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Horace Mann Educators Corp. (HMN)

Q3 2018 Earnings Call

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Robert Glasspiegel
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Gary Kent Ransom
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Horace Mann Third Quarter Earnings Conference Call. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Heather Wietzel, Vice President, Investor Relations. Thank you, Ms. Wietzel. You may begin.

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.

Thank you, Jerry, and good morning, everyone. Welcome to Horace Mann's discussion of our third quarter 2018 results. Yesterday, we issued our earnings release and investor supplement. Copies are available on the Investors page of our website, along with our investor presentation which was posted this morning.

Our speakers today are Marita Zuraitis, President and Chief Executive Officer; and Bret Conklin, Executive Vice President and Chief Financial Officer. Bill Caldwell, Executive Vice President, Property and Casualty; Bret Benham, Executive Vice President, Life and Retirement; and Ryan Greenier, Vice President, Corporate Finance, are also available for the question-and-answer session that follows our prepared comments.

Before turning it over to Marita, I want to note that our presentation today includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not guarantees of future performance. These forward-looking statements are based on management's current expectations, and we assume no obligation to update them. Actual results may differ materially due to a variety of factors, which are described in our press release and SEC filings. In our prepared remarks, we use some non-GAAP measures. Reconciliations of these measures to the most comparable GAAP measures are available in the supplemental section of our press release.

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

Marita Zuraitis

President, Chief Executive Officer & Director, Horace Mann Educators Corp.

Thanks, Heather. Good morning, everyone, and welcome to our call. Yesterday evening, we reported third quarter core earnings per diluted share of $0.25, that's down from the $0.69 we reported in the third quarter last year. The difference is entirely attributable to weather, primarily the increased catastrophe losses we reported earlier this month.

Accordingly, we are adjusting our full-year EPS guidance to $1.45 to $1.60, which Bret will discuss in more detail later in the call. In light of the sustained trends of more frequent and more severe weather, we continue to examine strategies to mitigate earnings volatility going forward. Although these losses were not disproportionate to what our market share would imply, we regularly evaluate our catastrophe risk and loss exposures. We will continue to review our reinsurance and partner carrier strategies, as well as our underwriting guidelines to ensure we remain profitable over the long run.

Bret is going to discuss how we're thinking about catastrophe guidance later in the call. So, let me turn to two topics. First, our strategic progress on key initiatives and our transaction that we announced yesterday. As we saw in the third quarter results, we continue to make solid gains to drive profitable growth and long-term improvements in our ROE. Due to the escalating impact of our profitability initiatives, our underlying auto loss ratio was down 1.9 points on a year-to-date basis, which includes a 3.1 point improvement this quarter. In fact, the reported auto combined ratio of 99.5% was our best quarterly result in more than three years. This moves us closer to our target of a high-90s combined ratio in auto. We continue to take a thoughtful segmented approach to our book. We are focusing resources on growing in profitable geographies and segments, while addressing less profitable segments by placing those customers with partner carriers. While the net effect is a slight decline in PIF, but positive results of these initiatives are coming through in our underlying results.

In the Retirement segment, sales increased 18% over the prior-year quarter and 3% over the first nine months. Since we launched our Retirement Advantage product suite, we've seen solid, steady sales growth. Buy-in from our agency force is strong. We're seeing a growing level of excitement around our value proposition as we provide solutions to help educators achieve lifelong financial success.

Turning to the Life segment, sales continue to increase at a double-digit rate. This quarter, we rolled out additional automated tools that decreased the time it takes to underwrite policies. This in turn has helped increase the percentage of policies we successfully issue. Continued emphasis on ease of doing business has encouraged agents to write more Life business.

Our underwriting standards and risk tolerance are the same. We are simply putting the full force of our growth strategy to work, the right solutions delivered in a straightforward way through a trusted adviser.

Turning back to our overarching strategy, we pride ourselves and listen to the understanding – and understanding the educators who serve our communities better than any other provider. Building on this knowledge, we provide solutions to the issues educators face.

Recently, we've been working on expanding that vision to include the unique needs of school districts, our B2B customers. We are listening to the issues facing superintendents and business officials, including teacher turnover, benefit costs, and employee productivity and morale, and we're using this knowledge to build and provide the solutions that leverage our value proposition.

