Kemper Corporation

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Earnings Call

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Call Participants

EXECUTIVES

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Executive VP & President of Property & Casualty Division

James J. McKinney
Executive VP & CFO

Joseph Patrick Lacher
Chairman, CEO & President

Karen Guerra
Vice President of Investor Relations

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

ANALYSTS

Brian Robert Meredith
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Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's First Quarter 2023 Earnings Conference Call. My name is Jason, and I'll be the 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, Karen Guerra, Kemper's Vice President of Investor Relations. Ms. Guerra, you may begin.

Karen Guerra
Vice President of Investor Relations

Thank you, operator. Good afternoon, everyone, and welcome to Kemper's discussion of our first quarter 2023 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer and Chairman; Jim McKinney, Kemper's Executive Vice President and Chief Financial Officer; and Matt Hunton, Kemper's Executive Vice President and President of Kemper Auto.

We'll make a few opening remarks to provide context around our first quarter results, followed by a Q&A session. During the interactive portion of our call, our presenters will be joined by Duane Sanders, Kemper's Executive Vice President and President of the P&C division; John Boschelli, Kemper's Executive Vice President and Chief Investment Officer.

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

Our discussion today may contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, the company's outlook and its future results of operations and financial conditions. Our actual future results and financial condition may differ materially from these statements. These statements may also be impacted by the COVID-19 pandemic. For information on additional risks that may impact these forward-looking statements, please refer to our 2022 Form 10-K as well as our first quarter earnings release.

This afternoon's discussion also includes non-GAAP financial measures we believe are meaningful to investors. In our financial supplement, earnings presentation and earnings release, we've defined and reconciled all non-GAAP financial measures to GAAP where required in accordance with the SEC rules. You can find each of these documents on the Investor Relations section of our website, kemper.com. All comparative references will be to the corresponding 2022 period, unless otherwise stated. I will now turn the call over to Joe.

Joseph Patrick Lacher
Chairman, CEO & President

Thank you, Karen. Thank you for joining the call today. I want to start by saying that I am and our entire team is disappointed with this quarter's results. I'm sure many of you are as well. We're going to spend time digging into the drivers. We believe the majority are episodic in nature, like near-term reporting time line changes in weather, and others like severity impact our run rate. We are and continue to operate in a difficult and challenging environment.

We experienced many of the same issues that our peers have voiced during this earnings season. Our first quarter results were below our expectations, but we see this as a temporary setback. The entire team remains highly focused on returning the business to profitability and achieving our financial targets. We are aggressively pursuing opportunities to improve results and position the company to deliver long-term shareholder value.

Starting with Pages 4 and 5. This quarter, the combination of elevated catastrophe losses, prior year adverse development and higher-than-anticipated frequency impacted financial results. The prior year reserve development was primarily driven by bodily injury, property damage and collision coverages. The elevated frequency we experienced we believe was largely episodic.

The frequency uptick was largely driven by weather and mix changes related to state and coverage and new business seasoning. Unlike the short-term impact of higher frequency, we recognize that we are in a prolonged inflationary environment and elevated severity will continue. These impacts are being felt throughout the insurance industry. We're working relentlessly to restore profitability. The journey will not be linear.

As we see components of inflation take different trajectories, loss curves can be difficult to predict. Against this environment, we're focused on mitigating the impacts, the levers we can control and continue to apply our cost reductions, tightened underwriting and rate actions to ensure we're pricing to deliver our target profit margin. In addition, we continue to enhance tools and cost projection capabilities to improve our ability to navigate environmental uncertainties.

The first quarter revealed several unanticipated trend changes. These caused us to modestly update our first half of 2023 guidance. We see this again as a temporary setback. We're reiterating our prior guidance of a return to underwriting profitability in the second half of 2023 and achieving our financial targets in 2024 of an ROE greater than 10%. The current environment continues to be difficult, and if we see further negative dynamics, we will react quickly and communicate our actions to shareholders accordingly.

I'll now turn the call over to Jim to walk through the additional details of our first quarter results.

James J. McKinney
Executive VP & CFO

Thank you, Joe. I will begin on Page 6 with our consolidated financial results. For the quarter, we generated a net loss of $1.25 per diluted share and an adjusted consolidated net operating loss of $1.02 per diluted share. This included unfavorable prior year reserve development of $42 million and $29 million of catastrophe losses, of which $3 million was prior year reserve development. The ongoing environmental challenges facing the P&C industry continue to impact Kemper's financial results. Our energy and efforts remain concentrated on restoring the business to profitability.

