebalance rate and loss trends sooner and realize 2 things.

First, better-than-normal underwriting profitability and combined ratios. And second, growth rates exceeding long-term averages. You don't have to look further than Progressive to see this play out over numerous market cycles in the broader standard and preferred auto market. Given our strong competitive advantages and responsiveness, we rebound sooner than most of our specialty auto competitors. Because of this, we are capitalizing on the benefits and achieving strong profitability and growth in this business. Clearly, there's some texture when you break this down by geography. Florida and Texas have displayed a more economically balanced regulatory environment and their markets are moving towards longer-term norms more rapidly. California is different. Between its unique regulatory approach, the doubling of auto minimum policy limits that began January 1, and the associated premium increases and the second derivative impacts of wildfires, we expect a hard market to remain there for some time. To be clear, we believe we are priced appropriately in California. Our competitive advantages position us very well to continue to meet the needs of an underserved market, grow the business and deliver strong financial results. Overall, we expect the financial benefits from our competitive advantages in this hard market to continue.

Now before we turn to our results in more detail, I'd like to take a moment to comment on the recent California wildfires. Kemper is deeply connected to the broader communities impacted to where many of our customers, employees and agents live and work. Our thoughts and support are with all those impacted, and we wish for everyone's safety and resilience throughout the recovery process. That said, relative to our results, these events are not expected to have a meaningful impact on our financials.

Now let's move to Page 4 and jump into some specifics on our results. As I said earlier, we delivered a strong year and an even stronger quarter. For the year, we delivered net income of $318 million and for the quarter, it was $97 million. Our core businesses are performing very well. This is led by our Specialty Auto business, where our underlying combined ratio was a very strong 91.5% for both the year and the fourth quarter. Matt will dive into this in more detail later, but I want to note that we're very pleased with our PIF growth. Historically, we have seen seasonally low shopping behavior in the fourth quarter. This has usually resulted in sequential quarter PIF decline of around 2%. However, this time, we delivered 2% growth. This continues the pattern of attractive growth we've seen since early 2024.

On a year-over-year basis, PIF grew over 5%. We expect robust growth trends to continue as we enter the 2025 specialty auto buying season. For our Life segment, the underlying business fundamentals remain stable, and the business continued to produce strong return on capital and distributable cash flows. Overall, for the year, we generated a strong return on equity of 12% and return on adjusted equity of just over 18%. We have continued to strengthen our balance sheet. We repurchased additional shares during the quarter. We increased our quarterly dividend, and we are retiring $450 million of debt next week. Brad will have more on all of these later. And with that, I'll turn it over to Brad.

Bradley Thomas Camden
Executive VP & CFO

Thank you, Joe. I'll begin on Page 5 of our consolidated financials. We generated another quarter of solid operating profit, resulting in the highest level of adjusted consolidated net operating income in over 4 years. Net income was $97.4 million or $1.51 per diluted share and adjusted consolidated net operating income was $115.1 million or $1.78 per diluted share. For the year, net income was $317.8 million or $4.91 per diluted share and adjusted consolidated net operating income was $381.5 million or $5.89 per diluted share. These earnings translate to a 14% return on equity and a 21.4% adjusted return on equity for the quarter or 11.9% and 18.3%, respectively, for the year.

We expect continued strong profitability. Our performance this quarter was driven by the results of our 2 core businesses. Specialty Auto delivered an attractive 91.7% underlying combined ratio and generated $101 million of adjusted net operating income. Given the current market environment and the strength of our Specialty Auto franchise, we expect continued profitable growth. Matt will provide further details later.

Moving to Life. This business delivered $24 million of adjusted net operating income, an increase of $9 million from last quarter. Approximately $6 million of the sequential quarter increase was related to the annual LDTI assumption update. Recall, we update our actuarial assumptions in the fourth quarter each year. Looking forward, we anticipate annual adjusted net operating income run rate of roughly $55 million or $13 million to $14 million per quarter.

