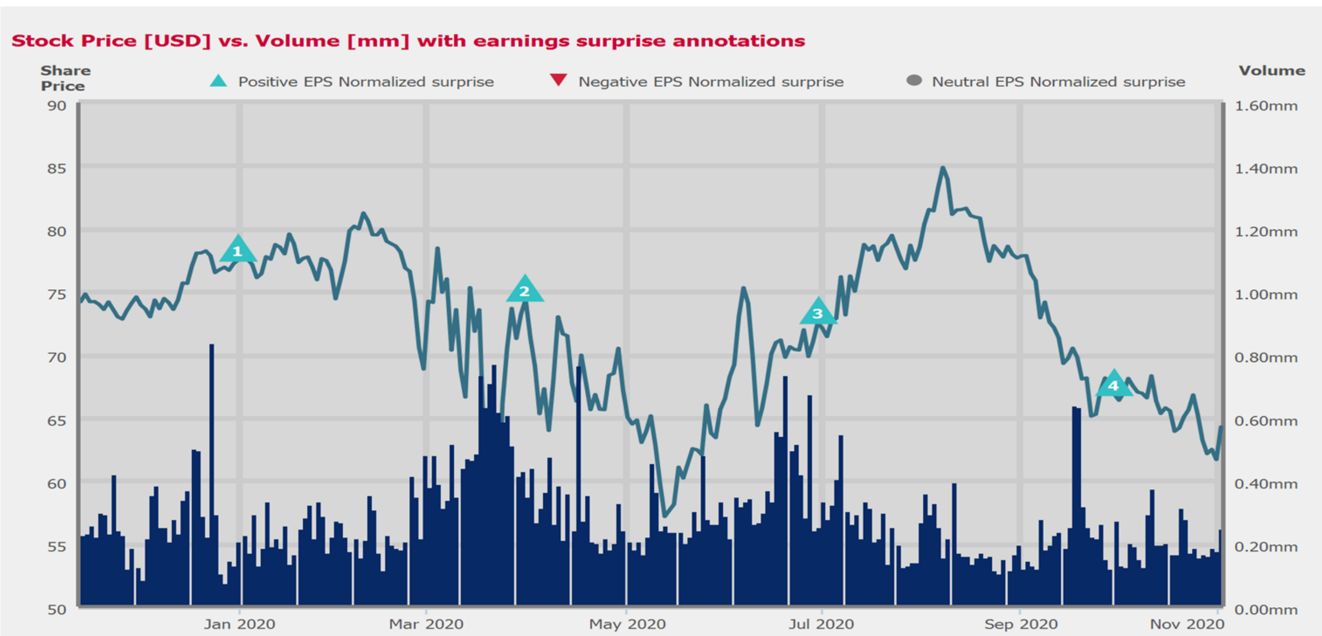
S&P Global
Market Intelligence

Kemper Corporation NYSE:KMPR
FQ3 2020 Earnings Call Transcripts
Monday, November 02, 2020 10:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.97	1.36	▲40.21	1.50	6.12	NA
Revenue (mm)	1264.69	1299.50	▲2.75	1275.64	4996.28	NA

Currency: USD
Consensus as of Oct-20-2020 8:27 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.40	1.45	▲1 3.57 %
FQ1 2020	2.37	2.43	▲2 2.53 %
FQ2 2020	0.97	1.20	▲3 23.71 %
FQ3 2020	0.97	1.36	▲4 40.21 %

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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
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ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Jon Paul Newsome
Piper Sandler & Co., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Third Quarter 2020 Earnings Conference Call. My name is Sarah, and I will be your coordinator today. [Operator Instructions] As a reminder, this conference call is being recorded for replay purposes. I would now like to introduce your host for today's conference call, Christine Patrick, Kemper's Vice President of Investor Relations. Mrs. 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 third quarter 2020 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 third quarter results and then open the call for a question-and-answer session. During the interactive portion of our call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Investment Officer; 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 third 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 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 2019 Form 10-K, our third quarter 2020 Form 10-Q as well as our third quarter earnings release. This afternoon's discussion also includes 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 2019 period, unless otherwise stated.

Finally, I would like to note that due to the social distancing practices that Kemper is following in response to the COVID 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

Thanks, Christine. Good afternoon, everyone, and thank you for joining us on today's call. I'd like to start by commenting on the current environment. We continue to offer our thoughts and compassion to individuals and families that have been impacted by the pandemic. This is a difficult time for everyone. Despite it all, I'm inspired every day by our team's commitment to meet the needs of our customers and deliver on our promises. I'm very proud of the ongoing dedication and offer my sincerest appreciation for their efforts. Against that backdrop, we have a business that's resilient and has the ability to consistently deliver strong results and long-term value to our stakeholders. While higher uncertainty in the business environment is likely to continue for some time, our diversified business model has and is expected to perform well.

