S&P Capital IQ

CONTENTS



# Kemper Corporation NYSE:KMPR

## *FQ1 2017 Earnings Call Transcripts*

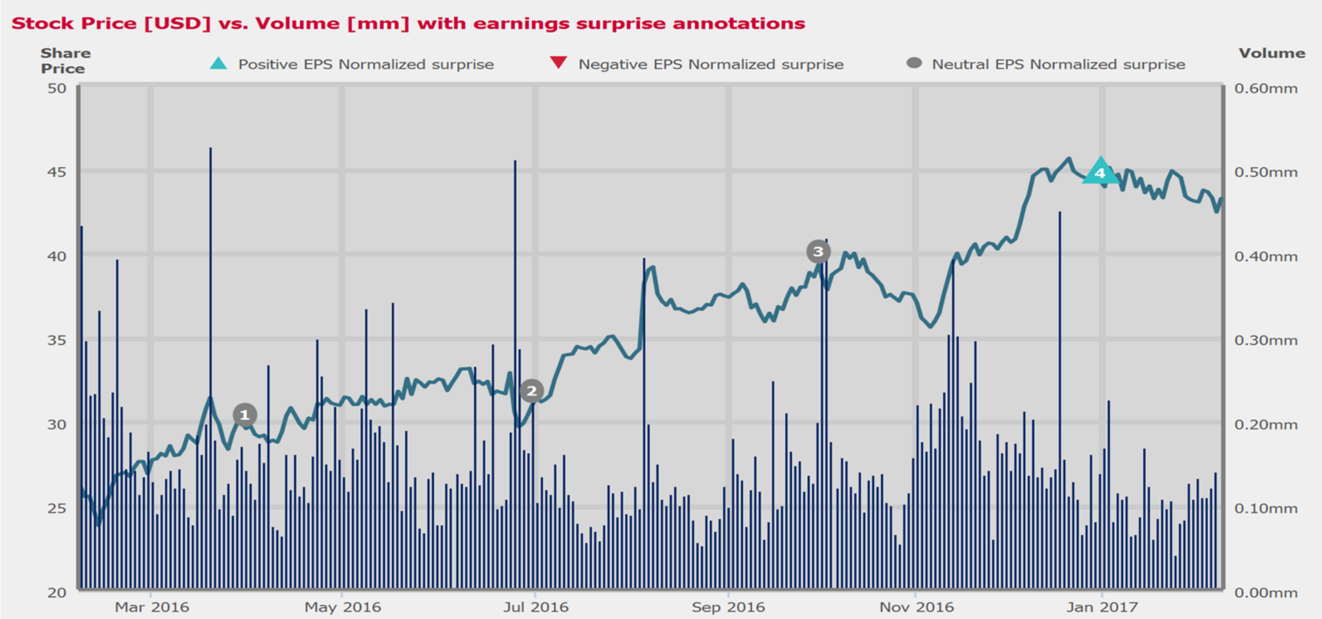
Friday, May 05, 2017 3:00 PM GMT

## S&P Capital IQ Estimates

| | -FQ1 2017- | | | -FQ2 2017- | -FY 2017- | -FY 2018- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (0.17) | (0.08) | NM | 0.36 | 1.43 | 2.53 |
| **Revenue (mm)** | 652.25 | 645.90 | ▼(0.97 %) | 639.60 | 2596.05 | 2647.91 |

Currency: USD

Consensus as of May-05-2017 1:04 PM GMT




| - EPS NORMALIZED - | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2016** | 0.03 | (0.01) | NM |
| **FQ2 2016** | (0.15) | 0.09 | NM |
| **FQ3 2016** | (0.44) | (0.36) | NM |
| **FQ4 2016** | 0.42 | 0.56 | ▲33.33 % |

# Call Participants

## EXECUTIVES

**Diana J. Hickert-Hill**
*Vice President of Investor Relations & Corporate Identity*

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

**James J. McKinney**
*Chief Financial Officer and Senior Vice President*

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

## ANALYSTS

**Adam Klauber**
*William Blair & Company L.L.C., Research Division*

**Amit Kumar**
*Macquarie Research*

**Carl-Harry Doirin**
*Raymond James & Associates, Inc., Research Division*

**Jon Paul Newsome**
*Sandler O'Neill + Partners, L.P., Research Division*

**Matthew John Carletti**
*JMP Securities LLC, Research Division*

**Robert Ray Glasspiegel**
*Janney Montgomery Scott LLC, Research Division*

# Presentation

**Operator**

Good morning, ladies and gentlemen, and welcome to Kemper's First Quarter 2017 Earnings Conference Call. My name is William, and I will be your coordinator today. [Operator Instructions] As a reminder, the conference is being recorded for replay purposes.