Turning to Page 6. Net investment income for the quarter was $103 million and in line with the guidance we provided last quarter. Our pretax annualized book yield was 4.4%. As operating earnings continue to improve, we are adjusting our asset allocation and moving further out along the risk spectrum. This change will occur incrementally over the next 3 to 5 quarters and will help increase net investment income to support operational growth. That said, we will continue to maintain a high-quality, well-diversified investment portfolio.

Moving to Page 7. Our insurance companies are well capitalized and maintain significant sources of liquidity. Parent company liquidity was approximately $1.3 billion at the end of the quarter. This liquidity balance allows to pay shareholder dividends, interest payments and support our operating subsidiaries. Our strong financial performance delivered over the past year has allowed us to return capital to shareholders while simultaneously increasing our financial flexibility. This quarter, we repurchased $14 million of common stock, bringing the remaining share repurchase authorization to $133 million. We will continue to opportunistically repurchase shares. Additionally, today, we increased our quarterly dividend by $0.01 to $0.32 quarterly or $1.28 annually. This is our first dividend increase in 4 years and represents the continued confidence in our ability to deliver sustained long-term profitable growth for our shareholders. And lastly, and as previously announced, next week, we will retire $450 million of debt using cash on hand. This will bring our debt-to-capital ratio back into the low 20s and further strengthen our balance sheet and financial flexibility.

Next, on Slide 8. Here, we provide an update on our January 1, 2025 reinsurance renewal. Our catastrophe excess of loss program is a 1-year term that covers 95% of losses in excess of $50 million, up $175 million. This year's limit is approximately 30% lower than last year, driven by the reduction of total insured value due to the Kemper Preferred exit. The takeaway from this is that our business is less prone to catastrophe risk.

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

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Thank you, Brad, and good afternoon, everyone. Turning to Page 9 in our Specialty P&C business. We closed 2024 with a strong fourth quarter. Margins continue to outperform long-term expectations with an overall combined ratio of 91.7%. Private passenger producing 91.4% and commercial auto produced 93%. As Joe mentioned, the current period of rapid price increases and more restrained carrier underwriting has meaningfully increased customer shopping activity. The specialty auto market has a more fragmented group of smaller competitors. With this environment and our distinct competitive advantages, we are significantly growing our book. We expect these conditions to continue for some time. The growth we achieved in the fourth quarter was outstanding. Traditionally, PIF would have shrunk about 2% from the third to the fourth quarter, but instead, we grew units by 1.7%. This growth is in line with our production overperformance of the last 2 quarters.

We have now achieved year-over-year PIF growth of 5%. This business tends to have seasonal shopping patterns, and we have historically experienced large swings in quarterly production. Therefore, we've traditionally used year-over-year metrics as they adjust for the seasonality. As we were shifting from declining PIF to growing PIF, that metric became less helpful, so we directed your focus to a quarter-over-quarter growth metric. As we are now reaching more consistent production levels, we will be pivoting back to a year-over-year view. For now, we will continue to share both views on this slide.

Let's click down into some state-level texture, starting with California, our largest market, we continue to see pricing disruption driven by both the delayed rate increases in response to inflation and mandated increases in minimum limits. This pricing volatility is driving increased consumer shopping. We are optimally positioned to capitalize on this dislocation and have a very positive outlook. In Florida, we continue to achieve profitable growth. This market is behaving more normally than California and in many ways, is back to business as usual. We are well positioned there for further growth. Our commercial business continues its success with another strong quarter. For the last 6 years, this business has generated an underlying combined ratio below 96, with only one of the last 24 quarters being above 100. The differentiating capabilities of this business are enabling us to expand profitably in the markets we serve. It remains a reliable source of profitable growth across market cycles.

In closing, we are very pleased with our results and confident in the position of both our private passenger auto and commercial businesses. The environmental backdrop remains favorable and we are determined to continue to capitalize on this opportunity. We remain fully committed to sustained profitable growth.