Before we turn to the quarter's results, I'd like to mention the recent announcement that our Board of Directors elected Stuart Parker as a new director. Stuart previously served as the CEO of USAA and spent 21 years in various leadership roles with them. His high level of expertise and deep understanding of the insurance business will be a great asset to our Board. His success in advancing strategy through transformational customer service, accelerating product development and digital innovation will be immensely beneficial to further Kemper's growth strategy. Our entire team looks forward to working with him.

Now I'd like to turn to Page 4 to discuss our results for the quarter. Net income was $122 million or $1.83 per diluted share. Adjusted consolidated net operating earnings is $91 million or $1.36 per fully diluted share. We continue to generate top-tier returns with a rolling 4-quarter return on tangible equity, excluding unrealized gains, of 18%. The benefit of our diversified model was again evident this quarter as we were able to deliver strong returns with stable cash flows despite elevated catastrophe losses and increased COVID-related mortality.

Turning to our segment results. Our Specialty Auto business continued to generate significant market share gains with double-digit top line growth and attractive underwriting profitability. The business further benefited from favorable frequency trends. During the quarter, we achieved PIF growth of 7.6%, excluding the sale of classic car. Our low-cost operating model and ability to understand our customers' needs has allowed us to sustain industry-leading levels of growth despite disruption from the current economic environment.

Our preferred segment was impacted by elevated catastrophe losses, primarily from California wildfires and to a lesser extent, weather-related events. At the end of the quarter, we have met our catastrophe aggregate retention level for 2020. Based on this, we expect lower than normal fourth quarter catastrophe losses.

In our Life & Health segment, we were pleased that for the first time this year, we had a full quarter of sales activity. Segment earnings were impacted by elevated benefit costs driven by the pandemic. While we expect this trend to impact earnings for some time, we do not expect this to be a capital event. During the quarter, we had a very successful debt issuance and leveraged attractive market conditions. We raised $400 million or 2.4% senior notes due in 2030. Jim will provide more detail on this later in the call.

In summary, Kemper's healthy balance sheet and financial flexibility have enabled us to consistently deliver on our promises to our customers while maintaining appropriate returns for our shareholders. Our diversified model has proven successful at combining stable sources of cash flow and lower required capital to create a cost advantage that drives higher growth.

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

James J. McKinney
Executive VP & CFO

Thank you, Joe, and good afternoon, everyone. Turning to our results on Page 5. Net income for the quarter was $122 million, and adjusted consolidated net operating income was $91 million or $1.36 per diluted share. On a year-to-date basis, adjusted consolidated operating income per share increased roughly 4% to $4.98, coupled with strong year-over-year tangible net book value, excluding unrealized gains on fixed maturities growth of 14%. Our diversified model in specialized businesses continue to allow us to deliver sustained growth and strong earnings.

On Page 6, we isolate key sources of volatility. This quarter was primarily impacted by elevated catastrophe activity when compared with the prior year's quarter. Normalizing for these sources of volatility, adjusted consolidated net income per share increased on a year-over-year basis by 33%.

On Page 7. I would like again to highlight some of the capital metrics that demonstrate intrinsic value creation and strength of our capital deployment decisions, including tangible book value per share and tangible return on equity. On a 12-month basis, tangible book value per share, excluding unrealized gains, grew 14% and return on tangible equity, excluding unrealized gains, was 18%.

Continuing to Page 8. Our capital and liquidity position remains strong with over $1.4 billion of available liquidity. Over the past 12 months, we generated over $400 million in capital. We ended the quarter with a debt-to-capital ratio of 21%, reflecting the capital raise that took place in the third quarter.

Turning to Page 9. I would like to take a minute to provide further details on our debt offering. In September, we leveraged attractive market conditions to raise $400 million of 2.4% senior notes due 2030. The offering returned Kemper to our long-term debt-to-capital target range of 17% to 22% and extended and diversified our capital structure with current debt maturities 2, 5 and 10 years out. Our offering was the third lowest issuance yield in the P&C industry history, regardless of rating. It was the second lowest BBB-rated 10-year yield issuance in the financial sector history. The transaction was more than 5x oversubscribed, with interest coming from a diverse investor base. This outcome is evidence of several key points: one, the strength of our business model; two, the quality of our balance sheet; three, the efficiency of our capital stack; and four, the confidence investors have in the combination of these points. In terms of potential use of proceeds, our first capital priority remains investing in our business, where organic growth remains strong.

Next, our capital position provides support for tuck-in acquisitions. In addition, where appropriate, our existing share repurchase authorization provides the option to capture value for long-term shareholders. Finally, the offering proceeds may be used to fund repayment of our 2022 debt maturity, reducing refinancing risk.

Turning to Page 10. Net investment income for the quarter was $92 million. While interest rates have put pressure on new money yields, our portfolio is positioned to perform through a lower-for-longer environment. Over the next 12 months, the company's scheduled fixed maturities are limited to $123 million. Over the past few years, we have extended the duration and mix of assets within our Life & Health segment. The actions put the company in a good place for this market environment.