I would now like to introduce your host for today's conference, Ms. Diana Hickert-Hill, Kemper's Vice President, Investor Relations and Corporate Identity. Ms. Hickert-Hill, you may begin.

**Diana J. Hickert-Hill**
*Vice President of Investor Relations & Corporate Identity*

Thank you, operator. Good morning, everyone, and thank you for joining us. This morning, you will hear from 3 of our business executives starting with Joe Lacher, Kemper's President and Chief Executive Officer; Chip Dufala, Kemper's Property & Casualty division President; and Jim McKinney, Kemper's Senior Vice President and Chief Financial Officer. We will make the opening remarks to provide context around our first quarter results. We will 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 Senior Vice President and Chief Investment Officer.

After the markets closed yesterday, we issued our press release and published our earnings presentation and financial supplement. In addition, we filed our Form 10-Q with the SEC. You can find these documents on the Investors section of our website, 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 2016 Form 10-K filed with the SEC as well as our first quarter 2017 earnings release and Form 10-Q.

This morning's discussion includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement presentation and earnings release, we have defined and reconciled non-GAAP financial measures to GAAP were required in accordance with SEC rules. And finally, all comparative references will be to the first quarter of 2016 unless we state otherwise.

Now I will turn the call over to Joe.

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Thanks, Diana. Good morning, everyone, and thank you for joining us on the call today. Before I walk through our results, I'll make 2 high-level comments. First, this quarter we added an earnings presentation to give you a visual cue of trends and key information as we walk through our results. We're trying to provide meaningful information so you have the context to understand and digest our quarterly performance.

Second, a key component of our turnaround involves reinvigorating our culture and improving our execution capabilities. Attracting and engaging top talent is critical to making this happen and we're happy with our ability to get the right leaders onboard. We made a few strategic new hires recently including a new chief claims officer for P&C.

I'll begin my comments on our results on Page 3 of the earnings presentation. We remain focused on building Kemper's overall value even as we address some shorter-term issues and our strategy underscores this long-term view. We continue to leverage our competitive advantages and build core capabilities to ensure we maximize shareholder, agent and policyholder value. With this framework in mind, let's turn to Page 4 and look at our first quarter's results where you can see the earnings per share amounts.

In total, we had a net loss of $300,000 in the quarter, up from a net loss of $2 million last year. On an operating basis, we had a net loss of $4 million in the quarter compared to a net loss of $600,000. Earned premiums increased 3% to $563 million and net investment income increased 22% to $82 million. Bottom line results for the quarter were disappointing due to catastrophe losses, which were broadly experienced in the industry. Overall though, I'm pleased with the progress of the company. Life and health earnings remains solid and premiums grew modestly; in P&C, our nonstandard auto business showed significant improvement in both legacy and Alliance United; our preferred auto business remained pressured as we anticipated; and we experienced some claims effectiveness challenges, which while not entirely unexpected given the significant changes we are implementing were disappointing.

And turning to Page 5. We have isolated sources of volatility in our earnings. In the highlighted section at the bottom of the page, you can see that excluding these items, underlying operating performance has improved over the past year. Most of the improvements come from our Property & Casualty division, where our underlying combined ratio improved 2 points to 96.8%. We've been focusing intently on turning around Alliance United, where along with our legacy nonstandard auto, we saw a substantial improvement. That was not the case with preferred auto, which remained pressured. Chip will go through the details on these topics.

In general, our sources of volatility stemmed from 3 main items: Catastrophe losses, alternative investment income and prior year reserve development. For the quarter, we had $43 million of after-tax cat losses. These losses were concentrated in Texas with 2/3 of the losses coming from one storm. While catastrophe losses were also elevated in the first quarter of 2016, we are comfortable with our long-term pricing expectations and do not anticipate fundamentally changing our pricing or underwriting actions due to these storms.