Moving to Page 7. Digging into this quarter's adverse reserve development, a significant portion was related to an unanticipated extension in claim reporting time lines with more claims closing with payment. In addition, we saw severity increases within bodily injury, property damage and collision coverages. Consistent with our reserving philosophy, we reacted quickly to these pattern changes and increased reserves. We feel good about our reserve levels. That said, reserves are estimates and change over time based on evolving trends.

Turning to Page 8. To enable greater insight into our underlying results, we included underlying combined ratio walks between the fourth quarter of 2022 and the first quarter of 2023 for Specialty P&C and Preferred P&C. One notable item is the fourth quarter to first quarter traditional seasonality benefit for Specialty. This did not occur this year as the business experienced heightened frequency and severity weighted towards the back half of the quarter. As previously noted, we believe that a large portion of this is episodic. Preliminary April results align to more traditional patterns.

Turning to Pages 9 and 10. Here we outlined Specialty Auto's path to underwriting profitability. This includes a modest update to our previous guidance to incorporate the unanticipated higher loss ratio starting point. We expect to produce an underlying combined ratio between 103% and 107%. Based on initial April data, we are currently trending towards the midpoint of this range. Further, we expect the fourth quarter of 2023 will result in an underlying combined ratio below 100%. Last, we expect the business to reach target profitability returns in 2024.

Turning to Page 11. During the quarter, we adopted the new accounting standard on long-duration insurance contracts. The most meaningful change is the requirement to update the discount rate on life reserves. The impact is reflected in other comprehensive income. 2022 and 2021 have been recasted as required by the new accounting standard. The new standard provides a meaningful enhancement to the transparency of asset liability matching.

On Pages 12 and 13, we provide an update on our strategic initiatives. Starting with our reciprocal initiative, we continue to engage with regulators to complete the approval process. We remain on track to write auto business within the reciprocal during the third quarter. Post regulatory approval, we will share additional project milestones to enable stakeholders to track our progress.

Our Bermuda initiative launched in 2022 continues to provide benefits and is expected to unlock approximately $100 million in life dividends to the parent prior to year-end. Our strategic review of Kemper Personal Insurance, our Preferred home and auto business, is ongoing. We expect to share additional details prior to the end of the second quarter.

Last, our cost reduction initiatives are on track, and we expect to deliver on each of our commitments. Since the inception, we have achieved approximately $87 million in run rate savings. This included a [0.8%] or $36 million improvement in our LAE ratio, approximately $41 million in enterprise expense reduction and the completion of our real estate optimization commitment securing $10 million of additional run rate savings.

Moving to Page 14. Our insurance companies are well capitalized and have significant access to sources of liquidity. At the end of the quarter, we had approximately $1 billion in availability. We continue to have the capital needed to navigate this environment and appropriately invest in the advancement of core capabilities. Further, as previously disclosed, we are committed to reducing debt outstanding by $150 million and bringing our debt-to-capital ratio back to our long-term target of 17% to 22%.

Moving to Page 15. Net investment income for the quarter was $102 million. New investment yields are up 225 to 250 basis points over the prior year, leading to a pretax equivalent annualized book yield of 4.4%. Our [indiscernible] management philosophy includes maintaining a high quality and liquid portfolio by monitoring markets, sectors and economic conditions to help manage risks and opportunities accordingly. Today, nearly 3/4 of our fixed income portfolio is rated A or better. We also don't have exposure to failed or assumed banking institutions.

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

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Thank you, Jim, and good afternoon, everyone. Moving to Page 16 in our Specialty P&C business. Aligned with Joe's earlier comments, we remain centered on restoring the business to target profitability and continue to take incremental actions to combat long-term environmental severity challenges.

In Q1, our combined ratio came in higher than expected. On an underlying basis, frequency was elevated. We believe it was largely driven by episodic non-catastrophe weather events within our 3 main states. To a lesser extent, frequency was impacted by a combination of state and coverage mix and new business seasoning.

Digging into these points, we have all heard about the rains in California and significant catastrophes around the country. We experienced all of this activity plus elevated weather events across our largest states. These events drive our belief that much of this frequency uptick was episodic.

In terms of new business seasoning, traditionally in the industry, we have discussed the new business penalty. As we look at our own data, this phenomenon is more significant in the first 30 to 90 days than it is at the end of the first policy year. Relative to the fourth quarter of 2022, we had a higher mix of new policy earned premium with an age life of less than 90 days. This results in short-term pressure, which will alleviate as it ages.