In closing, we are pleased with this quarter's financial performance and are optimistic about our future. I would now like to 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. Let's begin with the Specialty segment on Page 11. The segment continues to perform well, generating approximately $119 million of earnings in the quarter. Our historically strong earnings profile benefited from pandemic-related favorable frequency trends. This resulted in an underlying combined ratio of 85% in the third quarter and 89% on a year-to-date basis. We continue to achieve strong market share gains in both new and established geographies. Policies in force increased 7.6% compared to the prior year quarter, excluding the sale of classic car. Net earned premiums increased 11% on a year-over-year basis. As you can see in the chart on the top right of the slide, our expansion efforts have been successful as we continue to deliver top-tier growth across geographies. We generated significant trailing 12-month growth in Florida and Texas of 30%. In the first phase of expansion states, we grew 34%. And at the same time, we continued to gain market share in our largest state of California. We continue to build on our sustainable competitive advantages, such as our low-cost model and specialty focus. Long term, we expect to deliver consistent growth at attractive margins.

Let's turn to preferred segment on Page 12. We continue to make progress in our preferred book as demonstrated by continued downward momentum in our trailing 12-month underlying combined ratio. These improvements are driven by our profitability actions in underwriting, pricing and exposures. That said, we recognize we still have work to do to reach our profitability and growth goals. Our preferred auto combined ratio improved on a year-over-year basis, driven by the same macro-environmental frequency trends recognized in the Specialty segment, in combination with the profit improvement actions I previously referenced. Also, we had roughly $6 million of adverse development, primarily driven by increasing demand notices related to BI and UM. This segment was impacted by $62 million in catastrophe losses with roughly 2/3 resulting from California wildfires. As Joe mentioned, we have met our catastrophe aggregate retention level. As a result, we expect any catastrophe events in the fourth quarter other than named storms to be covered, subject to a $500,000 per event deductible.

I'll now turn the call back to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thanks, Duane. Turning to our Life & Health segment on Page 13. Results were mixed this quarter. We are pleased that the first time this year, we had a full year of sales activity. New business is trending back to normal levels and lapse rates remain favorable. Customers continue to value our life product offerings. We have a strong competitive position in this space and are confident in our ability to deliver long-term strategic value. For the quarter, segment income was $12 million, reflecting elevated pandemic-related benefit costs. We experienced increased mortality, partially offset by decreased morbidity as levels in line with overall domestic trends.

Looking forward, we expect elevated pandemic-related benefit costs to continue. Given the dynamic nature of infection and mortality rates and the timing of therapeutics and other mitigators, the specific impact is difficult to predict. Long term, we remain positive about our ability to grow the business and generate attractive returns while continuing to serve our customers.

Overall, I'm pleased with our business results and the progress we've made to further strengthen our competitive advantage this quarter. Our capital and liquidity are strong and capable of supporting industry-leading growth with stable returns. Solid strategy execution has resulted in another quarter that demonstrates the ability of our franchise to create substantial value over time, particularly in the face of the current pandemic environment.

And finally, we were pleased to learn that we were #11 on Fortune's recent list of 100 Fastest-Growing Companies, just behind Amazon. The list was based on single year revenue and EPS growth rates and 3-year annualized total return. It is great recognition for our entire team, whose hard work and commitment to act like owners every day are moving the dial on our strategic priorities.
Now I'll turn the call back to the operator to take your questions.

Question and Answer

Operator

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

Matthew John Carletti
JMP Securities LLC, Research Division

My first question, I was hoping, I guess, Joe or Duane, you might be able to give us a little more color on kind of how the competitive environment is evolving. I think at a high level, just -- there's been increased kind of chatter out there about some of the big companies using some of the COVID savings to become more competitive and so forth. Your business is pretty specialized. You're also in certain geographies much more than others. I was hoping you might be able to help us with what you're seeing in your markets and your lines of business.

Joseph Patrick Lacher
President, CEO & Director

Sure, Matt. And thanks for the question. Duane and I will tag team it a little -- we're in different locations. So forgive us as we navigate through that, I'll make a quick comment and ask Duane to add more. As you pointed out, our Specialty Auto business is our biggest chunk of our auto business, and it is in a differentiated spot or a different spot than what you'll hear about a lot of times when you hear big players talking about getting more competitive. So I think it's positioned differently. And it has us, while not immune, facing a different set of competitive headwinds than you might find when you're hearing somebody broadly make a comment. Duane, you want to add some deeper color?

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

Yes. Thanks, Joe. Yes, I echo certainly Joe's comments. I think it's safe to say that's probably nuanced, Matt, across geography. And those that we generally run into have done -- employed different tactics. There's been -- I think we're seeing less -- I know we're seeing less on the rate change front. There was a little bit of that early going on at, I'd say, low single digit. That's now reverted to agent incentives and different types of programs on that front to try to bring in the new business, but you get a full range of those things across each of the states. They're all different, mainly driven by the dominant players in those states. We do see some of the bigger players, the State Farms were guys with things of that nature, but we've been fortunate so far in our agencies and our -- with our agency relationships to continue to find our way in that space and continue to write business.