Second, we had strong alternative investment performance, which Jim will discuss. And last, we had $7 million of after-tax adverse prior year development primarily in our preferred auto line.

Overall, we're pleased that our underlying operating performance is headed in the right direction.

I'll turn now to Page 6 and walk through our Life & Health division's results. I'll point you to the upper half of the page where you can see the stable revenue trend continue. It's still early, but we're pleased to see modest growth in this business and earned premiums increased by $3 million to $153 million. We're benefiting from improved agent productivity in life sales in the home service companies as well as higher sales in Reserve National.

From a net operating income standpoint, results improved by $2 million to finish the quarter at $22 million. This division continues to be a stable source of earnings with strong and predicable cash flows.

I'll now turn the call over to Chip to discuss the Property & Casualty results.

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Thank you, Joe, and good morning, everyone. Before I begin our Property & Casualty comments, I'd like to take a few moments to discuss our claims area.

As Joe mentioned, we have a new Chief Claims Officer for P&C, Kim Leggette, who joined our team last week. He brings extensive experience most recently from his prior role at AIG personal lines and before that, Travelers, and 18 years at Progressive. Our claims operation remains an important focus area for us. Over the last several quarters, we have been pushing initiatives to reduce claims cycle time and to improve service, all while lowering costs. As an example, we targeted a reduction in time from first notice of loss to initial estimate and anticipate seeing favorable results for our metal coverages.

Unfortunately, results deteriorated with higher-than-expected collision severity. Kim's leadership will help us turn these results around, which just as it took a few quarters for the results to show up, it will take a few quarters to see the targeted improvements.

While all of our auto lines were affected, the most visible impact was in preferred auto. I'll start my comments looking at preferred lines on Page 7.

Overall, earned premiums were $181 million, down $4 million, and the underlying combined ratio was up 4 points to 95.4%. The preferred auto underlying combined ratio continued to be elevated and was up 5 points to 104.6%.

We talked last quarter that the industry had seen adverse loss trends. We mentioned that we were a little late responding with rate, and that it would take a few quarters before rate actions would impact results. The claims issues I just described add some pressure and will take a few quarters to resolve. We are focused on rate and underwriting actions as well as claims effectiveness to improve our underlying results. From a top line standpoint, net written premiums increased about $0.5 million.

Looking at homeowners. The underlying combined ratio improved a 0.5 point to 82.6% with lower severity offset by higher frequency. The big story for the home line in the quarter was catastrophe losses, which we covered earlier. We continue to focus on optimizing homeowner's performance.

I'll now turn to our nonstandard auto line on Page 8 of our presentation. You can see our earned premiums increased in both our legacy and Alliance United lines, totaling $216 million for the quarter, up $19 million. The top line growth was fueled by rate increases and strong renewals, yet moderated by control new business. In early March, we began implementing a 6.9% rate increase on about half of the Alliance United business. In our legacy lines, we continue to take rate actions as appropriate.

The claims pressure that I mentioned previously also impacted our nonstandard auto business. On the bottom of the page, you can see that despite this pressure, our underlying combined ratio improved significantly. Alliance United improved 9 points to 98.6% and the legacy volumes improved 6 points to 96.8% as both lines benefited from rate increases and lower frequency, partially offset by higher severity.

While we are pleased with our progress, we still have work to do. We are approaching target profitability levels and our turning are focused to achieving appropriate growth.

With that, I'll turn the call over to Jim.

**James J. McKinney**
*Chief Financial Officer and Senior Vice President*

Thanks, Chip, and good morning, everyone. Before turning to investments, I'll touch briefly on our performance in Corporate and Other, where results improved $4 million primarily from lower pension expense and higher net investment income.

Turning to investments on Page 9. This function continues to be an area of strength for Kemper. We manage a diversified and highly rated portfolio that has performed well over time. Looking at the chart on the upper left, you can see our performance over the past 5 quarters. We delivered $82 million in net investment income in the first quarter, a $15 million increase from last year that principally came from our alternative investments portfolio. The increased returns were driven by our seasoned and diversified equity method and fair value option portfolios, which outperformed our expectations. The core portfolio continues to produce stable returns, with higher investment base offsetting the lower rate. Overall, in the first quarter the portfolio delivered a pretax equivalent annualized book yield of 5.4%, 80 basis points higher than last year.