Throughout the quarter, we continue to ratchet up our profit restoration actions. We have and will continue to take rate and tighten our underwriting to ensure we are adequately covering our loss costs. We have taken action to further suppress new business volumes until we achieve a 97% or better combined ratio.

Breaking apart the 2 components of Specialty Auto business, since the third quarter of 2021 on a weighted average basis across our personal auto book, we have filed for approximately 45 points of rate. Through the first quarter, 13 points of this rate has been earned and will increase to approximately 17 points in Q2. As we move forward, we will continue to file rate actions aligned to the most current view of loss cost trends.

Shifting to commercial vehicle, in the quarter, we experienced an increase in frequency. Our analysis indicates that this is largely comprised of a mixture of weather-related items and mix. We believe the weather-related items are episodic. In terms of the mix items, we are aggressively combating this loss trend pressure through rate underwriting and production actions. We remain confident in our ability to effectively manage and react rapidly to environmental changes.

As a side note, we are encouraged by the legal reform in Florida. We believe it will have a positive long-term effect on the industry, and we are closely monitoring the short-term transition effects.

In summary, we anticipate an improved second quarter environment and the benefits of our actions to provide meaningful improvement to our financial results. We expect to deliver an underwriting profit during the second half of 2023.

I will now turn the call over to Joe to cover the Preferred and Life businesses.

Joseph Patrick Lacher
Chairman, CEO & President

Thank you, Matt. Moving to Page 17 in our Preferred P&C business. This quarter, the benefits of our profit restoration actions and lower frequency were offset by higher catastrophe losses of $17 million. Both auto and home and other had sequential improvement in their underlying combined ratios. Incremental earned-in rate of 2.5 points, lower frequency from underwriting actions and favorable seasonality contributed to this improvement. As Jim mentioned, we anticipate an update on our strategic review later this quarter.

Turning to our Life & Health business on Page 18. Effective January 1, the Life segment results are reflective of the new LDTI standard. Although we saw a sequential uptick in reported claims, on average, mortality over the last 4 quarters is nearing prepayment levels, indicative of progress towards returning to prepandemic profitability.

Turning to Page 19. In summary, I'll leave you with this. The insurance industry is entering its third year of challenging post pandemic-induced economic disruptions and inflation. It's both frustrating and difficult to deal with nonlinear outcomes. We know it is for you, too. We leverage our data and analytics to help us quickly identify changing trends that impact loss costs so we can adapt and overcome these hurdles.

The inputs we control to drive profitability are trending positively, including increased rates earning in, incremental rate filings, tightened underwriting and the targeted expense reductions. The modest revision to the first half guidance is largely related to the unanticipated base year adjustments. For the next couple of quarters, we expect to see continued positive progress toward delivering underwriting profit and creating long-term value for shareholders.
Finally, I'd like to thank all our employees for their continued dedication and support as we continue to navigate this environment. With that, operator, we can now take questions.

Question and Answer

Operator

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

Matthew John Carletti
JMP Securities LLC, Research Division

Joe and Jim, I was hoping you might be able to give us just an update on kind of the progress in California on the rate filing since last quarter. I think we've seen that it's been, I guess, for lack of a better word, flagged by kind of the public watchdog. I know you probably can't say too much about the outcome, but just anything about the process or any change at all in timing expectations, an update would be great.

Joseph Patrick Lacher
Chairman, CEO & President

Sure. I'd love to be able to give you a timing, Matt, and we just we can't do that. I would tell you -- but I'm about to comment on it. I would tell you it's moving at a reasonable pace, particularly when compared to what we would have historically seen. Right now, the department has completed their initial review of our filings.

They have moved this from their rating bureau into, I believe, what they call their litigation bureau, which is actually the second side of the house that navigates the bureau and the Consumer Watchdog. We anticipate and have some calls scheduled with them in the next 10 days -- 10 to 15 days. Actually, Matt's correcting me. May 25 for a 3-party conversation to work that through.

There's no particular rule about how that works, but I would tell you that it's been a productive conversation with the department. They're reading and working through the material. I don't want to imply that I think it's a month away or a week away, but -- and again, I don't know exactly where that timing is, but the conversations are moving, and inside of our expectations of where we would have had this, it's a reasonable time frame.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. That's very helpful. And then just one other, if I could. You touched on it very briefly, but just the tort reform in Florida. Could you just give us a little more color there as it relates to Kemper? Some peers took some charges on the quarter specifically related to that, I understand.

