Kemper Corporation NYSE:KMPR

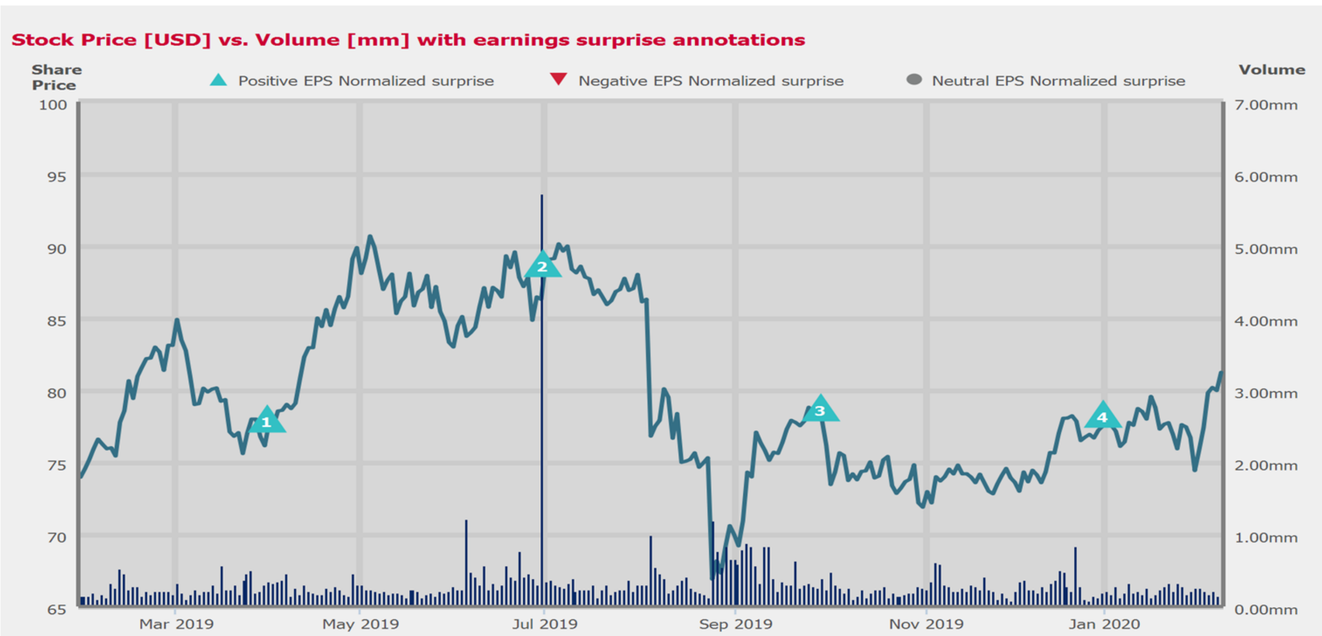
FQ4 2019 Earnings Call Transcripts

Monday, February 10, 2020 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.40	1.45	▲3.57	1.49	6.21	6.27
Revenue (mm)	1234.27	1243.40	▲0.74	1251.00	4898.67	4871.80

Currency: USD
Consensus as of Feb-10-2020 8:23 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.38	1.50	▲1 8.70 %
FQ2 2019	1.33	1.38	▲2 3.76 %
FQ3 2019	1.39	1.93	▲3 38.85 %
FQ4 2019	1.40	1.45	▲4 3.57 %

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Call Participants

EXECUTIVES

Christine Patrick
Vice President of Investor Relations

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

James J. McKinney
Senior VP & CFO

Joseph Patrick Lacher
President, CEO & Director

ANALYSTS

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

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jon Paul Newsome
Piper Sandler & Co., Research Division

Seth A. Rosenberg
UBS Investment Bank, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Fourth Quarter 2019 Earnings Conference Call. My name is Sean, and I will be your coordinator today. [Operator Instructions] As a reminder, the 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. Ms. Patrick, you may begin.

Christine Patrick
Vice President of Investor Relations

Thank you, Sean. Good afternoon, everyone, and welcome to Kemper's discussion of our fourth quarter 2019 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 fourth quarter and full year results and then open up the call for a question-and-answer session. During the interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Executive Vice President and Chief Investment Officer; and Mark Green, Kemper's Executive Vice President and Life & Health Division President.

