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Call Participants

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Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Kemper's Third Quarter 2023 Earnings Conference Call. My name is Lesser, and I will be your coordinator today. [Operator Instructions] As a reminder, this conference 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 for 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 third quarter 2023 results. This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer and Chairman; Brad Camden, Kemper's Senior Vice President and Interim 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 third 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; and Chris Flint, Kemper's Executive Vice President and President of Kemper Life. 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 in the Investors section of our website, kemper.com.

Our discussion today may contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to the company's outlook and its future results of operations and financial conditions. Our actual future results and financial condition may differ materially from these statements. For information on additional risks that may impact these forward-looking statements, please refer to our 2022 Form 10-K and 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, 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 in the Investors 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. Good afternoon, and thank you, everybody, for joining us today. We're going to communicate several key points today, perhaps best grouped into 4 buckets. First is the favorable trend in our underlying results. Our underlying combined ratio improved sequentially and was inside the range of our prior guidance. Second is what's happening outside the current year underlying results, including additional prior year reserve development. Third is the strong progress made on our strategic initiatives, which together reduced our long-term risk, improve our capital and liquidity and enhance our ability to generate stable long-term distributable cash flow and earnings. And lastly, we are reaffirming our full year 2024 guidance.

Let's move to Page 4. Looking at results. We're pleased with the 1.5 point sequential improvement in the Specialty P&C underlying combined ratio as the benefits from our profit improvement actions take further hold. We have confidence in further improvements as we look forward. As expected, the 30-point

California personal auto rate increase effective in August, had only a marginal earned impact in the third quarter. Its earned impact will meaningfully increase in each of the next 2 quarters.

This incremental earn rate, along with the additional benefits from all our other profit improvement actions provides a significant tailwind for loss ratio improvement in the fourth quarter and more so for full year 2024.

Moving to our second big topic. What's happening outside of the current year's underlying results. Prior year reserve development was largely driven by recent trends in Florida personal injury protection or PIP, which has been an industry issue in recent quarters, and to a lesser extent, the extension of the bodily injury and property damage development patterns from 2022. We'll discuss the drivers further when we get to Slide 6.

Reflecting on our third major topic, we continue to make strong progress on our strategic initiatives. All our programs are on track to be completed on time and produce or exceed their targeted financial and operational benefits.

Let me comment on a few highlights. We're very pleased that our reciprocal exchange has received all necessary approvals and was actively writing business during the quarter, albeit at expectedly modest premium levels. The exit from the preferred home and auto business is moving as expected.

This action will enhance our return on capital and support profitable growth in our core businesses. We expect to realize significant additional liquidity benefits in the fourth quarter from the Bermuda optimization; and finally, we're meeting or exceeding the expected expense savings with each of our cost structure initiatives. Advancing these initiatives further enhances Kemper's operating capabilities and financial profile. We remain highly focused on returning the business to profitability and maximizing long-term shareholder value.

This leads me to our last topic. We are reaffirming our 2024 financial guidance. We continue to expect a 2024 ROE equal to or greater than 10%. I've spoken frequently about this environment being the most dynamic and volatile the personal auto insurance industry has ever seen. I still believe that.

While we believe this will persist for at least a year or 2, we continue to be optimistic about what's ahead for Kemper.

And now I'll turn the call over to Brad.

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

Thank you, Joe. I'll begin on Page 5. As Joe highlighted, we had another quarter of improved underlying results, positioning us for return to profitability. Offsetting this progress is prior year development, pension settlement and catastrophes. For the quarter, we had a net loss of $2.28 per diluted share and adjusted consolidated net operating loss of $0.44. The net loss included a noncash charge of $56 million related to the termination of our remaining pension obligations, which was previously recognized in accumulated other comprehensive income or AOCI.

The net loss and adjusted consolidated net operating loss included Specialty Auto adverse development, $78 million and catastrophes of $7 million. Last quarter, we announced that we were exiting the Preferred P&C business and as a result, the business is now reported below the line and noncore operations.

The business generated a net loss of $7 million, including approximately $14 million in pretax catastrophe losses.

Turning to the prior year reserve development details on Page 6. Florida PIP bodily injury and property damage coverages drove reserve strengthening. PIP reserve changes resulted from increased frequency and severity of litigated claim activity, mainly from policy periods 2020 through 2022. Today, roughly 3/4 of PIP claims have attorney representation up from 2/3 a few years ago.

We anticipate internal representation for these policy periods will remain elevated and have reflected this in our reserving.