To support the needs and preferences of this employer market, we signed a definitive agreement to purchase Benefit Consultants Group, a retirement plan provider and record keeper. BCG will help us bring a more complete solution to school districts, while we leverage our core competencies of market access and brand affinity in the educator market. This acquisition will provide us the flexibility to directly administer retirement plan solutions and other worksite capabilities. It also allows us to reduce our reliance on a third-party planned administrator and paves the way for a quicker implementation of this solution.

We chose to purchase BCG because it met our two criteria for capital deployment. First, it makes financial sense. Secondly, it advances our growth strategy. For the past four years, we've been talking about our strategy of providing solutions to individual educators with products designed to meet their unique needs, distributed through channels tailored to meet their preferences and built on infrastructure that's easy to do business with. This transaction accelerates all three of those strategic levers at the worksite level.

BCG improves our products by providing plan design and administration capabilities that are key to being competitive in the B2B space. BCG also brings a new well-respected and established network of distributors, and BCG improves our infrastructure with an efficient and scalable ISO 9001 compliant platform that delivers solutions in a way that employers prefer them.

Taken together, these capabilities will bolster the value proposition we provide to school districts nationwide and support Horace Mann's growth over the next three to five years. In the near-term, the transaction won't be material to EPS and ROE, we expect it will be accretive in the long-term.

To close, I'm very encouraged about our strategic progress this quarter despite the weather impacts. We are on track to achieve our goal of 5 points of improvement in the underlying auto loss ratio over the next 15 to 18 months, while holding market share. Our Retirement and Life businesses are growing at a robust rate, and ease of doing business initiatives are taking our improvements to both customers and agents. We built a solid foundation and a customer-centric operation that is well-positioned to achieve our goal of becoming the company of choice to help educators protect what they have today and provide them with the financial solutions they need in the future.

Thank you. And with that, I'll turn the call over to Bret.

Bret A. Conklin

Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

Thanks, Marita, and good morning, everyone. First, I'm going to walk through our operating results and then I'll share some additional details on the transaction we announced yesterday. Core earnings per diluted share of $0.25 for the quarter and $0.89 year-to-date were down from prior-year periods, primarily because of higher catastrophe losses. As such, we are revising our guidance for the full-year impact of catastrophe losses on the combined ratio to about 11 points. This results in full-year EPS guidance in the range of $1.45 to $1.60.

As you may recall, for 2018 planning, we put more weight on the elevated cat losses that we experienced over the past few years which, we believe, reflect the impact of changing weather patterns. As we look to 2019, I expect we likely continue to weight our recent cat experience more heavily when we set the impact of cat losses on our 2019 EPS guidance. As Marita noted, we're making solid progress on our stated drivers to higher ROE, at the same time, a catastrophe load significantly above our expectations has a temporary effect. The higher-than-modeled catastrophe losses in this year's second and third quarters are masking the progress we're making on improving ROE by nearly 2 percentage points. However, we remain committed to returning to a double-digit ROE.

Turning to segment results, the P&C combined ratio for the quarter was 110.1%, which included 19.1 points of catastrophe losses. As Marita mentioned, the underlying strength of the business continues to trend positively. The underlying auto loss ratio improved 3.1 points for the quarter and 1.9 points on year-to-date basis.

In Property, the underlying loss ratio increased 1.7 points for the quarter and 1.8 points year-to-date on higher non-cat weather losses, as some of our peers are also reporting. These included some losses in close proximity to the quarter's PCS declared catastrophes, but outside of the events' boundaries. Accordingly, we now expect our Property underlying loss ratio to end the year slightly elevated over last year's result.

Net written premiums for the quarter and the nine months increased 3%, largely on rate actions. Also, policyholder retention remained steady at 82.5% for auto and 87.9% for Property.

Before moving on to Retirement, I want to comment on Hurricane Michael. While Property underwriting initiatives have eliminated or reduced our coastal exposure, especially in Florida, we are estimating about $5 million in inland customer losses from the event, with many of those in North Carolina. Our full-year catastrophe load guidance of about 11 percentage points anticipates these losses, as well as the potential for about an additional $2.5 million from other catastrophe events.