Joseph Patrick Lacher
President, CEO & Director

The wrap I'd put on it, Matt, is, again, agreeing with Duane, but as we say or he'll say, this is different state to state. That's not because we're so far up against the trees, we're missing the forest. It's because we're typically dealing with smaller competitors in those geographies or a more focused competitive environment in those geographies in the Specialty Auto business. And probably the best way to step back and think about us, if you look at the growth this quarter, recognize that it's actually accelerating from some of what we've seen. And remember that we believe we have a specialization advantage, a cost advantage, a set of capabilities that actually position us in that competitive environment to perform and do well going forward.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And my one other question, again, probably, Joe, for you or Jim, relates to M&A broadly. We've seen one of your closest competitors announced being acquired. State Farm did a little bit of deal, rumors the Met book is kind of out there. So clearly, it's just of a focus and kind of on people's minds. And my question is, can you kind of walk us through without spending too much time kind of Kemper's approach to M&A? What boxes kind of must be checked, whether it be strategic or financial or so forth? And I didn't miss my mind in the presentation that one of the uses of capital was at tuck-in acquisitions. And so maybe you can comment on kind of where you view Kemper today and the capabilities you have and as you view something more strategic or transformational versus tuck-in?

Joseph Patrick Lacher
President, CEO & Director

Sure, Matt. And I'll take a shot at this. First, I'll make a comment. We never specifically comment on any particular M&A position on whether we're active and doing anything at any given time. So I'm highlighting that and answering your question as a more broad generic point of view. Taking the question from that perspective, look, we start with a couple of core guiding principles. First, we're building a core business around a key strategy. We look for a diversified business to have businesses that have systematic, sustainable competitive advantages or the ability to build those and enhance those, and we look for a business to be part of the portfolio to either be made better by it being part of the portfolio or to make the other businesses better. So we start with that piece of the strategy.

When we think about anything like M&A, we recognize that we're not just trying to be bigger for the sake of being bigger. We're trying to be better. So something has to make that core strategic set of statements better. And that's added capability. It has to make us strong or bring a different geographic niche, bring something else to the portfolio, help us enhance an existing advantage like a cost advantage or a specialization advantage. So we're always thinking about those items and why would something be better off with us than not with us. Then we recognize that there needs to be a financial dynamic and an appropriate financial dynamic around that. We come back to a handful of tests. Something should be -- and these are not exclusive, but they're on the list. Something should be accretive within the first 12 months to income. We would expect something to have a straight up payback period inside of 3 years, a crossover payback inside of 5 years. We recognize that part of the financial considerations at any given point in time is how we're paying for it. Is it cash or are we using our own currency? If we're using our stock and we're trading at the lower end of sort of our trading range for us versus the higher end, that's going to produce a different set of financial implications on those 3 or 4 tests I outlined. So we're cognizant of all of those.

And then maybe the last thing I'd layer in, Matt, it is not, in any way, lost on us that where our job is ultimately to be good stewards of capital and good managers of the shareholders and capital and produce an appropriate return. Trust is earned with disciplined, thoughtful execution and a track record over a longer period of time, and it's destroyed rapidly. So we're very thoughtful about that. And in anything we do, we look to build on that trust and not destroy it. Our plan is to be doing this for a long period of time and continue to do it as successfully as we've been doing it. So we need to remain disciplined in anything, anything we do.

I think folks would look back at our Infinity transaction. Hopefully, on any metric you could find, you'd see that, that was highly successful. I say this periodically for any transaction that somebody does, you should assume that they were active and looking at several that they didn't do. If you started with that assumption with us, you should walk away with some degree of confidence that we also know how to do something. We also had to walk away from something if it's not matching the right criteria that we put -- put any transaction through and it's not meeting those hurdles. So that may be a longer answer than you wanted, but I think it was a -- it's got a lot of nuances around it. Hopefully, that helps.

Operator

Our next question comes from Paul Newsome with Piper Sandler.

Joseph Patrick Lacher
President, CEO & Director

Paul, I don't know. We can't hear you.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Can you hear me now? I apologize.

Joseph Patrick Lacher
President, CEO & Director

We can hear you now.

Jon Paul Newsome
Piper Sandler & Co., Research Division

My apologies. I was hoping to kind of maybe dovetail off of Matt's question. I think what you gave in terms of the competitive environment, sounds like you referenced mainly the nonstandard business. But maybe you can talk a little bit about what you're seeing in the preferred business as well and how the environment today -- is it making it harder or easier to get where you want to in terms of restructuring your business?