I'll now turn the call over to Joe to cover the Life business and closing comments.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Matt. Turning to our Life business on Page 10. As noted earlier, the underlying business continued to generate stable operating results. Mortality was modestly better than historical experience while persistency remained in line with historical trends. The Life business continues to generate strong return on capital and distributable cash flows. As Brad mentioned, the 2023 LDTI accounting change requires an annual actuarial assumption update. For Kemper, this review occurs in the fourth quarter. It updates assumptions for the entire in-force book. And as a result, the financial impact is not a run rate item. We've provided the income statement impact for your reference.

Turning to Page 11. In closing, I'd like to reiterate our highlights for the quarter and year-end. First, Kemper delivered strong operating performance led by Specialty P&C's underwriting profitability. Second, Specialty P&C returned to year-over-year PIF growth and is well positioned for significant growth going forward. Third, the underlying fundamentals of our Life business remains stable. And finally, we continue to strengthen our balance sheet. We repurchased $14 million of stock in the quarter, raised our quarterly dividend and will retire $450 million of debt next week.

As we move through 2025, we remain well positioned to deliver on our promises of empowering growing specialty and underserved markets with affordable and easy-to-use insurance and financial solutions. We continue to anticipate meaningful profitable growth in our Specifically Auto business for the foreseeable future and are confident in our ability to create long-term shareholder value.

Before we wrap up, I want to take a moment to thank all of our employees for their hard work and dedication to achieve these results. Their commitment has been instrumental in delivering on our promises to our customers and ultimately driving our success, and we truly appreciate everything they do to help us achieve our goals.
With that, operator, we may now take questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Gregory Peters from Raymond James.

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

For my first question, I'm curious about the consequences of the fire in California on other lines of business, particularly Auto. And you said, Joe, I think in your opening comments, it's a hard market there. Can you give us an update on like the number of companies that are showing up in the comparative raters in your agency plant inside California? And have you seen any change in that just because of the fires?

Joseph Patrick Lacher
President, CEO & Director

Sure. I'm going to make a quick overall comment and then throw it to Matt for the details. We're not at this point seeing a substantive change in any of our businesses. There may be second or third derivative impacts down there. We don't have -- we're not seeing the financial impact. Sales are consistent, retentions are consistent. Nothing we can really see from the fire. And Matt, do you want to click in deeper on some of the questions?

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes, Greg, just a little bit more texture in California. We talked about it being a hard market. Our definition of a hard market is you have strong pricing and fewer competitors. And what we're seeing is that price dislocation that's happening across the entire auto market is generating more shopping activity. And we see that as an opportunity for us. We feel strong about our rate adequacy, about our pricing, and we're doing our best to take advantage of this opportunity while it exists. I think the property market and the Ls that, that market is working through is, over time, has helped in suppressing the auto supply market, that's an advantage to us. We generally see between 4 and 6 competitors per quote that's been consistent over the last 1.5 years or so. We're not seeing that metric move materially.

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

Got it. And in your comments, you talked about the seasonality of production in PIF. I'm wondering now that profitability has been restored, is there going to be a return to seasonality and sort of the underlying loss ratios? And how do you think about that as we work through a normalized year?

Joseph Patrick Lacher
President, CEO & Director

Yes. At some point, Greg, there'll be some sort of return to that. I'm not sure we're ready to forecast that yet. We're -- you're going to see through our pieces, there is some piece of seasonality. You're going to get a little bit of a different view on where new business penalties are. You get a little bit of state-by-state [mix] on it. If it's really a modeling question, we can try to help you with that a little more off site. If it's a general view I think we maintain the process. We're running a little better than a 92 combined ratio now over a number of quarters, that's going to generally migrate towards a more traditional 93, 94, 95 range. We can't give you an exact precision on that. We described that I think several quarters ago, it's 4% to 6%. It's going to sort of work its way over time. The longer the market stays harder, the slower that migration will be. It will adjust as it works. We expect some of that seasonality on loss ratios will come back. I just think for the next 12 months, it will be harder to try to go quarter-to-quarter projecting that loss ratio with a boat load of precision because of the big swings in production over the last 12 months.