On Page 10, we highlight our strong capital and liquidity. You can see in the chart in the upper left-hand corner, we ended the quarter with ample holdco liquidity. We had $288 million in cash and investments as well as $225 million in borrowings available under our revolver. Looking at the chart in the upper right, you can see our insurance groups continue to be well capitalized.

Turning to debt. We had $752 million outstanding at the end of the quarter, of which $360 million will mature on May 15. In addition to the $288 million of cash and investments at the parent, in April, our insurance subsidiaries declared dividends totaling $88 million to be paid to the parent prior to the debt maturity. This liquidity provides us flexibility in terms of the timing for when we issue new debt, we expect to complete the debt refinancing prior to the end of the second quarter. However, we have flexibility to ensure that we take advantage of optimal market conditions.

Finally, our book value per share, excluding unrealized gains on fixed maturities, was $34.81, a $0.19 decrease from year-end. The quarter-over-quarter decrease was primarily driven by catastrophes. With that, I am pleased to turn the call back to the operator to take your questions. Operator?

# Question and Answer

**Operator**

[Operator Instructions] And our first questioner today is going to be Paul Newsome with Sandler O'Neill.

**Jon Paul Newsome**
*Sandler O'Neill + Partners, L.P., Research Division*

Maybe you could give us a little bit more color on the adverse reserve development and give us some sense of sort of how those issues may be resolved either sooner or later as we look forward.

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Thanks, Paul. I'm going to -- I'll throw it to Chip to lead off on this one.

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes. Good morning, Paul, nice to hear from you. Predominantly what you're seeing in the reserve development in the first quarter, it was driven by our preferred lines, auto BI and UMBI, uninsured, underinsured as well as our property damage and collision coverages across all of our businesses. We've seen some struggle within our metal coverages, in which I mentioned earlier in my prepared remarks, and we're focused on correcting those. It's been an issue that developed over a quarter or 2 and we're looking to take a quarter or 2 to correct it. And I think by adding Kim Leggette onboard as our Chief Claims Officer, we're going to be able to put the appropriate level of focus on these issues so that we can look to minimize these types of issues going forward.

**Jon Paul Newsome**
*Sandler O'Neill + Partners, L.P., Research Division*

Do you think the changes that you anticipate in claims with new leadership as -- might create a situation where we find some new issues or accelerate issues?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes, Paul. I would think that, that is going to be the case. I know in the approximate 9 months that I've been here, I've introduced some new processes and procedures, different ways of doing things. And as Kim has come onboard, he will naturally do the same. And as you put fresh eyes on any area of a business, you're going to see things that need adjusted or from your experience, you would do a little differently. And I would anticipate seeing that happen.

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Let me add on to that because, Paul, because I think what your question was twofold. Partly as Chip was describing, are we going to change some processes and procedures? But perhaps more to your point, I think you were asking, are we likely to see earnings impact in a negative way as a result of that? Was that really what you were getting at?

**Jon Paul Newsome**
*Sandler O'Neill + Partners, L.P., Research Division*

I was, but I try not ask you too directly because, obviously, we're talking about stuff that's forward-looking process. But in my experience is that new eyes find problems that were in files that were hidden underneath in the drawer, underneath the desk.

**Joseph P. Lacher**

*Chief Executive Officer, President and Director*

Yes. I think what we would tell you at this point is we had a number of new eyes on these already. I was pushing some, Chip has a broad claim background and was pushing a lot. So I big chunk of the issues, I think, has largely been in front of us and we're attacking those. Perhaps the most important item is we're still resolute in believing that we're going to see $85 million of pretax improvement from the claims side of the house from our first quarter '16 run rate. And part of the thing to think about, Paul, is when we gave you those targets for our improvement in earnings in our strategic plan last September. We described the expense items and telling you what would be in the run rate by the end of '16, by the end of '17 and by the end of '18, we described claim only as being there by the end of '18 for exactly the point you're talking about. We fully expect it as we peel back the onion that we might have some lumpy items here. The dollars are there, we know we can get them in that time period. And we're confident we can get them in that time period. But we also have done these enough times to know that some of those unintended consequences bubble up and what we're seeing this quarter is a little bit of that. The bodily injury items, the UM, UIM that Chip talked about were most significantly driven by us being later on rate, and we talked about that last quarter. The metal coverages are a great example of some unintended consequences of some of the changes we were making in processes that we're very comfortable and confident it can be fixed relatively quickly. But that is why we described the $85 million as being in the run rate by the end of '18, and we remain confident it can be achieved.