After the market's close this afternoon, we issued our earnings release and published our fourth quarter earnings presentation and financial supplement. We intend to file our Form 10-K with the SEC on or about February 13. You can find these documents on the Investors section of our website at kemper.com. Our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. For information on potential risks associated with relying on forward-looking statements, please refer to our 2018 Form 10-K as well as our fourth quarter 2019 earnings release.

This afternoon's discussion also includes non-GAAP financial measures that we believe are meaningful to investors. One such measure that I would like to highlight again is as adjusted for acquisition. It is clearly important to understand our reported results, including the impact the Infinity acquisition has to Kemper overall. However, investors have also expressed an interest in understanding the underlying organic performance of the combined businesses. Since our as-reported financials don't include Infinity's historical information prior to the closing of the acquisition and our current results include the impact of purchase accounting, the underlying trends are not easily visible. In an effort to provide insight into the underlying performance of the combined businesses, we also display our financials as adjusted for acquisition. This view removes the impact of purchase accounting and includes historical Infinity information for periods prior to the closing of the acquisition to more easily provide a meaningful year-over-year comparison.

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 the SEC rules. You can find each of these documents on the Investors section of our website at kemper.com. Finally, all comparative references will be to the corresponding 2018 period unless otherwise stated.

I'll now turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Christine. Good afternoon, everyone, and thanks for joining us today. I'll start my comments referencing Page 4 of our presentation. Before we review our results, I'd like to touch on a few recent developments. We're pleased that 2 rating agencies have recently recognized Kemper for our improved performance, strong capitalization and risk management capabilities as well as the success of the Infinity acquisition. Fitch upgraded our key financial strength rating to A and the holding company senior debt ratings to BBB, while AM Best revised our outlook to positive from stable and reaffirmed our A- rating.

Last week, we announced a 7% or $0.02 per share increase over the previous quarter's dividend. The increase is another demonstration of the strength of our business model. In addition, last week, we announced that our Board of Directors has elected Gerry Laderman as a Director effective February 20. Gerry currently serves as the Chief Financial Officer and Executive Vice President of United Airlines. His experience and financial expertise complements our current Board and will be an asset to the company as we continue to grow. Our entire Kemper team looks forward to working with him.

Now let's turn to a discussion of our results. We operate a portfolio of specialty businesses. We utilize a wide range of both financial and nonfinancial metrics to measure our performance. Often, when talking to investors, we get questions about how to evaluate the financial success of the company. I wish it could be as simple as just a combined ratio, but that doesn't tell the full story. With this in mind, I'll highlight a few metrics that we use to manage our business and measure success. Obviously, there's net and operating income and overall growth. Beyond this, growth in tangible book value, return on tangible equity and cash generation give a good indication of performance of our overall business and how the long-term intrinsic value is increasing over time. Jim will comment more on some of these metrics in a few moments.

Let's discuss some specifics on this quarter. The fourth quarter net income was $125 million or $129 million, adjusting for the acquisition of Infinity, which translates on a per share basis to $1.85 and $1.92, respectively. Growth in tangible book value per share, excluding unrealized gains, was 29%. And we generated a return on tangible equity, excluding unrealized gains, of 25%. Our ability to generate this level of return speaks to the strength and performance of our business and business model.

Earned premiums and profitability in our specialty segment remain strong, with reported top line growth of 11% and a combined ratio of 94% for the quarter. Recently, we've all heard personal auto described as increasingly competitive. While we generally agree, it's important to note this is almost exclusively driven by the standard in preferred segments. The specialty auto market we focus on is less concentrated and, therefore, somewhat insulated from the escalating level of competition seen nationally in the standard and preferred markets.

We are outperforming our competition by better understanding our customers' needs and through our increasing cost advantage. We're producing industry-leading growth and an exceptional combined ratio. Our growth prospects remain strong. We're focused on geographies and customer segments that are growing significantly faster than the U.S. population, and we expect this focus to continue. We're using our specialty auto competitive advantages to enter new geographies. This new store opportunity, if you will, is an additional tailwind to further enhance our growth prospects.