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

Okay. Fair enough. I guess the final -- just clarification. I didn't have share repurchase in the fourth quarter on my dance card. So there are a lot of things you've done from a capital perspective. How should we think -- you raised the dividend, how should we think about share repurchase in 2025 as you balance that versus the growth opportunities?

Bradley Thomas Camden
Executive VP & CFO

Greg, this is Brad. Thanks for the question. I'll go back to the principles we have with respect to capital usage. The #1 source of capital usage is, obviously, we want to grow PIF, we want to grow organically. The second is look at anything inorganic. And I'll tell you right now we're not in that spot right now. And then third is, obviously, return capital to shareholders. We've done a little bit with the dividend -- and we've been opportunistically buying back shares when we think the stock is undervalued, and we'll continue to do so. But don't anticipate any significant buyback program in the near term. And as I indicated, we got about $133 million left on the share repurchase authorization issued a couple of years ago.

Joseph Patrick Lacher
President, CEO & Director

If I can add on to -- I 100% agree with them. The clear takeaway in that, we're seeing strong organic profitable growth opportunities right now. And the bulk of the capital we anticipate generating from earnings, we can deploy in organic growth. So we're going to -- that's our primary focus. That's the first level of focus for us. We have adequate capital to opportunistically buy shares and be a supporter of that in the market where as appropriate. But the primary focus is that profitable organic growth.

Operator

Your next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Joe, just one quick one here to begin with. Any way to quantify the lift we'll see on that $1.8 billion of California audit premium from these minimum limits as we look into 2025?

Joseph Patrick Lacher
President, CEO & Director

Yes. Our minimum limit policies saw a little more than a 30% increase on it, and they represent about -- between 50% and 60% of our California policies. I'm sorry, I misspoke on that one, it's a higher percentage. Our minimum limit policies in California are north of 90% in [that prospectus]. I was doing a broader country-wide view. So think the majority of the California premium gets another $30 million.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. But like I think you said last quarter in...

Joseph Patrick Lacher
President, CEO & Director

I was thinking the numbers on the liability only, not the minimum limits.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. And like you said last quarter, you don't expect to have a material impact on profitability because you're trying to kind of keep your rates where you're going to keep that kind of mid-combined -- mid-90s combined ratios, correct?

Joseph Patrick Lacher
President, CEO & Director

I missed the last part of that, Brian, and I missed...

Brian Robert Meredith
UBS Investment Bank, Research Division

Last quarter, you talked about how you don't anticipate the higher minimum limits having a material impact on margins just because of the way you're implementing rate. That's still correct, right?

Joseph Patrick Lacher
President, CEO & Director

That's still correct. What we did is we effectively took -- we had limit profiles that were at the old minimum limits and we had a staggered limit curve. So we gave people options. We eliminated the ones at the bottom and sort of moved them up and then we made an adjustment for what we thought a loss mix would be. So that affected the minimum limits piece of that. Remember [on it] though, let's break apart the premiums a little bit. You've got first-party coverages and third-party coverages. The minimum limits affect the liability side of this, not the first party. So if you bought full coverage, it covers your car and covers anybody you hit. The stuff that covers your car, the comp, the collision, that doesn't go up 30%. It's just the BI and PD coverages. So it's not all of the California premium. It's the premiums that would be covered by liability. The majority of our customers for those coverages have minimum limits policies, and those went up about 30%. So you got to break it apart. It probably comes in, if you want a simple way if you're trying to build a modeling item like 15%, 16% of the total California premium. When you work it through, if you were being more precise, you could do it by line. And we do not think that is going to meaningfully change margin.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Okay. Second question, I'm just curious, and I know we've talked about this before, but some adverse development in the commercial auto line. I know you've got a different commercial auto book than your typical kind of commercial auto book that we think about. But what's going on there? Is it the same kind of attorney rep going on?