In Retirement, sales were up 18% for the quarter due to increases in fee-based product sales, and assets under management were up 7% year-over-year. Net income, excluding DAC unlocking of $11.9 million for the third quarter, decreased about 10% from $13.2 million in the prior-year period. Higher net investment income partially offset an increase in expenses, primarily related to investments in our long-term retirement infrastructure. For the first nine months of the year, net income, excluding DAC unlocking of $37.7 million, increased a little over 2% from $36.9 million last year.

Annuity persistency remained strong at roughly 95%. The annualized net interest spread on fixed annuity assets under management was 182 basis points in the quarter, benefiting from higher-than-expected prepayment activity. We expect this spread to decline in the fourth quarter and into 2019 and are, therefore, tightening our 2018 full-year guidance for Retirement net income, excluding DAC unlocking, to $49 million to $50 million.

In the Life segment, third quarter net income was $5.3 million, a 10% increase over prior year, due to the lower federal tax rate. For the nine months, net income of $15 million increased about 5% over prior year. Life sales increased by 66% for the quarter from $3.2 million to $5.3 million. Year-to-date, sales were up roughly 30%. We expect to achieve a double-digit sales increase for the full-year, but expect the rate to start to slow as last year's fourth quarter was our strongest sales quarter in recent history.

We are also raising our full-year guidance for Life net income from the previous range of $16 million to $18 million, to $18 to $19 million. Net investment income increased 7% over prior-year quarter and 5% for the first nine months of year, as we experienced a significantly higher level of prepayment activity compared to the prior year. We also experienced favorable returns from alternative investments in the P&C portfolio during the quarter. While the recent increases in interest rates have resulted in an average new money yield of over 4%, we continue to expect spread compression as the total portfolio yield remains slightly over 5%.

The recent rate increases have also led to lower unrealized gains on our fixed income portfolio, the majority of which supports our long duration life insurance liabilities, while interest rate-driven fluctuation and unrealized gains affected reported book value, they have little or no impact on our view of this long duration portfolio. Book value, excluding unrealized gains, is up 7% from a year ago. We remain cautious on the overall economic outlook and remain conservative with portfolio allocations, given we are late in the credit cycle.

Turning to the BCG transaction, we have signed a definitive agreement to purchase Benefit Consultants Group, a privately held retirement plan administrator and record keeper, for $25 million in cash. We expect the deal to close in the first half of 2019 subject to regulatory approvals, including FINRA. Our capital position remains strong and we have the balance sheet flexibility to continue to explore organic or inorganic strategic opportunities to accelerate profitable growth and improve ROE.

Our capital management strategy is focused on the most accretive uses of our capital. This includes growth when business is at or above our ROE targets, returning a significant portion of annual earnings back to shareholders via compelling dividend, and also opportunistic share buybacks given overall market conditions. In fact, as a result of the market dislocation during October, we deployed $5 million of excess capital to repurchase about 127,000 shares at an average price of $39.41. That leaves $22.8 million on our existing repurchase authorization.

To close, although somewhat obscured by weather, we continue to make solid progress toward achieving our strategic objectives. At the same time, the targeted investments we're making to improve our capabilities will allow us to better serve the entire education market, both individual educator and school district customers. We believe this approach will not only improve our customer experience, but also accelerate profitable growth in the coming years.

Thanks, and now I'll turn the call over to Heather to start the Q&A.

Heather J. Wietzel

Vice President-Investor Relations, Horace Mann Educators Corp.

Great. Jerry, if you can ask people to queue for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] The first question is from Christopher Campbell, KBW. Please go ahead, sir.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yes. Hi. Good morning.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Good morning, Chris.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I guess, my first question is, like, P&C, as we're getting closer to year-end, how are you starting to think about 2019 core loss ratio improvement?

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.

A

Hey, Chris, it's Bill. So, as far as auto, we committed to 2 points to 2.5 points this year, with a total of 5 points over the next two years. So, as you can see, this year, we're at 1.9 points. So, on the path to 2.5 points and the remainder of that 5 points will be seen in 2019. As far as Property, we continue to take rate. I think you'll see a more active rate environment from our competition. We've been pretty stable from a maintenance perspective, taking 3% to 4%. We're looking at our ITV initiatives and expect some improvement in the underlying book. We haven't gone through our planning process yet.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, got it. And just, I guess, dovetailing on that with the Property rate, so you've kind of been experiencing this higher non-cat weather, how is that factoring into your 2019 rate plan and would there be upside in terms of what you're thinking beyond just the maintenance 3% to 4% rates, maybe dialing that up a little bit more?