On bodily injury and property damage related claims, we continue to see extended claim reporting time lines and more claims closing with mainly related to activity during the second half of 2022.

As Joe noted, the environment continues to be volatile. However, given the short-tail nature of our business, we are confident we have recognized these emerging trends in prior and current year reserves.

Pages 7, 8 and 9 provide an update on our strategic initiatives. These are on track to be completed on time, producing or exceeding their targeted financial and operational benefits. As you know, we launched the Bermuda project in 2022, and we continue to optimize the initiative. We expect $250 million in life dividends to be paid to the parent in the fourth quarter, up from $200 million, as previously indicated. This continues to create value and financial flexibility for the company.

This quarter, we also included our multiyear pension termination project, which reduced our tail risk and related expenses. We recognized a $56 million noncash charge to finalize the termination, which was previously recognized in AOCI and is therefore neutral to shareholders' equity.

Last quarter, we announced our exit from the Preferred P&C business. The wind-down process is underway and is expected to release approximately $175 million of capital by the end of 2024 and another $100 million in 2025.

Next, our cost reduction initiatives are on track to produce their intended benefits. Since the onset of this effort, we have already achieved over $135 million of run rate savings, which is roughly 90% of our goal previously projected to be realized by 2025.

And finally, on Page 9. The Kemper Reciprocal exchange was established and began writing policies in Illinois in the third quarter. Over next year, we plan to populate the exchange by reinsuring select new business from Kemper legal entities and directly writing premium in the exchange. Growth is expected to ramp up as we receive approval to expand into new states.

We plan to host a special topic call during the first quarter of 2024 to disclose the reciprocal structure and financial reporting.

Moving to Page 10. Our insurance companies are well capitalized and have significant resources of liquidity. At the end of the quarter, we had $820 million of liquidity consisting of revolver capacity, intercompany lending capacity and holding company cash and investments. We expect parent liquidity to be bolstered by at least $250 million in the fourth quarter from our Bermuda optimization.

Our healthy liquidity balance enables us to support our operating subsidiaries and pay holding company dividends and interest payments. We continue to have the capital and liquidity needed to navigate this ongoing dynamic operating environment.

Moving to Page 11. Net investment income for the quarter was $107 million, and our pretax equivalent annualized book yield is 4.6%. Lastly, our approach to asset liability management continues to produce the intended results in a rising interest rate environment.

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

Matthew John Carletti
JMP Securities LLC, Research Division

Thank you, Brad, and good afternoon, everyone. Moving to Page 12 in our Specialty P&C business. We closed the third quarter with an underlying combined ratio improvement of 1.5 points sequentially and 6.3 points year-over-year. This was a result of incremental earned rate and ongoing underwriting actions, including new business restrictions, which was partly offset by severity and seasonality. And while loss trends remain elevated, they have stabilized.

Earned rate increases forecast, and we expect it to accelerate in the fourth quarter and in 2024, due in part to the 30 points of California rate effective in August of this year. We anticipate the cumulative benefit of our profit actions to continue to exceed loss trends. We are observing hard market conditions, especially in California, as we renewed policies at higher rates, persistency remained in line with prior periods, creating favorable premium retention.

This quarter, we filed an additional 6 points of rate on 13% of the book. Going forward, we will make rate and segmentation filings across the business as needed. This quarter, Specialty P&C observed a moderate level of catastrophe losses, driven by tropical storms and wind hail events. Our commercial vehicle underwriting and rate actions are continuing to positively impact loss performance. In the third quarter, the underlying combined ratio with 93.6%, and we project continued profitability as pricing remains strong.

As mentioned on the second quarter call, we are planning to selectively write a modest amount of incremental new business to test new customer cohort buying and clean behavior.

Moving to Page 13. We remain hyper focused on achieving target returns as cumulative actions will continue to outpace loss trend. In addition, enhanced tools and analytics will enable a thoughtful balancing of underwriting profitability and new business writings.

Finally, despite the ongoing dynamic environment, we anticipate achieving target profitability in '24. I will now turn the call over to Joe to cover the Life business.

Joseph Patrick Lacher
Chairman, CEO & President

Thank you, Matt. Turning to Page 14. Net operating income for our Life business was $15 million for the third quarter. Profitability improved over the prior year quarter and sequential quarter. Consumer demand for our products is strong, Life issued policies were up slightly and persistency remained stable. The Life business continues to generate strong returns on capital and distributable cash flow.