Different companies have taken different approaches from the outset with regards to the issues in Florida. So we didn't see that with you. Maybe just kind of why that might be. And then Florida is a big state for you. What sort of -- I'm not asking you to draw a line in the sand but just kind of order of magnitude, how much benefit or how substantial do you think the reforms could be for you long term?

Joseph Patrick Lacher
Chairman, CEO & President

Yes. So that's a couple of different questions. I'm going to ask Jim to start with sort of the accounting piece going forward, and then we'll try to give you a little bit of a forward view. I'm assuming, Matt, what you're talking about there isn't in sort of the disruption of the change, but you're saying, let's fast forward 12, 18 months and everything normalizes out. Is that the second part of the question?

Matthew John Carletti
JMP Securities LLC, Research Division

Yes. Yes, exactly. Yes.

James J. McKinney
Executive VP & CFO

Yes, Matt. Obviously, others will weigh in on some component of the longer-term impact to our business, but overarching, I think it's favorable for Floridians, if that's the right term, or for residents of Florida and for the market as a whole. In terms of the short-term impact, I think there's a component here that really depends on your reserving methodologies and how you look at things.

To avoid confusion, we are sorting our way through some of the additional claims in that they came in, so there might be a little bit larger error bar around this than sometimes, but at that same point in time, our practice has been to try to settle or come to the right resolution to these things very early on in the queue.

And so because of some of the approaches that we've taken early on from a reserving practice, I think you're going to see potentially a different outcome associated with where we're at. And again, you haven't seen an immediate, we are -- I would tell you the error bars are a little bit wider, but there's nothing there that I'm highlighting or what not to take away, just being completely transparent about it.

But we just don't think at this stage this is going to be a substantial impact to us, again, because of the reserving methodology that we've already had in place and because of the claim practices, more importantly, that we had put in place to essentially mitigate some of the challenges associated with Florida litigation to date. And I'll ask Duane or others to potentially comment on the longer-term impact to the business.

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

Yes. Thanks, Jim. This is Duane. And I think what has been said is right on and aligns to the thinking. On the longer-term side, I think it's really going to play out in the months to come. If the laws are employed as intended and the regulations that have been put into place, there's obviously meaningful change ahead that we will work our way through.

As we all know, it's an extremely creative environment in Florida, and we'll see how it plays out over time. And the activity, the litigation activity, as it was in the past, does it more if it's held into something different. We are -- remain optimistic, and as Jim said, we continue to mitigate and remedy the claims as they come to us, and we'll watch for the months to come to figure out and watch what that near-term and longer-term benefit would be.

Operator

Our next question is from Greg Peters with Raymond James.

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

Great. I have one question probably in 3 parts. But one of the most frequent observations or questions that we've been getting post the preannouncement is if you could help walk us through what changed from your Investor Day to the preannouncement in terms of information flow.

And in your comments, you talked about this higher mix related to new business or frequency, and just not hearing a lot of other carriers reference frequency, and the new business mix kind of strikes me as being somewhat awkward because I thought your book of business skewed more towards 1-year policies versus 6-month policies.

And then the final point all related to that is your comments around the elongated development patterns. I'm just curious why they popped up at the end of March, et cetera, and I appreciate your color on those 3 points.

James J. McKinney
Executive VP & CFO

Yes, Greg. So maybe I'll start and others may weigh in here, depending on how the question evolves here. And if we need -- if it's easiest to go kind of back and forth, happy to do that. In terms of some of the trends that we saw, it's unfortunate that we didn't see -- or I'm not 100% sure that we could have, but what we did see is data begin to aggregate kind of at the back half of -- or maybe the second, third week of March coming in differently than we had anticipated and continued, quite frankly, for some of the earlier reporting periods or earlier kind of back half of September of the third quarter and then the first couple of months of the fourth quarter that changed the way we thought about the base.

That had both an impact both on the number of claims coming in, as we've highlighted, as well as what we saw from a closed with payment perspective. That was higher than we were anticipating. And so as that data matures, we then obviously updated our thought processes, including kind of our base year adjustment for this year or the starting point for what our loss ratio was and then rolled that all the way through. That's what's incorporated today in our guidance.