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.

A

Yeah. There could be another 1 point or 2 point in there. So, non-cat weather goes right into our actuarial indications that we filed with the state. So, I'd expect to see slightly higher indications as we go into 2019.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yeah, Chris, and the one thing I've – I would add and I think you've seen this in the industry commentary, this type of weather over last year and this year, the enormity of both the number of events and the severity of events has the whole market thinking about rates, especially in specific geographic locations that are more subject to these type of events, as well as coverages.

I mean, when you think about the homeowners market specifically, we have two years now of numbers that are much higher than either the 5-year or the 10-year trend. And as Bill said, one of the benefits of a short tail line is, these things get added in, and this too shall pass. But I will tell you, with these kind of numbers, we all are thinking very specifically about specific locations, as well as partnerships with reinsurers and the structures that those reinsurance programs might take.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Well, that's very helpful. And then, just one last one, the BCG deal that put some excess capital to work in the Retirement business, and Bret had mentioned, we're kind of looking at other opportunities. So, what other opportunities are you seeing out there for your excess capital in perhaps like the P&C side?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yeah, it would be totally inappropriate for me to talk about specifics, but what I would say is, from the very beginning, when we talked about any M&A or how to use the excess capital, we always talked about what the two – we talked about the two critical components of capital deployment that I talked about in my script. The first one being that it has to make sense financially, this particular transaction obviously did, and that will come to be and we will see that over the next three to five years.

The second is, it has to advance that PDI strategy for profitable growth that we've been talking about over the last four years. And in this case, this transaction, as we said, helped the P, the D and the I. It helped the P from a plan design and admin capability perspective. It helped the D by bringing, as we said, a well-respected established network of distributors already embedded in BCG, and it improved the infrastructure a lot by bringing an ISO 9001 certified platform and there's not a lot of those out there. So, the capability of doing this well is already embedded in the organization and it also helps us learn from those who worked hard to get that platform certification.

So, BCG obviously met all those criteria when we talked about our strategy for capital deployment. So, I take that same approach when we look at other opportunities out there. And to me, in the educator space and looking at hunks and chunks of educator business, we're always going to look for those things that either bring a product capability, enhance our distribution and get more people in the school districts or improve our infrastructure, and that's how we think about that capital deployment.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. And, I guess, just one final numbers question on the BCG deal. So, that's – I'm assuming it's a fee business and they're not underwriting directly. So, I guess, like, what would be, like, a multiple on that, like, EV to EBITDA or something like that?

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.

A

So, as you can tell, everybody is looking. I think Bret's going to jump in here, Bret Conklin?

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

Yeah. I mean, I guess, in general terms, probably a 10 times to 12 times earnings for this type of fee business, Chris.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Okay, great. All right. Thanks for all the answers. Best of luck in rest of the year.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Thanks, Chris.

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

Thanks, Chris.

Operator: We have a question from Bob Glasspiegel, Janney Montgomery Scott. Please go ahead, sir.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Good morning, Horace Mann.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Hey, Bob.

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

Good morning.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

In the good news category, your pre-tax yield, as I calculated, in P&C was the highest in several quarters, so anything funny in the numbers, what is your new money rate sort of compared to embedded yield in P&C alone?

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

So, the new – Bob, this is Bret. The new money rates for really both the quarter and year-to-date are sitting at 4%. With respect to the P&C segment, we did benefit from approximately $2 million of alternative investment income, so that definitely helped out the P&C segment for the quarter, and which flies into the full-year as well.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

So, your new money is 4%, what's your – that's pretty close to where your embedded yields, or at least your reported yields have been for the last four quarters. So...

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

I think we're just slightly over 5%, about 5.10%.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Right, right.

Ryan E. Greenier
Vice President, Corporate Finance, Horace Mann Educators Corp.

A

Yeah. Bob, it's Ryan. The new money yield on the combined portfolio was 5.19%. And as you know, we tend to invest P&C, and – I'm sorry, the portfolio yield was 5.19%. We invest P&C and Life to a similar duration target. So, there's not a huge difference in yield between the two portfolios.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

So, the embedded – so, the portfolio yield should rise if your embedded yield is around 4%, new money is 5%?