Turning to Page 15. To reiterate our highlights for the quarter, one, we made solid progress on improving underlying combined and loss ratios. The California rate change for Specialty Auto, while an increasing impact over the next 2 quarters, reinforcing our confidence in returning to target margins. Two, our strategic initiatives are on schedule and expected to meet or exceed all financial targets. And three, we are reaffirming our 2024 financial guidance of delivering an ROE of 10% or greater.

In closing, I'd like to thank our entire Kemper team for their ongoing dedication and commitment to executing on our strategic priorities to generate consistent long-term shareholder value.
Operator, I'll now turn it over to you for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Greg Peters from Raymond James.

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

I guess I'll start -- I have a couple of questions, and I'll start first with the top line and the policy count in your specialty book. It's declining substantially on a year-over-year basis and sequentially. Can you talk about how, as you deploy the rate increases, how your rate might be competitively disadvantaged or other factors that might be contributing to the drop off in policy count and written premium?

Joseph Patrick Lacher
Chairman, CEO & President

Sure, Greg. This is Joe. I'll take a start and Matt, you can jump in with more thoughts. This is largely driven, Greg, by our reduction in new business or our constraint on new business policies. Our retention rates are consistent and or even up slightly from where they were pre-pandemic levels. So this is driven by the new business curtailment. We will likely restart and start to reintegrate some of that new business, as Matt mentioned in the fourth quarter and into the first.

We'll start slowly and test the system, if you will, and let another quarter of rate earn in and watch the underlying loss ratios improve. But this is largely driven with what we're seeing on our new business underwriting criteria constraining business rather than what we're seeing as a competitive problem that's driving lapse rates up.

Matthew Andrew Hunton
Executive VP & President of Kemper Auto

Just a quick add on to that. So as you know, nonstandard specialty customers turn at a bit of a higher rate. So naturally, as you don't put on new business, you're going to see policies in force leak a little bit more.

Just a quick comment on the rate, and it's stickiness. We are seeing policy persistency actually slightly elevated versus prior periods. So our renewal book as it's converting at higher written and earned rate levels is sticking at a higher rate. But as Joe mentioned, the drawdown in policies in force is really a function of the lack of new business that we have coming in at this point, and we'll balance that as we move forward over the next couple of months.

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

Okay. Just on -- you did mention in your answer in your prepared remarks, this desire to start growing certain cells or test the system. Just curious how that's going to look because kind of with your combined ratios -- reported combination ratios where you are, they probably want the margin to improve before you start writing a bunch of new business, but provide some additional perspective on that, Joe.

Joseph Patrick Lacher
Chairman, CEO & President

Sure, Greg. We're -- we did not say we were going to grow a bunch, and we did not say we were going to add a bunch of new business. Those were not remotely close to the words. We said we were going to start to write some modest amounts of incremental new business. We've got a very significant new business slowdown. If you were thinking about sort of a 2019 level, it's way off of that.

We're going to modestly add some new business at some point probably in the fourth quarter or the first quarter to test how the underwriting criteria as we take them off, what comes into the book of business, how that business is performing in its early stages, how those underwriting filters work.

One of the things we've talked about before, is when you have a market and a consistent view of carriers and underwriting appetite, you know how things are going to work. As the market hardens and you find people put up different underwriting restrictions or different price points, business will move around the marketplace differently. What we want to do is open the filters a little bit, and we believe we know what will happen when we do that, and we're going to test it. And so we're going to watch it every day, every week, every couple of weeks and see what's coming through in that process and did what come through -- what actually come through behave and look like from a profile perspective and a performance perspective, what we expected.

And again, I've used this analogy. If you got a little bit of the stomach flu, you don't go back and eat everything you did the week before. You start out with the Brad diet of the bananas, rice, applesauce and toast and reprime the system, So what you'll see us doing is a restricted diet and restarting the process. We're going to do that while the combined ratios are continuing to improve. There will be a high probability in our mind that, that new business will perform well. It is at 100% of new business rates when it comes in, where some of our renewal book continues to have -- continues to have not renewed at the newer rates and we're watching the -- really the underlying loss ratio.

One of the things I think you've noticed, you've heard us talk about before -- think about expense ratios. Our expense ratio a little bit of is some decline in new business and partly because -- there's a decline in business overall and partly because there's new business fees that are charged as a contra expense, they're higher on new business than they are in renewals. So we're watching and testing that underlying loss ratio, knowing that as we reopen the new business, and that expense ratio reverts back to its norm that will hit the underlying target profitability.