Joseph Patrick Lacher
President, CEO & Director

So 2 comments. I'm going to make 1 overall, and I think Brad is going to kick in on the development. Remember, our commercial auto book is not a typical competitor view of commercial auto. I think in the last 12, 20 quarters, we've only had 1 quarter that had an underwriting loss. I mean, this is a business that -- and underlying underwriting profitability has been strong and it's been growing. It only had that 1 underlying period over 100. We don't have trucking. We don't have sand and gravel haulers. We don't have ugly stuff. It's not massive fleets. It's smaller stuff, which is why it performs different. You occasionally get a couple of -- you'll get a large loss here or there that may pop, that may be out of pattern. And that happens on a book this size. I wouldn't think too much of it. If you look at that strong rolling loss ratio or a combined ratio, it's very attractive. Brad, do you want to talk about some of the underlying trends?

Bradley Thomas Camden
Executive VP & CFO

Yes. I think just to give you a view of our overall reserving philosophy, if you take a step back up, when you look at KA in total, we had adverse development of about $1.9 million. And so our first philosophy to make sure from a KA or specialty auto perspective, we have more than enough reserves to pay for what we owe. And then at the end of the year, we looked at the development coming through, we decided to bolster the CV side and there's some favorability on the PPA side. Where we were bolstering mainly was a result of the extra curricular obligations, ECOs, extra contractual obligations, the ECO stuff where we're seeing a little bit higher development. So it's just really end of the year cleanup. No significant change in trends or anything that we're seeing.

Operator

Your next question comes from the line of Andrew Kligerman from TD Securities.

Andrew Scott Kligerman
TD Cowen, Research Division

Good evening. So I'm looking at Slide 9 in the top right-hand corner at the PIF growth Q-over-Q. And when I think about 5% year-over-year and for the first 3 quarters of last year, you saw year-over-year drops. So it sounds like -- and correct me if I'm wrong, the comps just get easier and easier, especially if the 3 areas where you have those 3 kind of rows, California, Florida, Texas and then other. If they kind of continue with that sequential rate then we should just see increasingly better year-over-year numbers. So I just want to make sure that observation is right.

Joseph Patrick Lacher
President, CEO & Director

That observation is 100% right, Andrew. If you back up like a 2 quarters, I think it was, maybe it was 3%. We showed you -- we had a particular slide in there that showed the year-over-year and it showed the sequential quarter, and we showed you the challenges with those. And what we've got is we've always had seasonality on sequential quarter in this business. So if you went through and you -- and we gave you PIF numbers. If you went through and you look at '16, '17, '18, '19, you would have seen that the third to fourth quarter usually saw a negative PIF, it dropped. And then you saw big numbers in the first and the second. It made sequential quarter numbers hard for you guys to read. So what we did is we encouraged you to look at year-over-year because then you just get -- you get a rolling 4 quarters, and you're always dropping off the -- and putting 1 in you get a comparative period. So it's useful. When we made a massive pivot from slowing new business and declining PIF to turning it back on, year-over-year would not let you see that change, so we pointed you to sequential quarter.

The first quarter of 2024 was negative, then you saw a positive, then you saw a positive, then actually, the fourth quarter was -- really is a small positive. It was really good compared to normal. As you get into the first quarter of next year, you'll go back to having a 12-month period that are more on the same trend. My guess is you're going to see the second quarter of '25 look better than the second quarter of '24. So I think there still might be 1 or 2 quarters where you might want to look at both year-over-year and sequential quarter because I think you're going to see that year-over-year continue to rise a little bit, and you're going to want to see both trends. By the time we get to midyear next year, it's probably clean to look at it year-over-year because that will give you a seasonality adjustment. So I think both are useful for at least 1 or 2 more quarters. But you're right, the underlying year-over-year is going to continue to get better, likely at least through the middle of next year.

Andrew Scott Kligerman
TD Cowen, Research Division

Yes, that's very encouraging. And then maybe you could give us a little color. I mean -- are the -- and you said to continue to look a little bit at sequential trends. I mean is Slide 9 indicative of what we're likely to see in 2025, kind of at those sequential numbers? And you gave good color on California and Florida and Texas in terms of hard market, a more balanced market with the other 2 big states. And then like what's going on in other? Like why is that so strong? And maybe a little color there. So should those -- a, should the sequentials continue at those paces and b, what's going on in other that made it so strong?