Joseph Patrick Lacher
President, CEO & Director

Sure. I'll take a shot at that. As again, Duane and I are trying to connect across geographies. We are clearly seeing a bit more of a competitive environment inside of the preferred space. As we try to work through the challenges we've had in that business, this environment actually is helping that because we're seeing most folks recognize that profitability is improving, and it's easier to sort of get things fixed, and that's helping us. We had done some things over the last 1.5 years or 2 years that I would say very much were self-inflicted or things we did deliberately to re-platform our business, convert it to a newer set of products, manage some re-underwriting. All of those things put production pressure on us, either put pressure on retention or compress new business a bit as we were working on those improvement actions. The bulk of those that would really be production impacting are largely through the system. So what we're seeing through our results right now is a step-up or an improvement in revenue production because those activities are stopping, despite there being a modest uptick in the competitive environment. We're less disruptive on ourselves, so the net of those is actually producing some modest improvement in production. Duane, help me with some more specific color. What you'd add there?

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

Yes. No, I think great comments, Joe. And I think what we're continuing to see there in -- again, on a geography-by-geography basis, is progress on that front, where the historical work Joe has mentioned is starting to bear fruit, and we're finding ourselves in a better position or a more competitive position. That doesn't mean that we can certainly control or predict what the competition is doing, but the work that we've done in the past is beginning to show itself.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. Perhaps you could talk a little bit about the reserve development, just kind of what -- if there's any drivers in there that are sticking out. And obviously, it's not a huge number, but sometimes there's some pieces in there that can be instructive.

James J. McKinney
Executive VP & CFO

Yes. So Paul, this is Jim. Let me maybe try to answer your question. And then, Duane, if you have commentary or others, happy to -- happy for folks to jump in. Last quarter, we talked a little bit about an underlying theme associated with inside the BI, UM segment of our preferred book. We -- last quarter, you saw more of it kind of being in the UM side. This quarter, we saw a little bit of that bleed over as we continue to refine and look through our data into the BI portion of that.

Again, some of it, Joe referenced it well in terms of once we stood up kind of the new product and had some of the things that we needed to do as we flush that product out, we caught a little bit of a mix shift as well as some environmental trend changes over that period of time. What you've seen is us react to that in a, I think, in a pretty thoughtful way. There are a couple of different outcomes that you could anticipate. What I would suggest is that we continue to have a highly confident response in terms of the estimates that we're putting up.

And effectively, a little bit of this is just as we work through both this environment and as we've made the changes to the project, our underlying product and fine-tuned it, I wouldn't necessarily take this as something that's a go-forward item. Rather, I really think the way to interpret this is really based on both the environment and then what we needed to do to stand up the new prime product.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. Thanks for the answers, and congrats. Sorry?

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

No, I just -- I was going to say, I think Jim nailed it. I don't have anything else to offer. Thank you.

Operator

Our next question comes from Greg Peters with Raymond James.

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

Good afternoon, everyone. First, I know you're all aware that a tech platform recently went public, Root. And they have a, as you know, remarkable record of growth. And of course, associated with that is elevated loss ratio. So I guess I had 2 questions for you guys. First of all, when we're looking at Slide 11, and we see the type of growth that you're reporting in Florida and Texas in the expansion states, one wonders if that's going to be coming at a cost somewhere down the road in terms of higher loss ratios. And the second question I would have is just more broadly speaking, as it relates to companies like Root and Lemonade, what's your view of technology in your specialty segment? And how you might use it to deliver a more cost-effective price and more cost-sensitive product to your consumers?

Joseph Patrick Lacher
President, CEO & Director

So thanks, Greg. This is Joe. I'm going to take a shot at both of these. Look, I'm all in favor of the concept of the world changing and new pieces of the economy coming forward. I think some of these tech start-ups, they're taking a narrow piece of the business in thinking they can revolutionize that and they're missing a big part of what actually runs on insurance, and that's actually managing the cost of goods sold, which is the loss cost. I don't think most people look inside of the numbers here and think that solving the expense ratio or enhancing the expense ratio in our Specialty business is what's going to lead us to being way more effective in terms of what we're doing. We already have a leading expense ratio inside of that space. It's about understanding the loss costs and managing those there. And we're really, really good at that. We're -- we've been growing in some of these geographies at fairly significant rates for a long time. These are short-tail businesses. We already would be seeing a temperature if they were coming there. So what we're doing is we're doing very thoughtful things with our Specialty model, with our pricing, with our sophistication, understanding the market, and we're highly confident that it's a sustainable model.

