Company Name: Horace Mann Educators
Company Ticker: HMN US
Date: 2016-07-28
Event Description: Q2 2016 Earnings Call

Market Cap: 1,428.63
Current PX: 35.57
YTD Change($): +2.39
YTD Change(%): +7.203

Bloomberg Estimates - EPS
Current Quarter: 0.520
Current Year: 1.950
Bloomberg Estimates - Sales
Current Quarter: 276.000
Current Year: 1110.000

Q2 2016 Earnings Call

Company Participants

- Ryan E. Greenier
- Marita Zuraitis
- Dwayne D. Hallman
- William J. Caldwell
- Matthew P. Sharpe

Other Participants

- Robert Glasspiegel
- Meyer Shields
- John Helfst

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to Horace Mann Second Quarter 2016 Earnings Call. At this time, all participants are in a listen-only mode. A 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 turn the conference over to your host, Mr. Ryan Greenier, Vice President, Investor Relations. Thank you. You may begin.

Ryan E. Greenier

Thank you, Rob, and good morning, everyone. Welcome to Horace Mann's discussion of our second quarter results. Yesterday, we issued our earnings release and investor financial supplement. Copies are available on the Investor page of our website. Our speakers' today are Marita Zuraitis, President and Chief Executive Officer; and Dwayne Hallman, Executive Vice President and Chief Financial Officer. Bill Caldwell, Executive Vice President of Property & Casualty; and Matt Sharpe, Executive Vice President of Annuity & Life, are also available for the question-and-answer session that follows our prepared comments.

Before turning it over to Marita, I'd like 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 statement include risks and uncertainties and is not a guarantee 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 may use some non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are available in the supplemental sections of our press release.

And now, I'll turn the call over to Marita Zuraitis.

Marita Zuraitis

Thanks, Ryan, and good morning, everyone, and welcome to our call. After yesterday's market closed, Horace Mann reported second quarter operating income of $0.25 per share. We, like the rest of the industry, experienced an elevated level of losses related to severe convective storm activity. Unfortunately, early arrival of spring storms in the first quarter continued well into the second quarter. And, on a year-to-date basis, catastrophe losses were significantly higher than our historical averages.

In addition to elevated catastrophes, the adverse weather contributed to an increase in auto frequency, particularly in comprehensive and collision coverages. And we continue to see an elevated level of auto physical damage severities and are working diligently to accelerate our rate actions and response to these macro trends.

That said, we're encouraged by strong top-line momentum in all of our business lines, continued solid retention and persistency ratios. On a year-to-date basis, operating earnings were $0.87, $0.21 lower than prior year. Catastrophe losses were 2.4 points or $0.14 higher than the previous year. In addition, on an underlying basis, the combined ratio was 2.2 points higher than the prior year, which reflected elevated loss trends in auto, offset by 4 points improvement in property. Annuity profitability continues to be solid, despite the challenging interest rate environment and life earnings are tracking better than expectations, largely due to lower mortality costs.

Within P&C, underlying property continues to produce very favorable results, which reflects improved underwriting, better pricing segmentation, and continued focus on getting appropriate rate increases and lower reinsurance costs. Auto results were impacted by another quarter of adverse weather. Not only did we see 4.5 points of catastrophe losses in auto within the quarter, but the impact of wet roads and widespread hail resulted in increases in physical damage frequency in the quarter. Comprehensive and collision claim counts were up. And we, like the industry, continue to battle the trend of distracted driving, higher repair costs and more miles driven.

We responded early beginning in the second quarter of 2015 to emerging trends with rate actions. Our rate plan at the beginning of this year targeted mid single-digit increases in auto. But given the recent trends, we are responding more aggressively with additional rate actions, tighter underwriting and continued enhancements in our claim practices, all with an eye to improve profitability over time.

We remain laser-focused on ensuring that P&C growth is profitable. Auto sales grew 10% compared to prior year and property was up modestly. Importantly, the growth continues to be educator business with a preferred underwriting profile. Retention remains strong at 84% in auto and 88% in property. In total, for P&C, we clearly are facing macro headwinds related to weather and auto loss trends.