I do think that we see and react to trends very quickly. Some of this could have been weather related or other things that potentially skewed those payment patterns and reporting patterns for a little bit. It's hard to say. I don't want to speculate too much other than to say that we saw a new trend, we reacted to that trend. We feel confident in where we're at. We've seen, when we look at April on that, a reversion to much more traditional reporting and payment patterns. And so again, we feel good about it, and we're working through that. And it's unfortunate, but that's essentially what happened that kind of led us to a little bit of a revised position.

Joseph Patrick Lacher
Chairman, CEO & President

I'll add a little bit on it, Greg. And this may help some with frequency, because we're talking like insurance guys and the mechanics. We will typically talk about our frequency and will -- not necessarily how many times the phone rings, but we'll talk about what we're anticipating as claims that will have a payment on them.

And what Jim is pointing out is that, that elongated pattern, we had anticipated a certain number of claims with payment, and that number was higher than we were seeing in that elongated pattern, that, by its nature, again, if you thought -- I'm making up numbers. If you thought you had 1,000 times a phone rang and you thought 700 were going to have a payment, you'd think about that as 700 claims.

If you then went back and looked at it and said 800 are having a payment, you'd think about 800 having a claim. That would be a higher frequency. So that pattern change of more closing with payment is part of why it becomes a frequency issue. It doesn't surprise me that you wouldn't necessarily see somebody else talking about that, because it's a pattern change inside of our piece.

The second piece I think you asked about was new business, and I want to be careful about this. You were asking about whether it's a 6-month or a 12-month policy. Let me back up a second. The comment Matt was making was he was talking about the first year of new business. And we would look at the loss experience typically when we thought about a new business penalty in the industry as the first 12 months you have the policy regardless of whether it's a 6- or a 12-month term.

It would be over that initial 12 months that, that customer is with you, and then it would season after that. So it's not a term of contract item. It's a tenure or seasoning of how long the business with us is the comment he was making. And we observed in our data that in that first 30 to 90 days, there is worse performance or higher loss frequency than there is in the last 90 days of the initial 12-month period, again, regardless of policy term.

So it's egg through the snake, if you will. And the example I keep using when we talk about it is a 2-month old incident and an 11-month old incident are both still in their first year, but there's a whole different care and feeding and noise around them, and that's part of what that mix is underneath that new business. We said a bunch there, Greg, so we'll stop and see if we scratched your itches.

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

Well, it was helpful. I guess at a very high level, you're still holding out some guidance, especially as it relates to the back half of the year. Has there been a shift in this -- in your business mix from 1 year to 6-month policies that give you the momentum to get that recovery in the back half of the year? Because I feel like the setback, and it's embedded in your second quarter guidance, pushes the recovery out further, if that makes sense.

James J. McKinney
Executive VP & CFO

Well, there's a couple of things, Greg, that I would mention. If you're looking at some of the data that we provided from our assumption base for that, you do see that we've correspondingly taken rate and other actions to help combat some of the pressure that we saw here. That is a component of that, that will work its way through.

The second thing, again, highlighting some components that Joe said and maybe elaborating on. When you think about that new business tenuring, to the extent even that you had more policies, for example, in their first month of infancy in March than February than January, so if you were building through that period on a relative basis in comparison to previous periods, that would create a little bit of pressure upfront.

That will be short term in nature, and so as we continue to suppress new business volumes from here, that will work its way into essentially a more normalized loss ratio from there that will, again, add a little bit of a tailwind to kind of the second half of our financial results.

The other thing that I would highlight that's inside of there is while we have -- you can see our results where we've stepped up, so we've provided kind of sequential trend, both frequency and severity data. You did not see us as a part of this, the traditional seasonality step up to then step down, if you will. So if you're moving up throughout the year, you then kind of come back down in that Q1.

You did not see us reset our expectations for that to occur. So we're basically rebaselining as if the first quarter and the fourth quarter are new normals. And so to the extent that we're there, the data that we provided to you on that front shows how we're going to navigate through the period from that point with the additional rate and other outcomes that were there.

It also probably highlights that when we provided our previous guidance, that we try to do that with a real thoughtfulness, and we thought it was more an up 70%, 80%, maybe baked range, and unfortunately, that didn't turn out to be that way for the items that we mentioned. But there's a little bit of that, too, that was in there that has obviously worked its way out that will still be a positive for us as we move forward.