Now the caveat on that is we've been talking about it for 2 or 3 quarters that the frequency levels that we're seeing in the industry are not sustainable. We do expect they're going to go back at some point to a post -- or a pre-pandemic level. And when that happens and that frequency runs up, these combined ratios are going to grow up because people are actually back out driving more. We never suggested that anybody should be expecting a combined ratio in the mid-80s for a long period of time. We told folks we're targeting in that more mid-90s. That's where we'd expect to be. Hit a fair return for our shareholders, a fair return for our customers and grow as much as we can. We think it's a little bit of a wonky environment right now, and we're trying to constantly make the adjustments to the pandemic environment. So I don't want to have a misstated quote come back 2 quarters from now when we see that combined ratio rise. If it's coming back from the basic set of frequency as people return to "normal", whenever that is, that is going to happen, you should expect that to happen. It's not going to be because we don't know what we're doing in these states in these geographies. We're highly confident there.

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

Got it. And then the second piece was around the technology side.

Joseph Patrick Lacher
President, CEO & Director

There's -- particularly in our Specialty Auto space, we've got a very solid policy administration, quality agent interface platform that we feel terrific about. We've enhanced all of those systems, including our claims system. There are still opportunities for us to improve, but we're in a pretty good position where that starts. We're not seeing a lot of direct-to-consumer in this space, where somebody is going to want to do all of their transactions electronically. So we haven't made big investments there. We are doing some use of claim settlements electronically. And I think we're solid performers there. So I think we feel reasonably -- we feel great about where our market is and in our position. And we feel reasonably good about where we are from relative to a broad cross-section of the market, and we clearly are behind some of the leaders in some of these spaces, but that's because they're actually targeting a different segment of the market.

James J. McKinney
Executive VP & CFO

And Greg, if I could add on just to what Joe highlighted. Just a couple. So it was one, related to the growth and maybe the differences between a Root and Lemonade and all that. We're not trying to catch up from a volume perspective here to create essentially a profitability positioning to outrun our fixed cost. Those items are baked into what we're doing. And what you're really seeing come through is the competitive advantage both on a cost advantage, our product development that is specific to our customer base as well as essentially having, through the diversified model and our low-cost platform, an ability to create that customized product at a low-cost point for consumers that gives them the right experience for that. And you're seeing that play out very similar to how you saw that, I think, play out for Progressive earlier on in their life cycle when they were focused on a portion of this market.

The second thing that, I think, you asked about was related to technology. I think Joe summarized the overtop, and it was really giving you kind of a little bit of the story and journey we're at. Where I look at it, and I think comes into play in what we're doing and the things that we brought to bear over the last 3 or 4 years here, is an element to be able to create lower cost customization, which plays well for the longer-term macro trends. It's about a speed to information here. But it's not just the speed of information. It's how fast you can translate that to bring execution to appropriate action. And so in terms of how these things come together in the future, I don't know that any one of these things are so disruptive in and of themselves in terms of how they drive or create a new market. But it's about how you use these technologies to do what you're already doing better and to do it at a lower cost point. That doesn't mean your expense ratio will necessarily change. It's just -- right, because effectively, you'll be able to -- if costs go down, you'll offset some of that with that reduced increases for trend, but it's one of those things that as we continue to excel at, we can build on and should be a further accelerant to the competitive advantages that we have today. Hopefully, that helps. I'm happy to answer questions. Maybe that gives you 2 views to think about.

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

That's good color. I guess the second question is a balance sheet question. You look at your -- the information about your debt offering, $400 million at 2.5% or 2.4%, right? You're seeing other institutions issue notes in debt at low levels like that. And then we slip over to Slide 10 and look at your investment income. And I guess, the core portfolio was you generated $81 million versus $88 million a year ago. If you and everyone else are able to drive lower debt costs, this is ultimately going to manifest itself with lower investment income in your portfolio. So maybe you can help us sort of frame that as we think about our investment income assumptions and growth of that line for your business next year in 2022.

James J. McKinney
Executive VP & CFO

Now, Greg, thanks for the question. So I'll highlight maybe some of the things that I highlighted as part of kind of our script to our initial presentation as well as some of the things I've said in the past. And then to the extent that there's additional commentary that would be helpful, happy to go deeper. I think we find ourselves in a very fortuitous position. We try, because of our diversified model, to be as matched out associated with our liabilities as well as we're able to essentially -- even on the P&C side, be able to take our debt or where we're investing on that side, commensurate with a full life of the liability.

And what I mean by that is, say, you expect the payment to go out 1 year from the day that it is. Many companies will have to take half or 3/4 of that because of their business model. Our diversified model allows us to go to that full length of that liability. What that means is that we tend to be more matched and our pricing be more matched for the environments that we're in, and that we're making sure that we're balancing both the underwriting income side with ours, commensurate with the investment environment.

When you look at our portfolio and one of the things that I mentioned earlier is over the next 12 months, we have about $123 million of maturities coming through. That's a very low level of maturities if you think about the overall size of our book. When you think about $9 billion of investments, further from that, you don't see huge amounts of investments coming due inside 2022. That's another $100 million and, say, $41 million today that is on schedule to come through inside that period. These are very manageable numbers that won't necessarily drive significant change.