To summarize, we have significant competitive advantages in specialty auto. We're concentrated in geographies and customer segments that are growing faster than the overall market. And our competitive advantages are allowing us to expand into new geographies. The combination of these 3 dynamics uniquely positions us for very attractive growth prospects in specialty auto for the foreseeable future. Duane will provide further detail in his commentary on the aforementioned.

We continue to work towards improving results in our preferred insurance segment. Over the past few years, we've introduced many changes to improve our operating performance, reduce the volatility of our results and enhance products we offer. The turnaround of this business continues. Our Life & Health segment delivered another quarter of stable earnings, strong cash flow and valuable diversification benefits to the overall business.

With that, I'll turn the call over to Jim to discuss our consolidated financial results in more detail.

James J. McKinney
Senior VP & CFO

Thank you, Joe, and good afternoon to everyone on the call. Net income for the fourth quarter was $125 million versus $7 million in the prior year quarter. Excluding the impact of purchase accounting, adjusted consolidated net income grew to $129 million. This quarter was positively impacted from a refinement of our CEI estimate, which was $5 million after-tax benefit to our Life & Health business. For the quarter, net income was $531 million, more than double the $190 million in the prior year. Excluding the impact of purchase accounting, adjusted consolidated net income grew 16% to $431 million. The increase in both measures is primarily driven by the continued outperformance of our specialty auto segment and the consistent results in our Life & Health segment.

On Page 6, we isolate the key sources of volatility in our earnings. Adjusting for these sources of volatility, our underlying operating performance has increased on a year-over-year basis.

Turning to Page 7. Total net investment income increased 5% over the fourth quarter of 2018 to $98 million. Our investments in corporate-owned life insurance or COLI contributed $3.6 million through the other income line, compared with $1.3 million in the prior year. We continue to view this asset class as having attractive risk return profile. And during the quarter, we increased our investment in COLI assets by $100 million. The annualized book yield of the portfolio was flat on a year-over-year basis at 4.6%.

Moving to Page 8. Returning to a point that Joe touched on, there are a handful performance metrics that we track closely. These include, but are not limited to, tangible book value per share, tangible return on equity, cash generation and business growth relative to market averages. Together, these points reveal the efficiency of our capital deployment decisions and intrinsic value changes. For the year, growth in tangible book value per share, excluding unrealized gains, was 29%. Return on tangible equity, excluding unrealized gains, was 25%, and earned premiums grew 9%. These represent industry-leading returns with above-market average growth.

Looking at Page 9. In the upper and lower left-hand corners, we present parent company liquidity and cash flow from operating activities. On the right side, we present our risk-based capital and leverage ratios. With greater than $800 million in liquidity, operating cash flow of $538 million, a strong capital position, and a sub-17% debt-to-capital ratio, we have substantial financial flexibility and balance sheet strength and a low cost of capital.

On Page 10, we're pleased to report that we have exceeded our initial and revised targets. As such, this will be the last time we review the financial targets we announced with the Infinity transaction. Going forward, additional combination benefits will be invested in operations of the business and in pricing to further drive profitable growth.

To summarize, written and earned premiums are more than $250 million and $230 million, respectively, above target. Our total synergies, which includes cost savings and yield enhancement, is above our revised target of $75 million to $85 million. We have operating earnings accretion of over 20%. The Infinity acquisition has clearly been a success. Joe and Duane have talked for many quarters about the significant strategic value and the positive impact this has had on our customers. As the financial metrics above highlight, this has also been a home run for both companies' shareholders.

In closing, we are well positioned to continue to deliver strong intrinsic value growth to shareholders and to meet our customer needs. With that, I'll now turn the call over to Duane to discuss the results of our P&C segments.

Duane Allen Sanders
Senior 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 specialty segment delivered another impressive quarter, highlighted by strong growth in returns. Segment income of $62 million reflected earned premiums increasing to $800 million, up 11% from the prior year quarter with an as-adjusted underlying combined ratio of 93%. The expense ratio reflects an increase in commission expense as the company seized on an opportunity to profitably capture and expand agent relationships. A portion of this benefit can be seen in the acceleration of this quarter's premium and PIF growth.

For the full year, segment income of $283 million and an adjusted underlying combined ratio of 92% are in line with the prior year and the 9 months number reported in the third quarter. Adjusting for the acquisition of Infinity, earned premiums increased 12%. Policies in-force increased 9% as we continue to take advantage of growth opportunities in both existing and expanding geographies.