The increase in auto frequency we experienced in the quarter was clearly out of pattern. And, as a result, we do not expect to see improvement in underlying auto loss ratios in the full year of 2016. We're aggressively pursuing rate actions and are already ahead of our original rate target of mid single-digit increases. We're pushing harder and now expect to achieve another point or so of rate increases in auto this year. And we have already begun to increase our pricing assumptions for 2017.

Given the volatile weather patterns, we, like many in the industry, will remain disciplined in our approach to maintain profitability in Property, even with strong year-to-date results. We continue to target mid single-digit rate increases. And when combined with tighter underwriting and claim initiatives and lower reinsurance costs, we expect margin expansion in property to somewhat offset the macro pressures we're seeing in auto.

In total, for our combined P&C book, we expect the underlying combined ratio to be relatively flat compared to prior year. And we continue to respond nimbly with rate, underwriting, and claim initiatives across both auto and property to improve results. Our approach to disciplined underwriting, improved claim practices, and rate in excess of loss cost trends has not changed. But given the macro industry trends, our actions will take longer to fully impact the results.

Our annuity business had a strong quarter. Operating earnings, excluding DAC unlocking increased by 12%, as a result of investment portfolio performance. Sales remain solid at over $80 million. While the interest rate environment remains challenging, our agents continue to successfully sell our products as they're designed to meet the unique retirement savings needs of educators.

We continued to prepare for the implementation of the Department of Labor fiduciary regulations and are very thoughtful in our approach. Our captive distribution model is well suited to deliver tailored advice. And our multi-line product offerings uniquely position us to help educators protect what they have today and secure their long-term financial futures.

We are working on harmonizing our agency compensation model, making some product refinements and improving our infrastructure and online capabilities to deliver a consistent experience across all product types, including 403(b) and IRA business. Given our leadership position in the educator space and our specialized knowledge of their retirement programs and benefits, we're well-positioned to capitalize on any market disruption. We're being proactive to ensure we have the right solutions to support school districts, as the retirement landscape continues to evolve.

For example, in many cases, educators and other school employees need to increase their share of voluntary retirement savings to compensate for changes in district provided pension benefits in order to adequately prepare for retirement. Given our dedicated focus on educators and deep knowledge of state retirement benefits, we're well positioned to be a strategic partner to those school districts looking for solutions to help drive higher voluntary plan participation.

We offer a multi-faceted approach with online tools and enrollment, financial advice workshops and planning sessions, to help educators' find dollars that can be redirected to their retirement savings as well as one-on-one guidance from our captive agents. This holistic approach is core to our unique value proposition and is a key differentiator for us in the marketplace.

In addition, we can continue to invest in the institutional sales team and are pleased to announce that Bruce Corcoran has joined Horace Mann to lead these efforts as Head of our Institutional Retirement Solutions. Bruce brings more than 20 years of institutional retirement plan experience with deep knowledge of the K-12 educator space.

He most recently served as Managing Director at TIAA and was previously a Senior Vice President at VALIC. Bruce has hit the ground running and he is helping to further improve our institutional sales and support processes as well as ensuring, we have the right products, distribution and infrastructure that allow us to solve for the issue school districts face around employee retirement readiness.

Turning to the life segment, we also had a strong quarter, as earnings benefited from lower-than-expected mortality costs. Sales of our life products continue to grow. And we are very pleased with the continued strong sales momentum of our new Indexed Universal Life product. Since the launch, over 200 of our agents have sold this new product. And we expect that number to continue to grow. On a year-to-date basis, life sales of $7.1 million were nearly 50% higher than the prior year. We are aggressively focused on growing this business, as mortality-based earnings are an important element to diversify our earning streams that exists in our multi-business line model.

We continue to refine our products and program offerings to ensure we are helping educators solve the financial issues they face, while also building and improving distribution options to allow educators to begin their customer journey with us, through their desired channels. These complementary channels are key to reaching new types of educators. And we are pleased to see P&C sales continue to grow in our direct sales channel within our customer contact center

And during the quarter, we enhanced our 403(b) 7 enrollment capabilities to provide easy, online enrollment and end-to-end account capabilities. But we know that while we may attract a new educator household via a direct channel, as their needs become more complex, we know they will seek the advice of a trusted advisor. And we're pleased to see solid productivity growth in our agency force.