Joseph Patrick Lacher
Chairman, CEO & President

And to be clear on it, Greg, I think you're asking how do you -- what's our confidence on the back part of the year and how does it catch up. The tighter underwriting and the suppression of new business that Matt was describing, we had not been growing the book. You can see that in our PIF count. We didn't wake up in the first quarter and all of a sudden change our mind and decided to be dramatically growing the book.

We've been dropping PIF, but we're tightening that underwriting, and we're more significantly, in fact very significantly, restricting new business. We have been now and we will continue until we're at that 97%, so that incremental tightening will have the back-end description that Jim's talking about.

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

Okay. I guess my last question, I'm going to pivot to the balance sheet. I guess the balances of the HoldCo cash and borrowings changed a little bit more than I expected, so maybe you could provide some color on what's going on as of the end of the quarter versus year-end.

James J. McKinney
Executive VP & CFO

Yes. So nothing there that I'd reference too much other than, obviously, we made investments in our subsidiaries to continue to ensure that they're running at our targeted RBC levels inside of there and then have coverage against that. And so what you see is us in the holding company serving as a source of strength for our subsidiaries, and that's really what accounts for the difference, is the investment that we've made into our subsidiaries.

The other thing that I would highlight is the initiative that will further increase -- again, the Bermuda initiative that will further increase capital and liquidity available at the HoldCo. So we have those levers and we'll continue to have those levers, so there are some good guys coming there as well as we continue to navigate throughout this year.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here for you. First, I'm just curious. I'm looking at your Slide 8, and you talk about the frequency trend of 3.2% pop up there. How much of that do you think is attributable to the weather you've highlighted versus maybe the new business or adverse selection that you're getting out of your commercial insurance business given the growth that you're putting on?

James J. McKinney
Executive VP & CFO

So let me answer it kind of in 2 ways. The first thing I'd do is kind of step up. We think weather -- and this is our hypothesis, internal analysis. We got a lot of stuff that we put together that kind of all points in the same direction. But to avoid confusion, there's not perfect precision around this.

But we think about 2/3 of this quarter's outcome was episodic, weather-related, kind of other unusual elements that are kind of sitting under. And again, we have a bunch of different pieces of analysis that we put together completely independent of each other and kind of all come to form that same conclusion. So that's 1 component.

The second element is inside the commercial vehicle component that I think you're asking. I think, again, it's about 50% to 2/3 episodic, a little bit of additional frequency associated with the weather, similar to kind of PPA and some of the other outcomes there.

And then there's kind of that other third to 50% that's mix oriented in nature, which we've already made a lot of progress in terms of continuing to re-underwrite those components and then to position ourselves for continued success into Q2 and going forward from there.

Joseph Patrick Lacher
Chairman, CEO & President

Jim, I mean I can do it or you can, but maybe I can ask you. You were providing some of the color commentary on the timing. Part of that, that weather, that incremental frequency, I believe we saw really impacting March.

James J. McKinney
Executive VP & CFO

Yes. We did see a step up, well, weather in California rains were kind of an impact throughout kind of the quarter, a little bit in the back half. I mean it's a very unusual event for California to get, especially Southern California, to get the rain that we're discussing here, so that has definitely created a little bit of noise.

But we also got a little bit with inside Texas as well that was, again, prominent inside that March period. So you kind of got a double helping inside that, and you got essentially some more severe components inside that March time period for weather that really, again, episodic in nature, step up from where we were at.

But again, those things should not -- well, anything can happen, but you would not predict those types of things continuing on, on a regular run rate. We're talking about things that were 1 in 25 or 1 in 50 year type events. It's possible you could get a couple of those back to back, but that would be very unusual. I don't know the exact probability of that, but it gets pretty low pretty quickly.

Joseph Patrick Lacher
Chairman, CEO & President

And I think what you're -- what we're adding, we expected the first quarter, we've described having a traditional downward trend in seasonality and we didn't see it. We largely saw a traditional view in January and February. March was out of pattern. We've got an initial look at April, and it's back in a more traditional view. So March, in the information we're looking at, was the part that was out of pattern in that first quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And I'm just curious on the commercial line side, Joe. Did you recognize or do you see any underwriting issues that were happening with some of the growth? Because that could perhaps take a little bit longer to rectify.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

This is Matt. When we were moving through 2022, exactly when the PPA market really started to harden and the rates take hold there, we did see a little bit of leakage of private passenger light vehicles. So think about that as small SUVs, light trucks, sedans started to make its way into the book. And we've observed this across the industry. We took action in Q3 and Q4 to really tighten that up.