Joseph Patrick Lacher
President, CEO & Director

Let's -- I want to break this into 2 parts. I'm going to let Matt do the other. I'm going to start with the overall. Let's take the sequential. And you see the $1.8 billion in total there on the quarter-over-quarter?

Andrew Scott Kligerman
TD Cowen, Research Division

Yes.

Joseph Patrick Lacher
President, CEO & Director

That is not, in any way, shape or form what we expect the sequential quarter of PIF growth to be in the first quarter. That is way lower than what we expect that to be. The fourth quarter is a seasonally low number. It will be much higher. So if you took that and you expected sequential quarter PIF growth to be 1.8% for the next 3 or 4 quarters, you would absolutely miss a pick. It's going to be way higher in the first and second quarter that -- for nonstandard auto, that's what we talk about buying season. It's a combination of people getting tax refunds. It's a combination of -- they've paid off their holiday bills, and so maybe they have a little more disposable income. Sometimes they're looking at it as you've gotten through winter months and summer, whatever combination of things there are, you get a buying season that sees a lot more activity in the first 2 quarters of the year. So if you said, does outperforming our historical run rate, will that continue? Yes.

Does the $1.8 billion run rate? No. It is a seasonal number, which is traditionally low, I would expect meaningfully higher in the first part of next year. The relative basis, California is running great. Florida and Texas are a little behind, those will accelerate. Other likely will be higher. Ultimately, I'd expect California to have 1 rate. Florida and Texas would be higher than that and then all other would be higher than Florida and Texas. That's the pattern that you'll see when things rebalance and we're still rebalancing a little bit. Does that make sense on the first part of the question?

Andrew Scott Kligerman
TD Cowen, Research Division

Yes, super helpful.

Joseph Patrick Lacher
President, CEO & Director

Okay. Matt, do you want to give us some color on Florida and Texas and other, interested about other, but there's a little Texas, too.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes. So I mentioned the dynamics in California that are driving production. Florida, I'd categorize Florida as a normal marketplace. I think the responsiveness of the OIR in Florida has been great, the encouragement on rate. We're seeing companies actually having overcorrected in Florida. I think the tort reform is starting to work its way through. So we're seeing jockeying on pricing that you would see in a normal environment. Some companies taking rates up, some companies taking rates down. In Texas, Texas is a more traditionally soft market because the number of competitors in that marketplace, you have almost 1,000 competitors in that marketplace. We have positioning -- repositioning our product in Texas that we're launching out pretty soon. So you'll start to see Texas come online here as we work over the next few quarters. In the smaller states, we have a small base there. And so as Joe mentioned, we expect significant growth in those markets as we -- as the rebalancing takes hold. So optimistic about production across all markets. They're just at different levels of maturity of the rebalance.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. Super helpful. And just quick for Brad. The earned rate, should we expect about 2 to 3 points of earned rate in the first half of the year?

Bradley Thomas Camden
Executive VP & CFO

Well, Andrew, we've gotten away from really forecasting that earned rate, and we haven't supplied it in a while. What I would tell you, it's going to be higher than that in general, just given the California FR limit changes coming through. I think the best way to look at it is we expect earned rate and loss trend to be relatively equal. And maybe [auto trend] a little bit higher as we've told you slowly over the next several quarters. The underlying combined ratio will move up ever so slightly. But that's the best way to think about it. Just looking at the earned rate now, we've gotten through that journey in the last couple of years and it's going to be more stable.

Joseph Patrick Lacher
President, CEO & Director

Build on Brian's question a little bit about the FR limits. If you went and track rate filings, you're going to see a big rate filing, a big approval that's going to work its way through in California for the FR limits. It's -- it doesn't impact margin. So if you just took all of the filed and earned rate and tried to protect margin, you're going to get it wrong with that, that's distortive. So Brad's point is 100% correct. From a modeling perspective, ignore the FR limit for margin, use it there for revenue. And for the other rates, they're going to be roughly in parallel of the loss trend.