In addition, we continue to invest in our infrastructure to improve the customer and agent experience, as well as widen the pipes to efficiently support greater volumes of new business. I'm confident that we're making the right investments in our business to accelerate profitable growth. And I'm encouraged by top-line sales momentum across all three of our business lines.

Thanks. And, with that, I'll turn the call over to Dwayne.

Dwayne D. Hallman

Thanks, Marita, and good morning. Second quarter operating income of $0.25 per diluted share was $0.11 lower than the prior year and nearly all of the difference reflected higher catastrophe losses. As Marita mentioned, we saw an increase in auto frequency trends in the quarter and, as a result, selected a higher current accident quarter loss pick, as well as strengthened our first quarter current accident year reserves. This was somewhat offset by strong annuity and life results, as net investment income benefited from prepayment activity. And we experienced lower mortality costs than the life segment.

The P&C segment had an after-tax loss of $4.5 million compared with $3.3 million of earnings in the prior year period. On a reported basis, the quarter's combined ratio increased nearly eight points to 111.6%. More than three points of the increase was attributable to higher catastrophes losses. We also experienced 2.4 points of current accident year reserve strengthening related to auto losses.

The strengthening was primarily related to an increase in reported claim counts, generated from the adverse weather that occurred late in the first quarter. On a develop basis, the underlying auto results for the first quarter and second quarter were very similar, with the underlying combined ratio in both quarters around 104%

The remainder of the increase in the second quarter combined ratio was due to lower prior-year reserve releases, as well as the impact of an unprecedented level of auto held damage in both cat and non-cat results. On a year-to-date basis, the underlying auto combined ratio was 103.5%, nearly five points above the prior year. We are aggressively pursuing rate actions and are already ahead of our original rate target of mid-single-digit increases. We're pushing harder and now expect to achieve another point or so of rate increases in auto this year.

Importantly, we're targeting underperforming geographies and underwriting segments with the largest rate increases. In addition, given the volatility in weather, combined with higher frequency and severity trends, the industry as a whole needs additional pricing actions for rate adequacy. We are not expecting significant retentive impacts to our policies in force. We understand the price elasticity of our customers very well. And we believe we can secure additional rate without materially impacting our strong retention ratios.

The current macro trends have made it challenging to achieve our original 2016 goal of 1 point to 1.5 points of margin expansion in auto by the second half of the year. And now we expect full year results to be slightly below the prior year results. That said, underlying property results have been performing better than expected. And we now expect three points to four points of margin improvement in that line. In total, we expect the all-in P&C combined ratio to be approximately 100 points on a full year basis.

From a capacity perspective, our original guidance estimate included 6.5 points of capacity losses. And based on results for the first half of the year, we surpassed that on an annualized basis. This was the most significant contributor to the revised guidance range. As a result, our new guidance range of $1.80 to $2 per diluted share reflects a 9.5 point cat load. This reflects historical average catastrophe losses in the third quarter and fourth quarter and very similar to the second half of last year.

For total P&C, through the first six months, we've reported 1.2 points of favorable prior year reserve development compared to 2.4 points in the prior year. Property continues to develop favorably. But given the elevated severity trends we're experiencing in auto, we continue to be cautious with ultimate loss estimates and, importantly, did not release any prior year reserves in auto. The expense ratio for the quarter was 27.2%, modestly higher than the prior year. On a six-month basis, the expense ratio of 27.3% is in line with our expectations for the full year expense ratio.

P&C written premiums increased 5% to $159.8 million for the quarter, largely on rate actions and to a lesser extent higher new business production. For the quarter, auto sales were up 10% compared to the prior year and property sales increased modestly. In the annuity segment, operating income, excluding DAC unlocking, was $13.3 million, $1.4 million higher than the prior year quarter. The increase was driven by an elevated level of prepayment activity in the fixed maturity portfolio.

Partially offsetting this increase was more than $1 million in the higher operating expenses, which reflects non-capitalized infrastructure investments. We expect expenses to continue to remain elevated in the second half of the year, as we continue to invest in our infrastructure to modernize our systems and support the new DOL regulations.