**Operator**

And our next questioner today is going to be Bob Glasspiegel with Janney.

**Robert Ray Glasspiegel**
*Janney Montgomery Scott LLC, Research Division*

Joe, we've had some experience sort of like watching you in action with the nonstandard turn, which seems like it's ahead of schedule. Last quarter, you're warning us that there was a lot more work and you sound a little bit more confident today. And we've seen you with other companies. How does this personal auto turn around compare in degree of difficulty? And where are you on the confidence level, what the timing of the recovery can be?

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Let me make sure -- I'll be answering the question, Bob. Are you talking about auto overall? Or the preferred auto specifically?

**Robert Ray Glasspiegel**
*Janney Montgomery Scott LLC, Research Division*

Preferred. It seems like you've got the nonstandard on track for quarters to be improved in line with what the original plan was, if not ahead of it.

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Yes. The nonstandard we feel terrific about and it's moving in the right direction. We described over the last 5 or 6 quarters that we were going to pound it hard with every dose of antibiotic we could find and every lever in the shop was going to be used and we're doing that. Some of the issues we're seeing in the claim issue, on the metal coverage as Chip pointed out are a headwind for all of our auto businesses. So they're actually applying pressure in nonstandard as well. We just happen to push hard enough that you don't see them in the results because of improvement on other items. When we look at the preferred auto, it will benefit from the same claim benefits that we're going to push throughout the business. There will be a beneficiary to that $85 million. I would say that we're very confident that we can achieve those benefits ultimately, and we do think it's going to take a little bit of time. There's nothing that we've seen that's surprising us. We've engaged some outside folks to help us with this, both on a detailed process mapping and on some more claims expertise to really help us queue up the order in which we should go after this.

We cleared a fairly significant hurdle by making some management changes, which I'm very confident are going to make a huge impact. And we got a group of frontline claims employees right now that are engaged and actively enthusiastic about the changes and the fact that they've got a management group that's listening and helping us stop doing dopey things. So this takes a while, but I have a high degree of confidence that we can achieve it in that time period.

**Robert Ray Glasspiegel**
*Janney Montgomery Scott LLC, Research Division*

I think your wording was several quarters. So that implies you think within a year or so you could be moving in the right direction?

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Yes. We didn't specifically pick where -- we intentionally didn't pick words to say at ideal profitability targets. This will take a little time. You know how rate works into an engine and it takes a little while for the rate to catch up with the loss trend. That's got to work its way through and that's what we started talking about last quarter. And it's very parallel to what a number of other players are seeing. And then that claim issues will come in, there's probably 8 or 10 things we're pushing on and they'll come in layered on top of each other. Some of them are going to be relatively quick, some take a little longer. But it will be a couple of quarters before we're feeling the temperature in preferred auto being where we're happier about it. I like the way you described it, Bob, when you pointed back to the nonstandard conversations we were having a year ago. What we're trying to do is give you a clear view of what the issues are and reasonable time frames and you can reasonably expect them and then deliver on those numbers.

**Operator**

Our next questioner today is Matt Carletti with JMP Securities.

**Matthew John Carletti**
*JMP Securities LLC, Research Division*

Most of my high-level questions were covered already, I just had a numbers question. There's a pretty good step down in a good direction in interest and other expenses, and I was hoping you could just give a little color there and what if there's anything kind of onetime impact in the quarter, how we should think about that going forward, absent, of course, you already commented on some plans to refi debt. But aside from that, what's a good run rate?