And if there was a significant change relative to our business, these are items that we would take into account from a pricing perspective. And so we feel really good about that. I think the way to look at our business is, what do we think the -- we provide targets, 10% to 12% over the long term. Therefore, our return on equity, we also talk about a return on average tangible common equity, and the reality is, it's about how these things balance versus one of the any individual component that comes through there, i.e., in a lower-for-longer environment, it just changes what we do on underwriting. And because this is shifting on a relatively slow basis, when you think of those maturities, we have the time to react to it.

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

Okay. All of that makes sense. I guess the final point is, it doesn't look like you bought much stock, if any stock back in the third quarter. Is there a reason regarding concern around catastrophes? Or can you walk us through -- I know you highlighted that on Slide 9 as one of the uses of capital. Just curious about the thought process behind that from the Board's perspective.

James J. McKinney
Executive VP & CFO

So big picture, Greg. The last stock buyback that we did was commensurate with essentially the CSC settlement, and we had issued some equity early on to support growth kind of given some of the uncertainty and the elongated timing that we had expected to play out associated with that settlement and effectively, the ability to reduce the hybrid. That drove our actions to purchase, again in that first quarter and second quarter, a component of the stock that made sense to balance out those items. And so that was the primary driver there.

From an environmental perspective, nothing's changed relative to our capital deployment. We first look to make sure we've got the right amount of capital to support organic growth activities within the business as well as anything that could be considered strategic or to handle what could be increased volatility from a macroeconomic environment perspective. When we look at those time frame or those amounts, we then consider a period of 18 months as generally the time period for when we would think that they would be appropriately deployed or used inside that period. If those things aren't there, that's when we look to do additional things from a return of capital perspective. And the driver behind that 18 months is just -- it's a cost of money, a type of assessment that comes through there. And when you get to longer periods of time, it tends to be better just to match up those things at a future date, if that makes sense. So there's really been no change to that with those thought processes, and we continue to see very good organic growth within our businesses. And we consider -- continue to consider all of the elements that you would think about in terms of trying to make sure that we are really thoughtful for our shareholders and making sure that we do the things that create the most intrinsic value for them over the medium and long term.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple here for you. First, I'm just curious, could you possibly give us some sense of kind of how frequency was trending during the quarter? I know you don't want to provide us guidance on what's happening, but were you seeing some miles driven and frequency in time tick up during the course of the quarter and we're going to be getting a little sense of normalization?

Joseph Patrick Lacher
President, CEO & Director

Yes, Duane, you want to go ahead and describe that? And as you do, give us a sense both of year-over-year and sequential quarters because I think Brian's trying to poke at those a bit.

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

Yes. So from a sequential perspective, certainly, frequency did pick up prior to second quarter. I think second quarter really dipped. And then it started to work its way back in the third quarter, but when we think about year-over-year, it's still down a good percentage from same period of time on 2019.

Joseph Patrick Lacher
President, CEO & Director

And just adding on top of it, Brian. It's a little bit different by state, and we're also finding when we look at miles driven, the miles driven is coming back up. When you look at a weekend, it's much closer to pre-pandemic level than it had been, but if you look at during the week, it's still down. And if you look at typical commuting hours, those are still down. So the miles driven is giving us some insight, but it's really there are different miles driven at different times of the day in different ways, still fairly significantly in terms of what we're seeing running through. So it's making it hard for all of us to sort of figure out what exactly will come next.

Brian Robert Meredith
UBS Investment Bank, Research Division

Appreciate that. And then second question, I'm just curious, given the profitability that you guys are seeing right now, any concerns about regulatory pushback? And on that topic, too, maybe you can talk a little bit about -- there's been some talk about credit scoring and trying to potentially doing away with that. What would that mean for your business?

Joseph Patrick Lacher
President, CEO & Director

So we really, Brian, are trying to be ahead of a regulator coming back. We don't anticipate nor do we want to be in a spot where somebody says, "You should have done something different," where we've had a language and a practice that we've been running throughout the pandemic that says we're trying to target a fair and appropriate return for our customers, which then becomes also a fair and appropriate return for our shareholders and grow the business.

We had anticipated as did much of the country that we might see a little bit more broad reopening, and we were on that pace, and we were starting to see frequency come up and wouldn't have thought we needed to do much to respond around that. What we're seeing now is more closing things down and people tightening back up, and this may run for a little longer. If, in fact, that's the case, we're either going to wind up with some premium rebate like we've done before or some more frequency-sensitive rate change or some more permanent rate change that moves its way back.

We do not anticipate nor desire at all to want to run combined ratios with -- in auto with an 8 as the first digit, and we would not be projecting that going forward, and we'll respond appropriately around that. If we did, we view that as missing a growth opportunity and not doing the right thing to serve as many customers, if we could. We don't need to be responding to a regulator around that because it just sort of breaks our first principles around that. And as we see sort of what we anticipate the time frame will be on this going forward, we'll I'm sure be appropriately.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then on the topic of credit score?