Annuity assets under management grew 3% to $6.1 billion, driven by persistently remaining above 94% and continued solid sales and deposits. The annualized net interest spread of 185 basis points benefited by approximately six points of additional income related to security prepayments. And we continue to expect spread to slowly decline in the second half of the year.

In the life segment, operating earnings, excluding DAC unlocking, improved nearly $1 million to $4.5 million on lower mortality cost. Consolidated net investment income increased to $91.1 million for the quarter due to higher asset balances in annuity segment and continued strong investment portfolio performance. Despite the challenging interest rate environment, we continued to be disciplined in putting money to work at attractive risk-adjusted returns and were able to achieve a 4% reinvestment rate in the quarter.

Overall, on a reported basis, book value per share was $35.31 and included a net unrealized gain position of $584 million at the end of the quarter. Book value excluding net unrealized gains on investments continues to grow, ending the quarter at $27.10, a 3% increase compared to last June. The volatility in the equity markets resulted in a number of opportunities to repurchase shares in the quarter. We repurchased 227,000 shares during the quarter at an average price of $31.

On a year-to-date basis, we've repurchased over 700,000 shares returning over $21 million in capital to shareholders. We have nearly $30 million remaining on our current share repurchase authorization. And we'll continue to capitalize on periods of market volatility. On a year-to-date basis, overall operating earnings were $0.87 per diluted share, $0.21 below the prior year. While we cannot control the weather, we can control underwriting, rate setting, and claim processing efficiencies.

We're working diligently to improve auto margins by building upon the success we're seeing in our underlying property results. And through the first six months, annuity and life earnings are performing well compared to our original expectations. And, importantly, we're seeing good sales momentum in all three of our business lines and are on the right track to accelerate our growth momentum and to attract more educators through our unique value proposition.

Now I'll turn the call over to Ryan for the Q&A.

Ryan E. Greenier

Thanks, Dwayne. Rob, please open up the line to begin the Q&A portion of the call.

Q&A

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Bob Glasspiegel with Janney Montgomery Scott. Please proceed with your question.

<Q - Robert Glasspiegel>: Good morning, Horace Mann.

<A - Marita Zuraitis>: Good morning, Bob.

<Q - Robert Glasspiegel>: How are you guys doing today?

<A - Marita Zuraitis>: Good.

<A - Dwayne D. Hallman>: Good.

<**Q - Robert Glasspiegel**>: I'm with you 95% of the way, Marita and Dwayne, on your auto presentation. But there's one piece that I just don't quite put together in the total package. Clearly, severity, as you mentioned, has been an issue in property – in auto, excuse me. And frequency ticked up, which may be weather, maybe not. But because of the combination, you're increasing pricing further. And you indicated that you've got nailed by sort of late weather in the first quarter. But my confusion is you're growing sales 10%. And it seemed like you were saying that's a good thing that you have good momentum in sales in the voluntary auto. In retrospect, were you're growing a little too fast? Or why should we not be concerned that the top-line has been accelerating in a period where there's been some left field surprises?

<**A - William J. Caldwell**>: Hey, Bob, it's Bill Caldwell.

<**Q - Robert Glasspiegel**>: Hey, Bill.

<**A - William J. Caldwell**>: Good question. We've been thoughtful about the growth, with the rate going in through due to the macro trends in the industry, it does create an opportunity for us. There's more shopping activity and the business we write is in more preferred states with our preferred segmentation, with a good agency for us, and a preferred regulatory environment. So, we are very comfortable with the new business that we're writing and the trajectory that we're on as far as new business is concerned.

<**A - Marita Zuraitis**>: Yeah. I mean, Bob, these are adequately priced preferred educator customers. And we watch the profile of the incoming pretty tightly. We like the mix of the states that it's coming from. We like the percentage of teachers that we're writing. We like the percentage of electronically transferred funds and the way the premium is paid, a lot of it through payroll deduction. This is – we're – the type of new business that we set this place up for and we feel good about the profile of the business that's coming in. I don't necessarily equate that with a particularly difficult time period of whether, late hailstorms in the first quarter, early hailstorms in the second quarter, awful lot of frequency activity, looking at it coming from comprehension and collision. I don't necessarily put the two together, but it's a question we ask ourselves a lot. And I do separate them and that the incoming new business has a pretty good profile associated with it.