**James J. McKinney**
*Chief Financial Officer and Senior Vice President*

And so Matt, thanks for the question. This is Jim. High level, I would point you to maybe some of my opening comments that I had before, largely the decreases related to kind of pension expense from that perspective, a little bit of some other savings across-the-board and kind of higher interest income from investment performance. I don't see anything inside of there that is overly onetime. When I think about those things, although I would be consistent with what we've kind of indicated before, we're committed to kind of our expense-saving goals and achieving those within the time period. I'd be careful not to 100% run rate these items because they are going to kind of bump up and down a little bit as we continue to move forward as we have to make investments to take out the next $20 million that's in between here. But for the year, you'll see the $20 million in expense coming out as we've indicated and you'll see a platform in terms of the next $20 million coming out that will come in a non-even pace throughout the year.

**Operator**

And our next questioner today is going to be Adam Klauber with William Blair.

**Adam Klauber**
*William Blair & Company L.L.C., Research Division*

I think you've sort of talked about this. But within the auto loss trends, what exactly has gotten worse in the last 6 to 9 months just from a macro standpoint?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Essentially, as I mentioned previously, it's really severity around bodily injury as well as our metal coverages, collision as well as our property damage coverage. And it really does, we're still mirror a lot of the external trends that we've been seeing in the industry. I know they're starting to moderate slightly with some of our competitors, and we're watching that as well. Also as I mentioned, the claim problems that we've had are having an impact. And then naturally, the external trend continues to push the numbers as well.

**Adam Klauber**
*William Blair & Company L.L.C., Research Division*

So what's driving the severity BI worse?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

I think the trends that you're seeing, the external trends within the industry you're seeing, escalation in cost of medical prescription drugs are going up, treatment continues to get more and more expensive. I think that plays a role in it. You're also seeing automobiles are traveling faster and at a higher rate impact. And so traditional soft tissue injuries that would have smaller settlements are starting to see increases in the amount that you're paying to settle those losses. And I would put a lot of that to gross curb weight to horsepower, those types of things.

**Adam Klauber**
*William Blair & Company L.L.C., Research Division*

Okay, that's helpful. But then I know you've been taking a number of actions including rates in the different lines. Could you tell us what's your average rate increase in the preferred line? And then what's the average rate increase in the nonstandard? If you want to break down the legacy versus the nonlegacy, that would be fine also.

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

So what you're seeing on the preferred auto, you're going to see us -- and really, it depends on the territory, it depends on competitive position, it depends on lots of factors. But on preferred auto, you're going to see high single digits on home. You're also going to be seeing high single digits when you think of nonstandard in general outside of California, that too is going to continue to see high single digits. We've already talked about Alliance United. We continue to take rate at 6.9% when feasible and permissible. And so we're going to continue to be aggressive on rate actions while keeping an eye on all the external trends.

**Adam Klauber**
*William Blair & Company L.L.C., Research Division*

Okay. And something you said earlier and we've seen a little of that, some of the trends have been moderating. Has frequency moderated somewhat compared to, say, 6, 12 months ago?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes, I'm seeing that. You are seeing frequencies slowing down, but it was an unusual winter in many of our territories as well. And I know our competitors and other companies have seen that when you have a milder winter, you're not having as many accidents through the first quarter. So we're going to keep an eye on it through a couple of quarters to make sure a trend has developed and it's not just not kind of a one-hit wonder.

**Operator**

[Operator Instructions] And our next question today is going come from Amit Kumar with Macquarie Capital.

**Amit Kumar**
*Macquarie Research*

A few follow-up questions. The first goes back to the discussion in preferred auto. Can you remind us what percent of your book is 6 months versus 12 months?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes. Approximately -- this is Chip. Approximately 90% of our book is 12 months.

**Amit Kumar**
*Macquarie Research*

Got it. Okay. That's helpful. And I guess, moving on, maybe just staying on preferred. What's the average age of the vehicle in your insured fleet on the preferred side?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Amit, off the top of my head, I don't have that number, but I was reviewing it a few weeks back and much like the industry where you're seeing most vehicles at the 10-, 11-year age, we were in line with the industry trends. We weren't an outlier. I don't remember the exact number, but we were right in the sweet spot.

**Amit Kumar**
*Macquarie Research*

Got it. That's helpful. And then the only other question is going back to, I guess, the legacy nonstandard book. Is it all sort of a minimum coverage book? Maybe just refresh us or remind us if it's all minimum state-mandated coverage book. And I don't know if you have any other statistics on the average income, et cetera, on -- for the insurers in that book.