Referring to the chart on the upper right-hand side of the page, you'll note that we target geographies and segments of the market that have an average growth rate above the overall U.S. population. In California, our largest state, we grew written premiums 8% over the past year. That significantly exceeds the state's population growth rate. In Florida and Texas, premium growth has accelerated to 13%, also well in excess of the population growth rate. Although our market share outside of California remains small, our growth is significant and accelerating.

Also worth noting, our specialty segment has a significant focus on the Hispanic market. The Hispanic population is expected to grow at a rate almost 3x that of the overall U.S. population. These factors combined to form a set of tailwinds that we expect to continue to drive industry-leading growth and operating performance.

Turning to the preferred segment on Page 12. Segment income was $13 million for the quarter with an underlying combined ratio of 97% versus income of $6 million with an underlying combined ratio of 97% -- or excuse me, 95% in the year ago quarter. For the full year, segment income was $42 million, with an underlying combined ratio of 95% versus income of $26 million with an underlying combined ratio of 94% in 2018. Segment income increased due to fewer cat losses and favorable prior year development. The underlying combined ratio deteriorated by 1.5 points. While the broad repositioning of this business is largely on track, the short-term financial results were hindered by Texas and New York Prime new business through early fourth quarter of 2019 and elevated non-cat large losses in home.

Turning to reinsurance. The market has seen its challenges in pricing pressure. We are pleased that on January 1, we renewed our catastrophe reinsurance tower and aggregate coverage with an inconsequential rate increase and no significant changes to terms. While we are not where we want to be in the preferred business, we continue to make strides in reducing earnings volatility and positioning this segment to reach our profitability goals.

I'll now turn the call back to Jim.

James J. McKinney
Senior VP & CFO

Thank you, Duane. Turning to our Life & Health results on Page 13. For the fourth quarter, the segment produced $29 million of income and $99 million of income for the full year. The full result -- year results benefited from some discrete CEI adjustments.

In 2019, earned premiums grew 3%. This is a distinct change from a long history of declining premiums. We're optimistic about our ability to further grow this business profitably. This segment is core to the success of the organization. The diversification benefits from the combination of Life and P&C continue to provide significant strategic value to enhance capital efficiency.

With that, I'll turn the call back to Joe for closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thanks, Jim. I'd like to thank the ongoing efforts of the entire Kemper team. The passion and ownership of our employees -- that our employees have for what they do is delivering outstanding value to our customers, our shareholders and the organization overall.
Now I'll turn the call back to the operator to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Greg Peters with Raymond James.

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

A couple of questions for you. First of all, on Slide 11, I was looking at your growth by state or region. And I was struck by the expansion states and the substantial growth there. Can you give us some more color about just how it's going outside of California, obviously, including some comments on Florida and Texas? Because we're hearing about some other competitors reporting challenges in Florida, in particular. So any perspective there would be helpful.

Joseph Patrick Lacher
President, CEO & Director

Yes. Duane and I will tag team that a little bit, Greg. And I'll ask Duane to just sort of go into a little more perspective on individual states. What I'd tell you, overall, is when we look at those expansion states, they're obviously coming off a modest base. So premium growth percentage becomes very large. We're finding that those are states where we believe we could very thoughtfully enter the geographies. We thought our existing cost advantages provided a buffer for us, and we thought that we had a sufficient knowledge from other geographies that we could apply in those geographies that would let us the good starting point from a product and a pricing perspective. So we feel great about them. Inside of Florida, in particular, we've heard similar competitive challenges in the environment.

There was one carrier out there, Windhaven, who had some meaningful problems and actually has shut down their new business and is pushing a chunk of that into the market, much like we saw with Access a couple of years ago. And candidly, we've been a little bit more aggressive in the marketplace because we feel good about it. And we have great results, and we think we've got a competitive advantage there. So you may be feeling some folks or hearing some folks with our weight being moved in the market.

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

Yes, I don't -- this is Duane. And Greg, I don't know that I'd add a lot of additional color on it. But other than, as Joe mentioned, we've been kind of in these spaces or in these states for a period of time. We've gotten to where we've got a fairly strong understanding of what's going on. I do agree, in particular, in Florida, there's been some slips by some of the competition. And we've been able to take advantage of that and position our offering accordingly.