So it was less around sort of your traditional commercial auto type exposures, which we don't play in the long-haul space or in the dirt, sand gravel. It was more of that PPA leakage that was coming throughout that market really starting to harden there.

And so that cohort was a little bit of a contributor in Q1 to the elevated frequency, as Jim highlighted. That said, the commercial team, they put the capabilities in place and we've sharpened our toolkit, so now we manage cycles, I think, a little bit more appropriately. But that was an observation on frequency.

Joseph Patrick Lacher
Chairman, CEO & President

And as you described it, Matt, the tools to stop that from coming in happened when and sort of how -- what's the egg through the snake timing?

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Yes. The tools were put in market in Q3 and Q4, so the pressure that we saw in Q1, which was a modest contributor to the Q1 frequency we think will persist for a quarter or 2 and then work its way through.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's really helpful. And then one last just quick one. I just want to just clarify, Jim, on the guidance for next year, the ROE target. Is that for the full year that you expect to make that 11%, 13% or at some point during 2024, you'll be at that run rate?

James J. McKinney
Executive VP & CFO

No, we're anticipating that for the full year, that we would -- for 2024, that we would be at a greater than 10% ROE. Again, if something were to change, we would update it. We have seen nothing at this stage that takes us off of that target.

Operator

Our next question is from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Thanks for the call. Could you perhaps directionally talk about what you're thinking about for customer PIF growth in businesses that are embedded in the guidance? I'm assuming you assume your expectations for some level of shrinkage, but anything you can give us color-wise, I think, might be helpful just to give better expectations on where total revenues go.

James J. McKinney
Executive VP & CFO

Yes. So we haven't provided anything on PIF growth. I mean I will say -- I mean, you can hear from our comments that we're anticipating to shrink in addition from where we're at. I think some of the glide path that you've kind of seen getting to this point are likely, probably reasonable paths to start with inside this period. And maybe they're a little up in certain cases from that, but I think that would be -- if I were you, that might be a reasonable place to begin to kind of think about that if you're trying to specifically forecast PIF.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then on a completely different topic, I was looking at the book yield number on Page 15 of the presentation, and I was hoping maybe you could talk to a little bit more precision the new yield investments. Because it looks like that book yield is including the alternative portfolio, but maybe the new investment yield is just looking at the core fixed income. I'm not sure about that. And -- but just to give us a little sense of how the math might work with higher interest rates.

James J. McKinney
Executive VP & CFO

So you're right, we do include some of the alternatives inside that. It reconciles up to the net investment income that's at the top of the page. Big picture-wise, I would tell you, I mean, clearly, from what you're seeing there in the alternative investment space down from historical perspective, we still consider that good.

So as a whole, if you think about where folks been kind of with the trailing impacts that are usually felt in the alternative space from kind of the equity market, so if you just think about a trailing 6, 12, 18 months, between those 2 items, we're still making money in those areas. We're still doing reasonably well, and we have outperformed in the early stages and continue to see very good returns inside those asset classes through time.

So nothing there to note other than we feel really good about what we're doing there. We're very selective, and the team does a great job of where we choose to make select investments to complement our investment book. In terms of the new money yields, they continue to be going up from where they've been at on a historical basis.

So you see that in that additional 225 to 250. That doesn't mean you can't see a little bit of yield compression from 1 quarter to other relative to the alternatives. But as you see, we continue in that core, investment portfolio continues to build. And that is as simple as every quarter where you have 100, 200, depending on where you're at, million and essentially investments rolling off, they're being replaced at this stage with higher money yields. And again, that's at that 225 to 250 basis point range that we put forth here.

Jon Paul Newsome
Piper Sandler & Co., Research Division

But the important point is that we should see that underlying fixed income portfolio go up, yield go up, some amount fairly significant [indiscernible].

James J. McKinney
Executive VP & CFO

You'll continue to see that. So if you see that $85 million building to the $98 million, you would expect that trend to continue from a yield perspective in that core component. And again, the difference there is a little bit of, again, what's happening in that alternative investment portfolio and just how it works its way into the yield.

Operator

There are no further questions. So I'll pass the call back over to the management team for closing remarks.

Joseph Patrick Lacher
Chairman, CEO & President
Thank you, operator. And again, thank you to everybody for your time and attention on today's call. We look forward to continuing to make progress on all the initiatives we talked about and to talking to you next quarter. Thanks again.