Operator

[Operator Instructions] your next question comes from the line of Paul Newsome from Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Good evening. I've got a couple, three, I think, pretty simple questions. The one is looking at the California wildfire exposures. Is it really kind of just as simple as the fact that people drive their cars away in wild fires is the reason for the relatively small amount of claims for you folks?

Joseph Patrick Lacher
President, CEO & Director

Yes. It's two or three things, Paul. One, we don't have meaningful homeowners exposure. So people are starting to think of that and worry about homeowners. Two, if you look at where the fires were, our customers don't live in Pacific Palisades. So they were -- the fires were occurring somewhere else. And three, people tend to drive away from those items, so we get some benefit of that. But it's the no homeowners, our customers aren't living there and a little bit of they're driving away.

Jon Paul Newsome
Piper Sandler & Co., Research Division

One question I've got quite a bit is whether or not there's going to be some sort of disruption really at the distribution level, either for regulatory reasons or simply because L.A. is in kind of a mess. Is -- any thoughts on that? Or do you think at the distribution level, there could be any sort of changes just given the magnitude of the event?

Joseph Patrick Lacher
President, CEO & Director

Help us understand what you mean on distribution level, you mean the agents or something else?

Jon Paul Newsome
Piper Sandler & Co., Research Division

Agents. Agents being able to actually do the sales and some times agents are more focused on claims or other things during these kinds of events.

Joseph Patrick Lacher
President, CEO & Director

We're not -- remember the markets for a second. You might have in a high net worth business. You might have agents worried about settling claims. The agent who's selling a homeowners policy to a customer in Pacific Palisades is not selling a specialty auto customer a policy or to our specialty auto customers. There's just not a Venn diagram overlap of these issues. Our agents are in the communities where our customers live. There's just not a big overlap. If there is a disruption or something that happens, we're not going to wind up feeling it related to disruption and agents being distracted with something else.

Operator

Your last question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Joe, just one big picture, one we're just thinking about, and you may have talked about this before. But longer term, how wise is it to have California being 50%, 51% of your overall business mix? Just -- I know it's a good environment right now. But longer term, how do you think about that and diversifying away from it?

Joseph Patrick Lacher
President, CEO & Director

Yes. If you back up prior to the Infinity acquisition for Kemper, California was roughly 90% of our Specialty Auto business. the Infinity acquisition brought it down. And every piece of material we've shown you since then has shown us systematically writing more new business, other places, and having growth rates higher outside of California than inside of California. Right now, our new business volumes as a percentage of total, are smaller for California than our total PIF count is for California. I'm not going to give you those exact numbers, but that suggests there's a diversification. You can see it if you look at the growth rates, the overall books in the quarter grew 1.8%, California was 1.5%. I think Matt told you that Florida and Texas had a slight slowdown in the quarter that will change next quarter. If that happens and you put those in a more traditional level, if California was 1.5% and Florida, Texas were 2.5% and the others were 3.5, you'd be systematically watching us change that mix. We make a lot of money in this business inside of California. So it's a good business for us. We're really good there. And we are systematically diversifying the portfolio. In addition, if you look at our commercial vehicle book, which is a fairly significant part of CV. Its share of California is more like 1/3, between 33% and 37%.

So it's more geographically diversified. So we're working on it. The only way to do it more rapidly would be to shrink California. And I remember how anxious these calls were when the PIF was shrinking. The more appropriate and thoughtful way to do it is to grow more rapidly in the other geographies, which is what we're doing. And I'm sure every year for the next 5 years, you're going to see other geographies be bigger.

Operator

There are no further questions at this time. I'd like to turn the call over to Joe Lacher for closing remarks. Sir, please go ahead.

Joseph Patrick Lacher
President, CEO & Director

Thank you guys for your time and your attention today and your thoughtful questions. We appreciate it. I'm very excited about the results we delivered this quarter. And very optimistic as we roll into the buying season for what we're going to see in the early part of next year, and we look forward to talking to you then. Thanks a lot.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you very much for your participation. You may now disconnect.