And we're also in other states where we've got a presence, and we're continuing to push on places where we've got -- where we feel like we've got some growth opportunity, and we continue to take advantage of that. So we're watching this, particularly, the Florida and the Texas, for the obvious reasons, but we're feeling pretty good about where we are and where we're going.

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

Excellent answer. Can I pivot to, I think, in the appendix, Page 26 and 25? Just wanted to spend a minute, and I know you talked a little bit about this in the prepared comments, just about the trends in the underlying combined ratio. I think you called out, for example, 100 basis point hit to the expenses for a onetime agent relationship situation. Can you give us an idea of how -- if I look at the year -- the quarter -- for the fourth quarter results relative to the year-over-year comparison, how I should be thinking about this as I look to 2020?

James J. McKinney

Senior VP & CFO

Greg, great question. Let me start by saying, topside, I would look at essentially our full year results when you're trying to forecast and kind of think about what are maybe some of the expense metrics or others that you might model us out on similar to the way to think about what would be the starting point for an annual loss pick that you might be triangulating off of us.

If you look at last quarter, and I'll give an example, our loss pick for the year for the [K] business came down. And the net result of that is, while we see a similar loss pick, right, for the fourth quarter and for the third quarter, from a year perspective, you see a little bit of volatility from a quarter perspective. So no change there. Those are basically the same numbers from a loss perspective in terms of what's going through that business.

In terms of the expenses, we had a great opportunity, both with Windhaven and some others, to take advantage of a market opportunity to further cement some relationships with some agents this quarter and a little bit of last quarter. And what you saw is us being in a very good, profitable position with very good risk characteristics associated with those -- with the drivers that we could potentially acquire. And you saw us be a little opportunistic inside this quarter and continue to cement those relationships. Really not much else to kind of point to, but happy to answer any other questions you might have on that.

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

Well, let's be clear, an 18.2% expense ratio is still well, much better than the industry averages. But should I look at that fourth quarter expense ratio and sort of use that as the run rate, anticipating that this agent -- the new opportunities are going to lead to an elevated expense ratio for the next couple of quarters? Or was that truly like a onetime in nature type of transaction?

James J. McKinney
Senior VP & CFO

No. I don't know that I would describe it necessarily as onetime in nature. The way I might think about that is there's opportunities like that, they come out throughout the year. And if we're in the right position or that, we might try to essentially capture that. The benefit of that will be had, essentially in the 2020 period. So you see the expense rolling through effectively in this quarter for those additions. But you don't see the benefit necessarily, which will essentially kind of roll out in previous quarters, which will help moderate that a little bit.

The second element, Greg, that you're seeing is a little bit of a change in mix. You see really good underlying margins or loss ratios. But you've got a little bit of a switch in terms of just how states operate and where different expense ratios, commission ratios might be for those. So you see a little bit of a mix change that's there. You might think about that in 30, 40, kind of, 50 basis points there and another 0.5 point, 0.75 of a point as it relates to the commissions that we talked about. Those things are going to kind of ebb and flow a little bit as, again, the opportunities present themselves, and it has kind of the mix shifts a little bit here or there. But overall, I might think about a very strong margin in us really having a lot of benefits and great momentum going forward.

Joseph Patrick Lacher
President, CEO & Director

The thing I'd add, if I can, a little bit, Greg, and I agree 100% with what Jim said clearly about the mix. I know you're looking at Page 25, I think, it was one you pointed out. You're picking on the fourth quarter number. Part of the reason we pointed you to think about the full year, look at the third quarter number, that was a little low. And a little bit of some of the expense piece and then some of the -- it's much more clear in loss pieces where you might get some entry year development that might cause those issues. But that's part of the reason Jim was pointing you towards more of a full year number when you were thinking about modeling going forward.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

Got it. That makes sense. The final question, and I'll just pivot back to -- I guess it's Slide 16 of your presentation. And given the success you've had with Infinity Property & Casualty, can you give us -- and you're obviously very well capitalized at the moment, can you give us a sense of what the M&A environment looks like?