<**A - William J. Caldwell**>: And an important thing, Bob, to remember too is that it's highly cross-sold. And as you can see in our underlying property results, very strong. So, when we look at the whole household it's important that we continue to combine those products.

<**Q - Robert Glasspiegel**>: Okay. So clearly you're seeing no adverse selection in new business. You've been unlucky on whether, which I certainly can see. And we can keep a foot on the accelerator and raise more prices because of our good business model.

<**A - Marita Zuraitis**>: Yeah. And from the beginning, Bob, you know that we've never said the word growth without the word profitable in front of it. And I think that's absolutely right.

<**A - William J. Caldwell**>: And, Bob, if you think about the math, we're excited about the growth, but 500,000 auto policies is worth of 10% all your businesses, about 5,000 policies. So when you look at the big scheme of things, the adverse results can be driven by the increase in growth. That's really the macro underlying trends that are kind of raising all boats.

<**Q - Robert Glasspiegel**>: Well, it's been a while since you've been able to achieve good year-over-year 12-month annualized premium. So I hear your answer and I hope the interpretation is correct. Marita, I think, you gave a little bit of guidance and 100 basis points change in underlying for the year. Can you repeat the sentence that that was referring to, the 100 basis points?

<**A - Dwayne D. Hallman**>: Bob, this is Dwayne. On the underlying year-over-year, it basically will be flat. I think in my script, I believe I said for the year, probably the total P&C will be about 100 combined.

<**Q - Robert Glasspiegel**>: 100 combined for total P&C, I got it. Thank you.

<**A - Dwayne D. Hallman**>: For the full year, yes.

Operator

Our next question comes from Meyer Shields with KBW Financial. Please proceed with your question.

<Q - Meyer Shields>: Thanks. Good morning. If I can just follow-up on Bob's question. Is there any loss ratio impact just on the fact that there is more new business in terms of the policies in force, not disputing and it makes sense over the long-term? But in the short-term is that pressuring loss ratio?

<A - William J. Caldwell>: Yeah, I mean, certainly as business tenures the loss ratio performance better, so it is always what we call the new business penalty. But again the numbers are small and I wouldn't say that relativity – the relativity of our new business loss ratio to our renewal business is really changing. It's really that ultimate rise our boats, underlying trends are pushing up frequency on the entire book. So, of course, we continues to monitor that. And as the book ages, it does have a better loss ratio, but I wouldn't say that's the key driver of our adverse loss ratios?

<A - Marita Zuraitis>: Yeah. I mean there is two things that I'd echo there. The first one was the comment that Bill made to Bob's question. In that, new business is still a relatively small percentage of the overall books. So I think we have to keep that in mind. And then secondly on the new business penalty, I think, we have to remind ourselves that this is a homogenous niche of educator customers. And it is what we write. It is what we know. So, new business penalty in a generalist market with a widespread of customer profiles is a little bit different than a new business penalty on customers that you know and know well and have written for 70 years.

So, although there is a new business penalty as it works through the tenure of that policy, I believe our new business penalty is probably narrower, because of our niche, because it tends to run three points to five points better than the industry on an underline basis. And it has a better tighter risk profile that we've talked about before. So, although it's there, I think, our new business penalty equation is probably a little narrower than most.

<Q - Meyer Shields>: No. That makes a lot of sense. I appreciate the clarification. Marita, you talked about improvements in the claims processing. And I was hoping you could elaborate on that a little.

<A - Marita Zuraitis>: Yeah. I'll let Bill give you the specifics since he's sitting out on the edge of his chair, chomping at the bit...

<A - William J. Caldwell>: I've been waiting for this. No in terms of claims, we made a lot of it. And this is always ongoing things, right? You're always trying to turn the dial, make improvements, claims efficiencies, operational excellence. We made some investments in key talent. We really have been focused on cycle time, which really drives down that severity as well as improved customer experience. And we're really been trying to limit our use of independent adjusters, handle more claims internally.

We instituted a field program, where we have our adjusters in the field. Obviously where the economics makes sense, we have enough scale, but we find the severity on those physical damage claims is significantly lower than if we send them out to an independent adjuster. So, we've been making a lot of progress with plans and we continue to reap the benefits in our severities.