So again, what I'd expect, if we roll forward 90 days and we're having a conversation about the fourth quarter, there is not going to be massive growth or a massive amount of new business in there. There'll be some incremental as we're testing it. And at the same time, we're watching what we expect to be changes in our underlying results and the underlying loss ratio.

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

Got it. Just a -- yes, it does. In your answer, I think you said some of the business that's renewing isn't renewing at the new rates? Is that right? Or did I miss...

Joseph Patrick Lacher
Chairman, CEO & President

As it renews, it gets the new rate, but our profitability right now doesn't -- some of the business hasn't renewed yet, so it's still at the old rates. So to speak of business, not all of it is at the higher rate level where if we started new business, all of it would be. So we actually think that by opening the filter slightly, the cohorts we're adding and the business we're adding should be better from a target return perspective on its lifetime base than the full in-force is right now.

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

Last question. I don't want to hog the floor. So the last question, I'm just going to pivot to the balance sheet, parent company liquidity. It's a source of concern in the marketplace when we see just on the 1 slide in your investor decks on Page 10, see how the parent company liquidity, the total has gone from $1.3 billion down to $821 million. And then just looking what these numbers were like in the second quarter, it was $970 million, down again to $821 million at the end of the third quarter.

So as we look forward, because you keep reiterating that you're adequately capitalized. Can you sort of give us a road map of how you see uses of cash and how you see the balance sheet evolving say, over the next couple of quarters, that might be helpful.

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

Sure, Greg. This is Brad. You are correct. When you look at the end of 2022, we had $1.3-ish billion of cash that was elevated versus kind of historic levels. It was mainly related to the third quarter Bermuda optimization, where we took up a dividend from the life company. So it was elevated in at the end of last year. We look at it from Q2 to Q3, we're down about $150 million. The $150 million was split between a decline in holding company cash and liquidity and a reduction in our revolver capacity. So we're at $820 million approximately.

As we look forward, we expect by the end of this year to be up another $250 million plus as it relates to -- that will increase due to the Bermuda optimization effort, you'll notice, if you look to the right of that slide on Slide 10, you'll see the RBC ratio is much higher than they have been historically. You'll see 1,000-plus RBC ratio for the life company.

And so we'll take that ordinary and extraordinary dividend this quarter, increasing the cash overall. So it will be $1 billion-plus in liquidity. As we think about our sources and uses over the next 12 months, typically, we spend about $150 million a year in cash, about $80 million in dividends, about $55 million in interest expense and other HoldCo expense items of $10 million to $15 million. So when you think about that $1 billion plus of liquidity, $150 million in usage, we covered multiple times, we can extend out for several years.

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

Fair enough. And do you have -- are you -- because of the several quarters of losses, I assume you are unable to dividend up any capital from any of the subs at this point? Is that correct? Or is there still a way to pull capital out of the subs if needed?

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

We cancel pull all capital out of the subs, particularly the life company.

Joseph Patrick Lacher
Chairman, CEO & President

Yes, Greg, this is Joe. Just -- I wouldn't focus on the $1.3 billion. That was really an anomaly. And the $1.4 billion was a surge of earnings in the 2020 time period when people weren't driving and as Brad pointed out, you look at the RBC of [1,015] in the life company. In an ideal world, we would have actually moved that 250-plus before the end of the quarter, and it's a timing anomaly that it was -- it's going to be done in the fourth quarter rather than inside the third.

So I would definitely encourage you to look at those in combination in terms of where the cash is moving back and forth between them.

Operator

Your next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here. First, just on the adverse reserve development. Brad, I know you said that you're confident you're in a good position now as a short-tail business, but if I look, you've had adverse development in your personal auto business for 4 quarters in a row, what gives you confidence that your personal auto was reserved adequately? Are you seeing trend kind of going down now? Are there certain things that give you more comfort? And then also on the reserve topic, if you could address commercial auto a little bit and what's going on there, I mean you grew very rapidly for the last 3 years. And I know other companies are having challenges with their commercial auto. So maybe your book is different or something, and that's why maybe you can address that as well.

Joseph Patrick Lacher
Chairman, CEO & President

Yes. Let me -- well, let's do these in reverse, and I'll do a quick one on commercial vehicle and then Brad and I will tag team and maybe Matt as well on the PYD. The commercial vehicle, remember that, that was a $936 million underlying combined ratio. The $7 million is some BI DCC related items. It's just the defense and cost containment that's running underneath there. And it's still a very strong combined ratio there. If you look at it over any rolling 12-month period, you feel good about the underlying profitability there. So that one doesn't cause us a lot of angst. It really is just a little bit of DCC and cleaning up there.