Joseph Patrick Lacher
President, CEO & Director

I give the same answer all the time, Greg. It's like my college dating career. Just because somebody wanted to -- I wanted to go out with somebody, I really wanted to go out and eat, we see what happens when it happens. There -- we never have any specific comments on anything because it's just -- it's not productive.

James J. McKinney
Senior VP & CFO

Greg, if I could just maybe add one element to that. When we think about the business as a whole, and you've heard us say this many times, but for the benefit of the collective group, as it relates to M&A, it would have to be something that made us better, right? We're not striving to be bigger for the sake of being bigger. We've got really good scale. We've got great organic growth opportunities that are behind us. There's nothing that provides or pushes us for pressure to need to do something.

So from that front, it's great that we have a really strong balance sheet. It's allowing us to continue to invest in the organic growth to capture those opportunities. We're going to continue to be focused on making sure that we can capture those opportunities. And if something like an Infinity or that were to come along that makes great sense for both sides' customers and our shareholders or other things, we've, I think, demonstrated the capabilities that we can execute. And we have the balance sheet, the liquidity and the capital generation to be able to take advantage of that. But at that same point in time, our first and foremost concern is making sure that we make good decisions, both for our shareholders and our customer, and we're in a really good position with what we have right now to continue to build off of that.

Joseph Patrick Lacher
President, CEO & Director

We start with that bias that we're going to build sustainable competitive advantages in each of the businesses we're in and allow us to better serve our customers and grow organically. And if something else happens, that's great. But otherwise, we think we can deliver great results for shareholders and customers doing what we're doing.

Operator

Our next question will come from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the quarter. I wanted to ask a little bit more about the preferred segment. Do you need a market change or more beneficial standard market to turn the combined ratio around? Or are there levers there that you could talk about that you think would move it...

Joseph Patrick Lacher
President, CEO & Director

Paul, we were having a little trouble hearing the first part of your question. I know it was about preferred, and I missed the first sentence after that.

Jon Paul Newsome
Piper Sandler & Co., Research Division

My apology. I wanted to ask if you need a change in the standard market to move the preferred underlying combined ratio to a better position or if there -- if you could talk about some other levers there as we look forward into 2020 about potentially improving the profitability there.

Joseph Patrick Lacher
President, CEO & Director

So your question was, do we need something to change in the marketplace? Or do we have enough leverage ourselves?

Jon Paul Newsome
Piper Sandler & Co., Research Division

That's exactly right.

Joseph Patrick Lacher
President, CEO & Director

Okay. Yes. And I apologize. It's probably something on our side, Paul, because you're doing it. We're just struggling with your line. So I'm sure it's on our end. Yes, we've talked about this before. The business is, for us, anyway, a modest-sized business, which creates a challenge for us relative to some of the bigger competitors. We think we have a couple of opportunities there. A lot of work we're doing inside of our claim environment to strengthen our capability in specialty auto actually helps us inside of the preferred space.

There clearly is a segment of that business and there's -- the claim population has higher limits, and we have a specialized team that works on that. But the lower limits, the metal coverages, certain pieces of that, the strength we're building in our specialty auto, actually will provide us some lift and some benefit on that side, which will help us out. We get benefits similarly from the analytics, we get benefits as we're growing the business overall. Literally just spreading fixed costs for the organization actually helps reduce some of the expense pressure inside of that business. So those are reasons why being part of the portfolio are helping that business. So we see opportunities there.

We've got a very thoughtful team who's working on, in many ways, what are basic blocking and tackling, pricing, underwriting, agency management capabilities. What I think is important to notice in that business, and one of the things we're fairly proud of, if you back up 3 years ago, 4 years ago, there was a lot more earnings volatility in that business. We saw a lot of cat volatility. We improved the margins in the business and then we used some of that margin improvement to buy an aggregate catastrophe treaty.

When you buy that that immediately takes premium out of the top line. And it actually puts pressure on the underlying combined ratio because the premium goes away and underlying combined ratio doesn't include tax. So that appears to be an underlying combined ratio pressure. All of the benefits we got we spent that way, and it took -- dramatically reduced the earnings volatility inside of that business. So that is a huge risk/reward return benefit to shareholders. And we feel it's easy to miss it if all you're looking at is underlying combined ratio. But it's a big plus inside of the business.