<Q - Meyer Shields>: Okay.

<A - Marita Zuraitis>: Yes. I completely agree. I mean I do think it is a tightening of the basic blocking and tackling as well. And I am pleased with the progress that we're making there in claim and the people that we've attracted to not only lead, but work in those efforts.

<Q - Meyer Shields>: Okay. One more bigger picture question, I guess. You mentioned the – or maybe it was Dwayne, I apologize, I don't remember – the competition harmonization in the annuities segment, is that going to change overall ratios? Or is that sort of expense neutral?

<A - Matthew P. Sharpe>: This is Matt, Meyer. The harmonization of the product lines is part of our implementation of the DOL. So as we move forward towards the April 1 implementation, harmonization simply means across the tax types, 403(b) and IRA, that we're going to have to harmonize the compensation, so that there is – so that our customer experience is equivalent regardless of which tax type they come in at.

<A - Marita Zuraitis>: And I think if you're talking about opportunities for disruption, our leadership in the 403(b) market effect that we have a captive proprietary distribution model. The fact that they are not just selling product now that they are advise providers. I think this all bodes very well that when we're in a particular marketplace of educators that we know well with this pivot, with the Department of Labor regulation changes, we're going to be well suited to be able to serve this very specific group of customers probably better than others that are trying to figure it out across a wide spectrum of potential clients.

<A - Matthew P. Sharpe>: And if your question was related to profitability, the profit profile on the business starting in April will be similar to the profit profile that we have in our current product. The feature sets will be slightly different, a little bit more advantageous to the consumer, but overall the return profile should be similar.

<Q - Meyer Shields>: Okay. Perfect. That's what I needed; thanks so much.

Operator

[Operator Instructions] Our first question comes from Meyer Shields with KBW Financial. Please proceed with your question.

<Q - Meyer Shields>: Thanks. If there's no one else, I'll just abuse your patience. Two small questions – one, the tax rate or the implicit tax rate in P&C was higher, which is good, I guess, in a loss-making quarter. But I was wondering – higher than we expected, I was hoping you could talk to that.

<A - Dwayne D. Hallman>: Sure. This is Dwayne. On the current quarter with the loss in P&C and the high allocation we have to tax-exempt munis, there was a so-called benefit, the higher tax rate related to the loss number. But if you look on a year-to-date basis, it's relatively, consistent with our expectations. But if you think about it from a full year basis, on the total company, our year-to-date effective tax rate was 26.9% I believe. And last year for the full year it was 27.3%. So, in total, the effective rate is running about flat. It's just unusual for the quarter given the P&C mix of the catastrophe losses, the auto results offset by the tax-exempt income.

<Q - Meyer Shields>: Okay. That makes sense. And you mentioned the prepayments as benefiting net investment income. And it seems to be true, really, I guess, across segments. Is that something that you think we should factor into modeling for the balance of the year?

<A - Dwayne D. Hallman>: That's a tough one. If I could guess the prepayment activity coming in, I would probably do it myself. But it is a bit lumpy. It's really – it's out of our hands now with the low interest rates continuing. Would I expect some prepayment activity to continue? I would. But to quantify it, that's a tough one.

<Q - Meyer Shields>: Okay. We'll do our best. Thank you.

Operator

[Operator Instructions] Our next question comes from John Helfst with Voya Financial. Please proceed with your question.

<Q - John Helfst>: Hey, guys. How critical is the auto line to selling property? Could you sell property without combining with the auto?

<A - William J. Caldwell>: Yeah, on occasions. But again we focus on the household. So, most of our property does come with auto and it's solving for the educators' needs -

<Q - John Helfst>: Right.

<A - William J. Caldwell>: Solution-based orientation. So we prefer to sell them together, but we will on occasions sell property policy without an auto policy. A good example is Massachusetts, kind of, a troubled marketplace where we sell property and use a third-party partner for auto.

<Q - John Helfst>: Is there any way they would consider outsourcing the automobile like use somebody else's balance sheet and just be a reseller of it? I mean, this is frustrating -

<A - Marita Zuraitis>: I'm not sure why we would do that, considering -

<Q - John Helfst>: Combined ratio of over 100 for four quarters, five quarters, in a row is frustrating.