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.

A

It's actually flipped.

Ryan E. Greenier
Vice President, Corporate Finance, Horace Mann Educators Corp.

A

5.19%, Bob, is the portfolio yield, new money has been running around 4%.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

For P&C, I calculate a lower yield. I'll hit Heather offline with my calculations. But if you divide investment returns into average portfolio, you get a lower yield for P&C, but we'll follow that offline.

On your homeowners business, the underlying – you're getting the 2 point improvement in auto, but you're getting a 2% plus decline in homeowners. And in the third quarter, underlying ex-cats was actually close to 3 points, whereas non-cat weather factor or is just rates not keeping up with loss cost growth, what's going on in homeowners?

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.

A

Yeah. Bob, just to reset where we've been with homeowners, despite similar catastrophe levels, as we'll see this year, in 2016 we ran a 90 combined and 2017 we ran a 97 combined, seeing about 2 points of deterioration in underlying. So, give or take one of about 100 this year, which is still very strong considering the record catastrophes that we're seeing. But the underlying deterioration in Property in this quarter, it comes down really to one loss. There was a fire loss in California that wasn't declared by PCS. It was the Alpine fire in Southern California. 50 homes were destroyed or damaged, ISO didn't declare, so that goes into our underlying numbers and that just shows the volatility on a small book of business. $1 million loss is about 1.7 points. So, we'll see stuff like that once in a while, and like I told Chris, we'll just react to it with a rate and underwriting.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.
A

I think you're right, Bill, and we've talked about our definition of cats and how we calculate cats. And in any given year, in any given quarter, that can hurt us from a bucketing perspective. But we monitor fire, we monitor water, we monitor all the perils. And from an underlying perspective, this is an extremely profitable book and this is a quarter where near cat losses got coded in the underlying, those non-cat weather losses. And it is clearly just a bucket issue, there's nothing about the underlying profitability of this book that has changed or deteriorated.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC
Q

Okay. So, we take that fire loss out and we just look at the nine-month 2 point deterioration, do you feel like your rates are keeping up with underlying loss cost growth? Some are saying there's been an uptick in replacement costs and wage, which you need to pay people to do stuff and, I mean, some of your competitors are saying margins are deteriorating because of what's going on in the loss side, you're not seeing it to the same extent?

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

No, no, but clearly, the trend 90 to 97 to 100, our goal was not to run this business at 100, our goal is in the low 90s, but it's not just a rate conversation. Marita talked about reinsurance initiatives that we'll explore, we're looking at our underwriting guidelines, we look at our use of third-party carriers. So, yes, there is margin expansion needed in this line. But I will say, when you look at us compared to the competition, we have been pretty consistent with the 3% to 4%, as I told Chris, that might be a little bit more this year. But a lot of competitors were focused on auto, but we're focused on both auto and Property.

So, I think we're in a good position to turn the corner. The missing piece here is really where catastrophes come out and we'll find that little bit more conservative next year given the recent trends.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC
Q

But I'm asking sort of a more near-term question, you're not seeing a bump in – a surprising bump in loss cost – in underlying loss cost growth...

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

If I unpack it for you, it's really – frequency is actually down we're seeing higher severities, and that's two pieces. The labor and materials are coming up like they are for all lines of business and the weather is just more severe. So, the wildfires are stronger, the hail is bigger, the wind is stronger and that just causes severity to creep a little bit. But again, that gets right into our pricing indications and we'll react with more rate and other activities.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.
A

And we've always managed the book very profitably and this will be no exception, we'll make the adjustments...

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

Yeah. From a pure underwriting perspective, like Marita said, well, we look at everything by peril. We don't see in this book a lot of non-wildfire fires. I don't see a lot of liability issues, the kind of things that you would see in a poorly underwritten book of business.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC
Q

Okay.

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

It mostly comes down to weather, but non-cat and cat.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC
Q

The message is, don't worry about homeowners...

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

We're on it.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.
A

That's correct.

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

That's correct.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC
Q

Okay, cool. And last question, you said the buyback was in Q4, I didn't see that noted in the release.

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.
A

Yeah. So, it was in my prepared remarks, Bob.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC
Q

Great.