Brian, on the reserves, about our comfort there. A lot of the activity we saw that created prior year development this year was related to the second half of 2022. And so we have a short tail business. As we get further away from that, we're confident in what we have reserved. Additionally, related to PIP, we've seen increased frequency of claims.

We see higher severity -- when we think about what we're reserving today, we're reserving for not necessarily an acceleration of claims coming through, but a higher total claim, higher total amount of severity due to the increase in litigated claims. And we think we've captured at this point in time, everything that we can.

Now it is a management best estimate, but we think we've taken a practical approach to what we think has occurred not only over the previous years, but what we expect to occur going forward. Additionally, on PIP, we're not reflecting any of the benefits that maybe they are related to legislative changes in the third quarter or in the first quarter of 2023.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then my second question, just going back to the capital situation at the holding company. I'm just curious if things don't start turning around here quickly, will that at all impact your ability to kind of roll out the reciprocal given that I know you're going to have to fund that with some preferred. And then I also know you mentioned in the release that you're going to reinsure some business in the reciprocal. Is that going to require some capital going in relatively soon?

Joseph Patrick Lacher
Chairman, CEO & President

Yes. It won't have any impact at all on the reciprocal. Let's remember this. We're not going to give any capital to the reciprocal. The exchange itself -- the capital there is either generated by the actual policyholders there with contributions or from earnings that come off of those policies or through surplus notes that even a surplus note is effectively alone. So to the extent we were assisting with that and let's -- I'm making up a number, let's say we gave a $20 million surplus note it will be the equivalent of us giving the exchange a $20 million loan, which it would be required to pay us back. That doesn't reduce our capital as the holding company or the parent in that process.

Reinsuring business into the reciprocal. What we can do is we can take -- again, I'm making something up to be illustrative. If we decided that all new business effective January 15 written in state X was going to be reinsured into the reciprocal in Georgia.

And starting on January 15, any new business written on Kemper paper would be reinsured over, that actually would become a capital relief for the parent company, Kemper because we wouldn't need to hold the capital for -- to be able to write that new business. It actually transfers premium into the reciprocal and the surplus note would be providing the capital for that.

So it actually helps the capital situation not hurt and relieve the issue doesn't restrict us.

Brian Robert Meredith
UBS Investment Bank, Research Division

[indiscernible]

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

That's right. Yes. The other thing I'd add, Brian, is I think what Joe is articulating here is it gives us actually more flexibility to know the capability or tool that we have at our disposal. Additionally, Kemper doesn't have to be the only one supplying the reciprocal exchange with surplus notes. Eventually, when it matures, we can go out and get third-party capital as well, which provides additional benefit and potential release for Kemper Corporation.

Brian Robert Meredith
UBS Investment Bank, Research Division

One last -- go ahead.

Joseph Patrick Lacher
Chairman, CEO & President

Sorry. This is one of the reasons -- one of the reasons we're going to wind up spending some time with a special topic on the reciprocal in the first quarter. It's hard to do in an earnings call and one of these. We'll lay out a series of slides that sort of helps that. If you can imagine this, what will happen over time is as that business naturally transfers into the exchange you're going to see premium at Kemper Corporation go down, required capital at Kemper go down. Premium inside the exchange go up and required capital inside the exchange go up, we will never give shareholder capital to the exchange.

So these things move back and forth, and it will make it a little more for a short period of time as it transitions a little complicated to read our financial statements because of those shifts. And that's why we're going to sit down in the first quarter as the numbers are starting to get a little bigger to show that and help everybody see how to model it. But it really actually does ultimately release capital as this process goes through.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then one just quick last one here, Joe. You said target profitability at some point in 2024, I'm assuming it is second, third quarter, whatever it is. And then can you remind us what your target profitability is in your personal or specialty business?

Joseph Patrick Lacher
Chairman, CEO & President

Yes. We don't typically give a target combined ratio. We will definitely be there to generate our guidance has provided you guys a view that we're going to be a 10% ROE next year or 10% plus next year. We've targeted a low double-digit ROE over the cycle. So we're obviously at the lower end of that range, but inside of that. To achieve that for the year, you would reasonably expect that the combined ratios are in the zone of our targets early on in the year. And if you just did a little math, and said if we had [100.5] underlying combined ratio in Specialty Auto in the third quarter, and we've tried to point out that, that has very little earned rate from California running through it. You could reasonably expect that, that earned rate will more than offset loss trend.