<A - Marita Zuraitis>: Yeah. What I would say is that when you look at the macro industry trends, our auto line does tend to run, historically three points to five points better than the industry does in auto. It's a relatively short line. So as the industry all works to push rate and underwriting initiatives to close this gap, I think, on an absolute basis, auto will be as profitable as it historically has been. So, I don't look at auto as an unprofitable line. I look at it as part of our multi-line model to provide an answer to educators protecting, what they have in the short-term, which includes auto, property in both an umbrella and protecting what they want in the future which includes all of our life and retirement programs. And that multi-line model has worked extremely well for us in the past and I know it's going to work well for us in the future.

<Q - John Helfst>: Okay. How about in terms of reinsurance? Could you guys up the reinsurance? I think you told me you can't get reinsurance on non-name storms. But what about the larger policy like a blanket policy or excess coverage?

<A - Dwayne D. Hallman>: This is Dwayne Hallman. I'll talk about our reinsurance program a bit. We run a very, very strong program in effect from a catastrophe standpoint. We're buying at about a one in 375 year type event. Our attachment point is $25 million on the cap storms. The advantage we've had is given all of our risk management activity our declining costal policies and just aggressive activity over the last few years, as the reinsurance market prices have come down, we haven't had to take that opportunity to buy more coverage, as a lot of companies have been doing in order to try to get their one in X up to a more acceptable level. So, we've actually been able to take the savings and push it back in to our property line, make our products more competitive or invest in our infrastructure, et cetera.

Now to your question about alternative reinsurance structures, I'll use an aggregate as an example. I think you'll tend to find a lot of regional companies buying the aggregate. Given our national presence, aggregate covers are usually difficult to guess. If you're going to go into that arena, you'll usually need to buy it year-after-year and not try to guess it. So, at some point, it's just a swap of dollars on running someone else's balance sheet. And given the strength of our balance sheet and our P&C operations I don't need to pay someone else for their balance sheet. As far as one-off events, I'm not sure exactly what you're referring to unless you may be talking about a concentration of risk. But, once again, with our risk management activities, that's really not an issue for us.

And with our basically – except for some tenant policies, maybe one or two property policies left, when it comes to Florida, I really don't need to design a separate program just for Florida, because I'm basically not there anymore from a property perspective and, in fact, with that exit, eliminated our exposure to probably the worst reinsurer in the marketplace which is the Florida Hurricane Cat Fund. So, with our balance sheet, excess capital, our reinsurance structure, given our national presence, I think, we've got a great reinsurance program in place.

<Q - John Helfst>: Yeah. Just this second quarter Texas phenomenon is – how do – I'm just trying to think how you could reinsure or manage that.

<A - Dwayne D. Hallman>: I think, the way I would -

<Q - John Helfst>: You're not alone in it, but some other guys seems to do a better job.

<A - Dwayne D. Hallman>: Well, I'm not sure better job from a reinsurance perspective. I'm aware of some regional mutual type companies that have gone into the reinsurance program. In fact, some are already into their aggregate program and that's from a risk concentration component. If you look at our cat losses, obviously, it's a number of different storms. But if I was trying to buy coverage just in Texas for a storm, given my exposure, the rate online would be ridiculous. And if I were to purchase it and you saw the price, I think, you'd be asking the question the other way. Why on earth would you pay that kind of dollar for that coverage? So, it's a smoothing effect for a lot of companies trying to buy coverage just to flatten it out year-after-year-after-year. I think it's real expensive. And if you don't have the capital, I guess, that's the game you have to play. But, again, that's not us. We're very strong in that regards and we like our property book.

<A - Marita Zuraitis>: That's right.

<Q - John Helfst>: Thanks.

<A - Dwayne D. Hallman>: Thank you.

Operator

There are no further questions. At this time, I'd like to turn the floor back over to Ryan Greenier for closing comments.

Ryan E. Greenier

Thanks, everyone, for joining us this morning on Horace Mann's second quarter earnings call. Should there be further follow-up questions, don't hesitate to reach out to me or Kristi Niles. Thanks.

Operator

This concludes today's conference. Thank you for your participation. You may disconnect your lines at this time.

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