Joseph Patrick Lacher
President, CEO & Director

Yes. On the topic of credit scoring, we hear this come up periodically. We're thoughtful rating and underwriting end market specialists. There are geographies like a -- pick almost any geography you want, say a Florida, a Georgia, that function -- a Texas, much like the rest of the country, and then you take a state like California, which has its own unique set of rules that restricts a great many rating and underwriting variables. We're highly successful in all of them. So if somebody wants to change the rules and it changes for everybody else in the marketplace, we'll adjust around it. I think it's misguided.
I think that credit scoring, when you fully understood what was happening, actually, in many cases, got -- what was perceived as a more fair process to folks and provided a better set of outcomes across all sorts of diverse groups. I think that was the ultimate conclusion, but we'll adjust based on the way the rules are in the market, and we're highly confident in our ability to win whatever the rules are.

Duane Allen Sanders

Executive VP and President of Property & Casualty Division

Yes. This is Duane. And I would only echo one other thought on that. And Joe's right. We participate, as you well know, largely in California today, where that's not a variable. So we've honed that skill how to work without it or with it. And the other is on the specialty side, the spread on credit score is actually really -- it's not that broad, as you can imagine. So having some flexibility with other rating variables and how to use that in combination with other attributes has allowed us to have the success we have. So I agree with you 100%. I think as this change, we'll absolutely will morph accordingly, but I think we're in pretty good shape.

Operator

[Operator Instructions] Our next question comes from Jeff Schmitt with William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

You provided some of the growth numbers for Florida, Texas and then the expansion states. And it was on a trailing 12-month basis, but just curious if we could get a sense on what it was in the quarter and just to see how that's trending?

Joseph Patrick Lacher
President, CEO & Director

Yes. In terms of -- give us a second to pull the stat. And you're really looking for quarterly or sequential?

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Right.

Joseph Patrick Lacher
President, CEO & Director

There hasn't been a meaningful change off of it, Jeff. It's actually, if anything, it's been accelerating modestly. Now we're grabbing the number here. Give us a second. I'm not sure we're going to actually get it fast enough for you to be on the call. We can follow-up with you after the fact.

James J. McKinney
Executive VP & CFO

I think, Jeff, the key point that I would highlight and so while we've given you the previous trailing 12 months, what you would see is that this quarter actually was accelerating over what would be the trailing 12-month ratio. So it actually understates what the growth in total was that you're looking at. And we'll get you more specific elements.

Joseph Patrick Lacher
President, CEO & Director

That's why -- again, my comment was we're actually seeing these -- we're seeing an acceleration, not a deceleration, if that's really the trend direction you're trying to look for. Some folks had hypothesized that we were going to see reduced growth prospects, and that's just actually not we're seeing. We're seeing this model works well in this dog hunt, and it continues to pick up.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And then just looking at the underlying loss ratio in the nonstandard auto, it was down quite a bit. It was the same as it was last quarter. And I guess despite -- we have seen some pickup in the economic activity, some driving activity has started to recover, but I'm just trying to get a sense on if you sort of back out maybe pandemic-related, is that still 75%, 76%? Or it seems like that could be trending down some?

Joseph Patrick Lacher
President, CEO & Director

Yes. The -- we had different premium rebates in different time periods. So you got a little bit of that running through. Are you trying to understand this quarter? Are you trying to project in the next quarter? Help me because I'm trying to give you the information that's most helpful to guide on what you're looking for.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Yes, I'm trying to see, is that still 75%, 76% on an adjusted basis, kind of a normalized basis? Or are you seeing that maybe trend down a little bit?

James J. McKinney
Executive VP & CFO

So I think the best way to look at this is going to be essentially in our supplement. And what you're going to see is that we're relatively flat from a PPA perspective on a quarter-over-quarter basis. What I would compare there is both your year-to-date number, which is obviously higher than what we posted on either of the last 2 quarters, but you've seen relatively consistent quarters in terms of what the underlying loss ratio would be there.

You saw some improvement essentially coming through in our commercial book, a little less than basically 2 points coming through there. Again, the recent trend that you've seen over the last 2 quarters, a little bit favorable to what, again, the year-to-date would be, but you can continue to see kind of that stability pattern. And then you saw a marginal increase essentially inside the PI business. Again, still a little bit better than what you'd expect from a year-to-date basis, but again, relatively constant as a whole.

And so I think those couple of quarters and then you got to take into account the environment, which is -- it's changing significantly day in and day out and have that overlay that comes in once you get to that period. And again, you might be thinking a few points this way or that way, just a lot of it kind of being what goes on with COVID, how mobile are people, what times are they mobile. And your crystal ball is really as good as my crystal ball is on that at this point in time.

Operator

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

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator, and thanks, everybody, for joining our call today. We appreciate your time and attention. I think we had a strong quarter and the strength of our underlying franchise, both from an earnings and a growth perspective, is coming through, and we look forward to continuing to talk to you about its success in the future. Thanks again.

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