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes. Really, I don't have a lot of information on that subject. But what you do see is our nonstandard book is very traditional. As you would scan across the industry, in my experience, you'll have a solid mix of coverages, you have a solid mix of limits and deductibles. It's really what the consumers are choosing and the value proposition that they're willing to purchase. And so that's really what I have to share with you at this point.

**Amit Kumar**
*Macquarie Research*

Okay, maybe I'll follow up offline. Sorry, just one sort of cleanup question. Going back to Adam's question on the pricing. The numbers you were giving, were those happening right now? Or are they planned for '17? I guess, what I'm trying to ask is, how should we think about the trajectory of the rate increases versus probably an improving loss cost climate?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Exactly. As loss cost and the trends improve, we will most likely be slowing down in the rate increases that we're taking. Again, we will look at all the external factors, we will look at competitive position, we'll look at development, what we see and use our collective instincts to determine where we fit into the marketplace and make the best possible decisions that we can in order to grow profitably.

**Amit Kumar**
*Macquarie Research*

Got it. And any opinion on the recent discussion on the decline in sales of new cars and used cars? I know you're talking about soft tissue injuries, et cetera. But I was curious, I mean, we've seen phenomenal new car growth, which obviously improves the BI number but increases the PD. Any opinion on that or is it too early?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

It's really too early. And solely in my opinion, as new car sales tend to deteriorate, what you usually see is the uptick in used car values than go up in correspondence. And so where you gain in one area, you start to lose in another. Just really in my experience.

**Operator**

Our next questioner today is Carl Doirin with Raymond James.

**Carl-Harry Doirin**
*Raymond James & Associates, Inc., Research Division*

One, I guess, one of the points you made in terms of the profit restoration at Alliance United at your September call was other than price increases was the claims staffing and specialization at that unit. Can you just give us an update on how that's going? Or was that pretty much -- are you still hiring? And is there any expectation of, I guess, further improvement going forward, perhaps in the expense ratio?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes, Carl, I would say at this point, our claims staffing at Alliance United is at an adequate level. We will continue to hire as appropriate as the business grows. We'll staff in accordance to those needs, and we will continue to invest in our claims team there with additional training. And as they season in a little more with the organization. We've hired quite a few folks and they've done a really nice job to reduce the pending count as we've touched on in previous quarters. And I've been very pleased with the work that they are doing.

**Carl-Harry Doirin**
*Raymond James & Associates, Inc., Research Division*

So still some room to go in terms of the claim count, is that what you're seeing?

**George D. Dufala**
*Senior Vice President and President of Property & Casualty Division*

Yes. There will always be areas to improve, not just in claims count, but improved processes and procedures. And so we have a heavy focus, as Joe said earlier, regarding improvement in claims and taking out the $85 million. And so in order to accomplish that, we're going to need to improve across all of our businesses within claims.

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Relative to Alliance United, Carl, we've got that business. As Chip said, we've hired the folks to where the claims staffing is at target levels. We probably won't be reporting on those details anymore. Part of what we were trying to do with those was give you an early indicator on the change that was going on in that business. It was going to drive it back to an underwriting profit and you see an underwriting profit this quarter. But the micro disclosures we were having on that, we're really trying to help you see the pace of the change. And probably isn't worth us doing on a going-forward basis given where the business is now.

**Operator**

Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the conference back to Joe Lacher for his closing remarks.

**Joseph P. Lacher**
*Chief Executive Officer, President and Director*

Thank you, operator. And before we sign off, I just want to provide you a few quick closing comments.

We're focused on executing our strategy and are making progress on a number of fronts. Our Life & Health earnings continue to be solid and we're encouraged by the increase in earned premiums. We said our underlying operating performance is improving, especially in our nonstandard business. Our preferred auto continues to be a place where we're playing a little catch up with rate. We're working diligently to convert some claims operational challenges into operational strengths. And lastly, we've benefited from strong alternative investment results in the quarter. I'm pleased with overall progress of the company, and I look forward to updating you again next quarter

Thanks for your time today and thanks for your interest.

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