So we think we can continue to march forward. We had a little bit of a challenge inside of that business in the last 12 months. We had rolled out our prime new business products. It had rolled out, in particular, in Texas and New York and had a few challenges in the underlying pricing. We generated some growth there and had a little temperature on the loss ratio. We expect a new business penalty to run through there. It was running hotter than it normally should. We have shut off the things that were causing the problem. But it's got to work its way through the book, and it's got to work its way through renewals.

It's definitely one that's got us a little irritated internally that it was there. It's not entirely surprising with the new product. But we've seen it. We stopped it. We're applying the measurement -- or the medication to fix it. But it's going to take the 12 months that it would normally take on a book like that to roll through the renewals. But we're highly confident with it identified and the new business that was causing the problem stopped, that it will improve.

Jon Paul Newsome

Piper Sandler & Co., Research Division

That all makes sense. My second question -- sorry. My second question is about severity. That seems to be -- the claims inflation seems to be the topic of the quarter. Could you just broadly talk about what you folks are seeing in your various businesses with respect to severity increases? Obviously, it's not the biggest deal for short-tail lines, but I'm sure the data point would be helpful to all of us.

Joseph Patrick Lacher
President, CEO & Director

Yes. We're seeing a little bit of some of the things people talk about, Paul, but just not in a way that would cause us to have raised them up as a topic. And I don't know what's the exact cause of that. We do have shorter tail lines of business. We have a meaningfully lower limits profile in general. Our customers perhaps tend to have a little less economic wherewithal. So perhaps they're not the same targets. I'm not sure if that's, in fact, the case.

We're just -- we're seeing modest inflation in different spots. But as we look across every line of auto and property, sub-lines, whether it's collision or comprehensive or BI, every piece, it's not something that we would have called out and said, it's really important to put in front of you and worthy of note. It's -- we're consciously watching for it because we hear everybody else talking about it. But again, nothing that we would have raised our hands to push towards the forefront.

Operator

[Operator Instructions] Our next question will come from Seth Rosenberg with UBS.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Congrats on the quarter. I just wanted to circle back on the comments around Windhaven and thinking back to when you benefited from Access, it was a relatively kind of quick pickup in premiums, I guess, given the nature of nonstandard auto. Is that something that we should be thinking about in numbers for the next couple of quarters? Yes, maybe could you just size that a little bit?

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

Yes, this is Duane. So I think you're thinking about it similarly, actions really started taking place late last year in the November time frame. So we started seeing the volume come in. It will continue to come in. There was, I think, a call to action on their part by February 5 in terms of where they had to get off policies. So that business will find its way into the marketplace over the next 30, 60 days. And then it will start to, 1 to 2 quarters at most, I would say, and we'll continue to manage to it and watch it. But I think the way you're thinking about it would be correct. And then we're being as responsive as we can.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Got you. Great. And then from a strategic standpoint, I think, they are someone that you probably benchmark yourselves against in the state. The absence of having them there, does that give more -- does that change the competitive landscape in Florida?

Joseph Patrick Lacher
President, CEO & Director

Yes, your question, Seth, is about Windhaven specifically?

Seth A. Rosenberg
UBS Investment Bank, Research Division

Yes. The absence of them in that market, I mean does that give more pricing power to you over time in Florida?

Joseph Patrick Lacher
President, CEO & Director

I think what we've seen in -- across most geographies is there's a reasonable level of competitiveness. What we found with Access in California, what we found with Windhaven in Florida, was they might have been a little irrational in terms of what they were doing and were sort of spoiling the pool for everybody. And you had to be disciplined to not chase them. Some folks may have chased them, and that may give them a little bit of a temperature. If that was, in fact, the case, they're going to have to fix that.

But we think it's still a competitive environment. It's just perhaps more rationally competitive. And candidly, from our perspective, we were growing our business and feeling like we were doing a nice job at very attractive margins, enough so that we were becoming increasingly competitive and taking them out or them taking themselves out, we think, is an opportunity for the disciplined.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Got it. That's helpful. And then -- so you renewed the reinsurance treaty for next year. It looks like there's no major changes. Could you just highlight if there are any changes we should be aware of? And conversely, is there a change in the cost of the program?