And we'll continue to provide combined ratio improvement over the next couple of quarters. I think we've been very careful about that and describing that. So that should provide a plus. At the same time, we'll start writing a little bit more new business that will have its new business penalty and you will not see the combined ratio continue to improve way in excess of what might be a target that would produce that combined ratio. Those 2 will converge and will sort of hold our ground over the course of the year.

Operator

Next question comes from Paul Newsome of Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Could I ask you about the reduction in the revolver capacity? Was that just -- just can tell you what's driving that at the other piece of the holding company liquidity that's changing?

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

Yes, sure, Paul. We're hitting a covenant, a leverage covenant that's driving that and bringing that down. I'd highlight, we did -- we did our revolver last year. We upped it from $400 million to $600 million. And so we're slightly below the $400 million today. So if you look at it from a historical perspective and how we've actually shrunk in new business over the last year where we stand at $375 million roughly that's plenty of liquidity and no, no concern. I don't have any concerns with that.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. Different topic. The accounting for the preferred business, obviously, you're running [indiscernible] this non-core line, but it doesn't look like it's being treated as discontinued operations. It looks like the revenues and expenses are all going through on a consolidated basis like they were before. You're just not breaking it out as a separate segment. Is that right? Am I getting that right? Or am I wrong, it should to discontinued operation. [indiscernible] is below the line but it's not technically below the line, right?

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

It technically is below the line. It's really a noncore operations. Discontinued ops would have to be something that's sold or we have a deal on the table, et cetera. So it's noncore operations. It's being wound down as planned. You can see that, I think it was $7 million from noncore operations this quarter. We'll try to provide as much information as possible to you. I think we also included about $14 million of catastrophe losses, et cetera, but you won't see it as a segment going forward.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Yes. But it will be in the consolidated number? Like this consolidated revenue, for example, will include premiums from the [indiscernible] business.

Bradley Thomas Camden
Senior VP, Treasurer & Interim CFO

You won't see any of the detail from like a premium standpoint, a net investment income standpoint, any of those things, it all is getting lumped into 1 component in noncore operations.

So think about...

Jon Paul Newsome
Piper Sandler & Co., Research Division

I have to take a...

Joseph Patrick Lacher
Chairman, CEO & President

Yes. So think about that segment. Previously Kemper preferred insurance, all of those components are being truncated to 1 line. And so you're seeing the net impact of that business performance there.

I know you're wrong on this, Paul, I'm not an accountant, but I think part of the issue on the discontinued ops, adding on to Brad's. I know it's the sale or the exit, but if we're just shutting it down, we didn't exit all private passenger auto. So that was, I think, some of the advice we were getting is that's part of why we can't move it to discontinued ops.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Which is fine. I'm just thinking about from a modeling perspective because if we modeling total revenue for the firm in a discontinued op situation, it wouldn't show up in total revenue, but if it was just considered noncore, like it sounds like you're doing -- it will show up in consolidated total revenue on your [indiscernible] or I think that's right. And then...

Joseph Patrick Lacher
Chairman, CEO & President

We can definitely take it off the line, Paul, and help you with the modeling pieces of how it will come through.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Last question, I'm giving this a lot. The variation of the 10%-plus ROE. Some of the pushback I'm getting is that, that may be sort of, I don't know if [indiscernible] to communicate this or not essentially a reduction in the earnings expectations for next year because the capital is lower because of the losses we've incurred in this quarter, for example. Any thoughts on that? Do you think that's fair? Or the question is coming up quite a bit, so I thought I'd asked it on the call.

Joseph Patrick Lacher
Chairman, CEO & President

Yes. I think Paul we're trying to get a little simpler in terms of how we communicate stuff. We've said that we're going to generate a 10% plus ROE. We were doing -- we did a preannouncement. So there's a limited ability in a press release to try to describe every nuance. And I understand there's a lot of attention on all of the pieces running around our business and where things are. And we're not trying to be -- we're trying to actually just sort of simply what we're doing. It's a basic GAAP ROE calculation. We're sticking with a 10% plus.

And I understand the math you're describing in it. We weren't trying to hide something in there, we weren't trying to send a different signal. There's -- maybe it's because of Halloween, everybody is looking for ghosts, but it was trying to be a simple statement.

Operator

[Operator Instructions] There are no further questions at this time. Mr. Joe Lacher. Please proceed with your closing remarks.

Joseph Patrick Lacher
Chairman, CEO & President

Thank you, operator. Thank you, everybody, for joining our call today and for the questions. And we look forward to speaking to you again in the fourth quarter -- or with the fourth quarter results. Thanks.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.