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.
A

That was in October, the month of October.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Then, can you give me the – it was 127,000?

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

127,000 shares at $39.41.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Okay. So, you're a buyer at these prices is what you are saying?

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

Yes.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Thank you very much.

Bret A. Conklin
Executive Vice President and Chief Financial Officer, Horace Mann Educators Corp.

A

Sure.

Operator: [Operator Instructions] The next question is from Gary Ransom, Dowling & Partners. Please go ahead, sir.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

Good morning. I wanted to follow-up on the homeowners trend discussion with the auto trend discussion and I was wondering if you could give us an update on what you're seeing in frequency and severity in the auto line?

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.

A

Sure. So, we're seeing earned premium increases of about 7.5% to 8%. We're seeing the 2 points of underlying improvements. So, it can imply 5% to 5.5% of loss trends in there. If I unpack that number, as we talked about last quarter, the biggest variance of plan is in bodily injury and there's just a lot of what I'll characterize as kind of social inflationary factors, more attorney represented claimants, higher jury awards, things like that. But the other coverage is the property coverages, the physical damage coverages tend to be more in line with inflationary experience.

From a frequency perspective, I'm still calling it flat. But when I really look at the number of accidents our insureds are in, so when our insured hit something else, that number is down slightly. But again, when you look at frequencies, some of that can be masked by claims initiatives. Driven by, as an example, bodily injury, early recognition can cause an increase in severity in the short-term as you bring more claims into the cycle and identify them earlier.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

And in your BI severity trend, Bill, I would say nothing new. It's a continuing trend that we've spoken about before and we see and we've taken rate to address.

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.

A

Exactly. Nothing new in this quarter, it's a continuation of the trend we identified, I think we spoke about that in first quarter as well as second quarter.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yeah.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

Okay. That's helpful. One other question, I just wanted to ask about the acquisition again. I'm not sure I completely understood what is actually happening inside selling the school district and getting your people in there that this acquisition assists and helps. I mean, I realize you're using third-party administrators before, but how does this – can you just give a little more detail about what is – how this really helps you get inside the school districts?

Bret L. Benham
Executive Vice President, Life and Retirement, Horace Mann Educators Corp.

A

Hey, Gary. This is Bret Benham, I'll try. BCG has been around for about 50 years and very well known in the business and has a very high degree of technology savvy and very, experienced management team. What we're doing essentially is getting their technology and capabilities. We've been using a vendor partner for the last several years and they've doing a good job for us, but what we're getting here is a substantial upgrade both in terms of talent, but in terms of technology.

One of the things that they've touted is that – and we've verified is that they've been certified for ISO 9001 for the last seven years which personally I haven't even seen before in the industry. So, a lot of benefits here in terms of capabilities, streamlining our processes, being able to get ahead of the game, Marita emphasized it back on PDI. This is exactly what that is, in addition to some distribution capabilities.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

The one thing I would add to this and Chris's original question on this issue, when I think about our business development efforts and I think about this acquisition, it's going to allow us to learn more about educators who aren't our current customers. We're going to learn more about the benefit capabilities that they want that we don't currently offer. So, it is another learning tool as we fill out our market maps for both our individual customers as well as the school districts that employ those educators, what are their needs, what do they buy, and how do we fill out that product offering, how do we increase the distributors that are in the school and how do we improve the ease of doing business as they try to protect what they have and also build towards retirement. It's another piece, if you will, of filling out that puzzle. All in the affinity market that we know extremely well, but we want to know better.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

And so, as this goes forward, we can measure success by seeing Retirement sales being stronger than they otherwise would have been?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yes.

Bret L. Benham
Executive Vice President, Life and Retirement, Horace Mann Educators Corp.

A

Yes.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yes, yes.

Bret L. Benham
Executive Vice President, Life and Retirement, Horace Mann Educators Corp.

A

Yes.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

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All right. Thank you very much then.

Operator: There are no further questions at this time. I'd like to turn the floor back over to Heather Wietzel for closing comments. Ms. Wietzel?

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.

Thank you, and thank you, everyone, for joining us today. We look forward to talking with people as the quarter progresses. We will be traveling some. And if you do have any follow-up questions, feel free to reach out, I'll be available today and as management. Thank you.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a good day.