James J. McKinney
Senior VP & CFO

Yes, happy to. No real major change in the overall cost of the program. One thing that you'll kind of see in terms of the appendix slide that's in there, basically, our fire and contents business that is inside kind of our Life & Health distribution channel is also covered this year through the aggregate treaty. Again, not overly material to note that. We think it's a nice thing to add in there that will further dampen volatility, but very marginally. And nothing other than that to note.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Okay. Great. And then if I could just get one on the Life side. I think 1Q is usually when you have the impact from flu season, if there's going to be one. Based on what you've seen so far, is this a normal flu season or maybe better or worse than otherwise expect?

Joseph Patrick Lacher
President, CEO & Director

I would love to tell you, Seth, that the one quarter we had volatility was only the first quarter. We usually see one in a rolling 4-quarter basis. It's not always the first. So we may see it sometimes in the -- sometimes the fourth, sometimes it's the first, sometimes it's the late flu season. So it rolls into the second. So there's a little bit of noise in terms of where it slides. We're not seeing anything right now that suggests anything extraordinarily out of pattern with what we'd normally expect, if anything, a minor elevation, but nothing that we'd be sort of calling out to telegraph.

Operator

[Operator Instructions] Our next question will come from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I'm curious whether you think there's any correlation between some of the economic trends, whether it's low unemployment, with any aspects of your specialty business, whether retentions are -- low unemployment, people are keeping their insurance longer, if they're a little bit different to what you detect on fraud? I'm just interested in anything you have to say on that topic.

Joseph Patrick Lacher
President, CEO & Director

Yes, Gary, there -- I'm certain that there are economic correlations to some of the trends we see underneath. The example I'll give you, and we've talked about a lot, is that when you see declining unemployment or more people getting jobs, there are more people on the road, they have more disposable income. There's more miles driven, and it usually has a -- causes an uptick in frequency. So that's a good example of where we see it.

I know there are other underlying components that we see. Some of them -- I'm sure there's more than we see, there's a number that we see that we feel a little more comfortable keeping to ourselves and working into our pricing and our underwriting and our claims settlement processes because I think that helps us be more effective in the marketplace. And we're constantly looking and exploring for more opportunities to give us that insight and perhaps that edge of doing a better job of serving our customers and being more thoughtful about how we price and underwrite our business.

James J. McKinney
Senior VP & CFO

One thing I might add, just from a standpoint, Gary, of kind of relevance, at least, at this stage in our journey, I think what you're seeing is, and if you just look at last quarter and kind of the increasing growth that we had again for the second quarter in a row relative to PIF and earned premiums, I think the actions and the decisions that we're making as a business and the way they're playing are probably a bigger influence of our end outcomes right now than some of the additional kind of macro or incremental macro elements you said. And that probably won't always be the case. But at this stage, I think we're -- I think to get a better indication of where we're headed, you'd probably want to look at our -- what are the successes that we're having and what are we doing from a competitive standpoint. And I think that's going to give you a better indication of where we're headed.

Joseph Patrick Lacher
President, CEO & Director

Yes, and it depends on which one of the things you're trying to cover. I 100% agree with Jim. Right now -- and that's what we try to give you with a little bit more of the data that Duane was talking about, our ability to be effective in the markets we're in and to expand into newer markets, it's going to be a better measure of our effectiveness over the next few years. If your question was more generally applied to your whole book of business, I was kind of answering it more of the way you started, but I think that may be a better way to think about us overall.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. That's fair. Just the only other thing I had was just whether you had any update on the whole strategy of homeowners leading in the preferred business. Is there anything more to say about success in that strategy?

Joseph Patrick Lacher
President, CEO & Director

Yes. We continue, Gary, to work that project. We're learning more about how we're doing it. We've got a series of hypotheses and things we're testing in terms of what we're doing. It's still not something where you're going to see meaningful stuff running through the numbers in the next quarter or 2. But we're hopeful by the time we get to the back end of the year, we're going to have a very strong point of view about how effective we're going to be able to handle that and what we'll do marching forward.

Operator

This will conclude today's question-and-answer session. I would now like to turn the conference back over to Mr. Lacher for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator, and thanks to everyone on the call today, your time and interest in Kemper, and we look forward to talking with you next quarter.

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